PUBLIC DISCLOSURE AUTHORISED

CARIBBEAN DEVELOPMENT BANK

PROJECT COMPLETION VALIDATION REPORT WITH MANAGEMENT RESPONSE – APPENDIX 1

STUDENT LOAN SCHEME – SIXTH LOAN ST. KITTS AND NEVIS

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OFFICE OF INDEPENDENT EVALUATION
JUNE 2020

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PROJECT COMPLETION VALIDATION REPORT

STUDENT LOAN SCHEME – SIXTH LOAN
ST. KITTS AND NEVIS

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JUNE 2020

CURRENCY EQUIVALENTS

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

XCD2.70 = USD0.37
USD1.00 = XCD 2.70

ABBREVIATIONS

AFIs	-	Approved Financial Intermediaries
AR	-	Appraisal Report
BMCs	-	Borrowing Member Countries
CDB	-	Caribbean Development Bank
DBSKN	-	Development Bank of St. Kitts and Nevis
FI	-	Financial Intermediary
GOSKN	-	Government of St. Kitts and Nevis
HRD	-	Human Resource Development
mn	-	million
OECS	-	Organisation of Eastern Caribbean States
OIE	-	Office of Independent Evaluation
PCR	-	Project Completion Report
PSR	-	Project Supervision Report
ROA	-	Return on Assets
SLS	-	Student Loan Scheme
SLAC	-	Student Loan Advisory Council
USD	-	United States Dollars
XCD	-	Eastern Caribbean Dollars

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EXECUTIVE SUMMARY

PROJECT SUMMARY

1. In October 2008, the Caribbean Development Bank approved a loan in the amount of USD6.2 mn to St. Kitts-Nevis-Anguilla National Bank Limited (National Bank) to assist with financing sub-loans under the Student Loan Scheme (SLS) to eligible persons wishing to upgrade their skills and qualifications at the vocational, technical and professional levels.

PROJECT OBJECTIVES

2. The objective of the project was to assist the Government of St. Kitts and Nevis (GOSKN) in developing its human resources through education and training.

Implementation Arrangements

3. The Project was implemented by National Bank. Under section II of the SLS Guidelines, provision was made for the Student Loan Advisory Council (SLAC) to assist National Bank in the administration of the SLS. However, as National Bank operates as an independent private sector entity, the functions of SLAC under this loan were administered by National Bank in consultation with GOSKN and other private sector entities to provide guidance on areas of educational and training priorities.

PROJECT BACKGROUND

4. The placing of resources through the St. Kitts-Nevis-Anguilla National Bank Limited (National Bank) relieved GOSKN of the debt liability for this project, while it contributed towards GOSKN's strategic goal of human resource development (HRD). It was therefore incumbent upon GOSKN not only to ensure that obstacles confronting young persons pursuing higher education and training were minimised but bright and gifted persons from poor, marginalised and vulnerable households were assisted in realising their potential. Given the positive correlation between education and economic development, which was well-documented internationally, GOSKN was therefore buttressed in strengthening its human resource base to accelerate the country's socio-economic development.

5. St. Kitts and Nevis' post-secondary education capacity was restricted to providing education and training to the first two years of an undergraduate four-year degree. It was evident therefore that citizens and residents of St. Kitts and Nevis needed to go overseas to broaden and deepen their knowledge base and skill sets to complete their first degree. In many cases they were unable to meet the associated costs from personal and family resources. With only limited assistance available from scholarships and grants, CDB's SLS offered through National Bank was a necessary source of financing for higher education. CDB's involvement with National Bank was expected to contribute towards broadening the range of financial intermediaries (FIs) with which CDB does business.

EVALUATION CRITERIA

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

Relevance

7. The PCR rates Relevance as Satisfactory. It justifies this rating on the basis that at the time of approval, GOSKN considered the project as important and consistent with its long-term strategy to promote the development of human resources as necessary for building capacity for the management of the country's resources and long-term growth objectives in the public and private sectors. The Project Completion Report (PCR) notes that while the project did not specifically target the poor and vulnerable, it was recognized that education and certification provide enhanced employment possibilities and increased earning capacities for student loan beneficiaries.

