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CARIBBEAN DEVELOPMENT BANK

PROJECT COMPLETION VALIDATION REPORT

CONSOLIDATED LINE OF CREDIT
BANK OF ST. LUCIA LIMITED

EXECUTIVE SUMMARY
MANAGEMENT RESPONSE
PROJECT COMPLETION VALIDATION REPORT

OFFICE OF INDEPENDENT EVALUATION
SEPTEMBER 2020

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EXECUTIVE SUMMARY

PROJECT SUMMARY

1. In October 2009, the Caribbean Development Bank approved a loan in the amount of USD20 million (mn) to Bank of St. Lucia Ltd (BOSL) to assist in providing finance to the productive sectors, including loans to small and medium-sized enterprises (SMEs) and student loans.

PROJECT OBJECTIVES

2. The main objectives of the project were to:

   (a) increase the availability of medium and long-term credit for financing technically and economically viable Agricultural and Industrial Credit (AIC) projects, in the agriculture and fishing industry, service and tourism sectors; and

   (b) strengthen St. Lucia's human resource capacity, through the provision of Student Loan Scheme (SLS) funding for tertiary level training and skills upgrading at the technical, vocational and professional levels.

Implementation Arrangements

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

PROJECT BACKGROUND

4. In Financial Year 2007, the Tourism, Services, Agriculture and Manufacturing sectors were the leading economic sectors of the St. Lucian economy accounting for over 82% of Gross Domestic Product and over 86% of foreign exchange earnings and 64% of employment. The further development, expansion and diversion of these sectors were critical for sustainable development in St. Lucia. This view was supported by the 2008 World Bank Report (Increasing Linkages of Tourism with Agriculture, Manufacturing and Services Sectors) that indicated there was potential for market expansion in all sectors, notwithstanding the presence of constraining factors including the access to finance, skills and training.

5. BOSL focused on providing financial and other resources to the productive sectors and student loans for tertiary education and training. However, its ability to provide this service was inhibited by its main source of funding (deposits), which was not suitable for the financing of private sector projects and student loans which both need medium to long-term financing. This Line of Credit (LOC) therefore sought to fill a void in the financial market, since longer term loan funds were not readily available from other sources. In addition, the loan would have further strengthened BOSL's viability, by boosting liquidity at a reasonable price in an environment where savings from households and business were contracting because of the effects of the global financial crisis.

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 Marginally **Unsatisfactory**. It justifies this rating on the basis that the project was consistent with GOSL's long-term strategy to promote economic growth by assisting in the expansion of the productive sectors and development of the country's human resources. The Project Completion Report (PCR) adds that this was fundamental to building capacity for management of the country's resources and long-term growth objectives. It states however, that when implemented the project only addressed the human resources development objective and provided access to tertiary education and training for both male and female students of varying economic means. The Evaluator concurs with the Marginally **Unsatisfactory** rating of the PCR.

Effectiveness

8. The PCR gives a rating of **Marginally Unsatisfactory** for Effectiveness (with the same rating for outputs and outcomes)**.** The Evaluator concurs with the **Marginally Unsatisfactory** rating of this criterion primarily due to the Borrower's failure to utilise any resources under the AIC component of the project.

Efficiency

9. The PCR rates Efficiency as **Marginally Unsatisfactory**. It states that at December 31, 2018, BOSL had satisfied five of the nine ECCB prudential guidelines. These included acceptable results in respect of capital and liquidity and the achievement of benchmarks for 50% of the prudential guidelines relating to asset quality and profitability. The PCR also states that in an environment of high liquidity levels and low interest rates, BOSL's commercial strategy focused on investing surplus funds in regional and international markets to increase its earnings.

10. Under the PPES methodology which is the assessment system that is used to measure performance for this project, the principal test of Cost Efficiency for Financial Intermediaries is the Rate of Return on Average Assets (ROA). Based on the average ROA ratios over the period of implementation the Evaluator rates Efficiency as **Unsatisfactory.**

Sustainability

11. The PCR rates Sustainability as **Satisfactory** on the grounds that students who benefitted from the SLS have completed their studies and most are gainfully employed in St. Lucia and are contributing to country and regional development. It states that at the institutional level, BOSL is one of the largest indigenous commercial banks within the Eastern Caribbean Currency Union and during the period of project implementation faced some institutional challenges, which led to subsequent restructuring of its operations.

12. The PCR adds that BOSL is regulated by the Eastern Caribbean Central Bank (ECCB) and underwent some transformation during project implementation which included enhanced enterprise risk management. The PCR states that to date, BOSL has demonstrated that it is a sound financial institution

which is able to withstand difficult times, has adequately met all its debt service obligations and has made significant contributions towards national development.

