PUBLIC DISCLOSURE AUTHORISED

CARIBBEAN DEVELOPMENT BANK

PROJECT COMPLETION VALIDATION REPORT WITH MANAGEMENT RESPONSE – APPENDIX 1

SIXTH CONSOLIDATED LINE OF CREDIT
BELIZE

OFFICE OF INDEPENDENT EVALUATION
NOVEMBER 2019

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PROJECT COMPLETION VALIDATION REPORT

SIXTH CONSOLIDATED LINE OF CREDIT
BELIZE

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NOVEMBER 2019

CURRENCY EQUIVALENTS

(Dollars [$] throughout refer to Belize Dollars [BZD] unless otherwise stated)

BZD1.00 = USD0.50
USD1.00 = BZD 2.0

ABBREVIATIONS

AFIs	-	Approved Financial Intermediaries
AIC	-	Agricultural and Industrial Credit
AR	-	Appraisal Report
BMCs	-	Borrowing Member Countries
BSSD	-	Belize Social Security Board
BZD	-	Belize Dollars
CDB	-	Caribbean Development Bank
CU	-	Credit Union
DFC	-	Development Finance Corpora
FI	-	Financial Intermediary
GOBZ	-	Government of Belize
mn	-	million
LOC	-	Line of Credit
M&E	-	Monitoring and Evaluation
MF	-	Micro Finance
MOA	-	Ministry of Agriculture
MOAL	-	Ministry of Agriculture and Lands
MSME	-	Micro, Small and Medium Sized Enterprises
OIE	-	Office of Independent Evaluation
PCR	-	Project Completion Report
PSR	-	Project Supervision Report
ROA	-	Return on Assets
SFR	-	Special Funds Resources
SMEs	-	Small and Medium Sized Enterprises
TA	-	Technical Assistance
USD	-	United States Dollars

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EXECUTIVE SUMMARY

PROJECT SUMMARY

1. In March 2009, the Caribbean Development Bank (CDB) approved a loan in the amount of ten million (mn) United States dollars (USD10 mn) to the Government of Belize (GOBZ) to assist in providing finance to priority sector areas including student loans, small and medium-sized enterprises (SMEs), agricultural and industrial credit (AIC), low income housing, and microfinance. CDB also approved a grant to GOBZ of USD150,000 for the institutional strengthening of the new Development Finance Corporation (DFC) which was the Executing Agency for this Line of Credit.

PROJECT OBJECTIVES

2. The overall objective of the project was to enhance the development of the credit market to promote financing on affordable terms to market segments that were not readily catered for by commercial banks and other Financial Institutions (FIs).

Implementation Arrangements

3. The Project was implemented by DFC who had overall responsibility for the administration and management of all aspects of the LOC. The new DFC Act (2009) established the purpose of DFC as expanding and strengthening the economy of Belize. This was to be achieved by providing funding on an economically sustainable and environmentally acceptable basis to persons seeking financing for specifically approved purposes, and who would otherwise be unable to fund their requirements from other sources on reasonable terms and conditions.

PROJECT BACKGROUND

4. Following the cessation[1] of lending by the DFC in 2006, CDB sought to assist GOBZ in determining the most appropriate action in relation to development financing. Two independent consultancy studies (a Demand study and a Governance study), financed by CDB, to determine the likely demand for financing from priority sectors, concluded that although commercial banks and credit unions (CUs) had expanded their activities following the closure of DFC, there remained an element of potentially serviceable unmet demand for financing in the key economic sectors of education, residential housing for low to lower-middle income earners, SMEs including agriculture, and micro-enterprises.

5. A preferred option from the studies was the creation of a new private sector development finance body. However, in the absence of evidence that private sector investment was forthcoming for a new institution, GOBZ recommenced lending activities under a newly established DFC with much stronger governance and regulatory provisions. The studies also recommended that preference should be given, where feasible, to DFC acting as a retailer of funds and on-lending resources to other FIs with the relevant outreach to serve the priority areas (such as CUs in rural areas).

EVALUATION CRITERIA

6. The assessment focused on the relevance, effectiveness, efficiency and sustainability of the project, as well as CDB's and Borrowers' performance.

[1] AR: Chapter 1- Introduction, Page 1, Paragraph 1.02. Paper BD 11/09, March 05, 2009

Relevance

7. The Project Completion Report (PCR) rates Relevance as **Satisfactory**. This is justified on the basis that at the time of approval, GOBZ identified certain priority sector areas including student loans, small and medium-sized enterprises (SMEs), agricultural and industrial credit (AIC), low-income housing and microfinance which was to be supported by resources from this LOC. It states that there was a demand for funding of developmental projects in these key sector areas that were not effectively financed by commercial banks and the project was designed with these priorities in mind. Project design which was also informed by CDB's Strategic objectives related to support development and poverty reduction and promoting broad-based growth in the country.

