CARIBBEAN DEVELOPMENT BANK

EVALUATION REPORT
CARIBBEAN DEVELOPMENT BANK'S WORK THROUGH DEVELOPMENT FINANCE INSTITUTIONS AND OTHER FINANCIAL INTERMEDIARIES (2012-19) WITH MANAGEMENT RESPONSE – APPENDIX 1

OFFICE OF INDEPENDENT EVALUATION
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Evaluation of CDB's work through development finance institutions and other financial intermediaries (2012-19)

Final Report

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Four DFIs in particular gave willingly of their staff resources and time in response to this evaluation – Development Bank of Jamaica, Grenada Development Bank, St. Lucia Development Bank, and Development Finance Corporation Belize. Our thanks to the senior managers of these institutions for their cooperation.

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From OIE, Kaia Ambrose contributed to the approach paper and Denise Padmore undertook a great deal of supportive research, document and data management, and evaluation logistics.

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Executive summary

Context. The Caribbean Development Bank (CDB) has been working with Development Finance Institutions (DFIs)[1] and Financial Institutions (FIs) in the Region for more than 40 years. It supports the provision of affordable financial products and services to businesses and individuals to advance sustainable socioeconomic development and poverty reduction. Loans to financial intermediaries are in the form of a line of credit, with on-lending to a diverse client base in the productive sector, and for mortgages and student loans.

Evaluation objective and scope. The evaluation aimed to assess CDB's work through financial intermediaries over the period 2012-19, and to draw lessons for strategic and operational improvement. The intended audience for this report is the Bank's Private Sector Development Unit, senior management, DFI managers, and the CDB Board of Directors.

Methodology. The evaluation obtained evidence from review of documents, analysis of the intermediary lending portfolio, in-depth review of the financial performance of four selected DFIs, interviews and questionnaires with CDB and DFIs. In addition, a sub-borrower outcome survey covered a sample of four countries (Belize, Grenada, Jamaica, and Saint Lucia) and resulted in the collection of over 2,000 responses from businesses, students, and mortgage borrowers.

Portfolio Review

The disbursement rate of 70% for intermediary funds was significant but less than ideal. The Bank's combined investment during 2012-19 for improving access to affordable credit by lower income families across five economic and social sectors and in strengthening the loan delivery capacity and self-sustainability of the DFIs and FIs can be valued at $157 million (mn) (lines of credit) and $1.2 mn (technical assistance and training grants). This represents between 10 and 12 % of the Bank's total disbursements over the period, depending on the calculation method. Relative to approved amounts, there was an under-disbursement of $61 mn.

The bank's disbursement rate has slowed down in recent years. Total approvals during 2017-19 amounted to $22 mn, compared to the annual average of $29 mn over the evaluation period. Reduced attractiveness of the CDB loan funds, as currently priced and administered, appears associated with this decline in demand.

CDB's portfolio management systems exhibit exemplary risk management. The Bank's loss exposure to these entities is less than 5% of its outstanding portfolio, thanks to sovereign guarantees (and other forms of collateral in a very limited number of cases). One regional private sector entity is in default for $1.7 mn.

Grant Portfolio. A limited number of grants were provided to DFIs during the evaluation period, with the total amount being marginal in size and coverage relative to the loan portfolio.

1 DFIs refer to public / state-owned or privately owned financial intermediaries (development banks). FI refers to financial intermediaries with a commercial focus and mainly private, but that still support the sectors which CDB is interested in contributing to. Private FIs however represent a key potential partner, particularly in countries with no development banks, in which case CDB could work with commercial banks, credit unions, and other similar institutions. The Evaluation should consider a sample of current and potential FIs to determine the potential / opportunity and benefits for CDB to work with private sector FIs.

DFI Performance Review

The financial performance of four DFIs was reviewed in detail: Saint Lucia Development Bank (SLDB), Development Bank of Jamaica (DBJ), Development Finance Corporation Belize (DFC) and Grenada Development Bank (GDB). Eighteen performance indicators were applied over the 2015-2020 period. It is recommended that CDB use these same indicators in future to track the financial health and sustainability of the institutions it supports (see recommendation 3 below). Among others, this would allow comparative analysis of beneficiary institutions, highlighting potential areas for improvement as well as areas of strong performance for replication.

The table below provides a snapshot of the growth on three selected indicators for the four DFIs over the 2015-2020 period. These show important variations in financial performance:

- Significant challenges confront the SLDB in spite of 25% asset growth since March 2015.
- Cumulative deficits have starved the DFC Belize of reserves and retained earnings.
- GDB asset management has yielded impressive annual surpluses which have boosted its reserves and retained earnings and reduced its reliance on government.
- The 230% increase in surpluses by the DBJ reflects an exceptional annual yield on assets.

5 Years of Growth in Assets, Equity & Profits by 4 DFIs.

YEAR	ASSETS	EQUITY	NET PROFIT
SLDB 2016-2020	24.6%	7%	-23.6%
DBJ 2016-2020	28.6%	39%	230%
DFC 2015-2019	6%	-23%	-137%
GDB 2015-2019	91%	9%	167%

Relevance

CDB's strategic focus on DFI/FI lending was appropriate in the past given the fragile history of alternative development finance products in the region, and CDB's lack of expertise needed to manage alternatives. Given its past strategic focus, CDB has appropriately chosen DFI/FIs to work with. Individual loan agreements are well aligned with national development objectives of the Borrowing Member Countries (BMCs) and the recent initiatives by the Bank to explore a limited number of new product development opportunities to add to its loan programmes are positive developments. However, relevance of intermediary lending operations is constrained in a number of respects:

- Intermediary lending operations are not articulated in CDB corporate strategies and lack an overall strategic framework.
- The marginal market share of the DFIs in their national markets and the sustained growth and penetration of credit unions and other FIs suggest that CDB's own market coverage for business, student and mortgage loans is not as comprehensive as it could be. In that context, the Bank lacks market information and inclusive eligibility criteria that could justify expanding its partnerships with a larger number of FIs.
- In the absence of specific needs assessments for its LOCs, CDB's assumption that the student and mortgage segments are areas of market failure has not been revisited since first established. Currently, credit unions and commercial banks are lending for small mortgages and student loans – two sectors that they had limited engagement within the past.
- There has been a general lack of consideration for gender aspects at the appraisal stage of individual lines of credit during most of the period under evaluation.

- There is mixed evidence on the appropriateness of eligibility frameworks in place for CDB's loan agreements with DFIs, and for DFI targeting of sub-borrowers. Some DFIs have pointed to challenges in the application of CDB's eligibility criteria in dynamic national financial markets.
- Considering recommendations contained in previous studies or reviews, CDB's financing instruments to DFIs have not sufficiently evolved or incorporated new innovative mechanisms / frameworks to meet changing market needs.

Effectiveness

Despite survey results showing that the CDB lines of credit have had positive effects on the categories of sub-borrowers; not all DFI/FI resources end up being directed at the intended and relevant beneficiaries. A number of factors need to be considered:

- There is mixed evidence that sub-borrowers are rigorously targeted with regards to the stated development objectives.
- The disbursement rate of 70% of the overall loan portfolio suggests that fewer beneficiaries than planned were reached.
- While the achievement of output targets at the loan level is often verified, there are issues with the quality of the targets.
- Logic frameworks do not clearly specify outcome level results or feasible indicators, undermining the ability to demonstrate effectiveness.
- Given the absence of a gender specific approach by DFIs, there is limited evidence that DFI/FI resources addressed the most important barriers for male and female beneficiaries.

There is strong evidence that enabling environments and the internal governance arrangements of DFIs/FIs directly contributed to, or constrained, their success in some of the BMCs.

Finally, some DFIs (despite maintaining a strong relationship with CDB) consider that restrictions in CDB lending arrangements in some respects impede their competitiveness in the increasingly liberalized Caribbean financial markets. In their view, this has retarded progress towards breakeven and financial independence.