13. According to the Project Performance Evaluation System (PPES) methodology, which is used to assess sustainability of this project, the test of sustainability for a financial intermediary involves the stability of the demand for its financial services and its operational and financial viability as an institution. On this basis, the Evaluator concurs with the **Satisfactory** rating of the PCR

Performance of the Borrower and Executing Agency

14. The PCR rates Borrower performance as **Unsatisfactory**. It states that BOSL supplied CDB with the relevant reports to monitor implementation of the student loan and documented all advances, however, uptake of the CDB loan was lower than anticipated at appraisal with USD10.7 mn or 53.9% disbursed after eight years of implementation. It states that two ECCB Prudential benchmarks, one in respect of asset quality and one in respect of profitability were not achieved. In the case of ECCB prudential guidelines for asset quality, commercial banks are expected to have no more than 5% unsatisfactory (impaired) assets to total loans and advances. However, at December 31, 2018, BOSL recorded 11% which is approximately two times the allowable maximum. Regarding profitability, BOSL was expected to achieve net profit before tax /average assets of at least 2% but at FY2018, BOSL recorded 1.9% which was short of the required benchmark. The Evaluator concurs with the PCR rating of **Unsatisfactory.**

Performance of the Caribbean Development Bank

15. The PCR provides a self-assessment rating of CDB's performance as **Satisfactory**. Various Project Supervision Reports (PSRs) state that CDB assisted BOSL throughout project implementation, responding to queries in a timely fashion and giving guidance in respect of preparation of disbursement claims, as well as sample documents to minimise delays in satisfying loan conditions and fast track implementation. The PSRs indicate that there has been extensive engagement between CDB and BOSL to facilitate project implementation in accordance with anticipated outputs and implementation arrangements. The 2014 PSR states that the Bank offered three free energy audits for small and medium sized enterprises (SMEs) to prompt BOSL to use the AIC component to finance energy efficiency and renewable energy projects. However, BOSL did not exploit the proposal. The Evaluator concurs with the PCR's **Satisfactory** rating for CDB's performance.

<u>OVERALL ASSESSMENT</u>

16. The scores associated with the PCR's criteria ratings equate to an overall rating of **Marginally Unsatisfactory**. The Evaluator also rates overall project performance as Marginally Unsatisfactory. This rating is based on an arithmetic average of the total scores from assessments of the core evaluation criteria: Relevance (Marginally Unsatisfactory); Effectiveness (Marginally Unsatisfactory); Efficiency (Unsatisfactory); and Sustainability (Satisfactory).

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

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	Marginally Unsatisfactory (2)	Marginally Unsatisfactory (2)	
Effectiveness	Marginally Unsatisfactory (2)	Marginally Unsatisfactory (2)	
Efficiency	Marginally Unsatisfactory (2)	Unsatisfactory (1)	Evaluator used the ROA ratios during project implementation as the basis for assessment which is the principal test of cost efficiency for FIs.
Sustainability	Satisfactory (3)	Satisfactory (3)	
Composite (Aggregate) Performance Rating	Marginally Unsatisfactory (2.25)	Marginally Unsatisfactory (2.00)	
Borrower & EA Performance	Unsatisfactory	Unsatisfactory	
CDB Performance	Satisfactory	Satisfactory	
Quality of PCR	-	Satisfactory	

Lessons

18. The PCR identifies the following four lessons learned from implementation:

(i) **Strengthening monitoring and reporting mechanisms which evidence impact of LOCs can assist in promoting value of CDB funding.**

Full development impact on LOCs may not be realised at close of implementation period; hence a tracer study of loan recipients could provide a more compelling argument for use of increased amounts of SFR funding per LOC.

(ii) **Pro-poor student financing policies are important levers to assure continued viability of student loan programmes and their accessibility to students from disadvantaged socioeconomic backgrounds.**

SLS is intended to meet the needs of students from low to middle-income households. Unfortunately, BOSL, was unable to 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 financially disadvantaged households to allow these students to meet the security requirement of the development finance institution (DFI). Most of these students find it equally difficult to assess acceptable security.

(iii) **Private Financial Institutions (FIs) may not be the most optimal conduit for AIC type loans**.

The corporate and commercial strategies of private FIs appear to be more risk averse in providing access to financing for AIC. In contrast, a DFI with a different strategic focus and operating in the same economic environment between 2011 and 2018 has successfully on lent AIC funds to the productive sector.