8. Given the substantial extent to which the objectives and expected impact of the intervention were consistent with the Beneficiaries' requirements, country needs, macroeconomic and sector policy frameworks; as well as CDB's country and sector strategies, and its overarching goal of reducing poverty through sustainable economic growth, the Evaluator rates Relevance as **Highly Satisfactory**.

Effectiveness

9. The PCR gives a rating of **Satisfactory** for Effectiveness. It rates both the achievement of outputs and outcomes as Satisfactory. Given that the Effectiveness rating is a simple arithmetic average of the ratings for project outputs and outcomes, this equates to a rating of Satisfactory. The Evaluator also rates this criterion as Satisfactory.

Efficiency

10. The PCR rates Efficiency as **Satisfactory**. It states that DFC has successfully disbursed the loan to target sectors as identified in its developmental mandate and within the terms and conditions of the CDB Loan Agreement. As at December 31, 2013, the period established at appraisal for project completion, the loan was almost fully committed with a small balance remaining undisbursed which was later cancelled. The Evaluator concurs with this rating.

Sustainability

11. The PCR rates Sustainability of the project as **Highly Satisfactory**. It states that in general DFC made efforts for the strengthening of its operating systems and procedures and enhanced staff capacity along with realigning its organisational structure to lay the foundation for sustainable financial operations. This was in addition to an improved governance model and the establishment of a Risk Unit with enhanced risk procedures. The PCR states that while revenues from the current LOC were separately managed as an agency function, financial projections indicate that such operations will be viable during the forecast period. It further adds that DFC can now access more funds and so its productive assets and its revenue base will now contribute to a more sustainable operation.

12. The Evaluator rates Sustainability as Satisfactory as the project has satisfied the majority of performance targets that were set in the Appraisal Report (AR) and the Loan Agreement. The three financial performance ratios were: (i) Debt-Service Coverage; (ii) Debt to Equity; and (iii) Return on Average Assets (ROA). While DFC has fully satisfied the Debt to Equity ratio for the period 2009-2015 and the Debt Service Coverage for most of this period, it has been unable to consistently meet the required target for the ROA ratio for most of this period.

Performance of the Borrower and Executing Agency

13. The PCR rates the performance of the Borrower/Implementing Agency as **Satisfactory**. It states that both GOBZ and DFC used their best efforts to achieve loan conditions, including those related to reporting and operating targets. It also states that DFC adopted more robust measures for loan loss provisioning as well as other operational actions. The PCR further adds that LOC resources approved for student loan financing were completely committed and goals exceeded thereby allowing students to borrow between BZD7,500 - BZD60,000 for their studies. The Evaluator concurs with the PCR and rates Borrower Performance as **Satisfactory**

Performance of the Caribbean Development Bank

14. The PCR provides a self-assessment rating of CDB's performance as Satisfactory. The justification for the rating is that CDB provided guidance on important strategic matters to DFC which were related to risk and credit management, micro-lending, policy and procedures, provisioning and information technology infrastructure. The PCR indicates that loan disbursement applications and float documentation were efficiently prepared to DFC team, thereby facilitating prompt processing and disbursement by CDB and an expeditious execution of the project. The Evaluator concurs with this rating.

OVERALL ASSESSMENT

15. The PCR does not rate the overall performance of the project. The Evaluator rates overall project performance as **Satisfactory**. This rating is based on an arithmetic average of the total scores from separate assessments of the four core evaluation criteria: Relevance (Highly Satisfactory); Effectiveness (Satisfactory); Efficiency (Satisfactory); and Sustainability (Satisfactory).

16. Details of the ratings and justification for differences between those of the PCR and Evaluator are summarised below.

TABLE 5: SUMMARY RATINGS OF CORE EVALUATION CRITERA AND OVERALL ASSESSMENT OF THE PROJECT

Criteria	PCR	OIE Review	Reason if any for Disagreement/Comment
Strategic Relevance Relevance	Satisfactory (3)	Highly Satisfactory (4)	The substantial extent to which objectives and expected impact of the intervention were consistent with the Beneficiaries' requirements, country needs, macroeconomic and sector policy frameworks; as well as CDB's country strategy, sector strategies and its overarching goal of reducing poverty through sustainable economic growth.
Efficacy Effectiveness	Satisfactory (3)	Satisfactory (3)	
Efficiency	Satisfactory (3)	Satisfactory (3)	
Sustainability	Highly Satisfactory (4)	Satisfactory (3)	The project has satisfied the majority of performance targets set in AR. While DFC has fully satisfied the Debt to Equity ratio for the period 2009-2015 and the Debt Service Coverage for most of this period, it has been unable to consistently meet the required target for the ROA for most of this period.
Composite (Aggregate) Performance Rating	Satisfactory (3.25)	Satisfactory (3.25)	
Borrower & EA Performance	Satisfactory	Satisfactory	
CDB Performance	Satisfactory	Satisfactory	
Quality of PCR	NA	Satisfactory	

Lessons

17. The PCR identifies the following five lessons learned from implementation:

(i) Improving Client Viability

CDB must continue to support the strengthening of client's governance structures, risk management systems and financial architecture in an effort to improve their viability and to lessen their dependence on government subsidies.

