



# Economic Letter February 2019



## Releasing Potential Investment Inflows

In December 2016 the Central Bank of Barbados prepared a list of major investment projects that were to have been underway in 2017. The projects, which were all majority foreign funded, totaled BDS\$2,248 million. As of the end of January 2019, only \$363 million of those projects have been completed. Another \$400 million is known to be underway. Over half the expected investment has not yet been started, two years later.

The reasons for the slow implementation rate vary, but they almost always relate to administrative failures in the public sector. It is frequently the case that the required permissions are so long in process by Government agencies that investors lose interest. Funding sources may be lost in the interim, and market conditions may change, causing potential investors to move on. In one case, the ownership of an interested party changed during a lengthy approval process. By the time that approval was secured, terms had to be renegotiated with the new owners. In another highly-publicised case, legal challenges caused a two-year delay in securing approval, and the project has not yet started.

The Central Bank's December 2016 list did not include projects that, in the Bank's opinion, were unlikely to bring foreign exchange inflows in 2017. Excluded was the Four Seasons Paradise Beach project, which a Government-owned entity had failed to execute. Also not included was the BNTCL oil storage and distribution company, which was to have been sold to the private sector. That sale faced legal and regulatory challenges. By December 2016 there were other feasible projects in alternative energy and in the public sector that had been abandoned in frustration, after years of bureaucratic delays. Together, these excluded projects might have added \$500 million in foreign investment, but for Government administrative failures.

Renewed growth in the Barbados economy depends on removing a dense barrier of complex, antiquated Government administrative processes. Poorly performing Government departments, agencies and state corporations stand in the way of new projects, in the public and private sectors.

Barbados remains an attractive destination for investment that brings foreign exchange to fuel economic growth. However, the channels for incoming investment are choked up by dysfunctional Government administration. To release potential investment, there has to be a sea change in the quality and performance of our public sector.

Countries like Canada, Iceland, Singapore and New Zealand offer examples of reforms that may be used to raise the implementation capacity of the public sector to the level that is required.