8. The Evaluator concurs with the Satisfactory rating. The project was consistent with CDB's strategic objective of fostering inclusive social development by improving the quality and opportunities for access to education and training. It was also supported by CDB's Education and Training Policy and Strategy (2004). That policy viewed education as a critical enabler of social and economic development by expanding the pool of productive Caribbean citizens with the knowledge, skills, attitude and values necessary to lead purposeful and productive lives in an internationally competitive environment. In addition, the project supported private sector led education and training projects and programmes which met the priorities of CDB's Borrowing Member Countries.

Effectiveness

9. The PCR gives a rating of **Marginally Unsatisfactory** for Effectiveness. It rates the achievement of outputs as Unsatisfactory and the achievement of 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 Marginally Unsatisfactory. The Evaluator rates this criterion as **Unsatisfactory** as the limited achievement of project outputs negatively impacted achievement of project outcomes.

Efficiency

10. The PCR rates Efficiency as **Satisfactory**. It states that during the period of the loan, National Bank was the largest indigenous commercial bank in the Organisation of Eastern Caribbean States (OECS) and at June 2013, its assets had grown to $2,834 mn and its market capitalisation at December 2013 was $297 mn. Financial Statements for FY 2013 showed a comprehensive profit of $15.8 mn along with a Return on Assets (ROA) of 3.8% and a Return on Equity (ROE) of 3.8% compared with similar negative financial ratios in 2012.

11. Under the Project Performance Evaluation System (PPES) methodology, which was used by the PCR, the principal test of Cost Efficiency for Financial Intermediaries is the Rate of Return on Average Assets. On the basis of the average ROA over the period of implementation, the Evaluator rates Efficiency as **Marginally Unsatisfactory**. During implementation, the project struggled to meet targeted commitments and disbursements. In 2012, the Project Supervision Report (PSR) indicated that the project experienced a negative timing performance variance of 40%. At that time, it was scheduled to have been 50% completed but was 30% completed with 25% commitments and 16.5% disbursements. Similarly, the PSRs of 2013 and 2014 indicated negative timing variances of 50% and 63%, respectively with 25% cumulative sub loan commitments at the end of each year. Cumulative disbursements at the end of 2013 were 20.9% and 22.6% at cancellation date in 2014.

Sustainability

12. The PCR rates Sustainability as **Satisfactory** on the grounds that the demand for student loans was expected to be high and sustainable over the life of the project. It concedes that National Bank was challenged in generating the anticipated demand for student loans partly because of the adverse impact of the global financial crisis on the economy of St. Kitts and Nevis.

13. Sustainability demonstrates the long-term continuity of project benefits and the resilience of the project to risks of the net benefit flows over its full intended life and continues after completion of the intervention. The Evaluator is therefore **unable to assess** the sustainability of the project due to the premature termination of project implementation.

Performance of the Borrower and Executing Agency

14. The PCR rates Borrower's performance in the summary of complementary ratings as **Marginally Unsatisfactory** with the justification that the Borrower discontinued communications with CDB from June 2014 except on matters in respect of cancellation and loan repayment. However, at Section VI of the Report under CDB Self-Assessment of Borrower/Implementation Agency, the PCR rates Borrower's performance as Unsatisfactory.

15. The Evaluator rates the performance of the Borrower as **Unsatisfactory** based on the very slow rate of sub loan commitments and the resultant low level of disbursements which eventually contributed to the cancellation of the loan.

Performance of the Caribbean Development Bank

16. The PCR provides a self-assessment rating of CDB's performance as **Satisfactory**. It states that CDB assisted National Bank throughout project implementation, responding to queries in a timely fashion. It indicates that CDB's Projects and Legal Departments provided continuous support to National Bank in clarifying issues related to project implementation albeit these efforts did not improve the rate of commitments and disbursement level. The Evaluator concurs with this rating.

OVERALL ASSESSMENT

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

18. Details of the ratings and justification for differences between those of the PCR and Evaluator are presented in Table 1.