(ii) Enhancing Business Development

While access to credit is an important and necessary condition for micro, small and medium sized enterprises (MSME) success, it is often not sufficient by itself and needs to be accompanied by other tools for enhancing business development.

(iii) Replication of DFC Business Model

The revised business model of DFC, comprises a new governance framework that includes a selection process which allows directors to be more independent from government, control limits over its activities and enhance disclosure requirements. This model could be replicated in other Borrowing Member Countries (BMCs).

(iv) Market Competition

Competition has emerged within the banking system requiring non-bank financial institutions like DFC, to become nimble and adaptable to compete with other market participants such as the commercial banks.

(v) National Economic Development

Development banks such as DFC, have a fundamental role in national economic development through financial support to a range of development initiatives in a variety of sectors that usually cannot access financing in the open market.

1. BASIC PROJECT DATA

Project Title	Sixth Consolidated Line of Credit – Belize
Country	Belize
Sector	Financing
Loan No.	18/SFR-OR-BZE
Borrower	Government of Belize
Implementing/Executing Agency	Development Finance Corporation (DFC)

Approvals/Disbursements ($ mn)	**OCR**	**SFR**	**Total**
Loan Amount	9.00	1.00	10.00
Disbursed	8.99	1.00	9.99
Grant Amount	-	0.05	0.05
Disbursed	-	0.05	0.05
Cancelled	0.01	-	0.01

Project Milestones	**At Appraisal**	**Actual**	**Variance (months)**
Board Approval	March 05, 2009	March 05, 2009	0
Loan and Grant Agreements signed	May 04, 2009	June 05, 2009	(1)
Loan and Grant Effectiveness[2]	August 03, 2009	October 02, 2009	(2)

CDB Loan and Grant	**At Appraisal**	**Actual**	**Variance (months)**
First Disbursement Date (Loan)	July 31, 2009	Jan 01, 2010	(5.03)
First Disbursement Date (Grant)	June 30, 2009	March 03, 2010	(8.10)
Terminal Disbursement Date (Loan)	Dec 31, 2013	Dec 31, 2014	(12)
Terminal Disbursement Date (Grant)	Dec 31, 2009	Dec 31, 2010	(12)
TDD Extensions (number)	-	1	-

Terms	**Interest Rate**	**Repayment**	**Grace Period**
CDB Loan (OCR)	5.42% (variable)	17 years	5 years (inclusive)
CDB Loan (SFR)	2.5%	17 years	5 years (inclusive)

Project Cost and Financing ($ mn)	**At Appraisal**	**Actual**	**Variance (000)**
CDB Loan and Grant	10.150	10.137	13
Counterpart	-	-	-
Total	**10.150**	**10.137**	**13**

Implementation	**At Appraisal**	**Actual**	**Variance (months)**
Start Date[3]	May 04, 2009	June 05, 2009	1
Completion Date	Dec 31, 2013	Dec 31, 2015	2
Implementation Period (years)	4.6 years	6.6 years	24 months

Economic rate of Return (%)	
At Appraisal	Not Applicable

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[2] Date Conditions to First Disbursement satisfied.
[3] Implementation begins on the date the loan Agreement is signed.

2. PROJECT DESCRIPTION

Rationale

2.01 Following the cessation[4] of lending by the Development Finance Corporation (DFC) in 2006, CDB sought to assist the Government of Belize (GOBZ) in determining the most appropriate action in relation to development financing. Two independent consultancy studies (a Demand study and a Governance study), financed by CDB, to determine the likely demand for financing from priority sectors, concluded that although commercial banks and credit unions (CUs) had expanded their activities following the closure of DFC, there remained an element of potentially serviceable unmet demand for financing in the key economic sectors of education, residential housing for low to lower-middle income earners, SMEs including agriculture, and micro-enterprises.

2.02 A preferred option from the studies was the creation of a new private sector development finance body. However, in the absence of evidence that private sector investment was forthcoming for a new institution, GOBZ recommenced lending activities under a newly established DFC with much stronger governance and regulatory provisions. The studies also recommended that preference should be given, where feasible, to DFC acting as a retailer of funds and on-lending resources to other FIs with the relevant outreach to serve the priority areas (such as CUs in rural areas).

2.03 The global financial/economic crisis of 2008 made the type of financing proposed in this line of credit even more relevant. It was likely that declining Gross Domestic Product growth rates could have resulted in increasing unemployment and poverty. With the relatively high incidence of poverty in the rural areas, this LOC, by focusing on those areas, was expected to help in mitigating the impact of the downturn on the most vulnerable groups. Working in concert with other programmes such as Basic Needs Trust Fund and Caribbean Technological Consultancy Services, the funds were expected to serve as a stimulus in the short-term by giving SMEs access to credit, and in the medium-to long-term by providing education and housing solutions.

