

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BARBADOS**

**NATIONAL TOURISM PROGRAM**

**(BA-L1033)**

**LOAN PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	<a href="#">Pluriannual Execution Plan (PEP)</a>
2.	<a href="#">Monitoring and Evaluation Arrangements</a>
3.	<a href="#">Environmental and Social Management Report (ESMR)</a>
4.	<a href="#">Procurement Plan</a>
<b>OPTIONAL</b>	
1.	Economic Analysis Confidential electronic link*
2.	<a href="#">Institutional Capacity Assessment System (ICAS)</a>
3.	<a href="#">Component 1: Design of New Heritage/Cultural Tourism Products</a>
4.	<a href="#">Component 2: Marketing Strategy and Operational Planning</a>
5.	<a href="#">Willingness to pay estimates of tourism products in Barbados</a>
6.	Economic Assessment of Airlift Support Policies Confidential electronic link*
7.	<a href="#">Digital Marketing Analysis. Design of New Heritage/Cultural Tourism Products</a>
8.	Description of TOR for Potential Demands for Airlifts Confidential electronic link*
9.	Airlift from Latin America Ex Ante Analysis Confidential electronic link*
10.	<a href="#">Barbados Tourism Master Plan - Report II – The Environment</a>
11.	<a href="#">Vulnerability. The role of heritage tourism in the island economies</a>
12.	<a href="#">Meta-Analysis of International Tourism Demand</a>
13.	<a href="#">Cost Benefit Analysis Component 1</a>
14.	<a href="#">Program Operating Manual (POM)</a>
15.	<a href="#">Design of the Visitor Center and the Tourism Urban Route</a>
16.	<a href="#">Safeguard Policy Filter (SPF) and Safeguard Screening Form (SSF)</a>
17.	<a href="#">Final Report on Consultation on Tourist Urban Route</a>

\* At the request of the borrowing country, the information contained in this electronic link will not be disclosed. The non-disclosure of this information is in accordance with the country-specific information exception in paragraph 4.1 i of the Bank's Access to Information Policy, document GN-1831-28.

ABBREVIATIONS	
AOP	Annual Operations Plan
BTI	Barbados Tourism Investment Inc.
BTMI	Barbados Tourism Marketing Inc.
BTPA	Barbados Tourism Product Authority
CRF	Corporate Results Framework
EA	Executing Agency
ECLAC	Economic Commission for Latin America and the Caribbean
ESHS	Environmental Social Health and Safety
ESMR	Environmental and Social Management Report
ESMS	Environmental and Social Management System
ESS	Environmental and Social Strategy
GDP	Gross Domestic Product
GoB	Government of Barbados
IDB	Inter-American Development Bank
IRR	Internal Rate of Return
KPIs	Key Performance Indicators
MTI	Ministry of Tourism and International Transport
OC	Ordinary Capital
PEP	Pluriannual Execution Plan
PEU	Program Executing Unit
PMR	Project Monitoring Report
POM	Program Operating Manual
POD	Proposal for Operation Development
PR	Progress Reports
SC	Steering Committee
SFD	Sector Framework Document
SPF	Safeguard Policy Filter
SSF	Safeguard Screening Form
TCDPO	Town and Country Development Planning Office
UIS	Update to the Institutional Strategy
UNESCO	United Nations Educational, Scientific and Cultural Organization
WHS	World Heritage Site
WTP	Willingness to Pay

**PROJECT SUMMARY  
BARBADOS  
NATIONAL TOURISM PROGRAM  
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Financial Terms and Conditions					
<b>Borrower:</b> Government of Barbados			<b>Flexible Financing Facility<sup>(a)</sup></b>		
			<b>Amortization Period:</b>	25 years	
			<b>Original WAL:</b>	15.25 years	
<b>Executing Agency (EA):</b> Barbados Tourism Investment Inc. (BTI)			<b>Disbursement Period:</b>	5 years	
			<b>Grace Period:</b>	5.5 years <sup>(b)</sup>	
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Supervision and Inspection Fee:</b>	<sup>(c)</sup>	
<b>IDB (OC):<sup>(d)</sup></b>	20,000,000	100	<b>Interest Rate:</b>	LIBOR based	
			<b>Credit Fee:</b>	<sup>(c)</sup>	
			<b>Currency of Approval:</b>	Dollars of the United States of America chargeable to the Ordinary Capital (OC)	
<b>Total:</b>	20,000,000	100			
Project at a Glance					
<b>Project Objective/Description:</b> The overall objective of the project is to increase the resilience of the Barbados tourism industry, with a focus on increasing tourism receipts. Specific objectives are to: (i) increase tourist expenditures on heritage and cultural products; (ii) increase digital visibility of Barbados in the tourism market; and (iii) design and implement a mechanism to contract airlift on new routes between Barbados and Latin America to increase tourist arrivals and expenditures.					
<b>Special Contractual Clauses prior to the first disbursement of the Financing:</b> the EA shall provide evidence that: (i) the Program Execution Unit (PEU) has been created and that at least, the project coordinator, financial specialist and procurement specialist have been selected, pursuant to terms of reference satisfactory to the Bank (¶3.2); (ii) the Program Operating Manual (POM) has been approved in the terms previously agreed with the Bank, including the Environmental and Social Management System (ESMS) (¶3.5); (iii) the rights and obligations established under the loan contract have been transferred to the EA by the borrower, as applicable, for the purposes of project execution; and (iv) a Steering Committee (SC), comprising, at least, representatives of the following entities: EA, Ministry of Tourism and International Transport (MTI), Barbados Tourism Marketing Inc. (BTMI), and Barbados Tourism Product Authority (BTPA), has been established, to facilitate program coordination, including a definition of their roles and responsibilities in the project execution (¶3.3).					
<b>Special Contractual Clauses of execution:</b> Prior to commencement of the works for each individual project under Component 1, the borrower, through the EA, shall provide evidence that: the agreements with the corresponding government entities that will assume project management responsibilities once the project works are completed, including their operation and maintenance with a sustainable financial mechanism, have been signed and have entered into effect (¶3.4). For contractual clauses of execution regarding the environmental and social conditions, see Annex IV of the Environmental and Social Management Report ( <a href="#">ESMR</a> ).					
<b>Exceptions to Bank Policies:</b> None.					
Strategic Alignment					
<b>Challenges<sup>(e)</sup>:</b>	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
<b>Cross-Cutting Themes<sup>(f)</sup>:</b>	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>	IC <input checked="" type="checkbox"/>

<sup>(a)</sup> Under the Flexible Financing Facility (FN-655-1), the borrower has the option to request modifications to the amortization schedule as well as currency and interest rate conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.

<sup>(d)</sup> Pursuant to document AB-2990, the disbursement of Bank financing will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months. All these periods will be counted from the time the loan operation is approved by the Board of Executive Directors (see ¶2.2).

<sup>(e)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(f)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, Problem Addressed, Justification

#### 1. Evolution of the Economy

- 1.1 Barbados is a small island of 431 km<sup>2</sup> with a population of 286,000 and enjoys one of the highest per capita incomes in the Caribbean.<sup>1</sup> Its economy, once based on sugar cane monoculture, is now based on trade and services and has become a leading tourist destination in the area, after the Bahamas and Jamaica. It is also a well-reputed international finance center benefiting from sharing the eastern US time zone, a well-trained workforce, and a stable social and political environment. Tourism is the driver of growth and directly contributes 12% of Gross Domestic Product (GDP) but indirectly over 40%, and supports the demand of the non-tourism sectors.
- 1.2 The Barbados economy was hit hard by the 2007 global crisis, given its dependence on international flows of visitors and capitals. This is not just a recent feature but a structural one, which is also typical of tourism-dependent economies. Looking at the period 1974-2013 Barbados' GDP almost double reaching US\$7.004 billion (at purchasing power parity),<sup>2</sup> growing at an annual average growth of 2%, but it showed cyclical valleys associated with global downturns. During the mid-1980s and early 1990s the growth rate was negative. In 2009 the economy contracted by 5.5% and the following years were marked by a very slow recovery with low growth rates (0.3%). The sectoral decomposition of total output during the 1974-2013 period shows that services increased their contribution from 70% to 80% of GDP, and the change in total output was mainly explained by changes in the contribution of trade, tourism and transport, three activities related to, and dependent on, external sources.
- 1.3 To address the fluctuating nature of these GDP changes, and its implications on employment, the Barbados government has been forced to adopt countercyclical measures, increasing public investments and imposing fiscal adjustments when debt to GDP ratios increased to worrying levels. During 2008-2015 public debt accumulated at a rate of 9-10 percentage points of GDP per year. Central Government gross debt stood at 107.7% of GDP in June 2016 and around 144% of GDP when including National Insurance Scheme holdings. Also, while for FY 2014/2015 the deficit reduced from 11% to 6.9% of GDP it widened to 7.4% in FY2015/2016. The potential instability of the economy points to the importance of identifying mechanisms to increase its resilience, and that of the tourism sector in particular.<sup>3</sup>

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<sup>1</sup> Its GDP per capita in current prices was USD15,360 in 2014. World Bank.

<sup>2</sup> Equivalent to US\$4.262 billion at the official exchange rate. The Barbados dollar is pegged to the US dollar since July/75 at the official rate USD\$1 = BBD\$2.

<sup>3</sup> Examination of Economic Growth and Tourism in Barbados: testing the Supply Side Hypothesis. Jackman Mahalia; Troy Lorde. *Tourismos: An International Multidisciplinary Journal of Tourism*. 2012.

