

CARIBBEAN DEVELOPMENT BANK



EXECUTIVE SUMMARY WITH MANAGEMENT RESPONSE

PROJECT COMPLETION VALIDATION REPORT

**POLICY-BASED LOAN
ST. VINCENT AND THE GRENADINES**

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OFFICE OF INDEPENDENT EVALUATION

MARCH 2016

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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

1. BASIC PROJECT DATA

Project Title:	Policy- Based Loan – St. Vincent and the Grenadines
Country:	St. Vincent and the Grenadines
Sector:	Multi Sector
Loan No.:	16/SFR-OR-STV
Borrower:	Government of St. Vincent and the Grenadines (GOSVG)
Implementing/Executing Agency:	Ministry of Finance and Economic Planning

CARIBBEAN DEVELOPMENT BANK (CDB) LOAN (USD mn)

Disbursements (\$mn)

	<u>OCR</u>	<u>SFR</u>	<u>Total</u>
Loan Amount	16.0	9.0	25.0
Total Loan Disbursed	16.0	9.0	25.0
Cancelled	-	-	-

Project Milestones

	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance (months)</u>
Board Approval	2009-05-25	2009-05-25	-
Loan Agreement signed	2009-07-25	2009-07-28	0.10
Loan Effectiveness ¹	2009-08-24	2009-08-24	-

CDB Loan

	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance (months)</u>
First Disbursement Date	2009-09-30	2009-09-02	1
Terminal Disbursement Date (TDD)	2010-09-30	2010-11-30	(2)
TDD Extensions (number)	-	1	

Project Cost & Financing (\$mn)

	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance</u>
CDB Loan	25.00	25.00	-
CDB Grant	-	-	-
Counterpart (GOSVG)	-	-	-
Total	25.00	25.00	-

Terms

	<u>Interest Rate</u>	<u>Repayment</u>	<u>Grace Period</u>
CDB Loan (SFR)	2.5 (Fixed)	25 years (including grace period)	5 years
CDB Loan (OCR)	5.42 (variable)	20 years (including grace period)	5 years

Implementation

	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance</u>
Start Date ²	2009-08-24	2009-08-24	-
Completion Date	2010-09-30	2010-11-30	(2) months
Implementation Period	1.08 years	1.25 years	-

Economic Rate of Return (%)

At Appraisal	Not Applicable
Additional Loan	-

¹ Date conditions to First Disbursement satisfied

² Implementation begins with satisfaction of conditions precedent

2. POLICY-BASED LOAN DESCRIPTION

2.01 The Board of Directors of the CDB approved the financing of a Policy-Based Loan (PBL) valued at USD25 mn, to GOSVG on May 25, 2009. The Agreement became effective on August 24, 2009 and was to be completely disbursed by September 30, 2010.

2.02 The PBL was aimed at supporting the reforms to improve GOSVG's reform programme, geared towards enhancing expenditure and debt management systems; strengthening the oversight of public sector enterprises; fostering growth and improving competitiveness; and bolstering the effectiveness of Government's economic and social programmes in reducing poverty. Unfortunately, however, the global crisis weakened the Government's fiscal position, increasing borrowing requirements at a time when the cost of borrowing was increasing.

2.03 All conditions precedent for disbursement of the first tranche were met in August 2009 and the first disbursement was made in September 2009. Due to the fragility of public financing, GOSVG requested a waiver for uncompleted activities to be excluded from the conditions precedent for the second disbursement. The Bank agreed and revised the terms and conditions. The entire second tranche was disbursed in December 2010 despite non-completion of all remaining activities. Another modification to the terms and conditions was made in 2011 as there were still three outstanding activities.

EXPECTED OUTCOMES AND STRUCTURE

2.04 The PBL was structured as a two-tranche operation. The expected outcomes were not clearly articulated. The Appraisal Report contained a Logical Framework and a Policy Results Framework. Both results matrices lacked clarity of outcomes and logical coherence (clear results chain) and appropriate indicators. The Project Completion Report (PCR) reported against the following outcomes which were used as the basis for the validation: (i) improved expenditure management through a strengthened legal and institutional framework; (ii) improvement in Revenue Policy and Administration; (iii) more dynamic system of public debt management; (iv) increased monitoring of public sector enterprises (v) enhancing growth and competitiveness; and (vi) sustainable poverty reduction.