Efficiency

There are strengths and weaknesses in CDB's management of its intermediary lending programme:

- CDB's management framework is appropriate with regards to its loan appraisal function however there are important areas for improvement including: (i) timeliness of approval and disbursement; and (ii) the periodic revision of interest rates.
- Important shortcomings persist in the ability of CDB to adequately monitor, report and evaluate development results especially at the level of outcome and impact. The main problem is the absence of well-defined outcome level indicators and related sources / means of verification.
- CDB's current loan pricing structure for DFI/FI lending is limiting the Bank's capacity to grow its loan portfolio. There is recent experience of DFIs being discouraged from accessing CDB loan resources to offer appropriately priced lending products to targeted clients.
- While the requirement of a government guarantee has not hindered DFI uptake of Lines of Credit, the unavailability of similar guarantees for FI lending has limited the marketability of CDB loan products to a much broader range of financial institutions.

Sustainability

Sustainability of CDB's intermediary lending programme presents a mixed picture:

- Sustainability of the benefits to the beneficiaries and to the wider economy largely depend on factors exogeneous to the intermediary lending operations of CDB. The single most important one is macroeconomic stability. Nevertheless, survey results find encouraging signs of sustainability for the student and business loan categories, as evidenced by the high self-reported employment rate among students, and the self-reported growth of the businesses. The evidence for the mortgage loans is more limited.
- The financial and institutional sustainability of three of the four selected DFIs supported by CDB was found to be very fragile. The extent to which DFIs/FIs are likely to become self-sustaining will depend on continued strengthening of governance systems and operational policies and the liberalization of loan policies at both CDB and DFI levels – including more market-sensitive, responsive, and competitive financial products offered by CDB to DFIs.
- Climate change, public health, the macroeconomic context, a modernised regulatory framework, and strong governance are five important conditions influencing DFI sustainability.

Lessons from Intermediary Lending by other MDBs

A literature review of the intermediary lending programmes of other MDBs suggests lessons that may be of interest to CDB going forward:

- Private sector development financing is more effective when a broad range of instruments is used.
- Lending institutions, both wholesale and retail, need to build capacity to manage new financial products competently.
- The combination of financial sector deepening, financial inclusion, and broader private sector development is more impactful than targeted private sector lending alone.

Recommendations

This report has attempted to document the experience of CDB's intermediary lending programme over the past decade, finding strengths as well as areas for improvement. It is important to recognize that lending has been pursued within the context of the Bank's existing financial structure and risk management practice. These influence, and sometimes circumscribe, the nature and extent of CDB's lending to DFIs/FIs:

- **Level of interest rates.** CDB's intermediary lending programme must contend with the high cost of capital and relatively high interest rates passed on to DFIs, when liquidity in the region has been rising and loan interest rates charged by DFI competitors have been falling.
- **CDB's collateral options for FI lending.** The requirement of a government guarantee, inherent in CDB's overall risk model, limited the marketability of CDB loan products to a broader/larger financial (FI) market during the decade under review.

Understanding this context, recommendations are offered for focused improvement of the Bank's intermediary lending programme.

Recommendation 1: Develop a Strategic Framework for intermediary lending

CDB should develop an explicit Strategic Framework for its intermediary lending operations This is needed to address the fact that the intervention logic, including the assumption of some degree of market failure in provision of credit for small scale productive activities, student loans, and mortgage finance has not been revisited since the early years of the programme**.** Clearer strategic guidance and linkages to CDB's multi-year development goals and strategies is needed. An updated framework should consolidate into one forward looking document the key strategic and operational features of future intermediary lending operations, based on the evaluation recommendations contained in the rest of this report. The following actions and strategic orientations should be considered:

- Carry out a comprehensive assessment of the regional financial market: The objective would be to improve understanding of financial market trends and coverage and implications for positioning of intermediary lending efforts. Among others, an assessment of market failures,[2] new product introductions, private sector and consumer finance trends, product prices and lending terms should guide the development of the Strategic Framework.

- Increase focus on DFI institutional governance and financial sustainability: The evaluation has pointed to the importance of institutional governance in constraining or enabling DFIs' success, as well as the limited financial sustainability of some DFIs supported by CDB. Actions to be considered in this area include: (i) explicitly recognizing and promoting good practices in institutional governance, for instance by the development of a CDB paper on best practices; (ii) more systematic TAs/grants for institutional strengthening in support of LOCs.

- Review conditions linked to eligibility and targeting of sub-borrowers: CDB should review its lending conditions with DFIs in order to ensure appropriate eligibility and targeting of sub-borrowers while safeguarding the sustainable financial performance of DFIs, and LOC uptake by DFIs. Evaluation findings suggest: (i) a lack of clarity of sub-borrower eligibility criteria contained in the loan agreements (for instance, there is no definition of SME contained in the AIC loans); (ii) targeting of sub-borrowers was not always aligned to the development mandate of DFIs[3] (iii) some DFIs consider certain restrictions (linked to financing working capital for businesses, and the purchase of land by mortgage owners) to be inappropriate and possibly contributing to a declining uptake and disbursement of LOCs in recent years.

- Review relative mix in the overall portfolio: The current mix between business, student, and mortgage loans[4] needs to be revisited in light of a number of factors, including: (i) CDB's focus on Private Sector Development as laid out in the new PSD Strategy; (ii) the review of the regional financial market and updated understanding of where credit is most constrained.

- Broaden the DFI beneficiary universe: Previous studies have also recommended this. Credit unions would be the most relevant new partner for CDB, given their development-oriented philosophy, ownership structure and financial independence.

- Expand the list of eligible DFI/FI credit instruments: This has also been noted in previous studies. Partial credit guarantees should be the first priority, given that they would help address the constraints that high

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2 There is no recent study confirming the existence of market failure in the three loan categories, and survey results from this evaluation call into question whether such failures exist in the mortgage loan category.

3 For instance: The Sixth Industrial Line of Credit to DBJ was entirely focused on three tourism related businesses with a sub loan value of USD2.7 mn each. In St. Lucia, student loans targeted families of "varying economic means", without a particular focus on poor students.

4 Student loans account for account for almost half of the portfolio, and productive sector just over one third.

collateral requirements impose on Access to Finance in the region.[5] Recent successful initiatives such as DBJ's CEF and the ECCB's Partial Guarantee Facility have shown promising results and deserve replication.

Recommendation 2: Strengthen monitoring and reporting on outcome level results

CDB should strengthen monitoring and reporting on the outcome level (or development) results of its intermediary lending programme. Among others, this would involve:

- Strengthening Logical Frameworks (LF) at the LoC design stage: Outcome statements and feasible indicators reflecting aggregate expected improvements in the well-being of sub-borrowers should feature in LFs. Critically, the data collection needed to substantiate progress on indicators, and the capacity of DFI/FIs to collect and report on it, should be taken into consideration.

- Conducting outcome and impact surveys: The administration of outcome surveys on a periodic basis for all LOCs would substantiate reporting on development results. The methodological approach of the survey carried out for this evaluation could be used as the basis for such surveys.

- Ensuring that Project Completion Reports are systematically produced for Grant interventions as well as disbursed loans: PCRs and PVCRs developed for LOCs are useful tools in the context of the reviewand assessment by CDB of its development results. Extending such practices to grants especially in the context of the shortcomings noted in DFI institutional governance and operational efficiency would allow CDB to evaluate and draw lessons from its grant interventions.

Recommendation 3: Establish Uniform Financial Performance Indicators and Standards for the DFI/FIs

CDB should establish Uniform Financial Performance Indicators and Standards for the DFI/FIs, to better monitor and influence DFI sustainability. Done in conjunction with regulatory authorities and key stakeholders this would be an important step towards measuring and influencing the financial sustainability of DFIs. To this end, a list 17 proposed Financial Performance Indicators and Standards that CDB should review periodically is presented in Section 3 of the report alongside specific operational aspects, *inter alia* (i) adjusted standards / targets for the proposed financial performance indicators; and (ii) reporting best practices. Two specific ones stand out:

- Use of 5% (arrears) and 15% (NPLs) as the proposed regulatory ceilings for the DFIs provided that the NPL portfolio is adequately covered by loan loss provisions.

- Noting that presentation of the audited accounts of the DFC and the GDB were exemplary in facilitating analysis by isolating non-current from current assets and liabilities, CDB should encourage industry-wide replication of same.