(iv) **Having access to well trained staff with credit underwriting and monitoring skills is essential.**

Having access to well trained staff with credit underwriting and monitoring skills are vital to ensuring sound credit decisions and achieving sound performance of business enterprise portfolios.

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MANAGEMENT RESPONSE

There is general concurrence with the assessment and findings of the Project Completion Validation Report and no major variations in ratings were identified between the Office of Independent Evaluation (OIE) and the Project Completion Report (PCR) Team.

Both the PCR Team and OIE agree that there are valuable lessons learned from this intervention that could assist the Bank in designing and supporting the implementation of similar future interventions in its Borrowing Member Countries (BMCs). Two critical observations from this intervention relate to the challenges that are associated with lending to deposit taking institutions and their variable liquidity conditions, mainly influenced by factors within the external environment and continued high demand for student loan financing to support human resource development needs across CDB's BMCs within a range of sectors.

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SEPTEMBER 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
AIC	-	Agricultural and Industrial Credit
AR	-	Appraisal Report
BMCs	-	Borrowing Member Countries
BOSL	-	Bank of Saint Lucia Limited
CDB	-	Caribbean Development Bank
ECCB	-	Eastern Caribbean Central Bank
ECCU	-	Eastern Caribbean Currency Union
FY	-	Financial Year
GDP	-	Gross Domestic Product
GOSL	-	Government of St. Lucia
LOC	-	Line of Credit
mn	-	Million
NPL	-	Non-performing Loan
OIE	-	Office of Independent Evaluation
PCR	-	Project Completion Report
PPES	-	Project Performance Evaluation System
PSR	-	Project Supervision Report
ROA	-	Return on Assets
SLAC	-	Student Loan Advisory Council
SLS	-	Student Loan Scheme
SMEs	-	Small and Medium Sized Enterprises
TA	-	Technical Assistance
USD	-	United States Dollars
XCD	-	Eastern Caribbean Dollars

TABLE OF CONTENTS

1. BASIC PROJECT DATA

Project Title	Consolidated Line of Credit – Bank of St. Lucia Limited
Country	St. Lucia
Sector	Financing
Loan No.	16/OR-STL
Borrower	Bank of St. Lucia Ltd.
Implementing/Executing Agency	Bank of St. Lucia Ltd.

Approvals/Disbursements ($ mn)	**OCR**	**SFR**	**Total**
Loan Amount	20.00	0.00	20.00
Disbursed	10.77	0.00	10.77
Cancelled	9.23	0.00	9.23

Project Milestones	**At Appraisal**	**Actual**	**Variance (months)**
Board Approval	October 14, 2009	October 14, 2009	0
Loan Agreements signed	December 13, 2009	January 18, 2010	(1.16)
Loan Effectiveness[1]	February 13,2010	Dec. 31, 2010	10.6 months

CDB Loan	**At Appraisal**	**Actual**	**Variance (months)**
First Disbursement Date (Loan)	March 31, 2010	October 28, 2011	(18.90)
Terminal Disbursement Date (Loan)	Dec 31, 2012	June 30, 2017	(54)
TDD Extensions (number)	-	4	-

Terms	**Interest Rate**	**Repayment**	**Grace Period**
CDB Loan (OCR)	5.32% (variable)	14 years	2 years (inclusive)

Project Cost and Financing ($ mn)	**At Appraisal**	**Actual**	**Variance**
CDB Loan	20.00	10.77	9.23
Counterpart	0.00	0.00	-
Total	**20.00**	**10.77**	**9.23**

Implementation	**At Appraisal**	**Actual**	**Variance (months)**
Start Date[2]	December 13, 2009	January 18, 2010	(1.16)
Completion Date	December 31, 2012	December 31,2018	(72.0)
Implementation Period (years)	3.09 years	8.95 years	(5.90 years)

Economic rate of Return (%)	
At Appraisal	Not Applicable

[1] Date conditions precedent to first disbursement satisfied.
[2] Implementation begins on the date the loan Agreement is signed.

2. PROJECT DESCRIPTION

RATIONALE

2.01 In Financial Year 2007, the Tourism, Services, Agriculture and Manufacturing sectors were the leading economic sectors of the St. Lucian economy accounting for over 82% of GDP and over 86% of foreign exchange earnings and 64% of employment. The further development, expansion and diversion of these sectors were critical for sustainable development in St. Lucia. This view was supported by the 2008 World Bank Report (Increasing Linkages of Tourism with Agriculture, Manufacturing and Services Sectors) that indicated there was potential for market expansion in all sectors, notwithstanding the presence of constraining factors including the access to finance, skills and training.