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

Criteria	PCR	OIE Review	Reason if any for Disagreement/Comment
Relevance	Satisfactory (3)	Satisfactory (3)	
Effectiveness	Marginally Unsatisfactory (2)	Unsatisfactory (1)	The Unsatisfactory achievement of project outputs negatively impacted achievement of project outcomes.
Efficiency	Satisfactory (3)	Marginally Unsatisfactory (2.4)	On the basis of the average ROA over the period of implementation, the Evaluator rates Efficiency as Marginally Unsatisfactory.
Sustainability	Satisfactory (3)	NA	Sustainability demonstrates the long-term continuity of project benefits and the resilience of the project to risks of the net benefit flows over its full intended life. Given that project implementation was terminated at the 25% commitment level, the Evaluator is unable to assess the sustainability of the project due to its premature closure.
Composite (Aggregate) Performance Rating	Satisfactory (3)	Marginally Unsatisfactory (2.13)	Unsatisfactory rating for Effectiveness and Marginally Unsatisfactory for Efficiency by the Evaluator.
Borrower & EA Performance	Unsatisfactory	Unsatisfactory	
CDB Performance	Satisfactory	Satisfactory	
Quality of PCR	-	Marginally Unsatisfactory	Inconsistency in ratings of Borrowers performance and absence of rating for Sustainability at section VII of the PCR.

Lessons

19. The PCR identifies the following four lessons learned:

(i) Tying Sub Loan Repayment to Income

Repayment should be tied to income with progressive recoveries in repayment over time as income increases.

(ii) Good Tracking Systems

There is need to have a good tracking system for students upon graduation.

(iii) Strong Credit Appraisal Policies

National Bank's credit appraisal policy and procedures did not allow for "guarantees" to qualify as adequate security for student loans. This policy position restricted National Bank's penetration in the student loan market because other institutions accepted guarantees as adequate security.

(iv) Financially Disadvantaged Households

SLS is intended to meet the needs of students from low to middle-income households. Unfortunately, National Bank did not participate in the "special" student loan programme that caters to persons from financially disadvantaged households. It is important to have a guarantee mechanism for loans to students from such households to allow them to meet security requirements of the DFI. Most of these students find it difficult to access acceptable security.

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

1. BASIC PROJECT DATA

Project Title	Sixth Student Loan – St. Kitts and Nevis
Country	St. Kitts and Nevis
Sector	Financing
Loan No.	9/OR-STKN
Borrower	Government of St. Kitts and Nevis
Implementing/Executing Agency	St. Kitts-Nevis-Anguilla National Bank Limited (National Bank)

Approvals/Disbursements ($ mn)	**OCR**	**SFR**	**Total**
Loan Amount	6.20	0.00	6.20
Disbursed	1.40	0.00	1.40
Cancelled	4.80	-	4.80

Project Milestones	**At Appraisal**	**Actual**	**Variance (months)**
Board Approval	October 28, 2008	October 28, 2008	0
Loan Agreement signed	May 04, 2009	June 05, 2009	(1)
Loan Effectiveness[1]	March 15, 2009	September 30, 2009	(6.5)

CDB Loan	**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)
TDD Extensions (number)	-	1	-

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

Project Cost and Financing ($ mn)	**At Appraisal**	**Actual**	**Variance (000)**
CDB Loan	6.20	1.396	4.804
Counterpart	0.00	0.000	0.000
Total	**6.20**	**1.396**	**4.804**

Implementation	**At Appraisal**	**Actual**	**Variance (months)**
Start Date[2]	May 04, 2009	June 05, 2009	(1.0)
Completion Date	Dec 31, 2013	Dec 31, 2014	(12.0)
Implementation Period (years)	4.7	5.6	(11.0)

Economic rate of Return (%)	
At Appraisal	Not Applicable

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

2. PROJECT DESCRIPTION

RATIONALE

2.01 A highly trained human resource base is necessary for St. Kitts and Nevis to realise sustainable development and higher levels of employment. Access to the upper echelons of employment is dependent on the possession of appropriate knowledge, skills and educational/professional qualifications. These features are integral components of any development strategy that is designed to alleviate poverty and reduce unemployment to negligible levels. With the rapid pace of economic and technical development in the global marketplace, made possible by the knowledge revolution and information age, the demand for post-secondary education was at an all-time premium.

2.02 The placing of resources through the St. Kitts-Nevis-Anguilla National Bank Limited (National Bank) relieved GOSKN of the debt liability for this project, while it contributed towards GOSKN's strategic goal of HRD. It was therefore incumbent upon GOSKN not only to ensure that obstacles confronting young persons pursuing higher education and training were minimised but bright and gifted persons from poor, marginalised and vulnerable households were assisted in realising their potential. Given the positive correlation between education and economic development, which was well-documented internationally, GOSKN was therefore buttressed in strengthening its human resource base to accelerate the country's socio-economic development. Programmes that drove this development thrust were therefore key national priorities.

