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CARIBBEAN DEVELOPMENT BANK

EXECUTIVE SUMMARY WITH MANAGEMENT RESPONSE

PROJECT COMPLETION VALIDATION REPORT

POLICY-BASED LOAN
BARBADOS

OFFICE OF INDEPENDENT EVALUATION

MARCH 2016

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EXECUTIVE SUMMARY

1. BASIC PROJECT DATA SHEET

Project Title:	Policy-Based Loan - Barbados
Country:	Barbados
Sector:	Multi Sector
Loan No.:	23/OR-BAR
Borrower:	Government of Barbados (GOBD)
Implementing/Executing Agency:	Ministry of Finance and Economic Affairs

	CARIBBEAN DEVELOPMENT BANK (CDB) LOAN (USD mn)		
Disbursements ($mn)	**OCR**	**Special Fund Resources**	**Total**
Loan Amount	25.0	-	25.0
Total Loan Disbursed	25.0	-	-
Cancelled	-	-	-
Project Milestones	**At Appraisal**	**Actual**	**Variance (months)**
Board Approval	2010-10-20	2010-10-20	-
Loan Agreement signed	2010-12-20	2010-12-10	0.33
Loan Effectiveness[1]	2010-12-16	2010-12-17	-
CDB Loan	**At Appraisal**	**Actual**	**Variance (months)**
First Disbursement Date	2010-12-31	2010-12-17	-
Terminal Disbursement Date (TDD)	2010-12-31	2010-12-17	-
TDD Extensions (number)	-	-	-
Project Cost & Financing ($mn)	**At Appraisal**	**Actual**	**Variance**
CDB Loan	25.00	25.00	-
CDB Grant	-	-	-
Counterpart (GOB)	-	-	-
Total	25.00	25.00	-
Terms	**Interest Rate**	**Repayment**	**Grace Period**
CDB Loan (SFR)	-	-	-
CDB Loan (OCR)	4.5 (variable)	12	5 years
Implementation	**At Appraisal**	**Actual**	**Variance**
Start Date[2]	2010-12-17	2010-12-17	-
Completion Date	2010-12-17	2010-12-17	-
Implementation Period[3]	-	-	-
Economic Rate of Return (%)			
At Appraisal	Not Applicable		

[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 post-2008 global economic and financial crisis exacerbated Barbados' fiscal position which was already tenuous. The economy contracted in 2008, 2009 and 2010 due to declines in the key economic sectors. The crisis also exacerbated the country's fiscal deficit which had already started to increase since 2005 on the back of a rapid expansion in public expenditure. In 2009, the economic downturn further restricted revenue intake, but necessitated counter-cyclical spending, exacerbating the already weak fiscal position of Central Government (CG). CG's debt-to-Gross Domestic Product (GDP) ratio had been on a steady increase, especially since 2007 given the fiscal deterioration and an increase in contingent liabilities. Meanwhile, interest payments as a ratio of total revenues increased. Barbados' foreign currency bond rating had been downgraded by two international rating agencies in June and November 2009.

2.02 The most critical task facing the Government of Barbados (GOBD) was to put measures in place to facilitate fiscal adjustments. In this regard, GOBD began implementing a number of policy measures and reforms to address the fiscal issues and challenges confronting Barbados in its Medium-Term Fiscal Strategy (MTFS). These reforms targeted systemic improvements in the management of expenditure, revenue collection, debt management and public sector enterprises (PSEs). The objectives of MTFS 2010-14 were to: (i) maintain macroeconomic stability; (ii) ensure strong growth through increased efficiency, productivity and competitiveness over the medium term; and (iii) reduce the fiscal deficit and provide a stable fiscal framework.

2.03 GOBD applied for a Policy-Based Loan (PBL) in the amount of fifty million United States dollars (USD50 mn), to be disbursed in two equal tranches, to help finance the fiscal deficit and support the implementation of the MTFS. While supporting the Government in meeting its financing needs, the PBL would also support medium-term reforms to help achieve fiscal and debt sustainability. The Board of Directors (BOD) approved a single PBL valued at USD25 mn at the meeting of the Board on October 20-21 2010, with the understanding that a second PBL of equal value would be considered within about 18 months after demonstration of satisfactory completion of policy actions.