Expected Impact

2.04 The project was expected to contribute to the sustainable development of the economy of Belize.

Objectives or Expected Outcomes

2.05 The overall objective of the project was to enhance the development of the credit market to promote financing on affordable terms to market segments that were not readily catered for by commercial banks and other FIs. Accordingly, the project was expected to:

(a) Promote home ownership and improve existing housing stock through the provision of financing for mortgages to the low and lower-middle income groups.

(b) Develop human resources through the provision of student loans for upgrading skills at the vocational, technical and professional levels.

(c) Satisfy the needs of individuals and entities in the productive sectors, including facilitating entrepreneurship and the development of SMEs.

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[4] AR: Chapter 1- Introduction, Page 1, Paragraph 1.02. Paper BD 11/09, March 05, 2009

(d) Strengthen the institutional capacity of DFC through funding for a consultancy.

Components and/or Outputs

2.06 The main outputs of the Project listed in the AR were:

(i) approval of sub loans of DFC valued at BZD20 mn by December 31, 2011;

(ii) CDB loan fully disbursed to beneficiaries and FIs to finance investments in housing, education, manufacturing, tourism and services by December 31, 2013;

(iii) Institutional Strengthening TA executed and recommendations implemented.

Provision of Inputs

2.07 In March 2009, CDB approved a loan in the amount of USD10 million (mn) to GOBZ to assist in providing finance to priority sector areas including student loans, SMEs, AIC, low income housing, and microfinance. CDB also approved a grant to GOBZ of USD150,000 for capacity building and institutional strengthening of DFC.

Implementation Arrangements

2.08 The Project was implemented by DFC who had overall responsibility for the administration and management of all aspects of the LOC. The new DFC Act (2009) established the purpose of DFC as expanding and strengthening the economy of Belize. This was to be achieved by providing funding on an economically sustainable and environmentally acceptable basis to persons seeking financing for specifically approved purposes, and who would otherwise be unable to fund their requirements from other sources on reasonable terms and conditions.

Identification of Risks and Mitigation Measures

2.09 A major risk identified at appraisal was **credit risk**. The main sources were the appraisal process of sub loans and the impact which changes in the economic environment could have on the ability of sub borrowers to meet their obligations in accordance with agreed terms. To mitigate this risk, the project proposed to retain and train staff with experience in loan appraisal and include appropriate policies and procedures that support the legislation which was enacted in 2009;

2.10 Another risk identified at appraisal was **liquidity risk**. This was principally in respect of existing obligations for bonds issued by its subsidiary company and guaranteed by DFC. This risk was mitigated by holding adequate cash and liquid balances as required under bond agreements, as well as prudent management;

2.11 One of the risks associated with this project was the **foreign exchange risk**. This arose from on-lending funds by GOBZ, in local currency, which was received from CDB in USD. This risk was mitigated by GOBZ through the maintenance of the fixed rate regime that exists between USD and the Belize dollar.

2.12 Interest rate risk was also identified as a risk faced by the project. The interest rate of the CDB loan to GOBZ is variable and was passed on to DFC. The project sought to mitigate this risk by making provision in the sub loan agreements for DFC to vary the interest rate and thereby reduce its exposure to such risk. This was achieved through the implementation of variable interest rate clauses in AIC and micro finance (MF) sub loans while maintaining a fixed rate on the student loan scheme (SLS) and SMEs components;

2.13 At appraisal, it was recognized that the country or political risk was beyond the control of DFC. Although there was pent-up demand in the priority areas of identified lending for DFC, the global economic crisis could dampen this demand.

3. EVALUATION OF DESIGN AND IMPLEMENTATION

Relevance of Design and Formulation

3.01 The project was consistent with national development priorities, as well as with CDB's strategic focus and priorities. In 2008, GOBZ identified certain priority sector areas including student loans, SMEs, agricultural and industrial credit, low income housing, and microfinance as key areas for development. Prior to the commencement of its appraisal work, CDB funded a Demand Study to independently advise on the unmet demand in those sector areas identified by GOBZ.

3.02 The PCR indicates that the project was designed to improve access to finance by eligible beneficiaries in the aforementioned priority sectors. It also states that the project resources were aimed at contributing to the improvement of the viability of business enterprises, facilitating access to student loans for tertiary level education, including persons from vulnerable households, to enhance their skills development and preparation for the job market. Resources were also aimed at improving access to home ownership and the quality of the housing stock in Belize. The PCR points out that within each sector where such resources were deployed, DFC was able to meet a substantial portion of its loan commitments and disbursements projected at appraisal, thereby enhancing DFC's relevance as a development finance institution.

3.03 Overall, the design and formulation were satisfactory and adequate to address the problem and needs that were identified in the AR.