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5 IMF Working Paper WP/18/53 Western Hemisphere Department. "Financial Development and Inclusion in the Caribbean." Prepared by Chuan Li and Joyce Wong. March 2018

Recommendation 4: Develop a gender approach to DFI lending

CDB should define operational requirements with respect to gender equality and gender mainstreaming for its LOCs. Building on the results of the Engage TA, the Bank should develop a gender specific approach to the intermediary lending environment. This approach should outline *inter alia*:

- Responsibilities of DFIs in terms of sub-borrower targeting / eligibility from a gender perspective;
- Gender specific output and outcome indicators;
- Responsibilities of DFIs for tracking those gender indicators.

Recommendation 5: Improve approval and disbursement turnaround times

As part of its ongoing Transformation process, CDB should seek to improve the turnaround time for approvals and disbursements in the LOC cycle. Delays have on occasion interrupted disbursement flows to DFIs - resulting in illiquidity and loss of income. Deficiencies in both BMC loan readiness and CDB internal processes[6] have been contributing factors.

Recommendation 6: Encourage DFIs to develop auto-decisioning customer interfaces to improve operational efficiency

CDB should encourage DFI migration towards more automated processes in loan-related decision-making. Since all DFIs are seeking to increase profitable lending in their business, education, and mortgage portfolios, their 2021 goals should focus on seamless, end to end remote lending to modernize their core business processes and reduce operating costs. Research on opportunities available to automate lending workflows, eliminate manual steps, and incorporate alternative data to boost auto-decisioning for low to medium risk sub-borrowers should be initiated. These improvements would lead to reduced overheads, minimize risks, and increase loan profitability. Auto-decisioning will improve the response process for sub-borrowers and, most importantly, facilitate affordable access to credit for more entrepreneurs, students, and homeowners.

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6 See: Page 68, "Future State Mapping" in the Operations Process Review – Current State and Assessment Report prepared by Rod Morgan in January 2019.

Acronyms

ACP-EU	African, Caribbean and Pacific – European Union
ADB	Asian Development Bank
ADBEC	Association of Development Banks of the Eastern Caribbean
AFI	Accredited Financial Institution
AIC	Agricultural, Manufacturing and Tourism
AML	Anti-Money Laundering
AR	Appraisal Report
ARPP	Annual Review of the Performance of Project/Loans
A2F	Access to Finance
BA	Baseline Assessment
BDC	Business Development Bank of Canada
BMC	Borrowing Member Country
BNDES	Brazilian Development Bank
BNTF	Basis Needs Trust Fund
BOSL	Bank of St. Lucia
CAFF	Climate Action Financing Facility
CARICOM	Caribbean Community
CariCRIS	Caribbean Information and Credit Rating Services Limited
CDB	Caribbean Development Bank
CDBC	China Development Bank (Corporation)
CDF	CARICOM Development Fund
CEF	Credit Enhancement Fund
CFP	Call for Proposals
CLOC	Consolidated line of credit
CORFO	Corporacion de Formento de la Produccion (Chile)
CPA	Country Poverty Assessment
CSME	CARICOM Single Market and Economy
CSO	Civil Society Organisation
CSP	Country Strategy Paper
CSPE	Country Strategy and Programme Evaluation
CTCS	Caribbean Technological Consultancy Services
CTF	Counter Terrorism Financing
DAIDB	Dominica Agricultural and Industrial Development Bank
CU	Credit Union
DBJ	Development Bank of Jamaica
DER	Development Effectiveness Review
DFC	Development Finance Corporation Belize
DFI	Development Finance Institution
DNA	Deoxyribonucleric Acid
DSCR	Debt Service Coverage Ratio
EBRD	European Bank for Reconstruction and Development
ECCB	Eastern Caribbean Central Bank
EDF	European Development Fund
EE/REE	Energy Efficiency/Renewable Energy
EIB	European Investment Bank
EPA	Economic Partnership Agreement
EQ	Evaluation Question

ERM	Enterprise Resource Management
ESS	Environmental and Social Safeguards
ET	Evaluation Team
FIs	Financial Institutions
GAP	Good Agricultural Practices
GCF	Green Climate Fund
GDB	Grenada Development Bank
GEPAPs	Gender Equality Policies and Action Plans
GEPOS	Gender Equality Policy and Operational Strategy
GMP	Good Manufacturing Practice
GOBD	Government of Barbados
GOBZ	Government of Belize
GOGR	Government of Grenada
GOJ	Government of Jamaica
GOSL	Government of St. Lucia
HACCP	Hazard Analysis Critical Control Point
ICT	Information and Communication Technology
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Financial Institution
IIC	Inter-American Investment Corporation
IL	Intervention Logic
IMF	International Monetary Fund
IR	Inception Report
JC	Judgement Criteria
KDB	Korean Development Bank
KPIs	Key Performance Indicators
KfW	KfW Development Bank of Germany
LF	Logical Framework
LII	Loan Interest Income
LOC	Line of Credit
MDB	Multilateral Development Bank
MF	Mortgage Finance
MFI	Microfinance Institution
MIF	Multi-lateral Investment Fund
MIS	Management Information System
Mn	Million
MSE	Micro and Small Enterprise
MSME	Micro Small and Medium Enterprise
NGO	Non-Governmental Organisation
NIC	National Insurance Corporation
NIM	Net Interest Margin
NPCB	National People's Cooperative Bank
NPL	Non-performing Loan
NSDC	National Skills Development Centre
NSGS	Non-Sovereign Guarantee Security
OCR	Ordinary Capital Resource
ODT	Overseas Dependent Territory
OECD	Organisation for Economic Co-operation and Development
OECD DAC	OECD Development Assistance Committee
OECS	Organisation of Eastern Caribbean States

OIE	Office of Independent Evaluation
OPPM	Operational Policies and Procedures Manual
ORM	Office of Risk Management
OSF	Other Special Funds
OTS	Over the counter software
P2P	Peer to Peer
%	per cent
PBL	Policy-based loan
PCB	Peoples Cooperative Bank
PCGS	Partial Credit Guarantee Scheme
PCM	Project Cycle Management
PCR	Project Completion Report
PEF	Private Equity Funds
PPP	Public Private Partnership
PRN	Project Number
PSD	Private Sector Development
PSDPS	Private Sector Development Policy and Strategy
PSDU	Private Sector Development Unit
PSR	Project Supervision Report
RMF	Results Monitoring Framework
ROA	Return on Assets
RRL	Rehabilitation and Reconstruction Loan
RVRE	Reducing Vulnerability to Natural Hazards and Reducing Environmental Risks
SALCC	Sir Arthur Lewis Community College
SDF	Special Development Fund
SDG	Sustainable Development Goals
SEEC	Sustainable Energy for the Eastern Caribbean
SEF	Sustainable Energy Facility
SFDPG	Public-Sector Performance/Promoting Governance
SFR	Special Fund Resource
SLB	Student Loans Bureau
SLBJ	Student Loans Bureau of Jamaica
SLDB	St. Lucia Development Bank
SLSs	Student Loan Scheme
SDG	Sustainable Development Goal
SKN	St. Kitts and Nevis
SOE	State-owned Enterprise
TA	Technical Assistance
ToR	Terms of Reference
UWI	University of the West Indies
WB	World Bank
YEEF	Youth Enterprise Equity Fund

Contents

Tables, Charts, and Boxes

1 Introduction

1.1 Evaluation Context

The Caribbean Development Bank's (CDB's) Strategic Plan (2020-24) aims among others to sharpen the CDB's strategic focus and expand its role in the private sector. CDB involvement with the private sector is intended to be on two parallel and mutually reinforcing tracks. It will support greater development of micro, small and medium-sized enterprises (MSMEs) through, among other things, de-risking initiatives that improve record keeping, enhance business transparency and promote bankability[7]. CDB will also support the building out of the wider ecosystem for private sector development including reforms aimed at improving Doing Business ranking scores. These efforts will be further anchored by the provision of appropriately priced financing.