EVALUATION OF PERFORMANCE AND OVERALL ASSESSMENT

2.05 The PCR was prepared in 2013 and validated by the Office of Independent Evaluation (OIE) in 2015. The Evaluator rates the overall performance of the project as *Marginally Unsatisfactory* primarily due to too broad a scope of policy actions with disorganised results, uncompleted critical activities, and limited evidence to assess outcomes. Performance was undermined by inefficient implementation; and assessment of effectiveness was constrained by an inadequate results framework and reporting. The overall assessment is not in line with the composite (aggregate) score of the PCR which rates the project as *Satisfactory*. The Evaluator agrees with the PCR in rating Relevance and Sustainability as *Satisfactory*. However, the Evaluator assigned lower performance ratings for Effectiveness and Efficiency, highlighting shortcomings in project implementation and achievement of results. Hence the composite performance score of 2.5 (average of the four criteria) equals *Marginally Unsatisfactory*. Table 1 provides a summary of the performance assessment.

BORROWER AND/EXECUTING AGENCY PERFORMANCE

2.06 The Evaluator rates the Borrower/Executing Agency's (EA) Performance as *Satisfactory*. The Government was committed to implementing the reforms and the first tranche was completed expeditiously. Challenges to the completion of the outstanding reforms by 2010 appeared to be due to a combination of unforeseen circumstances; diversion of attention of the Government to deal with its liquidity crisis; and inadequate inter-agency collaboration.

THE CARIBBEAN DEVELOPMENT BANK’S PERFORMANCE

2.07 The Evaluator rates CDB’s performance as *Marginally Unsatisfactory* and thus does not concur with the PCR rating of *Satisfactory*. The difference in assessment is based on identified weaknesses in management for results with incompatible results-matrices and weak project logic, intermittent supervision and insufficient outcome reporting.

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

Criteria	PCR³	OIE Review	Justification
<i>Relevance</i>	Satisfactory (3)	Satisfactory (3)	The analysis undertaken by the Country Strategy underpinned the rationale for providing support to the Government. The PBL supported the objective of the Country Strategy. Problems and opportunities were adequately assessed and addressed by CDB. The PBL was the appropriate instrument as a fast disbursing mechanism, given the liquidity constraints of the Government, ownership by Government of an ongoing reform agenda and identified multi-donor support for elements of the reform programme. The scope of the PBL was however too broad and unfocused on too many outcomes, resulting in disorganised results across the PBL as a whole.
<i>Effectiveness</i>	Satisfactory (3)	Marginally Unsatisfactory (2)	The effectiveness of the PBL was constrained by poor and inconsistent definition of results and indicators, and a weak project logic. Of the six expected outcomes, one was achieved, two were partially achieved, two were not achieved and one could not be determined given limited available information and limited relevance of the specific activities to the outcome. GOSVG made steady progress towards improved expenditure management and debt management and to a limited degree revenue administration. A major outcome not achieved was improved monitoring of Public Sector Enterprises (PSEs) which reduces the overall impact of the suite of policy reforms. The other unachieved outcomes were enhanced growth and competitiveness and sustainable poverty reduction. Major objectives were perhaps not appropriate as they broadened the scope outside of critical core fiscal and debt issues, in effect reducing the overall performance.
<i>Efficiency</i>	Satisfactory (3)	Marginally Unsatisfactory (2)	Conducting due diligence and execution of the PBL, and subsequent adjustments to the Terms and Conditions to facilitate a fiscal crisis was adequate. The <i>Marginally Unsatisfactory</i> rating is justified by the fact that the PBL was expected to disburse within one year, but after four years had elapsed two activities were still incomplete (despite two revisions), and were still considered to be highly relevant to meeting outcomes.
<i>Sustainability</i>	Satisfactory (3)	Satisfactory (3)	Sustainability should rest on the reforms being mainstreamed into the Government’s processes and having the desired effects of containing expenditure, managing and reducing debt and maintaining transparent government operations, rather than continued reliance on loans. Given the limited results obtained for the outcomes related to growth and competitiveness and effective monitoring of PSEs, it seems unlikely that these aspects of the PBL will be felt in the long term. There is insufficient information to assess the poverty reduction outcome.