Project Outputs

3.04 The PCR assesses implementation progress on the project as Satisfactory. It states that at loan appraisal, it was anticipated that the major part of the CDB loan would have been for sub loans in the agricultural sector, while the student loan component would have grown at a modest pace. In addition, the global financial crisis resulted in a downturn in economic activity in Belize and as a consequence, demand for credit in the housing and productive sector did not meet anticipated levels. The PCR indicates that at that time, funding sources available to DFC were limited and while DFC was able to acquire additional funds for AIC sub loans from the CARICOM Development Fund on terms similar to those provided by CDB, no additional funds were obtained to fund student loans. As a result, there was a shortage of resources for student loans while the AIC sub loans were more than adequately funded. This was addressed through the reallocation of financing among the components of the CDB loan which represented the most effective way to ensure that there was adequate financing in the short and medium term to meet the higher anticipated demand for student loans.

3.05 The PCR indicates that the Institutional Strengthening TA Consultancy was executed as planned and in accordance with budget. The Project Supervision Report (PSR) of 2014 indicated that the

Consultant's Report, with recommendations, was accepted by GOBZ and DFC, and the implementation of these recommendations was in progress. As indicated in the matrix of project outputs (Table1), both expected outputs were satisfactorily achieved and the Evaluator therefore concurs with the PCR assessment of Satisfactory.

TABLE 1: MATRIX OF PROJECT OUTPUTS

Number	Planned Outputs at Appraisal	Outputs Achieved	Ratings
1	USD10 mn (BZD20 mn) to be approved and disbursed to beneficiaries to finance investments in housing, education, manufacturing, tourism and services by December 31, 2013.	USD9.99 mn (BZD19.98 mn) committed and disbursed in agricultural and industrial credit, micro and small scale enterprise, mortgage finance and student loans by December 31, 2013.	Satisfactory (3)
2	Institutional Strengthening for capacity building and institutional strengthening of DFC executed and recommendations implemented.	The TA was executed as planned within budget.	Satisfactory (3)

Project Cost and Disbursements

3.06 The PCR provides a matrix of project costs and financing plan that shows a minor overall difference of USD0.012 mn between appraised and actual costs. As indicated under the project outputs section of this report, the impact of the global financial crisis of 2008 resulted in a downturn in economic activity in Belize and as a consequence demand for credit in the housing and productive sector did not meet anticipated levels. This resulted in a reallocation of financing among the AIC and Student Loans components which ensured that there was adequate financing in the short and medium term to meet the higher anticipated demand for student loans. The PCR reports actual project costs as USD10.137 mn. This amount was verified by the Office of Independent Evaluation (OIE). A summary of project costs/commitments and the financing plan is presented in Table 2.

TABLE 2: SUMMARY OF PROJECT COSTS AND FINANCING PLAN
(USD '000)

Item	CDB		CDB % Difference	Counterpart	
	Planned	Actual		Planned	Actual
Agricultural and Industrial Credit	4,000	2,750	31.25	-	-
Mortgage Finance	1,000	1,000			
Student Loans	2,500	3,750	(50.00)		
Technical Assistance	150	150	0		
Total Base Costs	10,150	10,150			
Student Loans	3,750	3,737	0.34		
Total Project Costs	**10,150**	**10,137**	**0.13**		

Disbursements

3.07 According to CDB's records in respect of Loan No. 18/SFR-OR-BZE and GA31/BZE, after the Closing Date of December 31, 2015, an amount of USD8.987 mn was withdrawn from the OCR Account leaving an unwithdrawn balance of USD12,717 which was cancelled on April 27, 2016. The Grant component was fully disbursed.

Conditions and Covenants, Procurement and Contractor Performance

Conditions and Covenants

3.08 The Evaluator notes that while the PCR includes Covenant compliance in the PCR checklist of key success factors influencing output delivery, it does not discuss the significance of any particular conditions of the Loan Agreement or the Borrower/Executing Agency compliance with loan conditions. The PCR however, acknowledges that both GOBZ and DFC used their best efforts to achieve loan conditions including those related to reporting and operating targets.

Contractor/Consultant Performance

3.09 As part of the project, CDB provided GOBZ with a TA grant of USD150,000, the objective of which was to undertake a diagnostic review of the operations of DFC to determine its capability and capacity to provide efficient development banking services to the people of Belize, giving due regard to the environmental challenges. The consultants were also required to facilitate the implementation of new policies and procedures and make recommendations for improvements to the Management Information System.

3.10 The PCR makes reference to the report of the TA consultants but does not discuss nor rate the performance of the consultants. It indicates that the Consultancy exercise was executed as planned and in accordance with budget. The PCR states that the TA component and ongoing supervision and guidance by CDB assisted DFC and GOBZ in its institutional strengthening. It further states that the recommendations of the consultants were accepted by the Board of Directors and were at varying stages of implementation by DFC.

Monitoring and Evaluation Design, Implementation and Utilisation

3.11 The AR specifies the reports that were to be prepared during project implementation, including quarterly and annual reports. It also identified monitoring and evaluation indicators for each subcomponent. The PSRs and PCR provide adequate information on the indicators during implementation and the PCR acknowledges there were some delays in the submission of the periodic reports.

