

CARIBBEAN DEVELOPMENT BANK



EXECUTIVE SUMMARY WITH MANAGEMENT RESPONSE

PROJECT COMPLETION VALIDATION REPORT

POLICY-BASED LOAN - ANGUILLA

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OFFICE OF INDEPENDENT EVALUATION

NOVEMBER 2014

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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

1. BASIC PROJECT DATA

Project Title	Policy-Based Loan - Anguilla
Country	Anguilla
Sector	Multi-sector
Loan No.	4/OR-ANL
Borrower	Government of Anguilla (GOA)
Implementing/Executive Agency	Ministry of Finance, Economic Development, Investment, Commerce and Tourism (MOF)

<u>Disbursements (mn)</u>	<u>CDB LOAN (\$'000)</u>		
	<u>OCR</u>	<u>SFR</u>	<u>Total</u>
Loan Amount	55.0	-	55.0
Disbursed	55.0	-	55.0
Cancelled	-	-	-
<u>Project Milestones</u>	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance (months)</u>
Board Approval	July 22, 2010	July 22, 2010	-
Loan Agreement signed	July 30, 2010	August 23, 2010	0.77
Loan Effectiveness ¹	August 23, 2010	August 23, 2010	-
<u>CDB Loan</u>	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance (months)</u>
First Disbursement Date	August 31, 2010	August 31, 2010	-
Terminal Disbursement Date	September 30, 2010	August 31, 2010	1
TDD Extensions (number)	-	-	-
<u>Project Cost and Financing (\$mn)</u>	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance (\$mn)</u>
CDB Loan	55.0	55.0	-
CDB Grant	-	-	-
Other Loan	-	-	-
Counterpart (GOA)	-	-	-
Total	55.0	55.0	-
<u>Terms</u>	<u>Interest Rate</u>	<u>Repayment</u>	<u>Grace Period</u>
CDB Loan	4.5	17 years (including grace period)	5 years
Other Loan	-	-	-
<u>Implementation</u>	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance</u>
Start Date ²	August 23, 2010	August 23, 2010	-
Completion Date	September 30, 2010	August 31, 2010	1.0 months
Implementation Period ³	0.08 years	0.02 years	-
<u>Economic Rate of Return (%)</u>	<u>At Appraisal</u>	<u>PCR</u>	<u>PCVR</u>
Original Loan	Not applicable	Not applicable	Not applicable
Additional Loan	-	-	-

¹ Date Conditions to First Disbursement satisfied

² Implementation begins with satisfaction of conditions precedent

³ The PBL was disbursed in a single tranche and all policy reform targets were met prior to approval and disbursement

2. POLICY-BASED LOAN DESCRIPTION

2.01 The adverse effects of the global financial crisis in 2008 resulted in a sharp contraction of Anguilla's Gross Domestic Product (GDP) and a significant deterioration in public finances. In view of the threat that was posed to Anguilla's ability to meet its debt obligations, support its fiscal adjustment programme, shore up deteriorating public finances and stave off of a rapid build-up in short-term debt, the United Kingdom Government (UKG) approved Anguilla's decision to approach the Caribbean Development Bank (CDB) to request a Policy-Based Loan (PBL) to support its fiscal adjustment programme and to restructure its debt portfolio.

2.02 CDB approved a PBL from its Ordinary Capital Resources (OCR) in the amount not exceeding the equivalent of \$55 million (mn) in July 2010 to the Government of Anguilla (GOA), to assist in financing a programme of reforms in the areas of macroeconomic management, expenditure and debt management, revenue enhancement, social protection and risk management in Anguilla. The GOA's reform programme to address fiscal and related Public Finance Management (PFM) reforms was aimed at restoring fiscal stability by 2013. The PBL was an integral element in Anguilla's fiscal and economic strategy for alleviating the country's debt service difficulties by lengthening the maturity structure and reducing the interest cost of its debt stock and, in so doing, reducing the financing needs over the medium-term.

