



Economic Letter November 2020

Foreign Finance for Future Development

The immediate challenge for economic policy in Barbados is to restore the nation's gross domestic product to US\$ 5.2 billion, the figure for 2019. That requires a focus on reviving long-stay tourism to fill all available accommodation, and to provide business for restaurants, entertainment, shopping and spas, and other service industry.

Beyond the immediate challenge, however, is the need to stimulate growth, to put the economy on a new path of increasing prosperity. To do that requires new investment, in hotels and tourist facilities, in renewable energy, in new technology and in social and economic infrastructure. New investment creates a need for foreign finance, to import the necessary materials, fuel, machinery and equipment.

There is little question about foreign investor interest in local projects that offer a competitive rate of return, in US dollars. As and when the outlook for international tourism improves, we may expect well-crafted hotel and tourism projects to attract the foreign finance they need without difficulty. The problems that have arisen, and that continue to plague the tourism industry, have to do with public administrative inefficiency. This will continue to be a drag on investment, until there is a makeover of the public sector, to lift performance to an acceptable international standard.

We can be less confident about attracting foreign finance for investment in renewables, because the revenues in this industry are in local currency, not US dollars. This creates an additional level of risk. The potential foreign investor may be deterred by the potential risk of devaluation or by the need to apply to the Central Bank to transfer funds. At a minimum, the return on investment will have to be higher than for tourism, and consumers will have to pay a higher price than if the US dollar was the local currency in use.

Potential foreign investors in renewable energy projects face a third hurdle, besides the local currency risk and administrative inefficiency. There is no publicly available document which they can consult for information on the contributions to Government's renewables strategy of solar, wind, biofuels, and other technologies in which they may have an interest. What is more, some Government policies, for example with respect to taxation of electric vehicles, are inconsistent with the Government's announced 2030 target for the exclusive use of renewable energy.

Investment in social and economic infrastructure is needed to improve Barbados' international competitiveness. The Barbados Government's poor credit rating makes it difficult to secure foreign finance from private sources for infrastructure on affordable terms. Government foreign borrowing is rated by Standard and Poors at a level that is seven steps below investment grade. At this level private foreign direct investors are unlikely to lend to Government, or to accept Government guarantees for lending to contractors working on Government projects.

This threatens to be a major bottleneck to investment in the new infrastructure which is needed. The Queen Elizabeth Hospital lacks the electronic infrastructure required by a modern hospital; it should be replaced. The South Coast Sewerage System and the Bridgetown Sewerage Plant need to be modernised.

The water distribution system is in need of upgrade and expansion. The quality of road surfaces needs to be improved. Schools, the university, other educational institutions, health care facilities, and public security systems are all in need of new or upgraded facilities and equipment.

Barbados is fortunate to have foreign-owned firms providing services in electricity and telecommunications. They have sources of foreign funding that are independent of Government. Government might wish to consider leases of the port and airport, to companies who have similar independent sources of finance.

For all other infrastructural needs, Government will be reliant on borrowing from the Interamerican Development Bank, the Caribbean Development, the Andean Development Corporation, and other official and international financial institutions. Government needs to build the capacity of the public service, to develop sound proposals to attract funding from these institutions for projects which have long been identified as national priorities.