³ PPES scores and ratings used in PCR and PSRs to be converted to PAS 2013 scores and ratings, using the equivalence matrix in the relevant PAS 2013 Manual (Public Sector Investment Lending and TA; PBL; CSP).

Criteria	PCR ³	OIE Review	Justification
			Logically, the conversion of the land tax valuation system to a market-based system should facilitate more efficient and effective property tax collection, The effective utilisation of the updated legal framework (Finance Administration Act and the Audit Act) should enhance transparency and accountability if there is insufficient capacity in place to fully maximise the power of the legislation. Sustainability is enhanced by participation in the formation of the Organisation of Eastern Caribbean States (OECS) economic union against the backdrop of the Eight Point Stabilisation and Growth Charter. It is threatened by the country’s vulnerability to exogenous shocks, and environmental and climate change induced events.
Composite (Aggregate) Performance Rating	Satisfactory (3)	Marginally Unsatisfactory (2.5)	The PBL was too broad in scope and insufficiently focussed on key critical outcomes. There was insufficient evidence presented that the policy actions had a significant effect on expenditure management, public enterprise management, and public debt management and built capacity, sustainable poverty reduction and growth and competitiveness. The confusion of outputs, outcomes and indicators made assessing the PBL challenging. This combined with the disorganised results of the PBL as a whole, and non-completion of activities despite two adjustments to the conditions rendered the project <i>Marginally Unsatisfactory</i> .
<i>Borrower & EA Performance</i>	Satisfactory	Satisfactory	The Government was committed to implementing the reforms and the first tranche was completed expeditiously. The challenges to the completion of the outstanding reforms by 2010 appeared to be due to a combination of unforeseen circumstances; diversion of attention of the Government to deal with its liquidity crisis; and inadequate inter-agency collaboration.
<i>CDB Performance</i>	Satisfactory	Marginally Unsatisfactory	The Bank was efficient in administering the PBL from the design stage, to disbursements and adjustments to the Terms and Conditions, which were done expeditiously. Weaknesses included poor management for results with incompatible results matrices and poor project logic; not following on the M&E conditions of the loan agreement, intermittent supervision and insufficient outcome reporting.
<i>Quality of PCR</i>		Marginally Unsatisfactory	The inadequate results matrices against which the PCR had to report hindered robust outcome reporting. The PCR omitted reporting on two activities that were part of the Tranche 2 conditions. Hard data was lacking for observations and conclusions and the placement of information across the report at times did not correspond to the issue under discussion. The PCR did not provide an assessment of the extent to which each outcome was achieved.

LESSONS LEARNED

- (a) The evaluator agrees with the PCR's assessment that: (i) there was a mismatch between the borrower's implementation capacity when the project was designed and the large number of policy actions contemplated; (ii) there was the need for a more rigid and effective coordinating mechanism, when multiple actors were involved; and (iii) supporting a "home-grown" reform facilitated the implementation of a coherent framework. However, it should not be assumed that a "home grown" reform programme is equivalent to a 'whole of government' approach to the design of a reform programme with broad interagency buy-in.
- (b) The fast disbursing PBL was appropriate in supporting an advanced reform process when the government was in need of liquidity support. However as implementation lagged and the cash flow needs of the country became critical, the Bank effectively undermined its leverage to incentivise the pace of the remaining reforms by not imposing a penalty for non-completion in a timely manner. The utility of the PBL in accelerating policy reform was thus undermined.
- (c) Exogenous shocks, the effects of environmental or climate change events can derail fiscal reform prospects, especially when these are undertaken when a country is in an already economically precarious situation.
- (d) Policy actions should be tightly focused and address a few critical outcomes. A more focussed PBL, not too wide in scope with a clear results chain would have been more effective. The inclusion of the poverty reduction and competitiveness and growth, while relevant to the country did not fit what should have been the core agenda of the PBL.
- (e) Assessing success of policy actions must go beyond satisfaction with discrete outputs. For example, the establishment of entities cannot be considered to be evidence of policy reform. If they are part of the reform agenda whose effectiveness is to be monitored and evaluated, there needs to be appropriate indicators and a system to follow up if these agencies are being effective in implementing the reform mandate they are responsible for.