EXPECTED OUTCOMES

2.04 The objectives of the project were to: (i) provide much needed concessional financing to ease the current fiscal strain; and (ii) support GOBD in its efforts to undertake medium-term reforms to achieve fiscal and debt sustainability while protecting hard-won social gains. The expected outcomes were:

(a) enhanced revenue performance through targeted measures to broaden coverage and improve efficiency in collections;

(b) better management and control in the growth of expenditures consistent with achieving fiscal stability;

(c) improved systems and processes for debt management with consequential reduction in debt service payments to more manageable levels; and

(d) strengthened fiscal institutions and frameworks to support fiscal consolidation.

EVALUATION OF PERFORMANCE

2.05 The Project Completion Report (PCR) was prepared in 2013 and validated by the Office of Independent Evaluation (OIE) in 2015. The Evaluator rates the overall performance of the PBL as *Satisfactory*. With respect to the individual criteria, Relevance, Effectiveness, Efficiency and Sustainability were given high Project Performance Evaluation System (PPES) scores in the PCR, which translated into *"Highly Satisfactory"* ratings using the PAS 2013 criteria. These ratings, however, contradicted the

Summary Ratings in the PCR itself. In the case of the Summary Ratings, the PCR and the Evaluator concurred that Relevance, Efficiency and Sustainability were *Satisfactory*. The Evaluator disagreed with the PCR that Effectiveness was *Satisfactory*, and rated it *Marginally Unsatisfactory*, due to the partial achievement of outcomes and the limited extent to which the objective was met with respect to debt sustainability. The Evaluator is of the opinion that the absence of the anticipated second PBL, which was seen to be mutually supportive and to further progress activities completed before the approval of the first PBL undermined the PBL's relevance and effectiveness in advancing timely reforms.

BORROWER AND EXECUTING AGENCY PERFORMANCE

2.06 The Evaluator rates the Borrowing/Executing Agency's performance as *Satisfactory*, given its responsiveness to requests from CDB and its efficiency in execution of the reforms satisfying the conditions precedent for the disbursement of the PBL. This concurs with the rating in the PCR.

THE CARIBBEAN DEVELOPMENT BANK'S PERFORMANCE

2.07 The Evaluator concurs with the PCR rating of *Satisfactory* with respect to CDB's performance. The turn-around time to respond to the initial request, undertake due diligence and prepare the Appraisal Report for submission to BOD was commendable, however, monitoring and outcome reporting could have been more robust.