## 2. The National Tourism Industry

- 1.4 Barbados is a successful but mature tourist destination in the Caribbean, mostly known for beach-resort tourism and cruises. During the 1980s and 1990s Barbados attained a high-end positioning due to its exclusive resorts. Nowadays, the country is still associated with upscale tourism but also includes other lodging options. Tourism showed in 2015 good performance and contributed 12% of GDP, about 40% considering indirect effects, approximately 37% of total employment (46,000 jobs<sup>4</sup>) and 60.4% of total exports, and it is clearly the main driver for growth in the country. The year 2015 put an end to the waning of tourism experienced since 2007. Barbadian tourism recurrently faces cyclical peaks and valleys in its total number of visitors and receipts, mainly caused by international conditions and oil prices. After the early 1990s recession, tourism picked up again and by the end of the decade the country reached for the first time one million tourist arrivals per year. Once recovered from the crisis that followed the 2001 attacks and the SARS outbreak, there was a new increase in the number of visitors until 2006. The 2007-2014 period was characterized again by a fluctuating decline in the number of visitors (-9.25%) and receipts (-7.64%), mostly explained by the impact of the global crisis on household budgets in main tourism source markets and inflated airfares due to high fuel costs.<sup>5</sup> In 2015, tourism began recovering again with increases in both arrivals and receipts. It is therefore evident that Barbados needs to increase the resilience of its tourism sector to external shocks and improve its performance, and in order to achieve that it needs to address three structural challenges.<sup>6</sup>
- 1.5 **Need to diversify geographical source markets and travelers' consumption patterns.** During the last decade, the number of total visitors per year has added to approximately 1.1 million, almost equally divided between cruise excursionists and stayover tourists, but the second group is much more important in terms of total tourist expenditures.

**Table 1. Visitors' arrivals to Barbados (000)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total ('000)</b>	<b>1,190.1</b>	<b>1,165</b>	<b>1,154.2</b>	<b>1,196.8</b>	<b>1,177.5</b>	<b>1,053.7</b>	<b>1,031.2</b>	<b>991.1</b>	<b>1,178.6</b>
Stayover	573.8	567.5	518.5	532.1	567.7	536.3	508.5	519.6	591.9
Cruise visitors	616.3	597.5	635.7	664.7	609.8	517.4	522.7	471.5	586.7
Stayover UK	223.8	219.9	190.6	181.1	189.2	173.5	168.7	186.8	214.2
Stayover USA	133.9	131.8	122.3	134.9	142.4	130.7	120.6	118.5	148.1
Stayover Canada	53.1	57.3	63.8	72.4	71.9	72.0	67.3	65.8	74.6

Source: Caribbean Tourism Organization and Barbados Statistical Service

<sup>4</sup> Travel & Tourism-Economic Impact 2015. Barbados. World Travel & Tourism Council.

<sup>5</sup> Economic assessment of airlift support policies. Betancor Ofelia, Javier Campos, Juan Luis Eugenio Martin, M. Pilar Socorro, Federico Inchausti; University of Las Palmas, Gran Canarias, Spain. 2015.

<sup>6</sup> The government is already working on five areas which were identified to formulate the National Tourism Master Plan: (i) sustainable tourism development; (ii) research and development; (iii) human resources development, education and awareness; (iv) effective participation; and (v) standards and regulation.

- 1.6 Geographical sources. Stayover visitors originate primarily in the United Kingdom, due to its historical and cultural ties, and the North American market (United States and Canada), accounting for more than 70% of total stayover visitors. The concentration of tourism inflows in such a small number of countries is a source of vulnerability, as demonstrated by the global crisis impact on these main source markets.
- 1.7 Consumption patterns. In 2015 the average expenditure per cruise passenger in Barbados was US\$78.03, an increase of 18.9% from 2012, but still with ample room for improvement since it is far below the average (US\$103.83) for a group of 35 countries in the Caribbean and Central American Region. Barbados records one of the lower percentages of cruise passengers purchasing shore excursions in the Caribbean (46.1%), lower than the average reported by other competing destinations (55.5%).<sup>7</sup>
- 1.8 Stay-over visitors to Barbados reduced their travel expenditure per trip during the crisis of the last decade. For instance, the average expenditure per trip of British visitors dropped from US\$2,649 in 2008 to US\$2,043 in 2012. This reduction may be explained by a progressive decline in the average length of stay.<sup>8</sup> Accommodation still accounts for the highest share of visitor spending (55%), followed by meals and drinks (16%), while entertainment/recreation only accounts for 8%. It is also worth highlighting that an important feature of current demand is the seasonality component, with 2/3 of visitors arriving in the winter season, and lower demand in April-June and September-November. Seasonality often implies that destinations and operators face continual inefficiency as they grapple with the peaks and troughs of demand. These seasonal patterns are steady in Barbados since they are closely associated to the sun-and-sand product.
- 1.9 **Improve Barbados tourism positioning.** A second challenge for Barbados is the need of product and branding renewal, in order to meet the changing expectations of travelers and successfully surpass an increasing competition. Barbados has been losing market share in the Caribbean region since 2005, both in terms of international tourist arrivals and receipts (-14.6% and -16.8% respectively), in favor of competing destinations.<sup>9</sup> The Dutch and Spanish-speaking Caribbean countries are those experiencing the strongest market share growth rates. Barbados' value proposition places heavy emphasis on attributes related to sun, sea and sand, an attraction offered by other Caribbean and many world destinations. On the other hand, in 2015 the World Economic Forum ranked Barbados #129 out of 141 countries in the specific dimension of price competitiveness. It is therefore important to work on differentiation, stressing the uniqueness of Barbados as a destination, in order to reduce any negative perception related to higher price and lower value than competitors do. It is also important to consider that, in addition to fluctuating expectations, travelers now face a marketplace brimming with reviews, ratings and recommendations, boosted by new technologies and social media. Internet is the second source of inspiration for tourist visitors (61%), only exceeded by family, friends and colleagues, and the first channel to plan travel (80%).<sup>10</sup>

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<sup>7</sup> Florida Caribbean Cruise Association. Economic impact of cruise tourism. 2015.

<sup>8</sup> Economic assessment of airlift policies. Betancor Ofelia et al. 2015.

<sup>9</sup> Source: UNWTO. Barbados' arrivals market share of 2.9% in 2005 and of 2.3% in 2014; Barbados' receipts market share of 4.2% in 2005 and of 3.5% in 2014.

<sup>10</sup> Ipsos MediaCT/Google Travel Study, Waves 4 and 5, April-May 2012 and May-June 2013.



However, Barbados has experienced a drop of -47% in the online travel search category in the period 2004 and 2014. The digital marketing analysis made during the preparation of the program indicates that Barbados records lower website traffic than competitors in its official destination, with reduced average time on sites and high bounce rates.<sup>11</sup> The analysis also reveals that there is room for improvement in terms of Barbados' presence in main social media channels and in the coordination of public and private messages with focus on specific markets and products.

- 1.10 **Improve air connectivity in an efficient manner.** The third challenge is related to airlift, whose capacity has fluctuated over the years, determined by incentives granted by Government in a deliberate effort to improve airlift capacity. As stated by the Barbados White Tourism Paper (p.160),<sup>12</sup> "large portions of Government tourism budgets are spent subsidizing airlift without an assessment as to whether they are coupled with effective strategies to fill existing seat capacity and what are the economic benefits derived from such expenditures". Air transport is key for the economic prosperity of nations with tourism dependent economies. Although it has been argued that tourism acts as a catalyst for air transport rather than vice versa,<sup>13</sup> both activities share a mutually dependent relationship. Besides that, it is important to keep in mind that 10% to 50% of savings on air travel could translate into additional expenditures at the destination.<sup>14</sup> The air travel market to the Caribbean as a whole is competitive, but Barbados and some individual destinations have high market concentration in a few airlines connections with the U.S. (measured by the Herfindahl index) leaving them vulnerable to services changes in a few airlines.<sup>15</sup> There are currently about 20 international direct routes, 50% of which are with neighboring countries in the Caribbean to fulfill regional communication needs. The densest routes, in terms of passengers and frequency, are with the United Kingdom, Canada and the United States. With few exceptions, the weekly frequencies are relatively low (2 daily flights on average on selected routes). The number of operators per route is one or two and, therefore, air connectivity remains an important issue and a barrier to stronger growth. In 2013, the World Economic Forum (2015) ranked Barbados #98 out of 141 countries in the specific dimension of number of operating lines.

### 3. The Institutional Framework

- 1.11 The Division of Tourism, within the Ministry of Tourism and International Transport (MTI) is the leading public sector agency with responsibility for overseeing and promoting sustainable tourism development in Barbados. Until mid-2014, it performed its activities through a public agency, the Barbados Tourism Authority, which was then split into two bodies: the Barbados Tourism Marketing Inc. (BTMI) and the Barbados Tourism Product Authority (BTPA). BTMI is a wholly-owned government limited liability company incorporated under the Barbados Companies Act, but with a wider margin of operation and more private-oriented management

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<sup>11</sup> Digital Market Analysis. ICN Artea consultores. 2015

<sup>12</sup> <http://barbadosparliament.com/htmlarea/uploaded/File/Info/White%20Paper%20revised%2013%20Feb%202012.pdf>

<sup>13</sup> See for example Button and Taylor (2000) or, more recently, Munkala and Tervo (2013).

<sup>14</sup> "Low cost travel and tourism expenditures"; Eugenio-Martin Juan L; F. Ichausti-Sintes. Annals of tourism research. 57 (2016) 140-159.

<sup>15</sup> Flying to paradise: The role of airlift in the Caribbean Tourism Industry. Acevedo, Sebastian, Lu han, Hye Sun Kim, and Nicolas Laframboise. IMF Working Paper. 2016.

than a public agency. Its main function is to promote the island as a leading tourism destination in the world, which includes the design and implementation of suitable marketing actions and strategic plans. It is also in charge of making provisions for ensuring the adequate air and sea passenger transport services to and from Barbados; of encouraging the establishment of amenities and facilities necessary for the proper enjoyment of visitors, and of carrying out market intelligence in order to inform the needs of the tourism industry. BTMI assumed the assets and liabilities from the extinct Barbados Tourism Authority and continues most of its policies, but its new board of directors is designing new actions, particularly aimed at increasing the country's visibility at international origin markets. BTPA has been envisaged as a second public agency that will oversee the development of ancillary products on the island, mainly focusing on the improvement of the island's current and future tourism offerings. It is also a regulatory body, with certifications functions, since it will register, license and classify tourist accommodations, restaurants and other services.