RECOMMENDATIONS

2.08 The follow up actions in the PCR relate to monitoring the outstanding policy actions. However, 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)

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MANAGEMENT RESPONSE

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MANAGEMENT RESPONSE

INTRODUCTION

1.01 The Validation Report is quite detailed in its coverage, beginning with a concise description of the project and of the expected outcomes. This is followed by the evaluation of the performance of the Policy-based Loan (PBL), the Borrower, the Executing Agency, and the Caribbean Development Bank (CDB). The core section of the document presents a detailed assessment of the quality of PBL, *vis-à-vis*, the four evaluation criteria (relevance, effectiveness, efficiency and sustainability). The evaluation concludes with the lessons learnt and recommendations for strengthening.

FINDINGS

2.01 The Evaluator identified a number of significant weaknesses in PBL. For example, the Evaluator noted that the:

- (a) scope of policy actions was too broad;
- (b) expected outcomes were not specified clearly enough and lacked appropriate indicators; and
- (c) revision of the second tranche terms and conditions after the Government of St. Vincent and the Grenadines (GOSVG) failed to achieve compliance with a number of conditions precedent to disbursement was a significant weakness in management of PBL. The main criticism was that it ultimately facilitated full disbursement, even though some activities had not been completed.

3.01 Management of the Economics Department concurred with the foregoing criticisms, noting however, the very special and strenuous circumstances presented by the Great Recession and the urgency to disburse in the context of the urgent need for liquidity and the rapid deterioration in economic and social conditions.

4.01 Citing the foregoing criticisms, in particular, the Evaluator rated PBL as marginally unsatisfactory compared with the Project Completion Report (PCR) which gave a rating of satisfactory. A review of the various categories of evaluation indicates that there have been significant differences overall between the assessment of the Evaluator and PCR. For example, with respect to relevance, effectiveness, efficiency and sustainability, while PCR scored all of these performance indicators as satisfactory, the Evaluator scored two of these (effectiveness and efficiency) as unsatisfactory. With respect to effectiveness, the Evaluator noted that of the six outcomes only one was achieved and two were partly achieved. With respect to efficiency, the Evaluator noted that full disbursement was expected in one year, but actually took more than four years.

5.01 In assessing the performance of the institutions involved in implementation, while the Evaluator agreed with PCR that the performance of the Borrower and Executing agency was satisfactory, that of CDB was deemed marginally unsatisfactory, contrary to PCR.

6.01 Overall, Management of the Economics Department agrees with the assessments of the Evaluator.

7.01 Several very important lessons have emerged from the Project Completion Validation Report (PVCR). These are the:

- (a) importance of evaluating institutional implementation capacity when designing a PBL;

- (b) need for fast disbursing PBLs in situations where liquidity support is urgently needed;
- (c) negative impacts of exogenous shocks on reform processes;
- (d) necessity for focused PBLs that address a few critical outcomes; and
- (e) usefulness of extended reviews, especially of institutional reform to ensure effectiveness of reforms.

8.01 Management of the Economics Department is in general agreement with the foregoing conclusions.

TABLE 2: RECOMMENDATIONS

PVCR Recommendations	Response
Generally, country assessment reports should be used to follow up on PBL indicators. This is particularly true in the case where there are outstanding policy actions.	Agree. Beyond the monitoring of outstanding policy actions, this general recommendation would be particularly relevant with respect to the evaluation of continuing effectiveness and sustainability.