2.02 BOSL focused on providing financial and other resources to the productive sectors and student loans for tertiary education and training. However, its ability to provide this service was inhibited by its main source of funding (deposits), which was not suitable for the financing of private sector projects and student loans which both need medium to long-term financing. This LOC, therefore sought to fill a void in the financial market, since longer term loan funds were not readily available from other sources. In addition, the loan would have further strengthened BOSL's viability, by boosting liquidity at a reasonable price in an environment where savings from households and business were contracting because of the effects of the global financial crisis.

Expected Impact

2.03 The project was expected to contribute to the sustainable development of the economy of St. Lucia.

Objectives or Expected Outcomes

2.04 The main objectives of the project were to:

(a) increase the availability of medium and long-term credit for financing technically and economically viable AIC projects, in the agriculture and fishing industry, service and tourism sectors; and

(b) strengthen St. Lucia's human resource capacity, through the provision of SLS funding for tertiary level training and skills upgrading at the technical, vocational and professional levels.

Components/Outputs

2.05 The two components of the Project were:

(i) At least four enterprises benefit from AIC loans by December 31, 2012; and

(ii) At least 300 students receive loans by December 31, 2012.

Provision of Inputs

2.06 In October 2009, the Caribbean Development Bank (CDB) approved a loan in the amount of USD20 mn to Bank of St. Lucia Ltd (BOSL) to assist in providing finance to the productive sectors, including loans to small and medium-sized enterprises (SMEs) and student loans.

Implementation Arrangements

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

Identification of Risks and Mitigation Measures

2.08 The Appraisal Report (AR) and PCR identified the following risks faced by BOSL in its lending activities:

(i) Credit risk;
(ii) Foreign exchange risks; and
(iii) Interest rate risks.

2.09 Credit risk is the risk of suffering financial loss should any of BOSL's customers or clients fail to fulfill their contracted obligations to the bank. This risk arises mainly from loans and advances to customers and loan commitments resulting from such lending activities. To mitigate this risk BOSL regularly reviewed its risk management policies and systems to reflect changes in markets, products and emerging best practices. In relation to asset quality, even though the SLS represented a relatively small portion of BOSL's loan portfolio, there was a requirement under the Loan Agreement for BOSL to submit periodic reports to CDB for quality assessment. At PCR date such data were unavailable.

2.10 BOSL is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates that may arise on its financial position and cash flows, as borrowings under the SLS are in United States dollars (USD) and sub-loans are disbursed in local currency. During implementation BOSL devised various strategies to hedge this risk to ensure that there was an adequate pool of foreign exchange resources to meet its foreign currency obligations.

2.11 Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. BOSL managed its interest rate risk by providing student loans at a variable rate. Each student loan contract included the right of BOSL to vary the interest rate by giving one month's notice to the Borrower.

3. EVALUATION OF DESIGN AND IMPLEMENTATION

Relevance of Design and Formulation

3.01 The PCR states that the project was consistent with GOSL's long-term strategy to promote economic growth by assisting in the expansion of the productive sectors and development of human resources and fundamental to building capacity for management of the country's resources and long term growth objectives. It indicates that while one of the objectives of increasing investments in agriculture, tourism and services (AIC Component) was not met, the project as designed at appraisal exceeded the SLS target.

3.02 According to the PCR, BOSL attributed the non-commitment and non-utilisation of the AIC component to the sluggishness of the prevailing economic and financial environment.

3.03 Overall, the Evaluator is of the view that project design and formulation were satisfactory and adequate to address the problems and needs that were identified in the AR.

Project Outputs

3.04 At appraisal, the project was scheduled to have been implemented over the three-year period December 2009 to December 2012. The PCR states, however, that given the lack of demand for the AIC component, BOSL requested and was given permission for a reallocation of funds from the AIC component to the SLS component in the amount of USD3 mn in 2013. As at December 31, 2017, the PSR of 2017 indicated that CDB had disbursed USD10.77 mn, all from the SLS component, and requested cancellation of the undisbursed balance of USD9.23 mn.

3.05 The PSR of 2012 reported that BOSL was challenged with committing the AIC portion of this loan given the prevailing adverse economic conditions at the time and the need to reduce the number of its non-performing loans (NPLs). This led to the imposition by BOSL of more stringent adherence to its lending policies which resulted in fewer borrowers who qualified for loans. Given these challenges, BOSL was unable to find suitable and viable projects under the AIC components which resulted in no disbursements under the AIC component.