- 1.12 Barbados Tourism Investment Inc. (BTI) was formed under the Companies Act in 1998, and is the official government agency responsible for facilitating tourism infrastructural development. The Government of Barbados (GoB) is the sole shareholder and is represented by the Minister of Tourism and International Transport. BTI has the following mandate: (i) to develop a portfolio of tourism related properties on its own or in joint venture with private and public partners; (ii) to manage the implementation of the Urban Rehabilitation Program for Bridgetown, Speightstown, St. Lawrence Gap, and Oistins as Executing Agency (EA) for the Government; and (iii) to facilitate both public and private sector-owned investments in tourism and hospitality sector in Barbados.

#### **4. Experience in the sector and lessons learned**

- 1.13 The design of the program takes into account the Bank's experience in tourism in the region as highlighted in the Tourism Sector Framework Document (SFD). Table 2 shows the main lessons learned that have been incorporated in the design of the program.

**Table 2. Thematic areas and lessons learned that are relevant for the Program**

Thematic area	Lessons learned
<b>Tourism development model:</b> The structuring focus in tourism development programs should be a tourism product strategy, since products are the key element that motivates tourism travel to a specific destination.	The program focuses on diversifying the current predominant sun-and-sand tourism supply, through the development of new cultural-based tourism products that have potential for diversifying both current travelers' consumption patterns and geographical source markets. <b>Component 1</b> will finance the development of new tourism products based on strategic Barbadian cultural and heritage assets, identified during project preparation through market research and assessments of international experts in tourism planning.
<b>Tourism development model:</b> Marketing efforts should be linked to products with potential return on investments based on sound studies.	<b>Component 2</b> will finance the updating and improvement of marketing strategies, with a special emphasis on the use of digital marketing in a coordinated manner with the private sector. The main objective of this component is to increase market awareness of Barbados as a cultural destination and to effectively market the new tourism products developed in Component 1.
<b>Governance:</b> Investments in basic infrastructure must be complemented by actions strengthening tourism sector governance, to ensure sustainability of investments and the appropriation of tourism benefits.	<b>Component 3</b> will finance the design and implementation of a new mechanism (auctions/new contract structure) to select operating airlines to reinforce air connectivity through new routes between Barbados and Latin America. The routes will be selected based on detailed evaluation of their potential in terms of economic benefits for the country.

## 5. Program Design

1.14 The design of the proposed program focused on addressing the three challenges identified during the preparation, and used lessons learned from similar operations in Latin American Countries as well as key evidence from international experience:

- a. **Diversification of products and heritage tourism.** There is evidence indicating that cultural tourism is an increasingly important segment of the total tourism market, opening up new opportunities to attract diverse markets and demand segments.<sup>16</sup> The World Tourism Organization estimated that in 2004 the cultural tourist visitors accounted for 40% of total international trips.<sup>17</sup> Cultural motivations are very relevant for Europeans, an important source market for Barbados, when planning their trips, and in the case of Netherlands, it is the most important factor.<sup>18</sup> Also, there is evidence showing that differentiated tourism (innovative or based on a unique cultural heritage), is a sound strategy that helps reduce the vulnerability of small islands economies, given that heritage is conserved, and moderate the impact of external shocks.<sup>19</sup> If, in contrast, there is little heritage in the tourism product on offer, less-differentiating island attributes (such as the sea, beach and resorts), are subject to price competitiveness. In order to diversify both current travelers' consumption patterns and geographical source markets, the program will support the tourism


<sup>16</sup> Bonet, L. (2011), "Cultural Tourism," in R. Towse (Ed.), A Handbook of Cultural Economics, E. Elgar, Cheltenham, 166- 171.

<sup>17</sup> Cited by Richards, G. (2014), Tourism trends: Tourism, culture and cultural routes (2011).

<sup>18</sup> Flash Eurobarometer 370, (2013), Attitudes of Europeans towards tourism, European Commission, Directorate-General for Enterprise and Industry.

<sup>19</sup> Zugravu-Soilita, Geronimi, Le Gargasson and Tsang King Sang (2016), *Towards a less vulnerable and more sustainable development: the role of heritage tourism in the island economies*; 65th Annual Meeting of the French Economic Association.

diversification efforts already initiated by the country through new cultural heritage products, such as festivals, culinary tourism, and the designation in 2011 of Bridgetown and the Garrison as a United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage Site (WHS).<sup>20</sup> The cultural heritage products included in the program arise from the Barbados Tourism Master Plan. Studies done during project preparation showed that there is significant willingness to pay for these products.

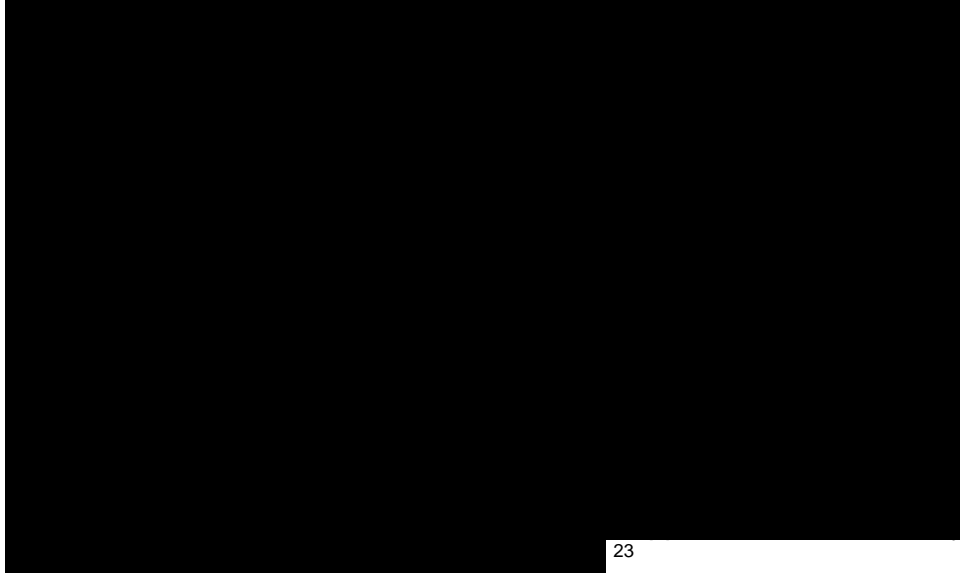
- b. **Market segmentation and tourism positioning of Barbados.** A wide array of literature on the Caribbean tourism competitiveness and tourism demand's elasticity reveal that price may not be the only determinant for increasing the share of major markets,<sup>21</sup> and that non-price factors and clever market segmentation are vital to tourism competitiveness.<sup>22</sup> These results support the rationale of the program in reinforcing tourism diversification through new heritage products based on cultural landmarks and historic city cores (historic Bridgetown and its Garrison) and also on intangible and popular cultural expressions (Bajan culture). The promotion of these products through effective digital means can exploit the unique comparative advantages of Barbadian destinations, and enriching the traditional 3S ("sun, sea and sand") model, while also helping to extend the tourist season with products that do not solely rely on climate.
- c. The program design took into consideration the results of the diagnosis done during the preparation and includes a specific marketing component aimed at increasing the digital visibility of Barbados, with the creation of innovative stimuli and contents linked to the new proposed cultural products. A Strategic Digital Marketing plan was prepared, focusing on the positioning of Barbados, as a creative cultural destination, which without abandoning its competitive advantages linked to the 3S model, is also capable of making full use of its distinctive tangible and intangible cultural endowment. The Plan adopts the UNESCO WHS of Bridgetown and the Garrison as one of the main axis to explore, but also integrates the Bajan popular cultural expressions as an important feature of future products and branding. The new cultural products are structured around main interpretative themes, which communicate the country's uniqueness and identity. The plan targets the traditional source markets of Barbados under an innovative approach that links them to the new cultural proposals and includes Germany and Latin America.
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<sup>20</sup> Historic Bridgetown and its Garrison have been included in the WHL as an outstanding example of British colonial architecture of the 17th, 18th and 19th centuries.

<sup>21</sup> An Econometric Study of the Determinants of Tourism Competitiveness in the Caribbean, (2009), Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>22</sup> Phil M., (2013), A Meta-Analysis of International Tourism Demand Elasticities and Forecasting Accuracy, the Hong Kong Polytechnic University; Bolaky, B. The competitiveness of Selected Caribbean Tourism Markets, Working Paper; ECLAC (2006) Challenges to Caribbean Tourism; Caribbean Tourism Organization, Development of a Strategic Business Management Model for the Sustainable Development of Heritage Tourism Products in the Caribbean.



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## 6. Strategic Alignment

- 1.15 The program is aligned with the Country Strategy with Barbados (GN-2812) 2015-2018, because it supports the country development goal of improving competitiveness and growth by increasing tourism receipts. One of the indicators in the result matrix of the program (total expenditure by stayover tourist/per trip) it is aligned with an indicator in the country strategy (average expenditure per stayover international visitor). In addition, this program is included in the 2017 Operational Program Report (GN-2884).
- 1.16 **Strategic Alignment with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) and the Corporate Results Framework (CRF) 2016-2019 (GN-2727-6).** The program is consistent with the update to the Institutional Strategy (UIS) 2010-2020 and is strategically aligned with the development challenges of: (i) low productivity and innovation, through the creation of cultural and heritage products (see output indicators 1.1 to 1.4), implementation of a digital marketing strategies for the tourism sector to improve Barbados visibility and efficiency in marketing current and new cultural and heritage products (see result indicators 2.1 in result matrix), and increasing total expenditure of visitors per trip (see impact indicator 1.5); and (ii) economic integration, by improving air connectivity with Latin America and fostering international tourism, an important type of trade in services (see result indicators 3.1 and 3.2). The program is also strategically aligned to the cross-cutting theme of Institutional Capacity and Rule of Law by improving the transparency and effectiveness of the mechanisms used by the government to increase airlift for the tourism industry (see Component 3). The project will contribute to the auxiliary indicator #16 of the CRF (Tourism destinations benefit by projects aimed at increasing tourist expenditures) by benefiting three tourism locations in Barbados (core old areas of Bridgetown, the Garrison, and Oistins; see product section of Result Matrix); and it is aligned with

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<sup>23</sup> At the request of the borrowing country, the information contained in this electronic link will not be disclosed. The non-disclosure of this information is in accordance with the country-specific information exception in paragraph 4.1 i of the Bank's Access to Information Policy, document GN-1831-28.

a Country's priority to support competitive and sustainable tourism growth, as identified by the Government on its Tourism Master Plan and the Tourism White Paper. The program is aligned with the guidelines proposed in the Bank's SFD on Tourism (GN-2779-7), in particular with dimension of success No. 1 by the development of new products that are effective in boosting competitiveness and by the design and implementation of cost effective strategies for the marketing of new tourism products aimed at capturing target demand. According to the [joint MDB approach](#) on climate finance tracking, an estimated 0.47% of total IDB funding for this project result in climate change mitigation activities. This contributes to the IDBG's climate finance goal of 30% of combined IDB and IIC operational approvals by year's end 2020.