4. EVALUATION OF PERFORMANCE (PCR ASSESSMENT AND VALIDATION)

Relevance

4.01 The PCR rates Relevance as Satisfactory. This is justified on the basis that at the time of approval, GOBZ identified certain priority sector areas including student loans, SMEs, AIC, low-income housing and MF which was to be supported by resources from this LOC. It states that there was a demand for funding of developmental projects in these key sector areas that were not effectively financed by commercial banks and the project was designed with these priorities in mind. Project design was also informed by CDB's Strategic objectives related to support development and poverty reduction and promoting broad-based growth in the country.

4.02 CDB's Project Supervisors, in their PSRs, rated Relevance as Highly Satisfactory from 2010 to 2015. The PSRs reported that the project was accorded high priority by GOBZ and was consistent with CDB's strategic objective of promoting broad-based economic growth of its BMCs. They added that the project was expected to contribute to the development of human resources and to income generation through the development of sustainable productive enterprises, including small-scale agricultural enterprises. The PSRs stated that the impact on rural poverty was expected to be as a result of increased income of sub-project beneficiaries and their employees. In addition, the loan would provide increased access to credit for persons who obtained student loans to improve their education as a means of breaking the poverty cycle within poor households.

4.03 In light of the foregoing and the substantial extent to which the objectives and expected impact of the LOC intervention were consistent with the Beneficiaries' requirements, country needs, macroeconomic and sector policy frameworks; as well as CDB's country strategy, sector strategies and CDB's overarching goal of reducing poverty through sustainable economic growth, the Evaluator rates Relevance as Highly Satisfactory.

Effectiveness

Achievement of Outputs

4.04 **PCR Assessment:** The PCR rates the achievement of outputs as Satisfactory. In its justification the PCR states that the resources were invested in sub-projects that had the best chance of providing the expected benefits both at the level of the Belize economy and the lending targets. It adds that the loan was almost fully disbursed and as at December 131, 2015, total loan withdrawals amounted to USD9,987,283 (out of USD10 mn). It further states that generally, the projected targets were achieved, with student loans in particular exceeding the projected number of beneficiaries given the high demand for loans. The PCR indicates that the TA Consultancy was executed as planned and in accordance with budget.

4.05 **Evaluator's Assessment**: In accordance with the average ratings for outputs in Table 1, the Evaluator concurs with the Satisfactory rating awarded by the PCR.

Achievement of Outcomes

4.06 Five planned outcomes were identified in the AR. The achievement and overall rating of these development objectives (outcomes) is shown in Table 3.

TABLE 3: Matrix of Project Outcomes

No.	Planned outcomes at Appraisal	Outcomes Achieved as per PCR	Rating by PCR
1	80 new houses constructed and 100 houses repaired.	165 loans for new constructions totalling BZD5,154,318 or USD 2,577,159; 30 repair loans totalling BZD295,225 or USD147,613	
2	150 students received loans.	1,133 student loans made for a value of BZD8,014,628 or USD4,007,314	
3	75 enterprises benefitted from AIC loans.	418 loans valued at BZD 5,593,038 or USD2,796,519	
4	300 micro enterprise loans through credits to other FIs.	326 SMEs benefitted from loans with average size of BZD3,000 or USD1,500	
5	Institutional Strengthening systems documents implemented.	TA operation executed. Consultant's recommendations satisfactorily implemented	
Overall Rating			SAT

4.07 **PCR Assessment**: The PCR rates the achievement of outcomes as Satisfactory. In its justification the PCR states that the project was designed to improve access to finance by eligible beneficiaries in priority sectors including MSMEs, housing and education through the provision of affordable financing. It adds that such resources were aimed at contributing to improving the viability of business enterprises, facilitating access to student loans for tertiary level education including persons from vulnerable households to enhance their skills development and preparation for the job market. These resources were also aimed at improving access to home ownership and the quality of housing stock in Belize. The PCR indicates that within each sector where such resources were deployed, DFC was able to meet a substantial portion of its loan commitments and disbursements projected at appraisal, thereby enhancing DFC's relevance as development finance institution.

4.08 **Evaluator Assessment:** In view of the fact that the DFC generally achieved its project targets and the TA Consultancy was satisfactorily executed as planned within budget, the Evaluator concurs with the Satisfactory rating of the PCR.

Rating of Effectiveness

4.09 **PCR Assessment**: The PCR gives a rating of: (i) Satisfactory for achievement of outputs; and (ii) Satisfactory for achievement of outcomes. Given that the Effectiveness rating is a simple arithmetic average of the ratings for project outputs and outcomes, this equates to a rating of Satisfactory.

4.10 **Evaluator's Assessment**: On the basis of the composite score resulting from the Evaluator's ratings of Outputs (Satisfactory) and Outcomes (Satisfactory), the Effectiveness rating, calculated as an arithmetic average, is Satisfactory.

Efficiency

4.11 The PCR rates Efficiency as Satisfactory. It states that DFC has successfully disbursed the loan to target sectors as identified in its developmental mandate and within the terms and conditions of the CDB Loan Agreement. As at December 31, 2013, the period established at appraisal for project completion, the loan was almost fully committed with a small balance remaining undisbursed that was later cancelled.