3.06 The PCR states that the SLS component was increased by 30% from USD10 mn to USD13 mn in 2013 in response to BOSL's pending commitments in excess of the loan allocation at appraisal. However, only USD10.7 mn (82.3%) of the revised amount (USD13 mn) was disbursed. Total disbursements under the SLS component was 108% of funds approved to finance the SLS component at appraisal.

3.07 Based on a review of project PSRs, information available on CDB's Registry files and discussions with relevant CDB staff, the Evaluator concurs with the assessment of Marginally Unsatisfactory as shown in in Table 1: Matrix of project outputs below.

TABLE 1: <u>MATRIX OF PROJECT OUTPUTS</u>

Component	Planned Outputs at Appraisal	Outputs Achieved	Rating
1	AIC sub-loans valued at XCD 27 mn (USD10 mn) approved and disbursed by December 2012.	No AIC sub-loans were approved and disbursed at December 2017.	Unsatisfactory
2	SLS sub-loans valued at XCD 27 mn (USD10 mn) approved and fully disbursed by December 2012.	SLS sub-loans valued at XCD 29.1 mn (USD10.77 mn) were approved and disbursed by December 2016.	Highly Satisfactory
Overall Rating			**Marginally Unsatisfactory**

Project Cost and Disbursements

3.08 The PCR provides a matrix of project costs and financing plan that shows a significant difference of USD9.23 mn between appraised and actual costs. As indicated in the outputs section of this report (paragraph 3.04), the AIC resources were not withdrawn as BOSL faced major challenges in finding suitable projects for financing in the prevailing adverse economic conditions. This led to the cancellation of the AIC portion of the loan after seven years in implementation. The PCR reports actual project costs as USD10.77 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
AIC	10,000	0	(100)	10,000	0	0
Student Loans	10,000	10,773	7.7	773	0	0
Total Base Costs	20,000	10,773	(46)	(9,227)	0	0
Total Project Costs	**20,000**	**10,773**	**(46)**	**(9,227)**	**0**	**0**

Disbursements

3.09 According to CDB's records in respect of Loan No. 16/OR-STL, after the project implementation closing Date of December 31, 2018, an amount of USD10.77 mn representing 54% of loan funds was withdrawn from the OCR Account leaving an unwithdrawn balance of USD9.23 mn. The undisbursed balance was cancelled at the Borrower's request.

Monitoring and Evaluation Design, Implementation and Utilisation

3.10 The AR indicates that BOSL was required to maintain its financial and organisational performance at levels that satisfied ECCB's Prudential Guidelines and specified the reports that were to be prepared by BOSL during implementation including management, project monitoring and completion reports. It also identified monitoring and evaluation indicators for each sub-component of the project for which such information was to be presented in BOSL's project management reports and CDB's project supervision reports. The PSRs and PCR provide adequate information on the monitoring and evaluation indicators and reporting requirements.

4. EVALUATION OF PERFORMANCE (PCR ASSESSMENT AND VALIDATION)

Relevance

4.01 The PCR rates Relevance as Marginally Unsatisfactory. It justifies this rating on the basis that the project was consistent with GOSL's long-term strategy to promote economic growth by assisting in the expansion of the productive sectors and development of the country's human resources. The PCR adds that this was fundamental to building capacity for management of the country's resources and long-term growth objectives. It states however, that when implemented the project only addressed the human resources development objective and provided access to tertiary education and training for both male and female students of varying economic means.

4.02 In light of the foregoing the Evaluator concurs with the Marginally Uns**atisfactory** rating of the PCR.

Effectiveness

Achievement of Outputs

4.03 **PCR Assessment:** The PCR rates the achievement of outputs as Marginally Unsatisfactory. This is the overall rating for the two outputs of the project with the AIC component rated as Unsatisfactory and the SLS as Highly Satisfactory.

4.04 The PCR states that following the emergence of the global and economic crisis in 2008, the economy of St. Lucia was further challenged by the impact from Hurricane Tomas in 2010. This resulted in challenges, which in turn impacted demand for both AIC and the level of uptake for student loan resources. The PCR adds that in an environment where there was a loss of appetite for AIC funding, BOSL was significantly challenged with finding suitable and viable projects under this component and at project completion no disbursements were made under the AIC component.

4.05 At appraisal USD10 mn was allocated to the SLS component. The PCR states however, that as a result of increased demand for credit in excess of the loan allocation for this component, along with increased costs associated with some programmes of study, an amount of $3 mn was reallocated from the AIC component to the SLS component. At project completion, sub loans valued at USD10.7 mn were approved and disbursed, which represented 82% of the revised total, or approximately 108% of funds approved to finance the SLS component at appraisal.