## **B. Objective, Components and Cost**

- 1.17 The overall objective of the project is to increase the resilience of the Barbados tourism industry, with a focus on increasing tourism receipts. Specific objectives are to: (i) increase tourist expenditures on heritage and cultural products; (ii) increase digital visibility of Barbados in the tourism market; and (iii) design and implement a mechanism to contract airlift on new routes between Barbados and Latin America to increase tourist arrivals and expenditures. The program will have three components and the resources of the loan will additionally finance part of the administrative costs and the contingencies.
- 1.18 **Component 1. New Tourism Products (US\$11.3 million).** This component will finance the development of four new tourism products targeted at addressing the cultural and heritage priority themes identified and agreed with the government during project preparation: Bridgetown, a historic marvel of maritime engineering; the story of sugar and rum; the Industrial Heritage; and Bajan soul and cultural practices. The implementation of these products is expected to contribute to increasing and diversifying visitors' expenditures and to broad the appeal of Barbadian tourism. The component will finance: (i) a new Visitor Centre in the Old Town Hall Building (including civil works, furniture, hardware and software) and the enhancement of a Tourist Urban Route through historic Bridgetown, with a combined estimated cost of US\$3.0 million; (ii) implementation of two other tourism products (Renewed National Museum at the Garrison US\$3.5 million, and Oistins waterfront improvement US\$4.8 million) for which preliminary cost estimates have been prepared; (iii) preparation of interpretation content and materials for all products to be disseminated by both physical and electronic means, final engineering/architectural designs, environmental and social project specific plans (if required) for all products; and (iv) contracting of specialized consultancies to supervise construction works.
- 1.19 **Component 2. Strengthening Digital Marketing (US\$2.0 million).** This component will finance the updating and improvement of marketing strategies, with a special emphasis on the use of digital marketing in coordination with the private sector. The main objective of this component is to increase the digital visibility of Barbados in the tourism market and to effectively market cultural tourism, including products developed in Component 1. The component will finance: (i) the design of new corporate image and branding reinforcing Barbados' cultural sub-brand strategy, and a detailed annual operational plan for four years, including the definition of attainable objectives, expected results, and related Key Performance

Indicators (KPIs); (ii) Website and mobile apps programming and development; (iii) SEO/SEM<sup>24</sup> positioning actions and promotional campaigns; and (iv) creation of new audiovisual cultural content for the different digital channels (website, social media, mobile apps).

- 1.20 **Component 3. Improving airlift (US\$4.0 million).** This component will finance the detailed design and implementation of a new mechanism to contract an airline to start service for a new route between Barbados and Latin America. This mechanism consists of three different stages, each one with specific goals. The first stage goal is to obtain an indication of the minimum level of support needed to start the selected new route by means of an open competition for a fixed payment; the second stage goal is to introduce a specific incentive per additional visitor, improving the aligning of incentives between the country and the airline; and the third stage goal is to progressively reduce the incentives. (See section III).
- 1.21 The resources of the component will finance also the studies required for a detailed definition of all the parameters required to formulate the call for proposals, to evaluate the potential economic benefits from the new route, and to carry out the yearly evaluations required to adjust the terms of the contract. These studies include the econometric analysis of latent demand at potential origin countries. The estimation of a reservation value that the country will use to decide if it is economically beneficial to go ahead with the winning proposal of the first stage, assistance in order to prepare the public call for tenders, studies on air transport markets and regulations in the region, and assistance with evaluation of the mechanism at different stages.
- 1.22 **Administrative cost (US\$2.41 million).** These resources will cover: (i) the contracting of four specialists (program coordinator, financial specialist, procurement specialist, administrative officer); to work in the Program Executing Unit (PEU), two specialists to support the technical aspects involved in the implementation of the project's components in order to have an effective coordination of the PEU with BTMI, BTPA and the MTI; (ii) operational costs of the PEU; (iii) environmental and social management; (iv) monitoring and evaluation (mid-term evaluation, final evaluation, impact evaluation); and (v) auditing.
- 1.23 The estimated budget will include **contingencies for US\$0.285 million**; to cover unanticipated costs increases.

### C. Key Results Indicators

- 1.24 The expected results of the operation will be: (i) increase in total expenditures by visitors in Barbados of about US\$83 million per year;<sup>25</sup> (ii) increase in total expenditure on cultural products, primarily as a result of the new products financed by the project (US\$65 million); (iii) increase in traffic to Barbados official tourism web site (300%); and (iv) total expenditure of visitors arriving on a new route from Latin America (US\$18 million). These increases are expected to improve the

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<sup>24</sup> SEO: Search Engine Optimization and SEM: Search Engine Marketing, are tools that improve the visibility and marketing potential of web pages.

<sup>25</sup> These assumptions are based on the economic analysis performed during project preparation and are subject to review.

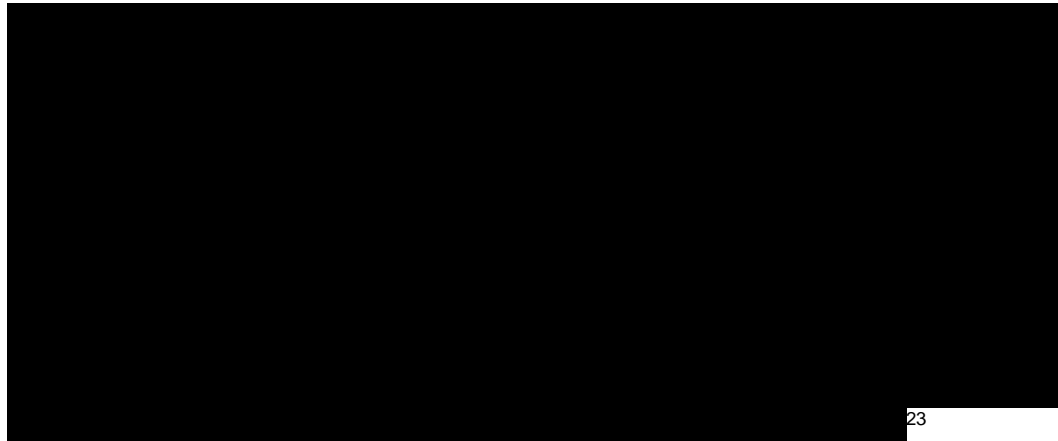
resilience of the tourism sector to external shocks, by diversifying the type of expenditures and by diversifying the source tourist markets. The Results Matrix (Annex II) shows impact, outcome and output indicators.

- 1.25 **Economic Feasibility.** An ex-ante economic analysis of Components 1 and 3 was developed, which represent about 80% of total investments, with the aim of verifying the economic feasibility of the program. Component 2 is expected to have a significant impact in terms of improving digital visibility of the country, which is needed to successfully obtain the expected outcomes of Components 1 and 3. Given that the Net Present Value of Component 1 at 12%, and the fact that rules prevent adoption of a contract for Component 3 that is not economically feasible ex ante at 12%, it is clear that the whole program has an ex ante internal rate of return above 12%. Detailed results are presented in the Economic Analysis.
- 1.26 **Component 1. New Tourist Products.** The economic analysis for this component was done based on the estimated costs of the four new products and the estimated benefits to the country as a result of increased expenditures by visitors. The economic benefits were estimated based on estimates of the Willingness to Pay (WTP) of visitors to take tours to these products. An experimental choice design was applied to a sample of stay-over tourists and cruise ships visitors so that their WTP could be revealed when they faced hypothetical but realistic trade-offs to visit these products alone as well as combinations of them with existing tourist attractions (catamaran and beach tours). WTP estimated for stay-over tourists are higher than those of cruise visitors for all products analyzed: renovated Oistin waterfront (US\$51.4; US\$32.4); renovated national museum (US\$54.6; US\$36.7); Bridgetown Tourist Urban Route (US\$35.3; US\$27.8); the Garrison-military history (US\$34.4; US\$26.4), catamaran (US\$61.56; US\$37.6); beach tours (US\$56.5; US\$36.9). Not all the expenditures can be counted as net benefits for the economy. Based on previous studies it was conservatively estimated that about 19% of the expenditures can be counted as net economic benefits for the country. The Internal Rate of Return (IRR) over a period of 20 years for investments in Bridgetown, the Garrison (National Museum) and Oistins were: 36.9%, 83.8% and 58.3%. The aggregate Net Present Value estimated for the three products at a discount rate of 12% was US\$58.9 million. Sensitivity analysis showed that economic results continue to be positive for significant reductions in the estimated WTP and for possible increases in projects costs.
- 1.27 **Component 3. Improving airlift.** The economic analysis of this component had two main objectives: (i) estimate the net economic benefits to the country of existing arrangements with airlines to increase airlift [REDACTED]<sup>23</sup> and (ii) to devise a procedure that will allow the country to improve its negotiation position and get higher economic benefits from these arrangements.
- 1.28 The analysis of existing contract arrangements was done in three steps: (i) using structural time series analysis [REDACTED]  
[REDACTED]  
(ii) using surveys to estimate the total expenditures of visitors in Barbados [REDACTED]  
[REDACTED]



████████████████████<sup>23</sup> and (iii) based on these figures and the actual amounts paid to the airlines, estimate the net economic benefits to the country and its probability distribution.