PBL OBJECTIVES

2.03 The policy reform focus of the PBL was consistent with GOA's medium-term fiscal adjustment programme and the PBL was designed to support GOA's efforts to:

- (a) restructure the public debt to reduce debt servicing payments to more manageable levels (lengthening of the maturity structure and reducing the interest cost of the debt stock);
- (b) strengthen the framework for fiscal and economic management for sustained improvement in fiscal performance (setting the stage for reforms aimed at improving economic management systems and fiscal and debt outcomes); and
- (c) support and maintain social safety nets to cushion the worst effects of the adjustment measures on the most vulnerable (strengthening the framework for social protection and poverty reduction).

EVALUATION OF DESIGN AND IMPLEMENTATION

2.04 The single-tranche configuration of the PBL allowed for the fast and full disbursement of the loan on the satisfaction of agreed upon reform actions. The choice of reform conditions took into account the lessons learned by CDB in the structure and implementation of PBLs in other Borrowing Member Countries (BMCs). Most notably those design issues were related to country ownership; implementation capacity; consistency between the policy reforms proposed; and the objectives of CDB's Country Strategy Paper (CSP) for Anguilla. The GOA effectively discharged its responsibility during implementation of the requisite reform programme. The Evaluator concurs with the PCR that the design and implementation of the PBL using the single tranche programmatic structure were appropriate to achieve the planned outputs and expected outcomes.

EVALUATION OF PERFORMANCE AND OVERALL ASSESSMENT

2.05 The Evaluator concurs with the overall rating of *Satisfactory* awarded to the performance of the PBL. The rating is based on an assessment of the PBL performance using the Core Evaluation Criteria: Relevance, Effectiveness, Efficiency and Sustainability; and the Complementary Evaluation Criteria: Thematic Assessments⁴ and Institutional Development (ID), CDB's Performance; and Borrower's/EA's Performance.

2.06 The conclusion is supported and demonstrated by GOA's improved fiscal performance and debt dynamics resulting from the achievement of all planned outputs such as minimising the cost of borrowing by lowering the interest rate from 7% in 2009 to 4.5 % in 2011; establishment and full staffing of the Debt Management Unit (DMU) to improve the management of public debt; strengthening the framework for fiscal planning and management, preparing a Medium Term Fiscal Framework; negotiating approval of the Medium-Term Economic Strategy (MTES) by the Executive Council in August 2010; completing training of Ministry of Finance (MOF) staff by Caribbean Technical Assistance Centre in macroeconomic forecasting in July 2012; and maintaining social assistance expenditure above the 2009 level of XCD 2.9 mn in order to protect the most vulnerable in the community (social assistance expenditure stood at XCD 3.7 mn in 2011, XCD 3.9 mn in 2012, and XCD 4.6 mn in 2013⁵).

BORROWER AND/EXECUTING AGENCY PERFORMANCE

2.07 The Evaluator concurs with the *Satisfactory* rating assigned to the Borrower in the PCR. GOA demonstrated a high level of ownership and commitment and engaged CDB early in the preparation stage of the reform programme which facilitated the conditions to be satisfied in a timely manner.

CDB's PERFORMANCE

2.08 The Evaluator rates CDB's performance as *Satisfactory*. The major achievements at entry were the agreement on the scope of the PBL, and the institutional initiatives for PBL implementation.

⁴ Cross-Cutting themes are: poverty reduction, gender equality/issues, socioeconomic conditions and economic growth, institutional development, technology enhancement/changes, environmental issues of CC and DRM, and citizen security.

⁵ Government of Anguilla, 2013/2014 Annual Report on the MTES 2010-2014, June, 2014 Pages 35-40