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

Achievement of Outcomes

4.07 **PCR Assessment**: The PCR rates the achievement of outcomes as Marginally Unsatisfactory. It states that the loan was under-utilised due to a lack of uptake of the AIC component and attributes the non-commitment of resources to the sluggishness of the prevailing economic and financial environment at the time. The PCR acknowledges that the AIC portion was expected to contribute to economic growth and new employment opportunities including low-skilled jobs that would assist in alleviating poverty. However, it indicates that this objective was not achieved as envisioned at the time of appraisal.

4.08 The PCR states that in spite of the fact that the number of beneficiaries under the SLS component exceeded the original target at appraisal by over 100% (634 students compared to 300 students), the achievement of the development objectives was Marginally Unsatisfactory given that there was no beneficiary under the AIC component. The matrix of project outcomes is shown at Table 3 below.

TABLE 3: Matrix of Project Outcomes

No.	Planned outcomes at Appraisal	Outcomes Achieved as per PCR	Rating by PCR
1	At least four enterprises benefit from AIC loans	No enterprises benefitted as the AIC component was not utilised	Unsatisfactory (1)
2	At least 300 students receive loans.	634 students received loans comprising 442 females and 192 males	Highly Satisfactory (4)
Overall Rating			**Marginally Unsatisfactory**

4.09 **Evaluator's Assessment:** The Evaluator concurs with the Marginally Unsatisfactory performance awarded by the PCR in view of BOSL's failure to utilise any resources under the AIC component.

Rating of Effectiveness

4.10 **PCR Assessment**: The PCR rates outcomes as **Marginally Unsatisfactory** and achievement of outputs also as Marginally Unsatisfactory. This equates to an arithmetic average as Marginally Unsatisfactory given that the Effectiveness rating is a simple arithmetic average of the individual ratings for project outputs and outcomes.

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

Efficiency

4.12 The PCR rates Efficiency as **Marginally Unsatisfactory**. It states that at December 31, 2018, BOSL satisfied five of the nine ECCB prudential guidelines. These included acceptable results in respect of capital and liquidity and the achievement of benchmarks for 50% of the prudential guidelines relating to asset quality and profitability. The PCR points out, however, that two of ECCB prudential benchmarks were not met; one in respect of asset quality and the other in respect of profitability. It adds that in the case of ECCB prudential guidelines for asset quality, commercial banks are expected to have no more than 5% of unsatisfactory (impaired) assets to total loans and advances. However, at December 31, 2018, BOSL recorded 11%, which was approximately twice the allowable maximum. The PCR also indicates that BOSL was expected to achieve net profits before tax over average assets, of at least 2% but at FY2018 recorded 1.9% which fell short of the minimum standard.

4.13 The PCR states that while BOSL's liquid assets to total assets ratio increased from 16.2% in FY2014 to 20.0% in FY2016 before moving to 21.3 % in FY2018, the Capital Adequacy Ratio declined from12.8% in FY2014 to 9.1% in FY2016 and improved to 13.6% in FY2018. It indicates that BOSL's viability has been challenged by high NPLs and low profitability, and it had to seek additional capital injection in FY2017 to improve its liquidity and capital adequacy ratios. The PCR states that in an environment of high liquidity levels and low interest rates, BOSL's commercial strategy focused on investing surplus funds in regional and international markets to increase its earnings.

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 project resources to finance the targeted AIC and Education sub loans. At appraisal, it was expected that AIC sub loans, as well as Education sub loans, both valued at USD10 mn, would have been approved and disbursed by December 2012 for upgrading skills at the vocational, technical and professional levels; and to assist in providing finance to the productive sectors, including SMEs. At project completion in June 2017, the Education component had exceeded its appraisal target. However, no sub loans were approved in the case of the AIC component and an amount of USD9.3 mn was cancelled at project completion.