1.29



## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing Instruments

- 2.1 The total program amount is estimated at US\$20 million, Specific Investment Project (ESP) financed from the resources of the Ordinary Capital (OC). The disbursement period will be 60 months. Table 3 provides the cost summary by investment categories and components.

**Table 3. Estimated cost by component in thousand US\$**

Investment categories	IDB (Ordinary Capital)	%
Component 1: New Tourism Products	11,300	56.5
Component 2: Strengthening Digital Marketing	2,000	10.0
Component 3: Improving Airlift	4,000	20.0
Administrative Cost	2,415	12.1
Contingencies	285	1.4
<b>Total</b>	<b>20,000</b>	<b>100</b>

- 2.2 Pursuant to Document AB-2990, the disbursement of Bank financing will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months. All these periods will be counted from the time the loan operation is approved by the Board of Executive Directors. These limits may not apply if the requirements established in the Bank's policy in this regard have been fulfilled, provided that the borrower has been notified in writing. The following table presents the expected disbursements.

**Table 4. Disbursements (US\$000)**

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>Disbursements</b>	2,000	3,900	4,000	7,400	2,700	20,000
	10	19.5	20	37	13.5	100%

## **B. Environmental and Social Safeguard Risks**

- 2.3 **Social and environmental risks.** Given the nature of the activities and investments, it is anticipated that the environmental and social impacts and risks are likely to be mostly local and short term, for which effective mitigation measures are readily available. Therefore, a Category “B” classification has been assigned to the program in accordance with the IDBs Environment and Safeguards Compliance Policy (OP-703). An Environmental Assessment was undertaken as part of the Barbados Tourism Master Plan process, which identified key environmental issues at the level of the program. This document was published on the Bank’s website in August 2016. For the first two projects, under Component 1, individual environmental and social impact assessments were not required, and the design studies and plans incorporated environmental and social considerations. A public consultation process was conducted in June 2017, the results of which, including government responses, as well as a summary of the environmental and social issues associated predominantly with the Urban Route, was published on the Bank’s website in September 2017.
- 2.4 The EA will develop and implement an Environmental and Social Management System (ESMS) that will be included as part of the POM. The ESMS will include instructions for current and future projects to ensure that environmental and social impacts and risks are adequately identified, analyzed, consulted, mitigated and managed, including requirements for environmental and social impact assessments and meaningful consultation for future projects. The Executing Unit will ensure adequate budgetary resources for Environmental Social Health and Safety (ESHS) consultants. Additionally, the Government will update and approve the Management Plan for Historical Bridgetown and the Garrison. See Environmental and Social Management Report ([ESMR](#)).
- 2.5 There is a series of positive and negative environmental and social impacts and risks: (i) at the program level, as a result of developing new tourism products and expanding tourism arrivals (such as increased pressure on resource use, production of waste and wastewater, and impacts on coastal ecosystems which are subject to the most intense tourist activities); and (ii) at the project level, as a result of small scale improvement works of tourism attractions which are expected to be temporary and minimal to moderate in nature for the first two projects, but potentially more complex with future projects particularly the Oistins Waterfront). In relation to the first two projects, these include: (i) impacts on livelihoods, particularly of local street vendors, shopkeepers and taxi drivers (minimal); (ii) traffic disruption; (iii) drainage and flood/storm water (moderate, and which could be exacerbated by climate change); (iv) impacts on archeology (moderate for urban route basic infrastructure works); (v) waste disposal; (vi) health and safety issues during construction; (vii) positive changes to the urban landscape including more green spaces; and for the visitors center; and (viii) fire and life safety during operation. For the future project in Oistins, these are likely to include: (i) impacts on local communities (moderate), however, with appropriate public consultation and a strong communication and engagement plan the impacts will be positive; (ii) grease and waste disposal; (iii) drainage; (iv) sanitation; (v) beach erosion; (vi) health and hygiene; and (vii) traffic congestion. There are also potential risks associated with the institutional capacity of the EA with respect to

management of ESHS impacts and risks, and the lack of environmental legislation in Barbados.

**C. Fiduciary Risk**

- 2.6 The fiduciary capacity of BTI will need to be strengthened to execute the new loan and carry on its other commitments. Additionally, based on the Bank's assessment of country systems in 2013 and the integrity assessment conducted in the first quarter of 2016, the fiduciary risk of the project has been ranked as low. The main fiduciary risk relates to inadequate human resource capacity for the fiduciary management and oversight of the project and lack of awareness by BTI personnel of IDB fiduciary procedures and requirements. The customization of BTI's financial management system will be done prior to first disbursement, so that it is better able to facilitate project reporting and minimize delays in cash flows to the project. A follow-up on the capabilities and internal controls specific to the fiduciary management of the program will be conducted through Bank inspection visits, with the aim of making recommendations for actions for further improvement, if deemed necessary. In addition, specific training on IDB procurement procedures will be conducted to minimize the risks of delays. Specific fiduciary requirements are present in Annex III.

**D. Other Key Issues and Risks**

- 2.7 The risk analysis conducted during project preparation identified risks in three categories (development, public management and governance, macroeconomic and fiscal sustainability) beside those mentioned above. The risks classified as high are: (i) delays in approval process for key decisions; and (ii) changes in the international environment (i.e. as a result of changes in competing destinations, source markets or internal conditions that could affect the marketability of Barbadian tourism). Mitigation measures for these risks include: (i) the establishing of early warning indicators for main competitors and source markets; and (ii) regular (monthly) briefings to the Minister, and to Cabinet as needed to expedite decisions. The main medium level risks include: (i) lack of effective participation by all stakeholders; (ii) leadership changes in MTI and coordination among agencies involved in the project, sustainability of investments; and (iii) insufficient budgetary allocations to finance project execution. Mitigation measures for these risks include: (i) development of a communication strategy and requirement to celebrate public consultation on key aspects of projects like those for Oistins and the Tourist Urban Route; establishing of a Steering Committee with regular meetings to keep authorities informed and improve coordination among agencies; (ii) development of specific strategy/management model for each new product to guarantee maintenance and management of the new products; and (iii) timely and accurately/realistic financial projections to build a reputation of good execution.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

**A. Summary of Implementation Arrangements**

- 3.1 The EA will be the BTI, a private company, with the GoB as the sole shareholder, represented by the MTI. BTI is the official GoB development agency responsible

for promoting and facilitating investment in the tourism and urban regeneration in Barbados, with a special focus on infrastructure development.

- 3.2 BTI will execute the program through an especially created PEU, which will report to BTI's CEO. The PEU will be in charge of the following: coordinating program activities with participating government agencies, procurement execution, contract supervision, financial and accounting management, including the submission of disbursement requests, compliance with local and IDB environmental and consultation requirements in the implementation of program activities, and risk management. The PEU will be staffed with at least the following: Program coordinator, procurement specialist, financial specialist, and administrative assistant. PEU staff will be financed with loan funds. Additionally, technical advisors will be hired to provide input on specific aspects of each component. **The EA shall provide evidence that: the PEU has been created and that, at least, the project coordinator, financial specialist and procurement specialist have been selected, pursuant to terms of reference satisfactory to the Bank; this will be a special contractual condition prior to first disbursement of the financing.** This condition is deemed crucial to ensure that the EA has the minimum team required to initiate the execution of the program.
- 3.3 Participating agencies. In addition to BTI, several entities will participate assisting the program in their respective areas of expertise. The MTI, which is the government entity responsible for sector policy, planning and management, will be in charge of the overall strategic direction of the Program. The Barbados Tourism and Marketing Inc (BTMI) will be in charge of providing technical support to Components 2 and 3. The BTPA will be in charge of providing technical support to Component 1. A Steering Committee (SC) will be established to facilitate coordination and overall guidance and resolve program bottlenecks. The SC will include the Permanent Secretary of the MTI or nominee/representative (Chair), BTI, BTMI, BTPA, Public Investment Unit (PIU), Barbados World Heritage Committee, Ministry of Transport and Works and project coordinator, and the Town and Country Development Planning Office (TCDPO). TCDPO is in charge of the orderly and progressive development of land (including planning and permits) and its involvement in the program will be key for certain works and products that will be executed in Component 1. **The EA shall provide evidence of the fulfillment of the following conditions prior to the first disbursement of the loan: (i) the rights and obligations established under the loan contract have been transferred to the EA by the borrower, as applicable, for the purposes of project execution.** This condition is crucial to establish the legal contractual relationship between the two institutions for the transfer and appropriate use of resources of the program; **(ii) a SC, comprising, at least, representatives of the following entities: EA, MTI, BTMI, and BTPA, has been established, to facilitate program coordination, including a definition of their roles and responsibilities in the project execution.** This condition is deemed important to establish the institutional framework between the entities collaborating for the program execution and the EA, and to expedite the program implementation.
- 3.4 Once the projects financed under Component 1 are completed, the MTI or other Government agency will assume management responsibilities, including operation and maintenance. As a special contractual clause of execution, prior to commencement of the works for each individual project under Component 1, the

borrower, through the EA shall provide evidence that: the agreements with the corresponding government entities that will assume project management responsibilities once the project works are completed, including their operation and maintenance with a sustainable financial mechanism, have been signed and have entered into effect. This condition is crucial to guarantee the sustainability of programs investments.