2.03 Notwithstanding St. Kitts and Nevis' impressive achievement, its post-secondary education capacity was restricted at best to providing education and training to the first two years of an undergraduate four-year degree. It was evident therefore that citizens and residents of St. Kitts and Nevis needed to go overseas to broaden and deepen their knowledge base and skills sets in order to complete their first degree. In many cases they were unable to meet the associated costs from personal and family resources. Furthermore, with only limited assistance available from scholarships and grants, CDB's SLS offered through National Bank was a vitally necessary source of financing for higher education. CDB's involvement with National Bank was expected to contribute towards a broadening of the range of FIs with which CDB does business.

Expected Impact

2.04 The project was expected to contribute to the human resource needs of the productive sector and the public sector.

Objectives or Expected Outcomes

2.05 The main objective of the project was to assist GOSKN in developing its human resources through education and training.

Components/Outputs

2.06 The single component of the Project was:

(i) At least 225 sub loans valued at $16.7 mn (USD6.2 mn) approved and fully committed by December 2012 and fully disbursed by June 2014.

Provision of Inputs

2.07 In October 2008, CDB approved a loan in the amount of USD6.2 mn to National Bank to assist with financing sub loans under the Student Loan Scheme (SLS) to eligible persons wishing to upgrade their skills and qualifications at the vocational, technical and professional levels.

Implementation Arrangements

2.08 The Project was implemented by National Bank. Under Section II of the SLS Guidelines, provision was made for the Student Loan Advisory Council (SLAC) to assist National Bank in the administration of the SLS. However, as National Bank operates as an independent private sector entity, the functions of SLAC under this loan were administered by National Bank in consultation with GOSKN and other private sector entities to provide guidance on areas of educational and training priorities.

Identification of Risks and Mitigation Measures

2.09 The AR identified the following risks faced by National Bank in its lending activities:

(i) Foreign exchange risks;
(ii) Interest rate risks;
(iii) Liquidity risks;
(iv) Credit risks;
(v) Operational risks; and
(vi) Market risks.

2.10 Foreign Exchange Risk is associated with National Bank's exposure through its international card business receipts and settlements. Various strategies to hedge this key risk were devised, ensuring that its actions were in keeping with National Bank's overall objective.

2.11 Interest Rate Risk is a component of overall financial risk that arises from unexpected changes in interest rates. For National Bank, this risk results from the duration imbalance between assets and liabilities, and the re-pricing of liabilities would tend to occur more frequently than National Bank's ability to adjust loan interest rates. National Bank was therefore exposed to interest rate risk as its assets and liabilities were not duration matched. National Bank makes fixed rate loans utilising variable rate resources. To compensate for this risk, National Bank utilised low-cost deposits as its primary source of financing, thereby obtaining enough spread to cover this risk.

2.12 Liquidity Risk is faced by National Bank as it is exposed to daily calls on its available cash resources from current accounts, overnight deposits, maturing deposits, loan drawdowns and other calls on cash settled items. A range of wholesale and retail funds are managed to ensure that liquidity requirements are met. National Bank's liquidity strategy relies on enough cash and marketable instruments such as treasury bills and other government securities to meet short-term funding needs. Fallback techniques include access to the sub-regional inter-bank market and the ability to close out or liquidate market portions. The bank ensures that it has sufficient funds to meet its obligations by not converting into loans foreign deposits, demand deposits, reserves, provisions for interest, provision for loan losses, and other net financial assets and liabilities.

2.13 Credit Risk arises from unanticipated changes in National Bank's clients' abilities to service their debt. Credit risk is inherent in lending and investment activities. National Bank's exposures to credit risk are mainly concentrated in St. Kitts and Nevis, North America, Europe and other Caribbean States.

National Bank manages this exposure through regular analysis of the ability of its borrowers, both current and potential, as well as counter parties to meet interest and principal payment obligations. Credit risk is also managed in part by the taking of collateral and/or guarantees as security on advances and by the spreading of the risk geographically as well as over a diversity of personal and commercial customers.

