

CARIBBEAN DEVELOPMENT BANK



EXECUTIVE SUMMARY WITH MANAGEMENT RESPONSE

PROJECT COMPLETION VALIDATION REPORT

**FINANCIAL SECTOR STABILISATION LOAN – DIVESTMENT OF COMMERCIAL BANK
ST. VINCENT AND THE GRENADINES**

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OFFICE OF INDEPENDENT EVALUATION

MARCH 2016

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MARCH 2016

EXECUTIVE SUMMARY

1. BASIC PROJECT DATA

Project Title	Financial Sector Stabilisation Loan – Divestment of Commercial Bank St. Vincent and the Grenadines
Country	St. Vincent and the Grenadines
Sector	Multi-Sector
Loan No.	12/OR-STV
Borrower	Government of St. Vincent and the Grenadines (GOSVG)
Implementing/Executing Agency	GOSVG

<u>Disbursements (USD mn)</u>	<u>CARIBBEAN DEVELOPMENT BANK (CDB) LOAN (USD mn)</u>		
	<u>OCR</u>	<u>SFR</u>	<u>Total</u>
Loan Amount	37.0	-	37.0
Disbursed	37.0	-	37.0
Cancelled	-	-	-
<u>Project Milestones</u>	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance (months)</u>
Board Approval	2010-07-22	2010-07-22	-
Loan Agreement signed	2010-09-27	2010-08-19	(1.3)
Loan Effectiveness ¹	2010-10-18	2010-12-23	2.2
<u>CDB Loan</u>	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance (months)</u>
First Disbursement Date	2010-11-30	2010-12-29	1.0
Terminal Disbursement Date	2010-11-30	2011-03-31	4.0
TDD Extensions (number)	-	1	-
<u>Project Cost and Financing (USD mn)</u>	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance (USD mn)</u>
CDB Loan	37.0	37.0	-
CDB Grant	-	-	-
Other Loan	-	-	-
Counterpart	-	-	-
Total	37.0	37.0	-
<u>Terms</u>	<u>Interest Rate</u>	<u>Repayment</u>	<u>Grace Period</u>
CDB Loan	4.5 % (variable)	15 years (including grace period)	5 years
Other Loan	-	-	-
<u>Implementation</u>	<u>At Appraisal</u>	<u>Actual</u>	<u>Variance</u>
Start Date ²	2010-10-18	2010-12-23	2.16 (months)
Completion Date	2010-11-30	2010-12-29	0.97 (months)
Implementation Period	-	-	-
<u>Economic Rate of Return (%)</u>	<u>At Appraisal</u>	<u>PCR</u>	<u>PCVR</u>
Original Loan	n.a. ³	n.a.	n.a.
Additional Loan	-	-	-

¹ Date Conditions to First Disbursement are satisfied.

² Implementation begins with satisfaction of conditions precedent.

³ n.a. - Not Applicable

2. POLICY-BASED LOAN DESCRIPTION

2.01 In February 2010, GOSVG requested assistance from CDB for a loan in the amount of USD30-40 million (mn) to help stabilise the financial sector through the divestment of the publicly-owned commercial bank, National Commercial Bank (NCB). The St. Vincent and the Grenadines' (SVG) financial sector is dominated by commercial banks which represent just under 70% of total financial sector assets (excluding National Insurance Scheme (NIS) assets). NCB, which is the target of this intervention, accounts for about 27% of financial sector assets and 40% of commercial bank assets.

2.02 This loan was intended to provide resources to GOSVG to reduce the outstanding public sector debt held by NCB to 20% of total loans and advances by the institution. The reduction in public sector exposure was to facilitate a restructuring of that institution, thereby allowing for the introduction of additional stakeholders. To deal with the problems at NCB, GOSVG pursued a market-based solution involving a transfer of NCB shares to a third party to avert a possible collapse and associated loss of confidence in the domestic and sub-regional financial system. The loan to restructure the debt portfolio at NCB was expected to help improve the debt dynamics of GOSVG by the replacement of commercial debt with lower cost multilateral debt. It was expected that this would help generate fiscal space through lower debt servicing costs and, as a result, allow GOSVG to dedicate a larger portion of its budget to those expenditures that facilitate growth and reduce poverty.

EXPECTED OUTCOMES

2.03 The Policy-Based Loan (PBL) was structured as a single-tranche operation. The objective of the PBL was to restructure the public sector debt portfolio of NCB thereby allowing Government to divest the Bank to a private stakeholder to ensure its financial sustainability. Under the heading, "Expected Outcomes", the appraisal report states that the immediate impact of the PBL will be:

- (a) averting the collapse of NCB and its possible contagion effects on the domestic and ECCU area banks, thus preserving strong public confidence in the banking sector;
- (b) improving the debt dynamics over the medium to long term through a reduction in the average effective interest rate;
- (c) creating of additional fiscal space for GOSVG;
- (d) providing critical liquidity to NCB;
- (e) improving loan quality; and
- (f) reducing NCB's exposure to GOSVG.