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

Criteria	PCR[4]	OIE Review	Justification
Relevance	PPES: Highly Satisfactory[5] (4) Summary Ratings: Satisfactory (3)	Satisfactory (3)	The PCR's PPES rating of *Highly Satisfactory* (when scores are converted to PAS 2013) does not correspond to the PCR's Summary Rating of Satisfactory for relevance. The PBL was responsive to the development needs of Barbados, supported CDB's Country Strategy and an existing with a 'home grown' reform agenda (MTFS and the Medium-Term Development Strategy) with multi-partner support. The fast-disbursing PBL was also relevant in the context of reduced fiscal space concurrent with high financing demands and increased cost of borrowing. At appraisal the PBL was very relevant, particularly since it is was anticipated that two linked PBLs would be disbursed within 18 months of each other to contribute to the policy reforms of the 2010-14 MTFS. The relevance of the PBL, assessed against the background of a mutually supporting package of two single tranche PBLs providing concessional financing and advancing reforms to be completed or undertaken beyond 2010 was diminished by the end of the project, due to absence of the second PBL.
Effectiveness	PPES: Highly Satisfactory (4) Summary Ratings: Satisfactory (3)	Marginally Unsatisfactory (2)	The PCR's PPES rating of *Highly Satisfactory* (when scores are converted to PAS 2013) does not correspond to the PCR's Summary Rating of Satisfactory for Effectiveness. Effectiveness was assessed against the extent to which the outcomes of the PBL were met as measured against the "with reforms" targets, the demonstrated progress made towards satisfying conditions precedent for disbursement of the second PBL, and the demonstrated evidence of progress towards stated outcomes. Of the four outcomes, three were partially achieved and the fourth (social development) could not be objectively assessed. While the first PBL provided concessional financing to GOBD, the absence of the second PBL undermined the momentum. The overriding issue to be addressed by the PBL reforms was to achieve fiscal and debt sustainability. Although the deficit has declined, high public debt remains. Debt service costs have increased and the country's credit rating has declined.
Efficiency	PPES: Highly Satisfactory (4) Summary Ratings: Satisfactory (3)	Satisfactory (3)	The PCR's PPES rating of *Highly Satisfactory* (when scores are converted to PAS 2013) does not correspond to the PCR's Summary Rating of Satisfactory for Efficiency. The project was efficient as a fast-disbursing mechanism. The efficiency in advancing the reforms to meet the conditions of the second PBL was less than anticipated though progress was made. While these were complex reforms, GOBD was given some latitude by CDB for demonstrating progress 'acceptable to CDB' and was held to completing specific deliverables. CDB was satisfied that the second PBL could be requested in March 2012, suggesting a level of comfort with the pace of reforms.
Sustainability	PPES Highly Satisfactory (4) Summary Ratings: Satisfactory (3)	Satisfactory (3)	The PBL is sustainable as it supported a defined, home-grown reform agenda. The relevance of the specific reforms has been reconfirmed and the institutional and administrative changes will provide for continuity of the reform agenda and improved institutional capacity for debt management, expenditure management, a broadened tax base and improved efficiency in collection. There would have been greater prospects for sustainability in the medium term, had the second PBL been executed and all outcomes fully achieved.

4 PPES scores and ratings used in PCR and PSRs are converted to PAS 2013 scores and ratings, using the equivalence matrix in the relevant PAS 2013 Manual (Public Sector Investment Lending and Technical Assistance [TA]; PBL; Country Strategy Paper [CSP]).

5 The PPES Score of 8 given to Strategic Relevance translates to a PAS rating of Highly Satisfactory.

Criteria	PCR[4]	OIE Review	Justification
Composite (Aggregate) Performance Rating	**PCR 3.5**	**Satisfactory (2.75)**	The PBL is assessed as satisfactory on the strength of its relevance and sustainability.
Borrower & EA Performance	Satisfactory (3)	Satisfactory (3)	There was political commitment to, and ownership of reforms. GOBD officials provided information as requested and were willing to engage. The turnaround times during the process was adequate.
CDB Performance	Satisfactory (3)	Satisfactory (3)	The turn-around time to respond to the initial request, undertake due diligence and prepare the AR for submission to BOD was commendable. Monitoring and Evaluation (M&E) processes could have been improved and there were minor inconsistencies in the design (the relationship between some activities to outcomes)
Quality of PCR		Satisfactory (3)	The PCR provided an adequate qualitative overview of the status of the project at completion but lacked sufficient detail to show the progression of reforms towards meeting the conditions precedent for the second PBL. The PCR did not report against some outcome indicators contained in the Results Framework Matrix (RFM) and did not assess the extent to which outcomes were achieved. The PCR reported completed activities, but the outcome analysis was limited and predictive, rather than demonstrating how the completed activities had actually contributed to the achievement of the stated outcomes.

LESSONS LEARNED

2.08 The Evaluator agrees with following lessons highlighted in the PCR:

(a) The critical need for country ownership of, and support for the objectives and activities of the project. Dialogue with a wide cross-section of country officials at the highest level is critical to identifying and designing conditions that are acceptable to all parties, which reflect a strong commitment to reform and, at the same time, can be achieved during the implementation phase of the intervention.