- 3.5 **Program Operating Manual (POM).** The POM establishes standards and procedures for the PEU with regards to programming activities, procurement, internal control and financial management, financial audits, definition of the roles and responsibilities of the line, MTI and participating agencies and monitoring and evaluation, among others, which will govern program execution. **The EA shall provide evidence that: the POM, has been approved in the terms previously agreed with the Bank including the ESMS, this will be a special contractual condition prior to first disbursement of the financing.** This is necessary to establish the guidelines and procedures that should be followed by the EA to secure the successful execution of the program.
- 3.6 **Procurement.** All program related procurement activities will be performed following Bank's Procurement Policies: Policies for the Procurement of Goods and Works financed by the Bank (GN-2349-9) and Policies for the Selection and Contracting of Consultants financed by the Bank (GN-2350-9) as applicable, as well as the fiduciary arrangements included in Annex III. The financial management of the project should be conducted in accordance with the Bank's Financial Management Guidelines.
- 3.7 Single-source selection of a group of consultants from the Las Palmas University (Spain) is expected for the initial studies for Component 3 (see [Procurement Plan](#)). This method of selection is justified, pursuant to the "Policies for the Selection and Contracting of Consultants Financed by the IDB": (i) as it represent a natural continuation of previous work carried out by the group (GN-2350-9, paragraph 3.10-a); and (ii) in consideration of their experience and capacity of exceptional worth given their high academic standards, their international experience in these kinds of studies, and the background they have on this particular case (GN-2350-9, paragraph 3.10-d).
- 3.8 **Internal control and internal audit.** BTI will establish and maintain adequate internal control procedures and systems for the project. These procedures should provide a reasonable level of assurance that, at a minimum, project funds are used for their intended purposes; project transactions, decisions and activities are properly authorized and documented; and, project transactions are executed in accordance with the policies and procedures established in the relevant legal agreements. These procedures will be documented as part of the Operations Manual of the Project.
- 3.9 **External control and reports.** The BTI will be required to submit audited financial statements. The financial statements will be audited by a firm of independent public accountants acceptable to the Bank. The selection of the firm should be done through a competitive process and in accordance with the Bank's procurement procedures for audit (Document AF-200). The AFS shall be submitted within

120 days after the close of each fiscal period and within 120 days of the close of the project.

- 3.10 **Implementation arrangements for Component 1.** Final designs and procurement documents will be available for the Visitor Centre and Tourist Urban Route at the time of first disbursement of the loan, and preliminary budgets have been prepared for the other two products. All works are expected to be undertaken on public property.
- 3.11 **Implementation arrangements for Component 3.** The objectives of each stage in the new contracting mechanism for airlift are as follows:
- 3.12 **First stage - the entry.** In this stage, the objective is to start up a new route, identified previously using detailed economic studies as potentially beneficial for the country. The awarding procedure will be first-price auction for a fixed price payment to establish a new route with a specified weekly frequency for a period of a year. In order to obtain the optimal results, a significant number of airlines should be allowed to participate in the auction, and to reduce the risk of collusive behavior several key routes should be auctioned in parallel. No renegotiation is possible (unless justified by circumstances outside the airline's control). The auction should be declared null and void if no bid is below Barbados' reservation value (maximum economic welfare accruing to Barbados from expected expenditure by the new visitors, a value to be determined based on a study done prior to the call for proposals). After one year, the results should be evaluated in order to decide whether to continue for a period of a year or less in this stage, to proceed to the following stage, or not to renew the contract.
- 3.13 **The second stage - the consolidation.** The objective of this stage is to increase demand. The previous contract is modified to have a minimum revenue guarantee, instead of the fixed payment, and an incentive payment per additional passenger over the average observed in the first stage. After a period of one year, the results of the contract should be evaluated in order to proceed to the following stage.
- 3.14 **The third stage - the end.** In this last stage, the previous contract is modified to have just the minimum revenue guarantee, but the guaranteed revenue will be progressively reduced until it disappears. At the end, no further incentives are provided.

## **B. Summary of Arrangements for Monitoring Results**

- 3.15 Planning and monitoring. To reflect reporting requirements of both the GoB and the Bank, the PEU will prepare a detailed [Annual Operations Plan \(AOP\)](#) within 60 days prior to the beginning of each calendar year. The AOP, including the PEP, will be supported by the Program [Procurement Plan \(PP\)](#) for the acquisition of goods and services; and a financial plan, based on estimated procurement costs and other program activities to be undertaken. The PEU will prepare semi-annual Progress Reports (PR), and submit these to the Bank each August (covering the January–June period) and February (covering the July–December period). The AOP and PR will be prepared following a template consistent with the Bank's Project Monitoring Report (PMR). The AOP for the following calendar year shall include: (i) a forecast of disbursements; (ii) an updated PP; (iii) detail achievements

in relation to planned activities, outputs and outcomes, among others; (iv) an environmental and social compliance report; (v) budget analysis, disbursement and financial plan; and (vi) Output Indicators and Costs – PMR Matrix. The semi-annual PRs including the PEP, will be submitted within 60 days after the end of each six month calendar period during execution. The semi-annual PR will focus on fulfillment of output indicators and progress towards achieving outcomes in the Results Framework, analyze problems encountered and propose corrective measures. Within 60 days of the last disbursement date, PEU will prepare a final report, summarizing all the PR prepared during the program's life and organize a closing workshop to present and discuss the Bank's Project Completion Report.

- 3.16 **Evaluation.** The PEU will submit to the Bank: (i) a midterm, independent evaluation report no later than 36 months after the date of entry into force of the loan agreement; and (ii) a final independent evaluation report, within 90 days after the date on which 90% of the loan proceeds have been disbursed. The final evaluation report will include the results of the program's impact evaluation (see below) and update of the cost benefit analysis.
- 3.17 **Impact evaluation plan.** The Monitoring and Ex Post Economic Impact Evaluation Plan was agreed with the GoB. The plan presents the methodology, data collection plan, indicators to be measured, sample design and budget allocated to each activity. Two complimentary approaches to the ex post economic impact evaluation will be undertaken. The first one will attempt to measure the impact of the program on total tourist expenditures in the country using the methodology known as synthetic control. This methodology can be implemented once the project is about to be finalized, and it allows to construct a "synthetic version" of the impact indicator as a linear combination of the observed values of this same indicator for countries in the Caribbean and Mexico prior to the start of the project. Under the assumption that the project has no impact on these other countries, and that they don't implement significant actions that change the behavior of their tourism sectors, then, it would be possible to have two version of the impact indicator for Barbados for the years after the project started its execution: (i) the real one, for which information can be obtained from the MTI, the Caribbean Tourism organization and/or the UN World Tourism Organization; and (ii) the synthetic one, using the real data for countries other than Barbados for the years after project execution started and the coefficients calibrated using the data prior to the start of the project. The difference between these two indicators would be an estimate of the impact of the project.
- 3.18 The second methodology will be based on before and after comparisons, using surveys at three points in time (before project execution starts, after two years and at the end of the project) to estimate tourist expenditures in Barbados, and their compositions. Based on this information a simple difference with the base line results can be estimated. It would be possible to use other countries in the Caribbean as reference to assess what happened to them without attempting to construct a synthetic indicator.
- 3.19 The costs of the surveys and the analysis are included in the budget, as indicated in the [Monitoring and Evaluation Arrangements](#).



Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Tourism destinations benefited by projects aimed at increasing tourism expenditure, local and social inclusion and/or improving environmental management (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2812	Tourism growth and reinvigoration.
Country Program Results Matrix	GN-2884	The intervention is included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
3. Evidence-based Assessment & Solution		
7.5		
3.1 Program Diagnosis		
3.0		
3.2 Proposed Interventions or Solutions		
2.4		
3.3 Results Matrix Quality		
2.1		
4. Ex ante Economic Analysis		
10.0		
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		
4.0		
4.2 Identified and Quantified Benefits		
1.5		
4.3 Identified and Quantified Costs		
1.5		
4.4 Reasonable Assumptions		
1.5		
4.5 Sensitivity Analysis		
1.5		
5. Monitoring and Evaluation		
7.4		
5.1 Monitoring Mechanisms		
2.5		
5.2 Evaluation Plan		
4.9		
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		
Low		
Identified risks have been rated for magnitude and likelihood		
Yes		
Mitigation measures have been identified for major risks		
Yes		
Mitigation measures have indicators for tracking their implementation		
Yes		
Environmental & social risk classification		
B		
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Treasury.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System, Environmental Assessment National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

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

The overall objective of the project is to increase the resilience of the Barbados tourism industry, with a focus on increasing tourism receipts. Specific objectives are: (i) to increase tourist expenditures on heritage and cultural products; (ii) to expand digital visibility of Barbados in the tourism market; and (iii) to increment tourist arrivals and expenditures by creating a new route from Latin America contracted under the program.

The loan proposal presents an adequate diagnosis of the tourism sector in Barbados and its importance to the economy. It highlights the volatility of the sector due to external conditions and hence the importance to increase its resilience. To do this, key structural challenges are identified and discussed: the high dependence on stay-over tourists from few countries (UK, USA and Canada, primarily); the high participation of cruise visitors in overall tourists, with low average daily expenditure; the perceived low competitiveness of the current Barbadian tourism product offer (primarily sun and sand); and low air connectivity. The project proposes interventions geared to address these challenges that appear well justified, based on the diagnosis, although there is a lack of rigorous evidence on their effectiveness in increasing the resilience of the Barbados tourism sector and its contribution to the economy.

The vertical logic of the Results Matrix could be enhanced by including higher level outcomes related to income and employment. However, the country lacks a tourism satellite account, or input-output tables, that allow the mapping of increased tourism expenditures into additional jobs and income. In general, indicators at all levels are SMART and include baseline and target values.

The economic analysis is comprised of a cost-benefit analysis for Component I and Component III. The economic rationale for investing in heritage and cultural tourism products under Component I is supported by the tourists willingness to pay estimates based on experimental choice design. The economic analysis of the airlift scheme (Component III) is conducted based on the estimation via structural time series models of the incremental tourists attributed to the schemes and the valuation of the associated social welfare. Taking into account these approximations, a specific methodology to estimate the reservation value on the procurement process for new route contracts was identified in order to guarantee that the expected annual national benefits are at least as large as national cost (i.e. contract payments to the airline).

The proposed monitoring plan seems adequate and the evaluation plan meets the requirement for a before-after comparison with no attribution.