4.15 Under the PPES methodology, the principal test of Cost Efficiency for Financial Intermediaries is the Rate of Return on Average Assets (ROA). Based on the average ROA over the period of implementation as shown in Table 4 below, the Evaluator rates Efficiency as **Unsatisfactory.**

TABLE 4: ANNUAL ROA OF BOSL 2012 - 2018

Year	ROA	PPES Rating	PAS Equivalent Score
2011	(0.5)	Unsatisfactory	1
2012	0.3	Marginally Unsatisfactory	2
2013	(6.4)	Unsatisfactory	1
2014	0.2	Marginally Unsatisfactory	2
2015	(0.2)	Unsatisfactory	1
2016	(5.1)	Unsatisfactory	1
2017	1.3	Satisfactory	3
2018	1.8	Satisfactory	3
Arithmetic Average		**Unsatisfactory**	**1.75**

Sustainability

4.16 **PCR Assessment**: The PCR rates Sustainability as **Satisfactory** on the grounds that students who benefitted from the SLS have completed their studies and most are gainfully employed in St. Lucia and are contributing to country and regional development. It points out that at the institutional level, BOSL is one of the largest indigenous commercial banks within the Eastern Caribbean Currency Union and during the period of project implementation faced some institutional challenges, which led to subsequent restructuring of its operations. The PCR states that significant losses arising from abnormal provisioning for credit losses contributed to capital erosion that at one point threatened its viability in a challenging environment that prevailed in the post 2009 financial and economic crisis.

4.17 The PCR adds that BOSL is regulated by the ECCB and underwent some transformation during project implementation which included enhanced enterprise risk management. It indicates that during implementation, BOSL also received shareholder support to provide additional capital cushioning arising from noticeable losses. The PCR states that to date, BOSL has demonstrated that it is a sound FI which is able to withstand difficult times, has adequately met all its debt service obligations and has made significant contributions towards national development.

4.18 **Evaluator's Assessment:** The project was comprised of: (i) the AIC component; and (ii) the Education component. The Education component achieved one of the project objectives of increasing the number of trained persons at technical, vocational and professional levels and exceeded the appraisal target by over 100%. In the case of the AIC component, at appraisal, it was expected that this component would have contributed to sustainable economic growth through diversification and the creation of employment during and after implementation of sub projects in the agricultural industry and tourism. At project completion, however, no sub projects had been approved under this component.

4.19 According to the PPES methodology, which is used to assess sustainability of this project, the test of sustainability for a financial intermediary involves the stability of the demand for its financial services and its operational and financial viability as an institution. The PPES methodology places the focus on the performance of the institution as opposed to the level of the continuous flow of benefits, including the enduring nature of positive developmental change, which were set in motion by the completed project component. PPES states that Sustainability is not about the absolute levels of net benefits but focuses on the factors which contribute to the maintenance of operational goals over the long term and the adaptability of operational designs and implementation arrangements to deal with shocks and changing circumstances. In light of the foregoing the Evaluator concurs with the **Satisfactory** rating of the PCR

Performance of the Borrower and Executing Agency

4.20 The PCR rates Borrower performance as Unsatisfactory. It states that BOSL supplied CDB with the relevant reports to monitor implementation of the student loan and documented all advances, however, uptake of the CDB loan was lower than anticipated at appraisal with USD10.7 mn or 53.9% disbursed after eight years of implementation. The PCR indicates that that as at December 31, 2018, while BOSL did not fulfil the loan condition requiring the full satisfaction of all ECCB Prudential Guidelines, BOSL satisfied five of the nine ECCB prudential benchmarks achieving acceptable results in respect of capital and liquidity; and meeting 50% of the ECCB Prudential guidelines relating to asset quality and profitability, respectively.

4.21 The PCR also states that two ECCB Prudential benchmarks, one in respect of asset quality and one in respect of profitability were not achieved. In the case of ECCB prudential guidelines for asset quality, commercial banks are expected to have no more than 5% unsatisfactory (impaired) assets to total loans and advances. However, at December 31, 2018, BOSL recorded 11% which is approximately two times the allowable maximum. Regarding profitability, BOSL was expected to achieve net profit before tax /average assets of at least 2% but at FY2018, BOSL recorded 1.9% which was short of the required benchmark.

4.22 In light of the foregoing, the Evaluator concurs with the PCR rating of **Unsatisfactory.**

Performance of the Caribbean Development Bank

4.23 The PCR provides a self-assessment rating of CDB's performance as Satisfactory. Various PSRs state that CDB assisted BOSL throughout project implementation, responding to queries in a timely fashion and giving guidance in respect of preparation of disbursement claims; as well as sample documents to minimise delays in satisfying loan conditions and fast track implementation. The PSRs indicate that there has been extensive engagement between CDB and BOSL to facilitate project implementation in accordance with anticipated outputs and implementation arrangements. The 2014 PSR states that the Bank has even offered three free energy audits for SMEs to prompt BOSL to use the AIC component to finance energy efficiency and renewable energy projects. However, BOSL did not exploit the proposal.