(b) Structural changes and institutional strengthening takes time and the conditions of the PBL should reflect this reality in its design. The activities to be undertaken during the PBL disbursement period should be within the implementation capacity of the Borrower and should be capable of being monitored.

(c) When implementation capacity is limited, the PBL should be accompanied by a set of supporting TA for the successful implementation of the reforms.

(d) The PBL is an important platform for sustaining dialogue with country authorities thereby improving the likelihood that CDB's financing of capital projects is done within an environment that is conducive to sustainable growth and poverty reduction.

(e) Political stability and commitment to reform measures are critical for implementation success.

2.09 The Evaluator adds the following:

(a) Monitoring could have been enhanced by leveraging deeper collaboration with the other external partners financing the reform programme. A benefit of supporting a reform programme supported by other partners is the exchange of information and analysis of progress on activities financed by the partners.

(b) The additionality of the second PBL in encouraging reforms was potentially limited. The fast disbursing first PBL was conducive to supporting an advanced reform process, at the same time as the government was in need of liquidity support. The absence of the second PBL between 2011 and the present time begs the question as to the additionality it would have provided to incentivise the ongoing reform programme. In this case, the benefit of the PBL may have been more effective in providing liquidity support, rather than as an incentivising mechanism.

RECOMMENDATIONS

2.10 A general recommendation would be to utilise the mechanism of the preparation of Country Assessment Reports to follow up on PBL indicators relevant to each country for at least five years (as required in the M&E conditions of the PBL). Furthermore, the format and data presented should be consistent to facilitate trend analysis.

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MANAGEMENT RESPONSE

INTRODUCTION

1.01 The Validation Report appropriately captures the salient features of the Policy-based Loan (PBL), and the challenging socio-economic context within which PBL was designed. There appears to be a good grasp of the rationale, expected outcomes, reform programme/conditionalities and implementation arrangements of the operation. Importantly, however, it highlights a few deficiencies in the operation as it relates to appraisal and supervision. These include:

(a) Inconsistency across various sections in the document, e.g. between stated outcomes in the narrative and the policy matrix.

(b) Insufficient monitoring information upon which to assess progress in some areas.

(c) The absence of the second PBL, given that the operation was appraised as two single-tranche PBLs which would have been useful incentive to support the reform programme.

FINDINGS

2.01 The Management of the Department agrees with the Evaluator's assessment of the review of the Project Completion Report (PCR). Although some differences were noted between the Evaluator's review and PCR as it relates to efficiency and effectiveness, these appear to be due mainly to the conversion of scores to PAS 2013 (see Table 1). Efficiency and effectiveness were undoubtedly affected by the decision not to proceed with the second PBL as some impetus for the reform programme would have been lost and the Government would have also had to seek alternative higher cost financing. Further, effectiveness of PBL was compromised by lingering fragility in the global economy and underlying domestic structural issues.

3.01 Management agrees with the lessons learnt that are provided in PCR such as the critical importance of country ownership, the need to more accurately incorporate implementation capacity in project design, and for the provision of supporting technical assistance where institutional capacity is lacking. Management also agrees with the additional reflections provided by the independent review, namely the leveraging of information generated by other development partners involved in the reform programme to provide information on progress of reforms undertaken.

4.01 Management agrees with the recommendations made in the Project Completion Validation Report and will take the follow-up actions identified in Table 2.

TABLE 2: RECOMMENDATIONS

No.	PCVR Recommendations	Response
1.	Utilise the mechanism of the preparation of the Country Assessment Reports to follow up on PBL indicators relevant to each country for at least five years (as required in the monitoring and evaluation conditions of PBL).	Agree. The annual country economic reports (previously country assessment reports) should be modified to provide for ongoing monitoring of the intervention, acting as a natural complement to the report and providing for economies of scope.
2.	The format and data presented should be consistent to facilitate trend analysis.	Management will work with the Office of Independent Evaluation on the determination of a more user friendly format.
3.	Leveraging reports from other agencies involved in the reform programme.	Agree. While there is general collaboration with development partners, more specific engagement should be sought on individual reform areas.