Internally, CDB proposes to reorganise itself to engage the private sector more effectively as laid out in CDB's Transformation Programme. This will include greater centralisation and coordination of all aspects of private sector interface including public-private partnerships (PPPs) activities, intermediary and direct lending, refashioning of the CDB's Caribbean Technological Consultancy Services (CTCS) network, product development, and right-sizing the talent pool and skills set the CDB has as its disposal. The reorganisation was not complete as of December 2020.

CDB has been working with Development Finance Institutions (DFIs)[8] and Financial Institutions (FIs) in the Region for more than 40 years to support the provision of affordable financial products and services to businesses and individuals on reasonable terms to advance sustainable socioeconomic development and poverty reduction. CDB provides loans to a number of financial intermediaries in the region, each as a single line of credit. Intermediaries then on-lend to a diverse client base, providing medium and long-term finance. CDB lines of credit to DFIs fall under three categories:

- **Productive sector loans:** The rationale and justification for CDB to engage in productive sector loans via DFIs can be found in several CDB policy and strategy documents. Notably, in 2017 CDB adopted a new Private Sector Development Policy and Strategy (PSDPS) which continued the use of intermediary lending to support MSME access to finance, through both state-owned DFIs[9] and an expanded client-base of private FIs. Pillar 3 of the PSDPS focuses on enterprise development as a direct objective, recognizing that in light of the constraints[10] facing the Caribbean private sector, both direct financial support to businesses and support for improving the business environment (especially given constraints of low productivity and barriers that impede investment) are required. In addition, the notion of productive sector loans is reflected in CDB higher-level policy and strategy documents. For instance, in the Results and Monitoring Framework of CDB's Strategic Plan 2020-2024, under Level 2 "CDB's Contribution to Sustainable Development Goals, Country and Regional Development Outcomes", indicator 2.15 is entitled "MSMEs benefiting from credit (number)." "The indicator

[7] See for instance Paper to the Board of Directors (BD 17/20) dated 31 March 2020 "Enhancement of the Caribbean Development Bank's contribution to micro, small and medium-sized enterprise development in its borrowing member countries.

[8] DFIs refer to public / state-owned or privately owned financial intermediaries (development banks). FI refers to financial intermediaries with a commercial focus and mainly private, but that still support the sectors which CDB is interested in contributing to. Private FIs however represent a key potential partner, particularly in countries with no development banks, in which case CDB could work with commercial banks, credit unions, and other similar institutions. The Evaluation should consider a sample of current and potential FIs to determine the potential / opportunity and benefits for CDB to work with private sector FIs.

[9] In the case of the state-owned DFIs CDB would be prepared to provide intermediary loans without a sovereign guarantee if CDB is satisfied that the entity has the financial strength and integrity to satisfy key performance benchmarks.

[10] This includes MSME private sector characterised by high informality (non-compliance with tax, labour and regulatory requirements, thereby limiting access to finance and legal services) and low productivity. These constraints disproportionately affect the entry of female entrepreneurs and business owners into the formal sector economic activities.

is one of several proxy measures under private sector development used to describe the extent to which business viability is potentially enhanced through the provision of credit.".

- **Student loans schemes:** The CDB policy framework for providing student loan financing through DFIs is not specifically linked to the PSDPS but rather to the 2017 Education and Training Policy and Strategy. Student Loan Schemes (SLS) are also reflected in the Results and Monitoring Framework (RMF) of CDB's Strategic Plans (2010-14: 2015-19 and 2020-24).

- **Mortgage financing loans:** Mortgage financing is reflected in the RMF of CDB's Strategic Plan 2020-2024. Under Level 2 "CDB's Contribution to Sustainable Development Goals, Country and Regional Development Outcomes", indicator 2.16 is entitled "Beneficiaries of mortgage programmes (number)." The rationale is that "Mortgage financing will usually contribute to improved living standards and social well-being of persons benefiting".

Associated with its lines of credit, CDB may also aim to improve DFIs' funding mix and diversification, efficiency of operation, and the enabling environment within which they operate. The rationale for CDB to provide technical assistance grants to DFIs is contained inter alia in the PSDPS which states that the CDB "will strengthen the governance structures, risk management systems and financial architecture of national DFIs in an effort to improve their viability and lessen their dependence on subsidies from governments".

Previous assessments of CDB's financial intermediary lending activities include an Evaluation of CDB's Student Loan Scheme in 2009 and a comprehensive review of CDB's Financial Intermediary Lending activities in 2011.[11] They found that CDB continued to be an important source of long-term development funding for MSMEs, mortgages and student loans; but that CDB's student loan scheme required a greater focus on addressing the needs of persons from poor and vulnerable households. It was also suggested that CDB broaden its range of financial intermediaries to include non-traditional financial institutions, as well as review loan security options. A 2015-16 study[12] on Caribbean MSMEs highlighted a series of continuing challenges including: financing constraints; gaps in policy and regulatory frameworks; and weak technical support and regional innovation systems.

The 2017 PSDPS highlights the unequal participation of men and women in private sector enterprises, gendered occupational segregation and differential wages in both formal and informal sector employment, and the barriers to women and youth in participating in economic activities due to limited access to finance, assets, and collateral. In 2016 CDB commissioned a study entitled: "Analysis of CDB's Portfolio to Identify Gender Disparities in Access to Credit and an Assessment of the Gender Monitoring Capabilities of Six Participating Financial Institutions". This study found that DFI readiness to adopt gender-mainstreaming principles in loan operations was constrained by inadequate organisational knowledge, staff capacity, leadership, and availability of data. In response, CDB proposed to support DFIs in enhancing their capacity to mainstream gender through Gender Equality Policies and Action Plans (GEPAPs), intended to guide the design and delivery of gender-responsive products and services.

CDB has amended its arrangements for working capital financing through DFIs in the context of Covid-19.[13]

1.2 Evaluation objective and scope

The objective was to undertake an independent evaluation of CDB's work through development finance institutions and other financial intermediaries over the period 2012-19. The intended audience is the Private Sector Development Unit, senior management, DFI stakeholders, and the CDB BOD. The Evaluation assessed the

[11] These studies were commissioned by Operations prior to the establishment of OIE.
[12] 2016 "Micro-Small-Medium Enterprise Development in the Caribbean: Towards a New Frontier"
[13] According to interviews with CDB during the Inception Phase of the Evaluation. The final Paper from CDB Board has not been reviewed by the Evaluation Team.

performance of CDB support to development finance institutions and other financial intermediaries, using the criteria of relevance, effectiveness, efficiency, and sustainability. The result also may aid in informing the overall strategic alignment of the Bank's private sector engagement as well as its education and training policy and strategy and support for shelter development going forward.

1.3 Methodological approach

1.3.1 Lines of Evidence

The evaluation obtained evidence from:

- **Document Review:** policies and strategies of CDB and other MDBs; loan documentation including appraisal reports, loan agreements, project supervision reports, and project completion (and verification) reports; previous evaluation and Internal Audit reports.
- **Portfolio Review:** quantitative overview of the loan and grant portfolio.
- **DFIs/FIs Performance Review:** indicators including profitability, return on assets, arrears ratio and non-performing loans.
- **Interviews and questionnaires with CDB and DFIs.** online interviews with CDB staff and DFIs/FIs in Belize and Jamaica, and face-to-face meetings with DFIs in Grenada and St. Lucia[14].
- **Sub-borrower outcome survey:** to compile outcome level information on benefits to DFI sub-borrowers in Belize, Grenada, Jamaica, and Saint Lucia. The survey objectives and methodology are presented below.

1.3.2 Sub-borrower outcome survey

In an attempt to better understand outcome level results, surveys of sub-borrowers for DFIs in Belize, Grenada, Jamaica, and Saint Lucia were conducted on:

- Business Loans: the effects on production, productivity, and business improvement.
- Students Loans: improvement of human resource capacity in BMCs, student completion of degrees and employment/professional achievements.
- Residential Loans (mortgages): access to quality housing for low-income households, the extent to which mortgage recipients were able to complete and make use of their housing unit.

Technical challenges: Most DFIs do not solicit feedback on results from clients. In attempting to do so, this evaluation encountered challenges in obtaining client contact information including email addresses and telephone numbers. This delayed undertaking the survey, but ultimately did not impact its reliability.