2.14 Operational Risk is inherent in all business activities and is the potential for financial or reputational loss arising from failure in internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters, and deliberate acts such as fraud. National Bank recognises that such risk can never be entirely eliminated and manages the risk through a combination of systems and procedures to monitor and document transactions. National Bank has developed contingency arrangements including facilities to support operations in the event of disasters. Independent checks on operational risk issues are also undertaken by the internal audit function.

2.15 Market Risk is the risk of loss that results from the uncertainty in market prices and rates (including interest rates, equity prices, foreign exchange rates, credit spread, and commodity prices), the correlations among them and their level of volatility. The significant market risk exposures within National Bank are interest rate risk and foreign exchange risk. National Bank actively manages interest rate risk to protect the value of shareholders' funds while achieving an adequate rate of return. Interest rate risk strategies are reviewed on a regular basis as interest rate expectations change. The respective business units, as well as the Asset Liability Management Committee continually monitor foreign exchange exposures to ensure foreign holdings are kept within assigned limits.

2.16 To further mitigate market risk, National Bank holds overseas investment portfolios for liquidity, long-term capital appreciation or attractive yields. These portfolios expose National Bank to interest rate, foreign currency, credit spread and equity risks. The investment managers acting in accordance with established Group's investment policy control these portfolios. All investments considered by National Bank are subject to research, risk reviews and analysis to ensure that only investments grade quality are booked. Market risks arising from National Bank's funding and investment activities are identified, managed and controlled through National Bank's investment policy and asset/liability management

3. <u>EVALUATION OF DESIGN AND IMPLEMENTATION</u>

Relevance of Design and Formulation

3.01 The PCR states that the project was important and consistent with GOSKN's long-term strategy to promote the development of human resources as core ingredients to building capacity for management of the country's resources and long-term growth objectives. It indicates that the project, as designed, had the potential to meet all project objectives considered at appraisal, including the provision of student loans for about 225 students to pursue tertiary education. It points out that mitigation measures were identified at appraisal to minimise all significant risks, and therefore the risks to full realisation of project benefits were exceptionally low.

3.02 Overall, the design and formulation were satisfactory and adequate to address the problems and needs that were identified in the Appraisal Report (AR).

Project Outputs

3.03 The PCR assesses implementation progress on the project as **Unsatisfactory**. It states that at the time of the appraisal it was expected that since CDB was not providing a new SLS loan to the Development Bank of St. Kitts and Nevis (DBSKN), National Bank would then be able to capture most of that market. However, DBSKN was able to attract other resources and provided stiff competition to National Bank because of their more generous security arrangements. In addition, loan implementation was affected by the worldwide recession, which forced many applicants to reschedule their tertiary level studies because they could no longer supplement the student loan from earnings as parents and students lost their jobs.

3.05 The PCR identified the global financial and economic crisis of 2009 as an externality that significantly slowed global growth and negatively impacted small open economies like St. Kitts and Nevis, which depend heavily on the financial and services sectors. It indicated that particularly in the case of St. Kitts, there was slower than expected economic growth during the period of project implementation, with some households directly impacted and forced to postpone education expenditures, given the uncertainty of their disposable income.

3.06 The loan was cancelled and repaid by the Borrower after five years of implementation. It was 22.6% disbursed as indicated in the matrix of project outputs (Table1). The Evaluator therefore concurs with the PCR assessment of Unsatisfactory.

TABLE 1: MATRIX OF PROJECT OUTPUTS

Number	Planned Outputs at Appraisal	Outputs Achieved	Rating
1	225 sub-loans valued at USD6.2 mn approved and disbursed by June 2014.	Loans amounting to USD1.4 mn approved and disbursed by June 2014	Unsatisfactory

Project Cost and Disbursements

3.07 The PCR provides a matrix of project costs and financing plan that shows a significant difference of USD4.8 mn between appraised and actual costs. As indicated in the outputs section of this report (paragraph 3.04), the impact of the global financial crisis of 2009 resulted in a downturn in economic activity in St. Kitts and Nevis and demand for tertiary education did not meet anticipated levels. This led to the cancellation of the loan after five years in implementation. The PCR reports actual project costs as USD1.396 mn at cancellation date. 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 (OCR)		CDB Difference (%)	CDB Difference (Amount)	Counterpart	
	Planned	Actual			Planned	Actual
Student Loans	6,200	1,396	(77.0)	4,804	0	0
Total Base Costs	6,200	1,396	(77.0)	4,804	0	0
Total Project Costs	**6,200**	**1,396**	**(77.0)**	**4,804**	**0**	**0**

Disbursements

3.08 CDB's records in respect of Loan No. 9-OR-SKN, after the Closing Date of June 30, 2014 show that an amount of USD1.396 mn representing 22.6% of loan funds was withdrawn from the OCR

Account leaving an unwithdrawn balance of USD4.80 mn. The unwithdrawn portion was cancelled on July 15, 2014.