4.24 In light of the foregoing, the Evaluator concurs with the PCR's **Satisfactory** rating for CDB's performance.

5. <u>OVERALL ASSESSMENT</u>

5.01 The scores associated with the PCR's criteria ratings equate to an overall rating of Marginally Unsatisfactory. The Evaluator also rates overall project performance as Marginally Unsatisfactory. This rating is based on an arithmetic average of the total scores from assessments of the core evaluation criteria: Relevance (Marginally Unsatisfactory); Effectiveness (Marginally Unsatisfactory); Efficiency (Unsatisfactory); and Sustainability (Satisfactory).

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	Marginally Unsatisfactory (2)	Marginally Unsatisfactory (2)	
Effectiveness	Marginally Unsatisfactory (2)	Marginally Unsatisfactory (2)	
Efficiency	Marginally Unsatisfactory (2)	Unsatisfactory (1)	Evaluator used the ROA ratios during project implementation as the basis for assessment which is the principal test of cost efficiency of FIs.
Sustainability	Satisfactory (3)	Satisfactory (3)	
Composite (Aggregate) Performance Rating	Marginally Unsatisfactory (2.25)	Marginally Unsatisfactory (2.00)	
Borrower & EA Performance	Unsatisfactory	Unsatisfactory	
CDB Performance	Satisfactory	Satisfactory	
Quality of PCR	-	Satisfactory	

Lessons

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

(i) Strengthening monitoring and reporting mechanisms which evidence impact of LOCs can assist in promoting value of CDB funding.

Full development impact on LOCs may not be realised at close of implementation period; hence a tracer study of loan recipients could provide a more compelling argument for use of increased amounts of SFR funding per LOC.

(ii) Pro-poor student financing policies are important levers to assure continued viability of student loan programmes and their accessibility to students from disadvantaged socioeconomic backgrounds.

SLS is intended to meet the needs of students from low to middle-income households. Unfortunately, BOSL, was unable to 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 financially disadvantaged households to allow these students to meet the security requirement of the development finance institution (DFI). Most of these students find it equally difficult to assess acceptable security.

(iii) **Private FIs may not be the most optimal conduit for AIC type loans**.

The corporate and commercial strategies of private FIs appear to be more risk averse in providing access to financing for AIC. In contrast, a DFI with a different strategic focus and operating in the same economic environment between 2011 and 2018 has successfully on lent AIC funds to the productive sector.

(iv) Having access to well trained staff with credit underwriting and monitoring skills is essential.

Having access to well trained staff with credit underwriting and monitoring skills are vital to ensuring sound credit decisions and achieving sound performance of business enterprise portfolios.

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. The Evaluator rates the quality of the PCR as Satisfactory. In addition, several important lessons from the project are noted.

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. RECOMMENDATION

8.01 The Performance Assessment System (PAS2013) replaced the former PPES system of the Bank in 2014. However, several projects which are still under implementation were approved prior to the adoption of PAS and were designed to use PPES methodology. While there is a project equivalence matrix in PAS to address some issues, there are some areas of conflict between PAS and PPES regarding performance measurement of the Efficiency and Sustainability criteria for Financial Intermediaries.

8.02 PAS states that an intervention is sustainable if its intended benefits are likely to be actualised over its full intended life and continues after completion of the project. It adds that Sustainability demonstrates the long-term continuity of benefits and resilience to risk of the project's net benefit flows over time; and measures the durability of positive project results after termination of project funding. This includes the assessment of the flow of benefits which were set in motion by the completed project after implementation ceases. In the case of sustainability of outcomes, it reflects whether a positive change in a development situation is an enduring one.

8.03 Unlike PAS, PPES provides specific guidance for the assessment of performance of DFIs relative to the measurement of Efficiency and Sustainability. In the case of Efficiency, for example, it states that the principal test of cost efficiency of FIs is the Rate of Return on Average Assets (ROA). PAS states that PPES2001 "Cost Efficiency" criterion has been renamed "Efficiency" to incorporate the broader concept of resource allocation, rather than the narrower idea of cost minimisation.

8.04 In the case of Sustainability, PPES sates that the test of Sustainability for FIs involves the stability of the demand for its financial services, and its operational and financial viability as an institution. The PPES methodology places the focus on the performance of the institution as opposed to the level of the continuous flow of benefits, including the enduring nature of positive developmental change, which were set in motion by the completed project.

8.05 In light of the foregoing, Operations and OIE should agree on harmonisation in methodology between PPES and PAS as it relates to measuring performance for the Efficiency and Sustainability criteria of DFIs.