Number of responses collected:

- **Business surveys:** The total response rate of the business survey was 28% (152 responses collected from a total population of 563 sub-borrowers contacted, across four DFIs). The GDB and DBJ business surveys performed very well in terms of response rates (above 50%), while the two other business surveys (DFC Belize and SLBJ) had lower response rates which was in part due to the poor quality of the databases provided by the DFIs in

[14] Preliminary face-to-face interviews with the GDB in Grenada and with the SLDB and the BOSL were carried out during the Inception Phase in August 2020. Draft interview questions were tested with the interviewees and informed adjustments to the DFI/FI questions as noted in Section 4 of this document.

these two countries. The responses and opinions expressed across the four business surveys were however very consistent, which suggests that the findings are robust.

- **Student surveys:** The total response rate of the student survey was around 15% (1,868 responses collected from a total population of 12,367 contacted, across 5 DFIs), which is a satisfactory number considering the large size of the population. As found in the business survey, there was a high degree of consistency across the five individual DFI surveys linked to student loans, which suggests that the results are robust.

- **Mortgage loans:** The total response rate of the mortgage loan survey was around 30% (74 responses collected from a total population of 202 sub-borrowers contacted, across 3 DFIs). As for the business and student surveys, the relatively high degree of consistency between the three surveys (although for two of the three surveys the number of respondents was small) is an indication that the results obtained are robust and can be used as a reliable basis for findings.

1.4 Report Overview

The report is structured as follows:

- The review of the portfolio is presented in Chapter 2.
- The review of the financial performance of selected DFIs is presented in Chapter 3.
- Findings are presented in Chapter 4.
- Conclusions are presented in Chapter 5.
- Recommendations are presented in Chapter 6.

2 Portfolio Review

2.1 CDB Loan Portfolio

2.1.1 Overall focus, relevance, and size of intermediary lending operations

The DFIs are development institutions whose purpose is to provide affordable access to financial services by citizens and enterprises that do not meet the qualifications set by the commercial banks and other entities. They are also committed to sharing knowledge and know-how to these 'unbanked' and 'underbanked' residents through counselling, training, and technical assistance. Hence the developmental vocation of their genre. The CDB was closely involved in the design and start-up of most of these institutions since this was a shared objective with each BMC government. The commercial banks have traditionally avoided lending to low-income depositors except for consumption purposes and with tight collateral security. Over the past 50 years, lending to 'at risk' citizens and their families for provident and productive purposes has been the lot of the credit unions and the development banks as the 'lenders of last resort' in most jurisdictions.

The CDB has partnered exclusively with government-owned DFIs and FIs (including a Student Loan Bureau in Jamaica and two commercial banks in St. Lucia and St. Vincent) as its conduits for lines of credit to support low-income families through loans to students, first-time homeowners, and micro, small and medium-sized enterprises (MSMEs)[15]. In 2019, it ventured into a loan (undisbursed to date) with Development Finance Limited (DFL), a Trinidad-based private entity.

DFI/FI disbursements from 2012 to 2019 were $156,959,427 which represents 11.81% of CDB's overall disbursements during the period. When removing the $22 m Bridge Bank Capitalisation Loan to the Government of Anguilla (which is not strictly speaking an intermediary lending operation), the percentage of DFI/FI lending accounts for 10.15% of CDB's overall disbursements.

2.1.2 CDB Loan Portfolio: sector and country reach

Five products are available to DFI sub-borrowers:

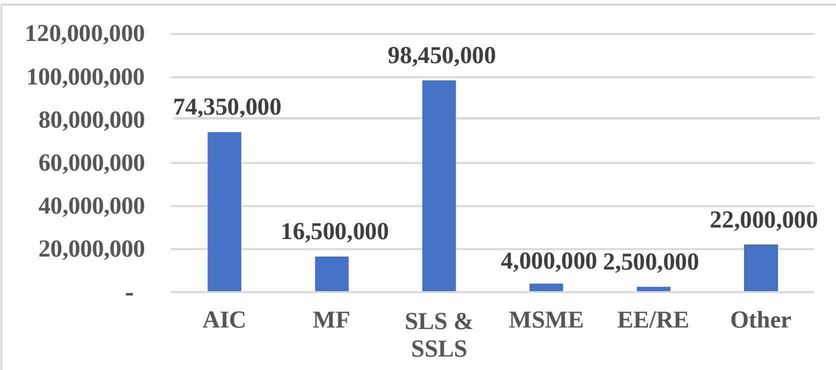
- Agriculture, industrial and tourism (AIC) projects, to strengthen the productive sector;
- Micro, small, and medium size enterprises (MSMEs) across a wider range of economic sectors, also within the productive sector but focused on income growth and employment generation;
- Energy Efficiency and Renewable Energy (EE/RE) projects promoting climate change awareness and the green economy;
- Mortgage financing (MF) targeting home construction and repairs for lower and lower-middle income families; and
- Student loan schemes (SLS) targeting human resource development priorities and students from poor and vulnerable households whose members are seeking higher vocational, academic, and professional education.

From January 2012 to August 2019, 19 LOCs were approved for 13 intermediaries in 11 BMCs worth USD217,800,000. Only 72% ($156,959,427) of these approved amounts were disbursed, however. Six

15 Pp. 1-2 CDB's Annual Review of the Performance of the Portfolio of the Projects/Loans under Implementation 2017, CDB DFI Conference Report, 2019, St. Lucia

development banks, 4 government ministries, 2 commercial banks, 1 bridge bank and 1 regional private sector FI[16] were the client institutions. The St. Lucia Development Bank (SLDB) was a recipient following its reincorporation. As Table 1 below indicates, Student Loans account for 45.2% of all approvals, AIC 34%, Bridge Bank Capitalisation 10.1%, Mortgages 7.6%, MSMEs 1.9% and Energy Loans 1.2%. The leading client BMCs were Jamaica (the Student Loans Bureau of Jamaica or SLBJ and the Development Bank of Jamaica or DBJ) – 28.9%, Belize (Development Finance Corporation or DFC) – 18.6% and St. Lucia (the Bank of St. Lucia or BOSL and SLDB) – 11.5% closely followed by Anguilla at 10.1% and Dominica (AID Bank).

Chart 1 Approved LOCs by Loan Type & Value ($mn) 2012-2019



In addition, according to CDB two DFI credit requests were pending as of September 2020:

- $20 mn for the CIFI (since June 01, 2019), a privately-owned, Panama-based regional infrastructure DFI without a Government guarantee; and
- $3 mn for SOFIHDES (May 2019) stalled by the unstable environment in Haiti.

Table 1 Approved Funds Per BMC, DFI/FI & Target Sector, 2012-2019

COUNTRY & INSTITUTION	AIC	MF	SLS/SSLS	MSME	EE/RE/*OTHER	TOTAL
1. Anguilla Bridge Bank Capitalisation	-	-	-	-	*22.000.000	$22.000.000
2. Barbados Student Revolving Fund	-	-	$7.750.000	-	-	$7.750.000
3. Belize DFC Sixth Consolidated	$4.000.000	$2.500.000	$2.500.000	$1.000.000	-	$10.000.000
4. Belize DFC 7th Consolidated	$4.000.000	$2.500.000	$2.500.000	$1.000.000	$500.000	$10.500.000
5. Belize DFC 8th Consolidated	$12.500.000	$2.500.000	$4.000.000	-	$1.000.000	$20.000.000
6. BVI 6th Student Loan scheme	-	-	$5.000.000	-	-	$5.000.000
7. Dominica Eighth Consolidated	$5.000.000	$1.000.000	$2.000.000	-		$8.000.000
8. Dominica Energy Efficiency Pilot	-	-	-	-	$500.000	$500.000
9. Dominica Ninth Consolidated	-	$6.000.000	$6.000.000	-	-	$12.000.000

16 Bank of St. Lucia and National Commercial Bank (SVG) were government-controlled banks at the time of the loan agreements. The Development Finance Limited (DFL) is a private, commercial entity in Trinidad and Tobago.