4.12 **Evaluator's Assessment**: The PSR of 2011 reported that the AIC component (the largest component of LOC – USD4.0 mn) was fully committed by December 31, 2011 in accordance with the AR target. It stated that the demand was also strong for SLS with projections for full commitment in 2012, while demand under the MF component was less than anticipated. It also reported that that DFC experienced setbacks in disbursing the SME component due to competing funding resources to the SME institutions and the high liquidity in the financial system.

4.13 The PSR of 2013 reported disbursements amounting to USD9.6 mn (96% of the approved amount) as at December 31, 2013 compared to the full target of USD10 mn estimated at appraisal. It also reported a 100% commitment to fully disburse the loan by project completion. Total loan withdrawals of USD9.9 mn were reported in the PSR of 2014 at December 31, 2014 which pointed out that while it was anticipated at appraisal that the loan would have been fully disbursed by December 31, 2013, there were undisbursed commitments for students who were undertaking multi-year degrees that extended beyond 2013 and this resulted in an extension of the TDD to permit utilisation of the small undisbursed balance.

4.14 The Evaluator considers that the intervention was completed in a reasonable time frame compared to the appraisal target. The project was completed within budget and reflected good practice standards which were consistent with sector and industry norms. The Evaluator therefore concurs with the Satisfactory rating of the PCR.

Sustainability

4.15 The PCR rates Sustainability of the project as Highly Satisfactory. It states that in general DFC made efforts for the strengthening of its operating systems and procedures and enhanced staff capacity along with realigning its organisational structure to lay the foundation for sustainable financial operations. This was in addition to an improved governance model and the establishment of a Risk Unit with enhanced risk procedures. The PCR states that while revenues from the current LOC were separately managed as an agency function, financial projections indicate that such operations will be viable during the forecast period. It further adds that DFC can now access more funds and so its productive assets and its revenue base will now contribute to a more sustainable operation.

4.16 The loan agreement identifies financial conditions to be satisfied by DFC which include performance targets for three financial ratios: (i) Debt Service Coverage; (ii) Debt to Equity; and (iii) ROA. The PSR of 2013 reported that DFC had a very profitable year in 2012 as was shown in its audited financial statements. It states that net income increased from BZD47,000 in 2011 to BZD3.7 mn in 2012. The PSR further states that the increase in net income of DFC resulted in the achievement of a ROA of 3.98% and a return on equity of 1.45%. It indicates that the debt service coverage and the interest coverage ratios were 1.51 and 4.1%, respectively, indicating that the DFC was able to generate sufficient cash flow to meet its obligations as they fell due. The PSR points out that these ratios were also above the minimum performance targets required by CDB.

4.17 The PSR of 2015 indicates that while the ROA target of 1% was not achieved for FY 2014, this situation was not expected to continue given the adoption of more robust measures by DFC for loan loss provisioning. It states that DFC continued to be well capitalised with a debt to equity ratio of 1.6:1 at the end of FY 2014. The PSR acknowledges, however, that non-performing loans of 16.9% at the end of 2014 remained above the 10% benchmark reflecting a challenging economic environment for some sectors.

4.18 At December 31, 2014, the Non-Performing loan segment of the total loan portfolio was 16.9% of the portfolio and at year end, 2015, it stood at 15.5%, still above the 10% benchmark alluded to in the PCR, reflecting the challenging economic environment for some sectors. Table 4 indicates that during the seven year period 2009 to 2015, DFC achieved the Debt Service Coverage target 5 out of 7 years and achieved the Debt to Equity target every year during this period. DFC, however, only met the ROA target on two occasions during this period.

TABLE 4: **Historical Financial and Operating Ratios**[5]
For the Years Ended December 31, 2009-15

Year	Debt Service Coverage (Not less than 1.25 times)	Debt to Equity Ratio (Target not to exceed 4:1)	ROA (Minimum Target of 1%)
2009	1.1	3.1	(1.3)
2010	1.0	3.1	(1.5)
2011	1.3	2.0	0.0
2012	1.5	1.3	4.0
2013	2.1	1.2	3.7
2014	6.5	1.4	(3.2)
2015	4.9	1.9	(1.4)

Evaluator's Assessment: In light of the foregoing, the Evaluator rates Sustainability as Satisfactory.

Performance of the Borrower and Executing Agency

4.19 The PCR rates the performance of the Borrower/Implementing Agency as **Satisfactory**. It states that both GOBZ and DFC used their best efforts to achieve loan conditions including those related to reporting and operating targets. It also states that DFC adopted more robust measures for loan loss provisioning, as well as other operational actions. The PCR further adds that LOC resources approved for student loan financing were completely committed and goals exceeded thereby allowing students to borrow between BZD7,500 - BZD60,000 for their studies.