TABLE 1: SUMMARY RATINGS OF CORE EVALUATION CRITERIA AND OVERALL ASSESSMENT OF THE PBL

Criteria	PSRs		PCR		OIE Review		Reason, if any, for Disagreement/ Comments
	Scores	Rating	Scores	Rating	Scores	Rating	
Strategic Relevance	7.5	Highly Satisfactory	No score	Satisfactory	3	Satisfactory	-
Poverty Relevance	6.7	Highly Satisfactory		Satisfactory			
Effectiveness	7.2	Highly Satisfactory	No score	Satisfactory	3	Satisfactory	-
Efficiency	7.2	Highly Satisfactory	No score	Highly Satisfactory	4	Highly Satisfactory	-
Thematic Areas & ID Assessments	7.0	Highly Satisfactory	No score	Highly Satisfactory	Rated Only	Highly Satisfactory	-
Sustainability	6.0	Highly Satisfactory	No score	Satisfactory	3	Satisfactory	-
Composite (Aggregate) Score & Rating	7.0	Highly Satisfactory	No score	Not Rated	3.25	Satisfactory	-
Borrower & EA Performance	Rated Only	Satisfactory	Rated Only	Satisfactory	Rated Only	Satisfactory	-
CDB Performance	Rated Only	Satisfactory	Rated Only	Satisfactory	Rated Only	Satisfactory	-
Quality of PCR						Satisfactory	

LESSONS

2.09 The PCR reiterates the five lessons of CDB’s earlier experience with PBLs that directly informed the design of the PBL and were instrumental in the selection of the reforms proposed to enhance GOA’s fiscal management and stability:

PBL Modality and Structure

- (a) single tranche PBLs seem to facilitate the timely achievement of the requisite outputs since the full release of resources was conditional upon satisfaction of agreed upon reform actions. In addition, there are also fewer delays when conditions are linked to a single release. With single-tranche PBLs, difficulties of compliance are minimised, compared with multi-tranche PBLs where conditions of each tranche have to be satisfied to justify tranche releases, and in many cases lead to postponement, waivers and/or adjustments. The drive to implement the reforms would appear greater;
- (b) the restriction on the number of policy conditions and early agreement on the reform programme and associated policy actions support more timely completion of the reforms, especially when implementation constraints are known to exist;

- (c) structural reforms require sufficient time to implement and realistic implementation timelines are necessary to improve the achievement of specified outputs and expected outcomes;

Country Ownership

- (d) country ownership of the PBL and the associated reforms is critical to the success of PBLs, including effective coordination and cooperation between all departments involved;

Technical Assistance Support for Institutional Development

- (e) the Technical Assistance (TA) provided as a component of the PBL served to alleviate capacity constraints and facilitate implementation of the reforms;

2.10 The Evaluator noted that the other lessons learned by the Bank with the implementation of PBLs and the experience of other MDBs were also considered in the design of the PBL, namely:

- (a) the reform agenda must be relevant to the country's development goals;
- (b) PBLs should avoid excessive use of fixed conditions and rigid implementation time frames by focusing on results-based conditions and outcomes. Best practice recommends no more than five to seven conditions;
- (c) the PBL design should take into consideration probable changes (commitment and support) in the political environment of the reform process that could occur with changes in administration;
- (d) loan size should be based on the development financing needs of the country;
- (e) experience with the multi-tranche PBLs revealed that in countries that were experiencing changing or uncertain circumstances it was difficult to define all policy conditions on an ex-ante basis. As a result, in many cases, tranche conditions were not met and either disbursement periods were extended or waivers granted; and
- (f) single-tranche PBLs have short-time horizons and the actions to be supported by the operations should be part of a reasonably well-defined medium-term programme; and
- (g) a monitoring and evaluation system that uses relevant indicators for measuring the loan performance within a broader country context is essential.

PROJECT COMPLETION REPORT QUALITY

2.11 The Evaluator rates the Project Completion Report (PCR) quality as *Satisfactory* (although there needs to be a clearer distinction between outputs, outcomes and outcome indicators in the PCR's Results Matrix of Outcomes⁶). The rating was based on the:

- (a) quality of the data provided on the planned and achieved outputs; and the expected outcome of a strengthened framework for fiscal planning and management.
- (b) clarity of the explanations given for each of the development objectives;
- (c) relevance and appropriateness of the lessons learned for incorporation into new PBL designs;
- (d) suitability of the assessment of natural hazards and external risks;
- (e) realistic assumptions about the long term success and sustainability of the reform programme; and
- (f) conformity with PCR Guidelines for PBLs.

RECOMMENDATIONS

2.12 No follow-up for OIE is required. The Evaluator does not consider that a Project Performance Audit Report would provide significantly more information or identify additional lessons to be learnt than those identified in the PCR and those included from other MDBs that would serve to further inform the implementation of PBL interventions in Anguilla.