EVALUATION OF PERFORMANCE

2.04 The Project Completion Report (PCR) was prepared in 2013 and validated by the Office of Independent Evaluation (OIE) in 2015. The Evaluator rates the overall performance of the PBL as *Satisfactory*. The Evaluator concurred with the *Satisfactory* rating in the PCR for Relevance, Efficiency and Sustainability but disagreed with the *Satisfactory* rating of the PCR for Effectiveness, and rated it *Marginally Unsatisfactory*, due to the partial achievement of some of the outcomes of the project.

BORROWER AND EXECUTING AGENCY PERFORMANCE

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

THE CARIBBEAN DEVELOPMENT BANK'S PERFORMANCE

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

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

Criteria	PCR ⁴	OIE Review	Justification
<i>Relevance</i>	Satisfactory ⁵ (3)	Satisfactory (3)	The rating is based on the project's satisfaction of CDB's overarching strategic objective of promoting good governance as well as its more specific goal of strengthening public sector management. The design of the intervention was consistent with the broader assistance strategy by ECCB, the Caribbean Regional Technical Assistance Centre (CARTAC), Canadian International Development Agency (CIDA), IMF and World Bank (WB), as outlined in the Country Strategy Paper (CSP) 2008–2011 which underpins the rationale for providing support to GOSVG. The associated macroeconomic programme of reform was designed to strengthen financial management of the public sector; consolidate and strengthen revenue systems; and diversify the economic base to reduce vulnerability to external shocks. The problems and opportunities were also adequately assessed and addressed by CDB and the critical issues and constraints were identified.
<i>Effectiveness</i>	Satisfactory (3)	Marginally Unsatisfactory (2)	Although the project achieved the majority of the structural reforms, there were critical legislative reforms that were not implemented at the end of the project. The reforms that were not achieved related to the new Harmonised Insurance Act and the new Eastern Caribbean Currency Union (ECCU) Harmonised Money Services Business Act.
<i>Efficiency</i>	Satisfactory (3)	Satisfactory (3)	Early problems resulting from an apparent lack of communication between NCB and the government were quickly overcome and the project was completed within the planned implementation period. Additionally, the PBL has contributed to an improvement in the country's debt dynamics by the replacement of commercial debt with lower cost multilateral debt and helped to generate fiscal space through lower debt servicing costs.
<i>Sustainability</i>	Satisfactory (3)	Satisfactory (3)	The rating is based on: (i) GOSVG's commitment to the ongoing Financial Sector Reform Programme and the continuing support of ECCB, CARTAC, CIDA, IMF and WB whose reform programmes provided the framework for the design of the measures; and (ii) expectations that the takeover by East Caribbean Financial Holding Company (ECFH), an institution with proven management expertise will significantly enhance the prospects of the bank's ability to meet ECCB's prudential targets and maintain confidence in the banking sector.
Composite (Aggregate) Performance Rating	Satisfactory (3)	Satisfactory (2.75)	The PBL is assessed as satisfactory on the strength of its relevance, efficiency and sustainability. The overall performance rating was negatively impacted by the marginally unsatisfactory performance under the effectiveness criterion due to the project's failure to achieve some of the outcomes under the legislative component.
<i>Borrower & EA Performance</i>	Satisfactory (3)	Satisfactory (3)	The Borrower's response to issues raised and responses required was highly satisfactory, as evidenced by the rapid turnaround in signing both the Loan Agreement and the Shareholders' Agreement with ECFH.
<i>CDB Performance</i>	Satisfactory (3)	Satisfactory (3)	The CDB project Team worked closely with GOSVG to expedite compliance with the conditions prior to first disbursement and ensure that the loan resources were put to use with the urgency that was required. CDB's performance during project implementation was largely reflective of the efforts of the Legal and Economics Departments (ED) in ensuring that the Borrower was informed and regularly reminded of its obligations under the terms of the Loan Agreement.
<i>Quality of PCR</i>		Satisfactory (3)	The Report provides some important lessons and follow-up actions. It proposes that the Ministry of Finance and Economic Planning (MOFEP) must assign the highest priority to bringing the Financial Services Authority and the SRU into operational mode with the right number and mix of trained staff.

⁴ PPES scores and ratings used in PCR and Project Supervision Reports 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).

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

LESSONS LEARNED

2.07 The Evaluator agrees with the PCR's key lessons learned from the project that would be useful to inform new project design. These are:

- (a) this mode of lending is practical, efficient and highly effective, particularly in light of the fact that it creates a forum for dialogue between country authorities and the Bank on the harmonisation of approaches to the structuring of a macroeconomic policy framework and, subsequently, the design of programmes that would support the development objectives that it sets out to attain;
- (b) it is clear that the architects of this project were careful to ensure that there was an appropriate match between implementation capacity, buttressed by the adequate component of TA and the volume of activities to be undertaken;
- (c) the incomplete status of the outcomes related to the drafting and proclamation of new legislation suggests that the project may have benefitted from more in-depth discussions on both the substance and relevance of the proposed actions during the appraisal and design stages; and
- (d) the terms and conditions of loans should not preclude post disbursement monitoring.