Monitoring and Evaluation Design, Implementation and Utilisation

3.09 National Bank was required to maintain its financial and organisational performance at levels that satisfied ECCB's Prudential Guidelines. The PSRs and PCR state that National Bank complied with most conditions of the loan, however, it had difficulty satisfying some of the benchmarks in respect of capital, loan quality, profitability and liquidity. The PSRs indicate that the required quarterly, annual and budgetary reports were satisfactorily prepared during implementation.

4. EVALUATION OF PERFORMANCE (PCR ASSESSMENT AND VALIDATION)

Relevance

4.01 The PCR rates Relevance as **Satisfactory**. It justifies this rating on the basis that at the time of approval, GOSKN considered the project as important and consistent with its long-term strategy to promote the development of human resources as necessary for building capacity for the management of the country's resources and long-term growth objectives in the public and private sectors. The PCR notes that while the project did not specifically target the poor and vulnerable, it was recognized that education and certification provide enhanced employment possibilities and increased earning capacities for student loan beneficiaries.

4.02 The project was consistent with CDB's strategic objective of fostering inclusive social development by improving the quality and opportunities for access to education and training. It was also supported by CDB's Education and Training Policy and Strategy (2004). That policy viewed education as a critical enabler of social and economic development by expanding the pool of productive Caribbean citizens with the knowledge, skills, attitude and values necessary to lead purposeful and productive lives in an internationally competitive environment. In addition, the project supported private sector led education and training projects and programmes which met the priorities of CDB's Borrowing Member Countries.

4.03 In light of the foregoing the Evaluator concurs with the **Satisfactory** rating of the PCR.

Effectiveness

Achievement of Outputs

4.04 **PCR Assessment:** The PCR rates the achievement of outputs as **Unsatisfactory**. In its justification, the PCR states that at the time of appraisal it was expected that since CDB was not providing a new line of credit to the DBSKN, National Bank would then be able to capture most of the market. However, DBSKN was able to attract other resources and provided greater competition to National Bank than what was anticipated due to its more generous security arrangements.

4.05 At appraisal, it was expected that 225 student loans would have been approved and disbursed by 2014. The PCR indicates that the worldwide recession forced many applicants to postpone their studies and this resulted in the cancellation of the loan after 5 years of implementation with 22.6% of loan funds disbursed.

4.06 **Evaluator's Assessment**: In accordance with the rating for outputs in Table 1(paragraph 3.06), the Evaluator concurs with the **Unsatisfactory** rating awarded by the PCR.

Achievement of Outcomes

4.07 **PCR Assessment**: The achievement of development objectives (outcomes) is rated in the PCR as **Satisfactory**. It states that prior to cancellation, 22.6% of the loan was disbursed (USD1,396,091.86) and loan approvals stood at XCD5,026,568 (USD1,861,691.85). The PCR states that this represented sub-loans to 57 beneficiaries compared to 225 students which was projected at loan appraisal. It indicates that the average loan size was XCD88,185 (USD32,661), the mode was XCD120,000 (USD44,444) and individual loans varied from XCD7,000 (USD2,593) to XCD145,000 (USD53,704) which was compliant with the limits of the Loan Agreement and AR.

4.08 **Evaluator's Assessment:** The Unsatisfactory achievement of project outputs negatively impacted achievement of project outcomes. The main objective of the project was to assist National Bank in funding the development of human resources in St. Kitts and Nevis through the provision of student loans for upgrading skills at the vocational, technical, and professional levels.