## RESULTS FRAMEWORK

<b>Program Objective:</b>	The overall objective of the project is to increase the resilience of the Barbados tourism industry, with a focus on increasing tourism receipts. Specific objectives are to: (i) increase tourist expenditures on heritage and cultural products; (ii) increase digital visibility of Barbados in the tourism market; and (iii) design and implement a mechanism to contract airlift on new routes between Barbados and Latin America to increase tourist arrivals and expenditures.
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## EXPECTED IMPACT

Indicators	Unit	Baseline		Goals		Means of verification	Observations
		Value	Year	Value	Year		
EXPECTED IMPACT							
Impact 1: Increase in tourism expenditures in Barbados by tourists							
Indicator 1.1: Total expenditure in Barbados by stayover tourists, by trip	US\$/trip/visitor	1557	2015	1617	2021	Surveys to tourist visitors contracted by executing agency, statistics on total number of visitors from Central Bank and World Tourist Organization, and analysis following methodology described in the Monitoring and Impact evaluation annex	The key indicator is 1.5 (incremental expenditure by visitors in Barbados as a result of the project) The other indicators just provide the auxiliary information to easily understand how 1.5 was constructed. Total expenditures are calculated as the multiplication of number of visitors and average tourist expenditure
Indicator 1.2: Total expenditure in Barbados by cruisers	US\$/trip/visitor	78	2015	128			Increase in expenditures from 2015 to 2021 by trip is estimated as 50% of the expected value of willingness to pay for the three new cultural products, by type of tourist visitor, as explained in the economic analysis.
Indicator 1.3: Total number of stayover tourists	# Visitors/year	591,900	2015	591,900			Indicator for number of tourist visitors in 2021 is the observed value for 2015, given the low growth observed in the last 8 years, as used in the economic analysis. It is expected that the number of visitors will increase but it is very difficult to assess ex ante how much of the increase would be due to the project. Also, due to the relative small contribution of the total number of visitors from the new route financed in Component 3 (10,000 in year 2021) compared to annual variability in the total number of visitors, the expected increment provided by Component 3 is not included. At the time of the impact evaluation
Indicator 1.4: Total number of cruisers	# Visitors/Year	586,700	2015	586,700			
Indicator 1.5: Incremental expenditure in Barbados by Tourists as a result of the project	US\$ million/year	0	2016	83			

Indicators	Unit	Baseline		Goals		Means of verification	Observations
		Value	Year	Value	Year		
							<p>studies, if the increase in total number of visitors as a result of the project can in fact be estimated, it would be very easy to separate the increase due to Component 3 from the increase due to Component 1 and 2.</p> <p>Indicators for number of visitors and increase in tourist expenditures (2021 VS 2015) are used to construct the indicator for total incremental expenditure. Then, the expected expenditures by visitors on the new route (Component 3), is added to obtain the estimated incremental tourist expenditure as a result from the project.</p> <p>Actual value for indicator 1.5 in 2011 should be estimated using synthetic control methodology as described in annex on impact evaluation.</p>

## EXPECTED RESULTS

Expected Results	Unit	Baseline		Intermediate		Goals		Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
EXPECTED RESULTS									
Component 1: New tourism products									
<b>Indicator 1.1:</b> Mean expenditure of visitors in new cultural products in Bridgetown (stay over and Cruise ships) <b>Indicator 1.2</b> Total # Visitors (stay-over and cruisers).	US\$/visitor  Visitors (000)	0  0	  2016			8  1,179	  2021	Surveys to be contracted by executing unit	Expenditure in 2021 was estimated as half the willingness to pay for all visitors, as explained in the economic analysis. Actual values in 2021 should come from surveys. It is expected that not all visitors will visit the cultural products. The estimate of total expenditure on cultural products can be done using the average over the total number of visitors, as indicated here, or the average over only those that actually visit the products. In each case the correct number of visitors should be used to estimate total expenditure in the particular cultural product.
<b>Indicator 1.3:</b> Mean expenditure of visitors to the new National museum (stay over and cruise ships) <b>Indicator 1.4:</b> Number of visitors to the new national museum	US\$/visitor  Visitors (000)	0  0	  2016			26  1,179	  2021		

Expected Results	Unit	Baseline		Intermediate		Goals		Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
									comment above about how to use these indicators to compute total expenditure on cultural products.
<b>Indicator 1.5:</b> Mean expenditure of visitors to renewed water front at Oistins <b>Indicator: 1:6</b> Number of visitors to the renewed waterfront at Oistins	US\$/visitor  Visitors (000)	0  0	  2016			21  1179	  2021	Surveys to be contracted by executing unit	Expenditure in 2021 was estimated as half the willingness to pay for all visitors, as explained in the economic analysis. Actual values in 2021 should come from surveys. See comment above about how to use these indicators to compute total expenditure on cultural products.
Component 2: Strengthening digital marketing									
<b>Indicator 2.1:</b> Traffic to Barbados' official tourism website (www.visitbarbados.org)	2.1.1 Estimated monthly visits	25,000	2015			76,000	2021	Statistics produced by Google Analytics and Google Webmaster tools;  Reports from Executing Unit	2.1.1 The goal is the average of monthly visits to the official websites of Barbados competitors (Puerto Rico, Cuba, Dominican Republic and Jamaica).  2.1.2 As an indicator of geographic market diversification.  2.1.3 As an indicator of relevant contents for website visitors. The goal considers the time on site in other competitors'
	2.1.2 Geographic traffic sources	75% from traditional markets (USA, UK, Canada)	2015			50% from traditional markets	2021		
	2.1.3Time on site	1:39 minutes	2015			3:00 minutes	2021		

Expected Results	Unit	Baseline		Intermediate		Goals		Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
									websites (3:44 minutes for www.godominicanrepublic.com).
<b>Component 3: Improving airlift procurement mechanism</b>									
<b>Indicator 3.1</b> Expenditures in Barbados by visitors from new routes contracted under the Program	US\$/visitor	0	2016	1,800	2017	1,800	2021	Survey contracted by Executing Unit; Reports form Executing Unit	Estimates based on lowest expenditures obtained in survey during preparation.
<b>Indicator 3.2</b> Number of visitors from new routes contracted under the Program	Visitors/year	0	2016	7,000	2018	10,000	2021	Statistics from Ministry of Tourism and Transportation; Reports form Executing Unit	Estimates based on preliminary studies for 6 routes in Latin America.

## PRODUCTS

Products	Estimated Cost (US\$000)	Unit	Baseline	2017 Year 1	Year 2	Year 3	Year 4	2020 Year 5	Final Goal	Means of verification
<b>Component 1: New tourism products</b>										
<b>Indicator 1.1:</b> Visitor center completed	1,400	Facility	0	0	0	1			1	Reports form Executing Unit
<b>Indicator 1.2:</b> Urban Tourist route in Bridgetown completed	4,700	Project	0	0	0	0	1		1	Reports form Executing Unit
<b>Indicator 1.3:</b> Renovated National Museum at the Garrison completed	2,500	Project	0	0	0	0	1		1	Reports form Executing Unit
<b>Indicator 1.4:</b> Oistins waterfront improvement completed	2,700	Project	0	0	0	0	0	1	1	Reports form Executing Unit
<b>Component 2: Strengthening digital marketing</b>										
<b>Indicator 2.1:</b> Digital media produced	560	media products			1	0	1		2	Reports form Executing Unit
<b>Indicator 2.2:</b> Corporate image campaigns conducted	900	campaigns	0	1	1	1	1	1	5	Reports form Executing Unit
<b>Indicator 2.3:</b> Audiovisual material produced	540	materials	0	1	1	1	1	1	5	Reports form Executing Unit
<b>Component 3: Improving airlift procurement mechanism</b>										
<b>Indicator 3.1:</b> Airlift contract operating for new route	4,000	# yearly contracts under operation for a new air route	0	0	1	1	1	0	3	Report from Executing Unit

## **FIDUCIARY ARRANGEMENTS**

**COUNTRY:** Barbados  
**PROJECT:** BA-L1033 National Tourism Program  
**EXECUTING AGENCY:** Barbados Tourism Investment (BTI)  
**PREPARED BY:** Denise Salabie, Fiduciary Financial Management Specialist  
Russell Franklyn, Financial Management Consultant  
Maria Camila Padilla, Fiduciary Procurement Specialist

### **I. EXECUTIVE SUMMARY**

- 1.1 The fiduciary management evaluation of the project was performed during the first quarter of 2016 using the Institutional Capacity Assessment System (ICAS) methodology, as well as through a series of interviews with the management team of the MTI and BTI. The evaluation indicates that the project has a low fiduciary risk, and as such, it is believed that the BTI, Project Executing Unit, has the requisite fiduciary capacity to execute the program, once it has dedicated personnel assigned to the project for procurement and financial management functions and they are trained in IDB related fiduciary requirements and policies.
- 1.2 Whilst BTI has not executed an IDB financed project, they have experience in the development and execution of various tourism-related infrastructure projects as well as, recent experience in the execution of a US\$15 million project with CDB financing. They are familiar with project procurement and fund financial management and accounting. It is recommended that the project uses: (i) the BTI's financial management system, ACCPAC, to facilitate the financial administration of the project; and (ii) a firm of independent public accountants acceptable to the Bank, should be contracted for external audit. Due to an issue of the lack of spare capacity within BTI, it will be necessary as a condition prior to first disbursement, to have personnel specially assigned to the project to ensure that the project has the requisite resources to execute within a timely and adequate manner.

### **II. EXECUTING AGENCY'S FIDUCIARY CONTEXT**

- 2.1 The BTI was formed under the Companies Act on April 17, 1998. The Government of Barbados is the sole shareholder and is represented by the Minister of Tourism and International Transport. BTI is the official government agency responsible for facilitating tourism infrastructural development and has its own financial and procurement rules which are similar to those set out in the Financial Management and Audit Act (FMAA). It should be noted however, that unlike that allowed in the Act, the threshold of BDS\$200,000 above which open public tender is required has been lowered to BDS\$100,000. These rules are incorporated in the Company's by-laws and Board decisions. BTI financial management system ACCPAC, its fiduciary oversight procedures including its Operational Policies and Procedures along with the Financial Management Guidelines, Bank's Procurement Policies and the Project's Operation Manual will be relied on for the Project Execution.