2.08 The Evaluator also adds the following:

- (a) It is critical to accurately differentiate between project outputs and outcomes and their associated performance measurement indicators in the Results-Based Performance Matrix of the AR in order to successfully assess the achievement of policy reforms since erroneously classified outcomes could result in compilation of poor evidence and failure to effectively assess policy reform achievement.

RECOMMENDATIONS

2.09 The PCR recommended that as a follow-up action the *“MOFEP must assign highest priority to bringing the Financial Services Authority and the SRU into operational mode with the right number and mix of trained staff.”*

2.10 The Evaluator agrees fully with this recommendation. However, this recommendation should perhaps, more conveniently and appropriately, have been defined as a prior action of the PBL or as a trigger for a second (smaller) tranche. In fact, without completion of these activities, the operational effectiveness and sustainability of the PBL is compromised.

RECOMMENDATIONS FOR OIE FOLLOW-UP

2.11 The PBL for St. Vincent and the Grenadines is one of four case studies of the ongoing Policy-Based Operation evaluation. It raises a number of issues which could be considered by the evaluation:

- (a) stakeholder consultation, problem analysis and policy design;
- (b) phasing of disbursements; and
- (c) appropriate duration of the Borrower's and CDB's monitoring and supervision of policy reforms and project operations after the end of loan disbursement

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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 PBL and of the: Borrower, Executing Agency; and 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 PBL and for the OIE.

FINDINGS

2.01 The Management of the Economics Department concurs with the Evaluator's review of PCR which was prepared in 2013, and validated by OIE in 2015. The assessments by the Evaluator mirror those of the PCR. In the evaluation of PBL, using the various criteria (Relevance, Effectiveness, Efficiency, Sustainability), both PCR and the Evaluator agreed that PBL was *Satisfactory*. The exception was the Effectiveness criterion which PCR assessed as *Satisfactory* and the Evaluator assessed as *Marginally Unsatisfactory*. While there was a difference between the two reports in relation to the assessment of the Effectiveness criterion, it was clearly not very significant. In explanation, the Evaluator noted that, while the majority of the structural reforms had been implemented, two critical legislative reforms had not been implemented by the end of the project. These were the Harmonised Insurance Act and the new ECCU Harmonised Money Services Business Act.

3.01 With respect to the performance of the Borrower and the Executing Agency, the Evaluator and PCR assessed both as *Satisfactory*. Similarly, both the Evaluator and PCR assessed CDB's performance as *Satisfactory*. Overall, both the Evaluator and PCR assessed PBL as satisfactory, an assessment with which the Management of the Economics Department agrees.

4.01 The Evaluator also agreed with the key lessons presented by PCR: (a) that the single tranche PBL is very effective in creating a forum for policy dialogue between country authorities and CDB and in the structuring of a macroeconomic policy framework in support of targeted development objectives; (b) that there was an adequate match between implementation capacity, supported by Technical Assistance and the volume of activities undertaken; (c) that the incompleteness of the legislative agenda was probably due to inadequate discussion with respect to the substance and relevance of the actions proposed; and (d) that the terms and conditions of PBL loans should include post-disbursement monitoring.

5.01 The Management of the Economics Department fully agrees that these are important lessons for future PBLs.

TABLE 2: RECOMMENDATIONS

No.	PCVR Recommendations	Response
1.	The Evaluator agreed with PCR that the establishment of the Single Regulatory Unit (SRU) should have been a top priority of the Ministry of Finance and Economic Planning. However, the Evaluator further recommended that the establishment of SRU should have been a prior action for disbursement of PBL.	<p>Partial Disagreement. While there is agreement with respect to the importance of establishing SRU, making it a prior condition to disbursement could have delayed substantially the disbursement of the Loan which was urgently needed. The PBL was approved and disbursed in 2010. The Financial Services Authority/SRU was not established until November 2012.</p> <p>The importance of ensuring that SRU was properly established with the right legal infrastructure and the right mix of personnel, could have been compromised by making it a prior condition to disbursement of PBL.</p>
Recommendations for OIE Follow-up		
2.	Review of stakeholder consultation, problem analysis and policy design.	Agree. These are all general areas that can be strengthened.
3.	Phasing of disbursements.	Agree. This is always an aspect of PBLs that needs to be given very careful attention. The phasing needs to be appropriate to the goals that are being targeted.
4.	Appropriate duration of the Borrower's and CDB's monitoring and supervision of policy reforms and project operations after the end of the loan disbursement.	Agree. This points clearly to the issue of the sustainability of reforms and is, therefore, very relevant.