4.09 It was expected at appraisal that by project completion at least 225 persons would have been trained. However, after 5 years in implementation, just prior to the cancellation of the undisbursed loan balance, student loan approvals stood at 57 (25%), with loans committed amounting to USD1.396 mn or 22.6% of approvals. The PSRs of 2013 and 2014 rated Borrower performance as Marginally Unsatisfactory on the basis that loan commitments and disbursements did not perform as expected at appraisal and the recent economic recessionary period, along with the financial crisis in St. Kitts and Nevis, had dampened demand for student loans. This was in addition to the unexpected competition from DBSKN.

4.10 In light of the foregoing, the Evaluator rates the achievement of project outcomes as **Unsatisfactory.**

Rating of Effectiveness

4.11 **PCR Assessment**: The PCR rates outcomes as Satisfactory (PAS equivalent 3) and achievement of outputs as Unsatisfactory (PAS equivalent of 1). This equates to an arithmetic average of 2 or **Marginally Unsatisfactory** given that the Effectiveness rating is a simple arithmetic average of the individual ratings for project outputs and outcomes.

4.12 **Evaluator's Assessment**: Based on the composite score resulting from the Evaluator's ratings of Outputs (Unsatisfactory) and Outcomes (Unsatisfactory), the Effectiveness rating computed as an arithmetic average is **Unsatisfactory**.

Efficiency

4.13 The PCR rates Efficiency as **Satisfactory**. It states that during the period of the loan, National Bank was the largest indigenous commercial bank in the OECS and at June 2013, its assets had grown to $2,834 mn and its market capitalisation at December 2013 was $297 mn. The PCR further states that Financial Statements for FY 2013 showed a comprehensive profit of $15.8 mn along with an ROA of 3.8% and an ROE of 3.8% compared with similar negative financial ratios in 2012.

4.14 **Evaluator's Assessment**: Efficiency is a measure of how well the intervention utilises resources in achieving the project outcome. Amongst other things, the Evaluator assessed the utilisation of loan resources to finance the targeted 225 sub loans for upgrading skills at the vocational, technical and professional levels. During implementation, the project struggled to meet targeted commitments and disbursements. In 2012, the PSR indicates that the project experienced a negative timing performance variance of 40%. At that time, it was scheduled to have been 50% completed but was 30% completed with 25% commitments and 16.5% disbursements. Similarly, the PSRs of 2013and 2014 indicate negative timing variances of 50% and 63% respectively with 25% cumulative sub loan commitments at the end of each year. Cumulative disbursements at the end of 2013 were 20.9% and 22.6% at cancellation date in 2014.

4.15 Under the PPES methodology, which is used by the PCR, the principal test of Cost Efficiency for Financial Intermediaries is the Rate of Return on Average Assets. On the basis of the average ROA over the period of implementation, the Evaluator rates Efficiency as **Marginally Unsatisfactory**. Details of the annual ROA of National Bank are presented in Table 4.

TABLE 4: ANNUAL ROA OF NATIONAL BANK DURING IMPLEMENTATION

Year	ROA	PPES Rating	PAS Equivalent Score
2009	1.8	Satisfactory	3
2010	1.5	Satisfactory	3
2011	1.9	Satisfactory	3
2012	(2.4)	Unsatisfactory	1
2013	0.6	Marginally Unsatisfactory	2
Arithmetic Average		**Marginally Unsatisfactory**	**2.40**

Sustainability

4.16 **PCR Assessment**: The PCR rates Sustainability as **Satisfactory** on the grounds that the demand for student loans was expected to be high and sustainable over the life of the project. It concedes that National Bank was challenged in generating the anticipated demand for student loans partly because of the adverse impact of the global financial crisis on the economy of St. Kitts and Nevis.

4.17 **Evaluator's Assessment**: This project was under implementation for five years when the Borrower, National Bank, terminated implementation. At the time of cancellation in August 2014, 77% (USD4.8 mn) of total loan funds of USD6.2 mn remained undisbursed and 25% of the loan was committed. At appraisal, it was expected that at least 225 persons would have been trained by project completion. However, just prior to the cancellation of the undisbursed loan balance, the number of student loan approvals stood at 57 (25%) with 22.6% of loan funds disbursed.

4.18 Sustainability demonstrates the long-term continuity of project benefits and the resilience of the project to risks of the net benefit flows over its full intended life and continues after completion of the intervention. Given that this project was terminated at the 25% commitment level, the Evaluator is unable to assess the sustainability of the project due to its premature closure.