### III. FIDUCIARY RISK ASSESSMENT AND MITIGATING ACTIONS

- 3.1 The overall fiduciary risk of the project is deemed to be low. Notwithstanding this, there were a few risks as outlined below that were deemed medium risk and which could impact on the project. These risks however do not affect the overall low risk rating of the project:

**Table 1. Mitigation Risk and Rating**

<b>Risk</b>	<b>Risk rating</b>	<b>Mitigation measures</b>
Limited availability of reliable and timely financial information for decision making	Medium	Customization of the current financial management system, so that it is able to report on the project separately and to facilitate project financial reporting.  <b>Responsibility for implementation:</b> PEU/Borrower.
Inadequate fiduciary management and oversight of the project		Assignment of a Financial Specialist and Procurement Specialist to the Project.  <b>Responsibility for implementation:</b> PEU/Borrower.
Limited knowledge on IDB Procurement Policies and Procedures; and Disbursements and Financial Reporting Procedures	Medium	Create capacity within PEU through training on IDB procurement policies and procedures, and financial management procedures and requirements. <b>Responsibility for implementation:</b> IDB. <b>Timeline for implementation:</b> Throughout project execution.

### IV. ASPECTS TO BE CONSIDERED IN THE SPECIAL CONDITIONS OF THE CONTRACT

- 4.1 To facilitate the execution of the operation, outlined below are agreements and requirements which should be incorporated into the special conditions:
- Special conditions:** All the precedent conditions related to the first disbursement are included in the Project Summary of the Loan Proposal.
  - Rate of exchange agreed with the executing agency.** For purposes of determining the equivalency of expenditures incurred in local currency of the reimbursement of expenditures chargeable to the loan, the agreed exchange rate shall be the exchange rate on the effective date on which the borrower, the PEU, or any other person or legal entity in whom the power to incur expenditures has been vested makes the related payments to the contractor, supplier or beneficiary.
  - Audited financial statements and reports.** Annual Audited Financial Statements (AFS) of the project are to be submitted to the Bank within 120 days after the close of each fiscal period of the PEU, in addition to final audited financial statements, which are due for submission to the Bank within 120 days of the close (last disbursement date) of the project. The AFS should be duly audited by a firm of independent public accountants acceptable to the Bank.



- d. **Disbursement restrictions.** Pursuant to Document AB-2990, disbursement by the Bank of resources will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months. All these periods will be counted from the time the loan operation is approved by the Board of Executive Directors. These limitations may be rendered inapplicable to the extent that the requirements set forth in the Bank's policy regarding said limitations have been fulfilled, provided that the borrower has been notified of the same in writing. Program resources are to be fully disbursed within 60 months from the effective date of the loan agreement.

## V. FIDUCIARY ARRANGEMENTS FOR PROCUREMENT EXECUTION

- 5.1 Procurement for the proposed project will be carried out in accordance with the provisions set out in the Loan Agreement as well as in the Policies for the Procurement of Goods and Works financed by the IDB ([GN-2349-9](#)) and the Policies for Selecting and Contracting Consultants financed by the IDB ([GN-2350-9](#)), and with these fiduciary arrangements.
- 5.2 **Procurement of Works, Goods and Non-Consulting Services.** The contracts for Works, Goods, and Non-Consulting Services<sup>1</sup> generated under the project and subject to International Competitive Bidding will be executed through the use of the Standard Bidding Documents (SBDs) issued by the Bank. The processes subject to National Competitive Bidding (NCB) will be executed through the use of bidding documents satisfactory to the Bank. The use of Shopping as a procurement method shall follow the procedures set out in the Policy and will consist in the price comparison of at least three quotes. The technical specifications review during the preparation of the selection process, is the responsibility of the project sector specialist.
- 5.3 **Selection and Contracting of Consultants:** The consulting services contracts generated under this project will be executed through the use of the Standard Request for Proposals (SRFPs) issued or agreed to by the Bank. The terms of reference review for the selection of consulting services is the responsibility of the project sector specialist. The executing agency may choose any of the selection methods included in the Policy.
- 5.4 **Selection of Individual Consultants:** The contracting of individual consultants will be carried out in accordance with procedures set out in Section 5 of the Policies for selecting and contracting individual consultants. Posting of opportunities for individual consultant contracts may be advertised internationally or locally in order to attract qualified individuals and will consist in evaluating the capacity of at least three candidates against set and agreed terms of references.
- 5.5 A study to determine the maximum economic welfare accruing to Barbados from expected expenditure by the new tourists, shall be single sourced with a group of consultants from the Las Palmas University (Spain) . This method of selection is justified, pursuant to the "Policies for the Selection and Contracting of Consultants

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<sup>1</sup> Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank ([GN-2349-9](#)) paragraph 1.1: The services different to consulting services have a similar process as procurement of Goods.

Financed by the IDB”: (i) as it represent a natural continuation of previous work carried out by the group (GN-2350-9, paragraph 3.10-a); and (ii) in consideration of their experience and capacity of exceptional worth given their high academic standards, their international experience in these kinds of studies, and the background they have on this particular case (GN-2350-9, paragraph 3.10-d).

- 5.6 **Training.** Training will be provided to the staff in charge of the financial management and procurement execution prior to starting activities and based on the annual operations plan.
- 5.7 **Procurement Supervision.** The Procurement supervision method will be determined by the Bank for each selection process. For this project, procurement supervision will be ex ante. Once ex post review is viable, ex post reviews will be performed every 6 months in accordance with the supervision plan. The ex post review will include at least 10% of the procurement processes under ex post review.

**Table 2. Thresholds for Barbados. In US\$ thousands**

Works	Goods*	Consulting Services
International Competitive Bidding	International Competitive Bidding	International Short List
≥US\$3,000	≥US\$150	≥US\$200

\* including non-consulting services

**Table 3. Main Procurement Activities.**

Activity	Procurement Method	Estimated Date	Estimated Amount 000'US\$
<b>Works</b>			
Visitor Center	NCB	2Q2017	US\$1,400
National Museum at the Garrison Renovation	NCB	2Q2017	US\$2,500
<b>Services</b>			
Airlift contract for new route			US\$4,000

\*For complete Procurement Plan see [link](#).

## **VI. FIDUCIARY ARRANGEMENTS FOR FINANCIAL MANAGEMENT**

- 6.1 **Programming and budget.** Each year, the Ministry of Finance and Economic Affairs publishes a budget circular requesting the submission of estimates of income and expenditure from ministries and other agencies for inclusion in the national budget for the following fiscal year, April to March.
- 6.2 The PEU will prepare annual estimates in the required format for the review and approval by the Permanent Secretary of the MTI, which will be included in the MTI's overall budget estimates. The estimates will consider the total cost of financing required for execution of the program. The budget (appropriation bill) is presented to Parliament before the close of the fiscal year. Once the budget is approved, amendments are made through the submission of supplementary appropriation bills by the Minister of Finance.
- 6.3 It is anticipated that the borrower will commit to allocate, for each fiscal year of project execution, adequate fiscal space to guarantee the unfettered execution of the project.
- 6.4 **Accounting and information systems.** Project accounting will be performed using ACCPAC and in accordance with the company's financial management and

- accounting rules & procedures, IDB financial management guidelines and the International Financial Reporting Standards, when applicable. It is expected that the accounting system will facilitate the recording and classification of all financial transactions, facilitate reporting, at a minimum, in the reporting currency of the project (US\$) according to source of funding and categories of investment, provide information related to: planned versus actual financial execution of the project.
- 6.5 **Disbursements and cash flow.** As per the norms of GOB, it is expected that a Treasury authorized bank accounts with the Central Bank of Barbados will be used for the receipt of loan resources. Funds from this account will later be transferred, by the Treasury Department, to a commercial bank account which will be opened specifically for the project and managed by BTI.
- 6.6 The Bank will disburse the project resources according to the true liquidity needs of the project, as evidenced by the current and anticipated commitments and obligations of the project. The following disbursement methodologies will be used for the project:
- a. Advance of funds (it is anticipated that this methodology will be mainly used).
  - b. Direct payment to supplier.
  - c. Reimbursement of payments made.
- 6.7 Advance of funds when used, will be based on the liquidity needs of the project for a period not exceeding six months. Subsequent advances may be disbursed once 80% of the total accumulated balance pending justification has been submitted and accepted by the Bank.
- 6.8 Disbursements will be processed using the ex post methodology.
- 6.9 It is expected that the Bank's eDisbursements system, which will facilitate the electronic submission of disbursement requests to the Bank, will be used for the project. Final determination of its use will be determined based on the readiness of the PEU and a cost-benefit analysis to be conducted.
- 6.10 **Internal control and internal audit.** BTI will establish and maintain adequate internal control procedures and systems for the project. These procedures should provide a reasonable level of assurance that, at a minimum, project funds are used for their intended purposes; project transactions, decisions and activities are properly authorized and documented; and, project transactions are executed in accordance with the policies and procedures established in the relevant legal agreements. These procedures will be documented as part of the Operations Manual of the Project.
- 6.11 **External control and reports.** The BTI will be required to submit audited financial statements. See paragraph 4.1 (c) of this annex for details. The financial statements will be audited by a firm of independent public accountants acceptable to the Bank. The selection of the firm should be done through a competitive process and in accordance with the Bank's procurement procedures for audit (Document AF-200).
- 6.12 **Financial supervision plan.** The initial financial supervision plan of the project will focus on: (i) activities related to the implementation and follow-up of arrangements and systems being implemented for the fiduciary management of the project; (ii) follow-up on the implementation status of risk mitigating measures; and (iii) capacity building of PEU personnel in the Bank's procedures and requirements.

- 6.13 **Execution mechanism.** The Board of Directors of the BTI through its CEO will be mainly responsible for the fiduciary management of the project and will liaise with its Finance Department as it relates to the processing of payments and accounting and financial reporting of the project. Additionally, a Steering Committee comprised of representatives from each participating entity, will be established to facilitate Program coordination. Details of the execution arrangements will be elaborated in an Operations Manual (OM) to be prepared for the program.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/\_\_\_

Barbados. Loan \_\_\_\_/OC-BA to the Government of Barbados  
National Tourism Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Government of Barbados, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a national tourism program. Such financing will be for the amount of up to US\$20,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_\_ )