COUNTRY & INSTITUTION	AIC	MF	SLS/SSLS	MSME	EE/RE/*OTHER	TOTAL
10. Grenada Fourth consolidated	$4.500.000	$1.000.000	$3.500.000	$500.000	$500.000	$10.000.000
11. Jamaica Student Loan Bureau #1	-	-	$20.000.000	-	-	$20.000.000
12. Jamaica Student Loan Bureau #2	-	-	$20.000.000	-	-	$20.000.000
13. Jamaica Sixth Industrial	$15.000.000	-	-	-	-	$15.000.000
14. Jamaica Agriculture	$7.850.000	-	-	-	-	$7.850.000
15. SKN 6th Student Loan Scheme	-	-	$6.200.000	-	-	$6.200.000
16. Bank of St. Lucia Consolidated	$10.000.000	-	$10.000.000	-	-	$20.000.000
17. SLDB Consolidated	$1.500.000	$1.000.000	$1.000.000	$1.500.000	-	$5.000.000
18. SVG 7th Student	-	-	$8.000.000	-	-	$8.000.000
19. TT DFC 3rd AIC	$10.000.000	-	-	-	-	$10.000.000
Total	**74.350.000**	**16.500.000**	**$98.450.000**	**$4.000.000**	**$24.500.000**	**$217.800.000**
	34%	*7.6%*	*45.2%*	*1.9%*	*11.3%*	100%

Source of funds. The Special Fund Resources (SFRs) provided 15.6% of the approved funds and 27.6% of the actual drawdowns by the DFIs/FIs during the period under review. Students from poor families, micro and small entrepreneurs and clients implementing pilot EE/RE sub-projects (post 2014) were the chief intended beneficiaries of SFR funds, consistent with the poverty alleviation agenda of the contributors. OCR funding comprised 84.4% and 72.3% of the approved and disbursed monies, respectively. SFR funds were typically priced at 2.5% p.a., although in a single case 1% was levied[17], while the OCR funds were loaned at variable interest rates ranging from 2.97% to 5.32%.

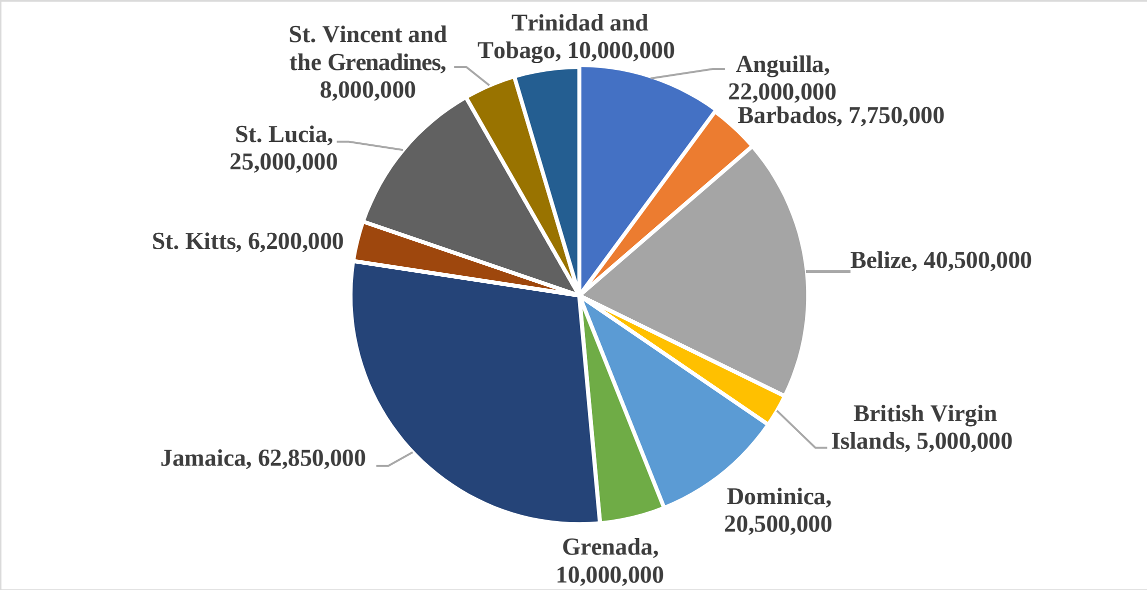
Disbursements by sector. Chart 2 below details the distribution of approved credits by value per country. Table 2 below contrasts disbursements with approvals per sector based on the source of funds, with interesting findings:

- Only 64% of the eight consolidated loans approved were disbursed.
- The DBJ's Agriculture Loan was 99.8% exhausted (foreign exchange reconciliations accounted for the gap).
- Eighty-five percent of the 6 SLS loans value had been drawn down; but
- The DBJ's Industrial and the DAIDB's Energy funds were at mid-point.
- By number and value, Consolidated Loans[18] and Student Loans were the dominant LOC agreements. Student and MSME credits were the major components of the Consolidated Loans.

[17] For SSLS and SLS borrowers under Dominica's AID Bank's 9th CLOC (September 2017).

[18] Consolidated loans are Loan Agreements that include more than one loan type (e.g. Agricultural, Manufacturing and Tourism (AIC) + Mortgage Finance (MF) + Student Loan Schemes (SLS))

Chart 2 Approved LOCs by BMC & Value ($mn) 2012-19



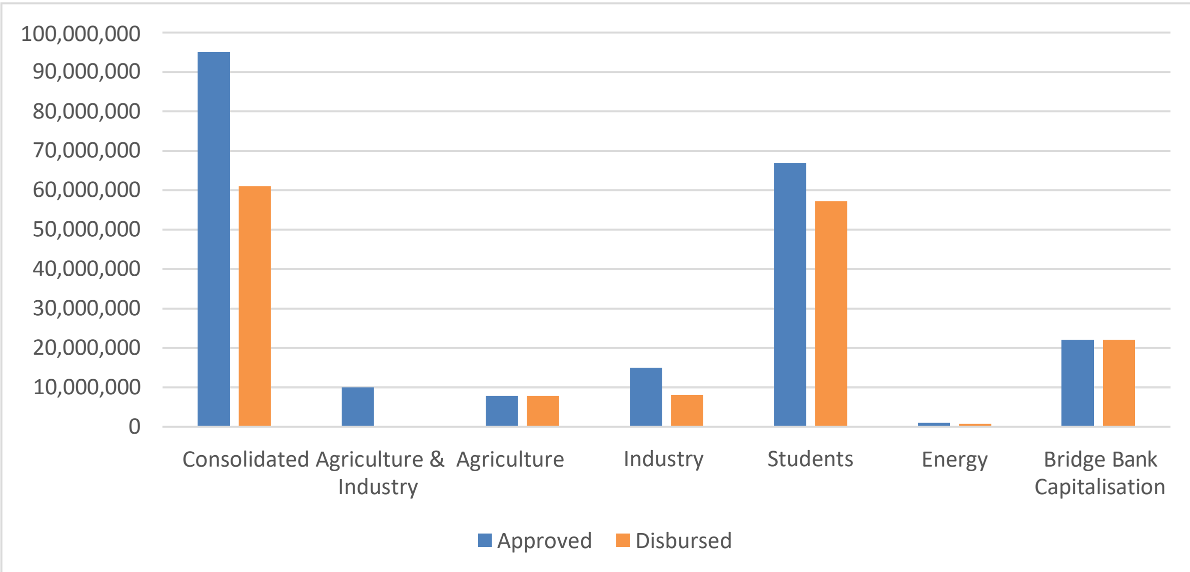
Approvals vs. Disbursements. Table 2 and Chart 3 below illustrate limitations in disbursement of funds committed to the DFIs/FIs. Notwithstanding the 0.25% p.a. commitment fee on undisbursed amounts per client institution, CDB and DFI respondents indicated that the major factors that reduced the actual vs. projected receipt of approved CDB funds were:

- Fluctuations in domestic demand caused by unforeseen climatic disasters and economic downturns;
- Softer interest rates and terms from competing commercial banks and credit unions;
- Drawdowns on available funds deferred or cancelled in response to interest rates raised by CDB; and
- Processing delays in the receipt of approved CDB funds resulting in missed opportunities.