4.20 The Evaluator concurs with the PCR and rates Borrower Performance as **Satisfactory.**

Performance of the Caribbean Development Bank

4.21 The PCR provides a self-assessment rating of CDB's performance as Satisfactory. The justification for the rating is that CDB provided guidance on important strategic matters to DFC which were related to risk and credit management, micro-lending, policy and procedures, provisioning and information technology infrastructure. The PCR indicates that loan disbursement applications and float documentation were efficiently prepared to DFC team thereby facilitating prompt processing and disbursement by CDB and an expeditious execution of the project.

4.22 The Evaluator concurs with the PCR and rates Borrower Performance as **Satisfactory.**

[5] Data from AR: Appendix 2.9, Paper BD 162/16. December 08, 2016

5. OVERALL ASSESSMENT

5.01 The PCR does not rate the overall performance of the project. The Evaluator rates overall project performance as Satisfactory. This rating is based on an arithmetic average of the total scores from separate assessments of the four core evaluation criteria: Relevance (Highly Satisfactory); Effectiveness (Satisfactory); Efficiency (Satisfactory); and Sustainability (Satisfactory).

5.02 Details of the ratings and justification for differences between those of the PCR and Evaluator are in Table 5.

TABLE 5: SUMMARY RATINGS OF CORE EVALUATION CRITERA AND OVERALL ASSESSMENT OF THE PROJECT

Criteria	PCR	OIE Review	Reason if any for Disagreement/Comment
Strategic Relevance Relevance	Satisfactory (3)	Highly Satisfactory (4)	The substantial extent to which objectives and expected impact of the intervention were consistent with the Beneficiaries' requirements, country needs, macroeconomic and sector policy frameworks; as well as with CDB's country strategy, sector strategies and its overarching goal of reducing poverty through sustainable economic growth reflect a Highly Satisfactory rating.
Efficacy Effectiveness	Satisfactory (3)	Satisfactory (3)	
Efficiency	Satisfactory (3)	Satisfactory (3)	
Sustainability	Highly Satisfactory (4)	Satisfactory (3)	The project has satisfied the majority of performance targets set in AR. While DFC has fully satisfied the Debt to Equity ratio for the period 2009-2015 and the Debt Service Coverage for most of this period, it has been unable to consistently meet the required target for the ROA for most of this period.
Composite (Aggregate) Performance Rating	Satisfactory (3.25)	Satisfactory (3.25)	
Borrower & EA Performance	Satisfactory	Satisfactory	
CDB Performance	Satisfactory	Satisfactory	
Quality of PCR	NA	Satisfactory	

Lessons

5.03 The PCR identifies the following five lessons learned from implementation:

(i) Improving Client Viability

CDB must continue to support the strengthening of client's governance structures, risk management systems and financial architecture in an effort to improve their viability and to lessen their dependence on government subsidies.

(ii) Enhancing Business Development

While access to credit is an important and necessary condition for MSME success, it is often not sufficient by itself and needs to be accompanied by other tools for enhancing business development.

(iii) Replication of DFC Business Model

The revised business model of DFC, comprises a new governance framework that includes a selection process which allows directors to be more independent from government, control limits over its activities and enhance disclosure requirements. This model could be replicated in other BMCs.

(iv) Market Competition

Competition has emerged within the banking system requiring non-bank financial institutions like DFC, to become nimble and adaptable to compete with other market participants such as the commercial banks.

(v) National Economic Development

Development banks such as DFC, have a fundamental role in national economic development through financial support to a range of development initiatives in a variety of sectors that usually cannot access financing in the open market.

5.04 The Evaluator considers the lessons cited in the PCR to be very important and does not have any disagreement with what has been proposed

6. COMMENTS ON PCR QUALITY

6.01. Apart from an inconsistency in some ratings in the Summary of PAS Core Criteria at the time of PCR preparation (page 5 of PCR) and the ratings in the body of the PCR Report, the Evaluator rates the quality of the PCR as Satisfactory.

7. DATA SOURCES FOR VALIDATION

7.01 The primary data sources for this validation exercise were CDB's ARs and Loan Agreement; CDB's Project Supervision Reports and CDB's Registry files in respect of the project.

8. RECOMMENDATIONS FOR FOLLOW-UP

8.01 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 other lessons than those contained in the PCR.

PUBLIC DISCLOSURE AUTHORISED

APPENDIX 1

CARIBBEAN DEVELOPMENT BANK

PROJECT COMPLETION VALIDATION REPORT

SIXTH CONSOLIDATED LINE OF CREDIT
BELIZE

MANAGEMENT RESPONSE

MANAGEMENT RESPONSE

There is general concurrence with the assessment and findings of the Project Completion Validation Report. Office of Independent Evaluation (OIE) has incorporated the comments of Private Sector Development Unit into the Report and where any differences in scores were observed, justifications provided were acceptable.

Both the Projection Completion Report Team and OIE agree that there are valuable lessons learnt from the implementation of this project that would assist the Bank in designing and supporting the implementation of similar interventions in its BMCs