2.13 The major recommendations made in the PCR have already been addressed; and the Evaluator recommends that the Economics Department (ED) closely monitors:

- (a) implementation of the MTES under the European Union's (EU's) assessment;
- (b) implementation of the Framework for Fiscal Sustainability and Development and the Debt Management Strategy;
- (c) compliance with the Fiscal Responsibility Act, 2013;
- (d) developments on the implementation of the Health Sector Reform Programme which formed part of the objectives of the PBL; and
- (e) progress of the Gender Affairs Unit with respect to the formulation of the Gender Policy and Strategy.

⁶ PCR Section III. Results (a) Matrix of Outcomes, Pages 12-14

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MANAGEMENT RESPONSE

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MANAGEMENT RESPONSE

- 1.01 The validation report is very comprehensive in its coverage clearly detailing the project description (rationale, objectives, the components - inputs, expected impact, expected outcomes, implementation arrangements and identification of risks and mitigation measures); the evaluation of the design and implementation of the Policy-Based Loan (PBL); evaluation of performance of the PBL and the overall assessment including lessons and recommendations.
- 2.01 The Economist with responsibility for Anguilla provided comments on the draft validation project completion report on the PBL (attached) and was engaged in extensive discussion with OIE staff on the PBL. The Economist also provided economic reports and reviews in support of the assessment of the evaluation of the PBL.
- 3.01 The ED concurs with the conclusion in the validation report that the overall assessment of the PBL was Satisfactory. It also agrees with the lessons learnt from the PBL in general and in particular with the country ownership and the reform programme as critical for ensuring success of the PBL outcomes.
- 4.01 Management also agrees with the recommendations made in the Project Completion Validation Report, more specifically that ED closely monitors:

NO.	PCVR RECOMMENDATIONS	RESPONSE
1.	Implementation of the Medium-Term Economic Strategy (MTES) under the EU's assessment.	Agree. ED monitors developments in relation to the four pillars of the MTES namely: restoring macroeconomic stability; stimulating diversified and sustainable economic growth; supporting social development and protection; and reducing environmental sustainability. Staff also participated in the annual reviews of the MTES. Staff will continue to be engaged with the Government of Anguilla (GOA) on the successor programme of the MTES,
2.	Implementation of the Framework For Fiscal Sustainability Development (FFSD) and the Debt Management Strategy (DMS).	Agree. Staff was engaged in discussion with GOA on the preparation of the draft DMS, and will monitor its implementation when approved by Cabinet. Staff is engaged in monitoring the implementation of the FFSD.
3.	Compliance with the Fiscal Responsibility Act (FRA) 2013.	Agree. Staff will continue to monitor compliance with the provisions under the FRA.
4.	Developments on the implementation of the Health Sector Reform Programme which formed part of the objectives of the PBL.	Agree. Staff will continue to monitor developments related to the health reform programme. The National Health Insurance Scheme (NHIS) to provide accessibility to quality healthcare was officially launched on November 3, 2014. The NHIS is an initiative of the Anguilla Social Security Board. The NHIS's social health protection programme will focus on primary health care and provide coverage for senior citizens. The NHIS will complement the existing Social Security Scheme (SSS) ⁷ in

⁷ The SSS only covers areas such as sickness, maternity, disability, but does not include medical coverage for basic attention and medical needs.

NO.	PCVR RECOMMENDATIONS	RESPONSE
		providing medical coverage for basic attention and medical needs for contributors and non-contributors to the SSS. The rollout of this new benefit will be preceded by a pilot project for one year before full implementation of the NHIS on a large scale. A decision has been taken to commence the NHIS Pilot Project focusing initially on primary health care and preventative care.
5.	Progress of the Gender Affairs Unit (GAU) with respect to the formulation of the Gender Policy and Strategy.	Agree. Staff is engaged with the Gender Co-ordinator as well as with the consultant on the review of Anguilla's Gender Assessment. The GAU celebrated International Men's Day on November 19, 2014; and the GAU's website stated " <i>that the objectives of the celebration was to include a focus on men's and boy's health, improving gender relations, promoting gender equality and highlighting positive male role models. This is an occasion for men to celebrate their contributions to community, family, marriage, and child care, and minimize the discrimination that they may face in these arenas.</i> "