Table 2 Approved and Disbursed LOCs by Purpose, Funding Source (January 2012-August 2019)

Agreement Scope/Purpose	Approved			Disbursed			Total approved	Total disbursed	% Disbursement
	No.	OCR $	SFR $	No.	OCR $	SFR $			
Consolidated	8	87.000.000	8.000.000	8	57.284.857	3.750.000	95.000.000	61.034.857	64%
Agriculture & Industry	1	10.000.000		0	0		10.000.000	0	0%
Agriculture	1	7.850.000		1	7.831.000		7.850.000	7.831.000	100%
Industry	1	15.000.000		1	8.107.000		15.000.000	8.107.000	54%
Students	6	41.400.000	25.550.000	6	31.936.570	25.300.000	66.950.000	57.236.570	85%
Energy	1	500.000	500.000	1	250.000	500.000	1.000.000	750.000	75%
Bridge Bank Capitalisation	1	22.000.000		1	22.000.000		22.000.000	22.000.000	100%
Total	**19**	**183.750.000**	**34.050.000**	**18**	**127.409.427**	**29.550.000**	**217.800.000**	**156.959.427**	72%
		217.800.000			**156.959.427**				

Chart 3 CDB Funds Approved vs. Disbursed by Sector 2012-2019



2.1.3 Turnaround Time and Use of Funds

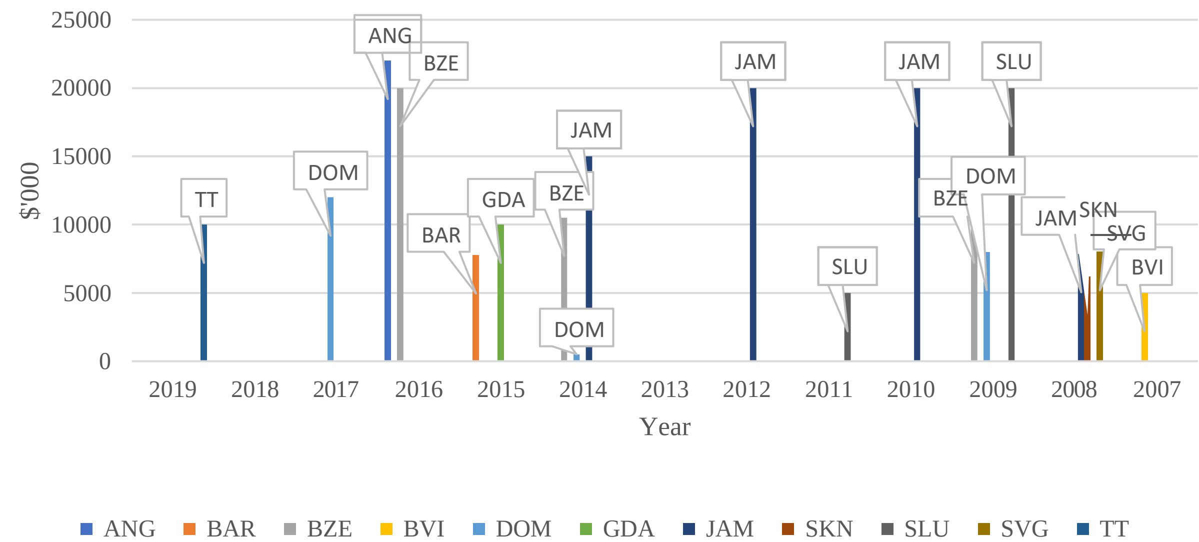
In this section, CDB turnaround time in processing loan requests and implementation reports, use of funds by the intermediaries, and the recoverability risk for CDB are reviewed. Several credits in the portfolio under review were approved prior to 2012. During the 13 years ending 2019, CDB approved $217,800,000 at an average of $16.75 mn per year. No approvals were made in 2013 or 2018; $15 mn or less was approved in 2019, 2017, 2015, 2011 and 2017. Approvals peaked in 2009 and 2016 when $38 mn and $42 mn were approved. As Table 3 and Chart 4 below illustrate, approvals and disbursements were uneven over time.

Table 3 DFI/FI Approvals by Year Per Country & Institution ($000)

YEA R	ANG	BAR	BZE	BVI	DOM	GDA	JAM	SKN	SLU	SVG	TT	Total
2019											10,000	***10,000***
2018												***-0-***
2017					10,000 *2,000							***12,000***
2016	22,000		19,000 *1,000									***42,000***
2015		7,750				9,000 *1,000						***17,750***
2014			8,500 *2,000		*500		15,000					***26,000***
2013												***-0-***
2012							10,000 *10,000					***20,000***
2011									4,000 *1,000			***5,000***
2010							5,000 *15,000					***20,000***
2009			9,000 *1,000		7,500 *500				20,000			***38,000***
2008							**7,850	6,200		8,000		***22,050***
2007				4,700 *300								***5,000***
	22,000	**7,750**	**40,500**	**5,000**	**20,500**	**10,000**	**62,850**	**6,200**	**25,000**	**8,000**	**10,000**	**217,800**

*SDF, **SFR

Chart 4 DFI/FI Approvals by Year Per Country 2007-2019 ($000)



Some user reversals and implementation gaps were identified in the CDB portfolio:

- The Trinidad and Tobago DFL loan (approved in June 2019) was undisbursed but not cancelled;
- The $7.75 mn OCR-funded credit to the Government of Barbados (GOBD) Student Revolving Loan Fund was curtailed after the initial $3 mn disbursement, following the decision by the new government in 2018 to reinstate free undergraduate education at UWI Cave Hill.
- Forty-six percent of the $15 mn 6th Industrial Project with the DBJ remained undrawn due to challenges associated with CDB's uncompetitive OCR rate in an environment where lending rates were continuously falling given high liquidity levels in the banking system.
- The entire SFR portion – to fund loans to students from poor and vulnerable households – for the 8th Belize Consolidated LOC remained undrawn, as DFC sought to modify criteria for increased access.
- Fifty percent (USD 500,000) of the SFR allocation under the 4th Grenada Development Bank (GDB) Project (21/SFR-OR-GRN) – approved since December 2015 – was received in January 2020, while the balance remained undisbursed. GDB and GOGR are yet to finalise implementation arrangements for this credit component, impacting the rate of disbursement.

With regards to the last two points, CDB explained that local events stalled the funding flows: DFC had amended the parameters for access, but utilisation of the resources had resumed[19]; and an impasse seemed to have emerged between the Government of Grenada (GOGR) and GDB in regard to who assumes the credit risk[20].

Whereas current CDB policies require production of a Project Completion Report (PCR) nine months after the final disbursement has been made, late delivery has been observed with limited staff resources cited as a constraining factor:

- Disbursements under the SLDB Consolidated Line of Credit (LOC) ended in June 2019; 15 months later, as of October 31, 2020 no PCR draft was completed; but a full appraisal mission had been authorized for the Second CDB line of credit requested since mid-2019.[21]

[19] Email P. Blackman/G. Riosa/M. Edwards - CDB Portfolio Review, September 28 – November 20, 2020 (riosag@caribank.org to update).
[20] nugentj@caribank.org November 20, 2020 email
[21] Email: V.Boland/M.Edwards, CDB-SLDB Evaluation, October 8, 2020

- The BOSL LOC was closed in August 2016, 44 months and 4 extensions after the due terminal disbursement date of December 2012. Fifty four percent ($10,772,815.62) of the $20M consolidated loan (OCR funded for AIC and SLS sub-loans) was utilised, for SLS borrowers only. The PCR was completed in April 2020. BOSL officials explained (August 2020) that the variable CDB rate on SLS and AIC became unattractive after 2015 with the return of high bank liquidity and intense competition in the domestic market.

Nevertheless, CDB's exposure to default risk was very low since 17 of the 19 intermediary loans were 100% secured by sovereign guarantees. One DFI and one FI were the notable exceptions:

- LOC#30/OR to the DBJ (2014-12-11) was secured "on the strength of DBJ's Balance Sheet and the inability of GOJ under the IMF programme to provide a guarantee".
- LOC#16/OR to the Bank of St. Lucia, "being a privately owned FI, had to provide collateral other than a government guarantee"[22].

