BARBADOS

June 18, 2025

FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This update to the RSF Assessment Letter for Barbados, dated June 17, 2025, includes relevant changes and updates under each section that have occurred since the issuance of the previous Assessment Letter on December 5, 2024.[1] The IMF's RSF program in Barbados provides financing to support the country's climate change adaptation and mitigation efforts, and support Barbados's ambitious goal of transitioning to a fully renewable-based economy.

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs

1. Barbados is increasingly vulnerable to climate change related natural disasters. Two recent hurricanes highlighted these increasing vulnerabilities. Last year, Barbados faced an even greater threat than in July 2021, when Hurricane Elsa, a Category 1 storm, became the first hurricane to hit the island in over 60 years. In July 2024, Hurricane Beryl, a Category 3 hurricane, passed just forty miles south of the country. The economic impact of these hurricanes has been substantial, with Hurricane Beryl causing significant damage to the agriculture sector and severely disrupting the fishing and tourism industries. Social costs have also been significant, displacing many in affected fishing communities and many in tourism sector. This trend is consistent with the findings of the Fifth Assessment Report of the United Nations Intergovernmental Panel on Climate Change which presented evidence that the combination of several factors will contribute to increased tropical storm activity in the Caribbean by the end of this century. Among them are: (i) projected air temperature rise across the Caribbean by 1–4°C with a tendency towards drier conditions in the wet season; (ii) expected annual precipitation decrease by 12 percent; and (iii) projected surface water temperature increase by up to 3 °C while the mean sea level rise is expected to reach 0.6 m.

[1] Staff Report for the Fourth Reviews under the Extended Fund Facility and the Resilience and Sustainability Facility.

There is already a predicted increase in storm intensity and frequency of Category 4 and 5 hurricanes across the Caribbean over the next decades. This is of particular concern given that Barbados has a lower preparedness capacity as the World Risk Index considers Barbados as moderately prepared to face disasters. The Notre Dame Global Adaptation Initiative's (ND GAIN) country index, which measures 193 countries' overall climate change readiness and vulnerability, ranks Barbados 30 with a moderate score of 61.1 in 2024. Rising sea temperatures coupled with increasing terrestrial solid and chemical waste pollution adversely impact overall coastal water quality and contribute to increased ocean acidification. In addition, more than 70 percent of the country's coral reefs have suffered significantly from coral bleaching, primarily due to extended marine heat waves.

B. Government Policies and Commitments in Terms of Climate Change Adaption and Priority Areas to Strengthen Resilience

2. **Barbados has demonstrated a strong commitment to climate change adaptation and resilience through a series of recently approved strategic policies and initiatives.** In 2024, Barbados completed an innovative debt-for-climate operation, with the support of the Inter-American Development Bank and the European Investment Bank guarantees totaling US$300 million to help finance critical climate adaptation projects. The Central Bank of Barbados has adopted a strategy aimed at building capacity to monitor and assess climate change risks, which is helping to enhance the resilience of the financial system. Furthermore, the government has launched a comprehensive Plan for Investment in Prosperity and Resilience, serving as an overarching roadmap to achieve its long-term vision for sustainable development and climate resilience. The authorities have incorporated climate risks into financial stability assessments and integrated climate considerations into the public financial management process. To enhance protection against climate-induced disasters, the Government of Barbados has approved several key policies. The Disaster Risk Financing (DRF) policy, approved by the Cabinet in February 2025, integrates scalable social protection mechanisms to ensure timely and targeted support to vulnerable populations during and after disasters. Additionally, an amendment to the Catastrophe Fund Act has been approved by the Cabinet in February 2025 to expand coverage and introduce more flexible disbursement mechanisms, thereby supporting low-income households in coping with disasters. This amendment repurposes the Catastrophe Fund into a Resilience and Regeneration Fund by modifying its sources of financing, utilization, and management, ensuring a more robust financial response to emergencies. Further strengthening the country's resilience, the Cabinet has approved in March 2025 the Integrated Coastal and Marine Management Bill, which establishes a comprehensive framework for the sustainable use and management of coastal resources. To secure the long-term sustainability of the fisheries sector, Parliament has passed in March 2025 the Sustainable Fisheries Management and Development Bill, which enforces sustainable practices through a comprehensive legislative framework. Additionally, Parliament has passed in April 2025 the Stormwater Management Bill, which outlines structured stormwater management, delineates responsibilities of public entities, and implements regulations to protect people and property from flooding.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

3. **The Government of Barbados has made significant strides in climate change mitigation and reducing greenhouse gas emissions through a series of targeted policies and initiatives**. Over the past year, the government is implementing enhanced competitive procurement methods aimed at increasing investments in battery storage technologies and supporting the expansion and integration of renewable energy production. To further promote competition in the electricity market and encourage local participation in renewable energy investments, a New Electricity Supply Bill was passed by the Parliament on September 27, 2024. Additionally, the government has reduced taxes on electric vehicles and developed regulations related to green procurement, which not only strengthen the country's climate resilience but also contribute significantly to its mitigation efforts by making government purchasing environmentally friendly. The Cabinet has also approved the Energy Efficiency and Conservation Policy Framework, which aims to reduce energy use across all government agencies and develop efficient public lighting systems. These comprehensive measures underscore Barbados' commitment to mitigating climate change and reducing its carbon footprint.

D. Other Challenges and Opportunities

4. **Barbados faces both challenges and opportunities in its efforts to manage pollution and protect its environment, which are crucial components of its broader climate change strategy.** The implementation of the Pollution Control (Discharge) Regulations and the establishment of a List of Pollutants with their Prohibited Concentration levels mark significant steps forward. The Environmental Protection Department (EPD) is actively finalizing the Marine Pollution Control (Discharge) Regulations. Once enacted, these regulations will empower the EPD to take decisive action against pollution discharges that exceed established standards. This regulatory framework will provide greater certainty to developers, planners, engineers, and architects regarding the requirements for discharges from development projects, thereby ensuring that wastewater treatment meets the necessary standards. These measures will not only address current pollution challenges but also create opportunities for sustainable development and environmental protection in Barbados. The Barbados Environmental Sustainability Fund (BESF) and the climate budget tagging methodology, which were supported by IBRD's Barbados Green and Resilient Recovery Development Policy Loan, continue to remain available as a long-term source of financing for conservation and climate change and as a tool for strategic resource allocation for a sustainable and resilient future, respectively.

E. World Bank Engagement in Climate Change

5. **Until recently, the World Bank's engagement in Barbados, as an IBRD graduate, was limited, but it is expanding as the country became a regular IBRD borrower again.** The Country Engagement Note which has a strong focus on resilience to climate change was discussed by the IBRD Board of Executive Directors on January 23, 2025. The Barbados Beryl Emergency Response and

Recovery Project, approved on November 21, 2024, will help to restore targeted, disaster-affected sectors, enhance climate-resilient infrastructure, and strengthen emergency preparedness and response capacities. Furthermore, the Barbados Disaster Risk Management Development Policy Loan with Catastrophe Deferred Drawdown Option (CAT DDO), approved on April 10, 2025, helped to improve the country's disaster risk management and financing framework. It provides a fast-access line of credit to support timely and effective responses once an emergency is declared, thereby also enhancing the country's financial resilience against disasters. These efforts will pave the way for similar initiatives in other countries in the region. Another means of supporting Barbados in addressing the impact of natural disasters is via the newly established Climate Resilient Debt Clause (CRDC) which would enable deferment of principal and interest payments to the Bank for up to two years in case of a natural disaster and is similar to clauses that have been embedded in the commercial papers issued by Barbados domestically and externally.