Performance of the Borrower and Executing Agency

4.19 The PCR gives two different ratings for Borrower's performance. In the summary of complementary ratings, the PCR rates Borrower's performance as **Marginally Unsatisfactory** with the justification that the Borrower has discontinued communication with CDB from June 2014 except on matters in respect of cancellation and loan repayment. However, at section VI of the Report under CDB Self-Assessment of Borrower/Implementation Agency, the PCR rates Borrower's performance as **Unsatisfactory**.

4.20 The Evaluator rates the performance of the Borrower as **Unsatisfactory** based on the very slow rate of sub loan commitments and the resultant low level of disbursements which eventually contributed to the termination of the loan.

Performance of the Caribbean Development Bank

4.21 The PCR provides a self-assessment rating of CDB's performance as **Satisfactory**. It states that CDB assisted National Bank throughout project implementation, responding to queries in a timely fashion. It indicates that CDB's Projects and Legal Departments provided continuous support to National Bank in clarifying issues related to project implementation albeit these efforts did not improve the rate of commitments and disbursement level.

4.22 The Evaluator concurs with the PCR rating for CDB's performance.

5. OVERALL ASSESSMENT

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

5.02 Details of the ratings and justification for differences between those of the PCR and Evaluator are presented 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
Relevance	Satisfactory (3)	Satisfactory (3)	
Effectiveness	Marginally Unsatisfactory (2)	Unsatisfactory (1)	The Unsatisfactory achievement of project outputs negatively impacted achievement of project outcomes.
Efficiency	Satisfactory (3)	Marginally Unsatisfactory (2.4)	On the basis of the average ROA over the period of implementation, the Evaluator rates Efficiency as Marginally Unsatisfactory
Sustainability	Satisfactory (3)	NA	Sustainability demonstrates the long-term continuity of project benefits and the resilience of the project to risks of the net benefit flows over its full intended life. Given that project implementation was terminated at the 25% commitment level, the Evaluator is unable to assess the sustainability of the project due to its premature closure.
Composite (Aggregate) Performance Rating	Satisfactory (3)	Marginally Unsatisfactory (2.13)	Unsatisfactory rating by Evaluator for Effectiveness and Marginally Unsatisfactory for Efficiency.
Borrower & EA Performance	Unsatisfactory	Unsatisfactory	
CDB Performance	Satisfactory	Satisfactory	
Quality of PCR	-	Marginally Unsatisfactory	Inconsistency in ratings of Borrowers performance and absence of rating for Sustainability at section VII of the PCR.

Lessons

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

Tying Sub Loan Repayment to Income

Repayment should be tied to income with progressive recoveries in repayment over time as income increases.

Good Tracking Systems

There is need to have a good tracking system for students upon graduation.

Strong Credit Appraisal Policies

National Bank's credit appraisal policy and procedures did not allow for "guarantees" to qualify as adequate security for student loans. This policy position restricted National Bank's penetration in the student loan market because other institutions accepted guarantees as adequate security.

Financially Disadvantaged Households

SLS is intended to meet the needs of students from low to middle-income households. Unfortunately, National Bank did not participate in the "special" student loan programme that caters to persons from financially disadvantaged households. It is important to have a guarantee mechanism for loans to students from such households to allow them to meet security requirements of the DFI. Most of these students find it difficult to access acceptable security.

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

6. COMMENTS ON PCR QUALITY

6.01. There are aspects of inconsistency in some ratings in the PCR which are summarised at Table 5 (PCR quality) that resulted in a rating of Marginally Unsatisfactory by the Evaluator.

7. DATA SOURCES FOR VALIDATION

7.01 The primary data sources for this validation exercise were CDB's AR and Loan Agreement; and CDB's Project Supervision Reports.

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

STUDENT LOAN SCHEME – SIXTH LOAN

ST. KITTS AND NEVIS

JUNE 2020

MANAGEMENT RESPONSE

There is general concurrence with the assessment and findings of the Project Completion Validation Report and any differences in ratings between the Office of Independent Evaluation (OIE) and the Project Completion Report (PCR) Team are duly noted.

Both the PCR Team and OIE agree that there are valuable lessons learned from the project that would assist the Bank in designing and supporting the implementation of similar interventions in its Borrowing Member Countries.