The Barbados-based CFSC was the sole entity in default for an outstanding balance of $1.7 mn.[23]

2.2 CDB Grants Portfolio Overview

The rationale for providing technical assistance grants to DFIs is contained in the PSDPS which states that the CDB *"will strengthen the governance structures, risk management systems and financial architecture of national DFIs in an effort to improve their viability and lessen their dependence on subsidies from governments."*

Total intermediary lending grant portfolio. There were 21 grants (11 national, 10 regional) approved during the evaluation period that were directly linked to intermediary lending. The full list of grants is presented in Table 1 of Annex 1. Typical grants include technical assistance to improve DFIs' systems (such as a consultancy to assist in identification of affordable online banking software for DBJ), the funding of studies (such as the regional review of performance and consideration of future direction of CDB FI lending activities), or training (such as the Training programme for development finance institutions and indigenous financial institutions). Summary financial data of the grant portfolio is presented in the table below. The main characteristics are:

- The total value of approvals for these 21 grants was $2,688,820 with disbursements of $1,450,933 (54%).
- The share of national projects is slightly higher than the share of regional projects.
- The disbursement rate is similar between regional and national projects.

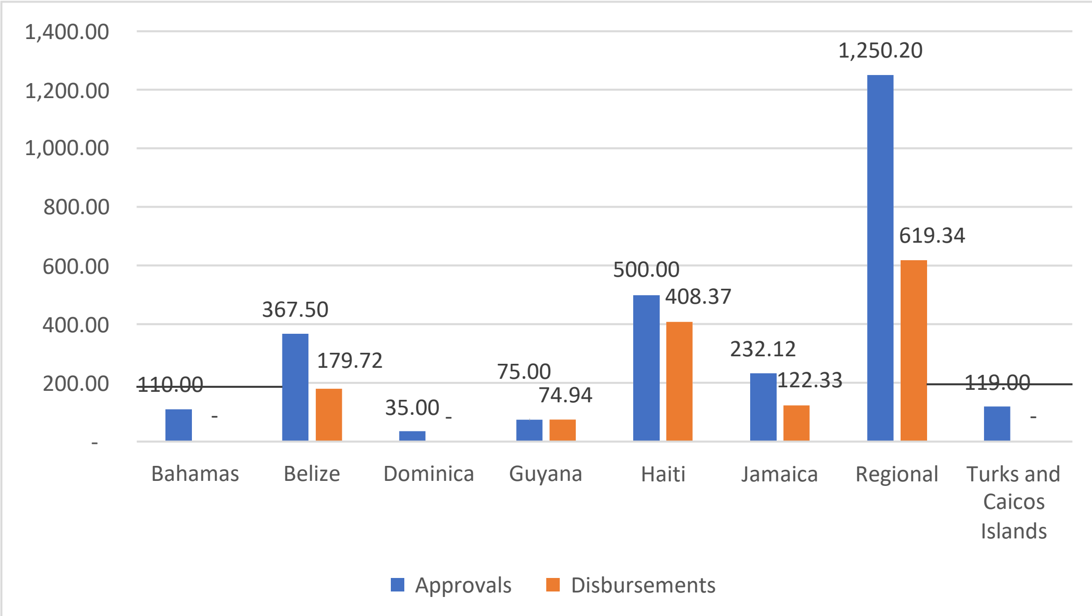
Table 4 Total Portfolio of grants linked to intermediary lending

	Number of projects	Amounts approved	Disbursements	Disbursement Rate
Regional grants	10	$1.250.200	$695.610	56%
National grants	11	$1.438.620	$755.323	53%
Total	21	$2.688.820	$1.450.933	54%

Chart 5 below depicts the distribution of the TA Grants portfolio approved and disbursed by location.

22 Email P. Blackman/M. Edwards - CDB Portfolio Review, September 28, 2020
23 ditto.

Chart 5 Approvals and Disbursements by Location ($'000)



Additional information on the grant portfolio is available in other sections of the report. A more substantial discussion on the effectiveness of the grants is presented in Section 4.2.2. An overview table of the grants is presented in Annex 1 (Table 1), as well as a detailed analysis of the selected grants in Annex 1 (Table 2).

3 DFI/FIs financial performance

3.1 Approach

It is useful to analyse and report on the performance of the DFI/FIs against a defined set of key financial parameters. This section provides a performance overview of 4 selected DFIs (SLDB, DBJ, DFC and GDB), noting data limitations encountered[24]. For these four DFIs: (i) Government is their sole shareholder with no apparent prospect of diversifying ownership; (ii) Except for the 6th Industrial Line of Credit (2014, based on the strength of DBJ's Balance Sheet), all loans from the CDB were 100% sovereign guaranteed; and (iii) Every DFI has met its contractual debt service obligations to the CDB without default.

The analysis focused on the last five years of the evaluation period. Table 6 below distils results from those 5 years for each of the four DFIs against a slate of 17 performance indicators.[25] This allows comparative analysis, highlighting potential areas for performance improvement as well as areas of strong performance for replication. The following should be kept in mind with respect to the indicators:

- The *Debt-to-Equity Ratio* (solvency) and the *Return on Average Assets* (profitability) are the indicators most consistently applied in the CDB Appraisal Reports (ARs) for determining the eligibility of DFIs for its Line of Credit resources. They also feature in the LOC Agreement, annual PSRs and the PCR of each approved project.
- *Debt Service Coverage* is an ancillary benchmark prescribed at ≥1.25% in some CDB Agreements but not consistently reported by the selected DFIs. It is not recommended as mandatory given the availability of other indicators.
- The other 15 indicators and ratios are deemed important for tracking the health and growth of these credit institutions. Many were utilised by CDB in producing the various PSRs, PCRs, DERs and ARPPs.

3.2 Analysis

3.2.1 Major Indicators

In addition to supporting financial inclusion of poor and working-class families so that they can access critical social and economic goods on affordable terms, the CDB's financial intermediation programme seeks to strengthen the capacity and resilience of each client DFI/FI. Analysis of the growth and quality of the assets, profitability, and capital base of each institution will provide early signals of viability and areas for attention. Table 5 below provides a snapshot of the growth of these major indicators (2015-2020) for the selected DFIs. Important variations in financial performance exist across the four DFIs:

- Significant challenges confront the SLDB in spite of 25% asset growth since March 2015.
- Cumulative deficits have starved the DFC Belize of reserves and retained earnings.
- GDB asset management has yielded impressive annual surpluses which have boosted its reserves and retained earnings and reduced its reliance on government.
- The 230% increase in surpluses by the DBJ reflects an exceptional annual yield on assets.

[24] Data limitations include for instance: the absence of information on loan portfolio quality from the Development Bank of Jamaica, and the unavailability of the St. Lucia Development Bank's 2020 Annual Report with audited financial statements.

[25] DBJ and SLDB operate fiscal years from April 1 to March 31 and that the DFC and the GDB operate on the calendar year.

Table 5 5 Years of Growth in Assets, Equity & Profits by 4 DFIs.

DFI/YEAR	ASSETS	EQUITY	NET PROFIT
SLDB 2016-2020	24.6%	7%	-23.6%
DBJ 2016-2020	28.6%	39%	230%
DFC 2015-2019	6%	-23%	-137%
GDB 2015-2019	91%	9%	167%

3.2.2 DFI Performance on Key Indicators

Over the period 2015-2020 the DBJ ensured that its debt levels stayed within twice its overall equity (government shares, reserve fund and other reserves), by starting and ending at a 1.6 ratio. Both the DFC and the GDB peaked at 2.6 relative to their equity value. SLDB's *debt to equity* ratio exceeded the CDB ceiling of 4:1 by climbing steadily from 4.2 in 2016 to 5.54 by December 2019; it was in conformity with the ceiling of 7:1 stipulated in the SLDB Act, however.

The GDB and the DBJ consistently exceeded the *Return on Average Assets* threshold of 1% annual yield on assets deployed. The SLDB and DFC showed progressively worsening profitability results during the same period; interestingly, the DFC standard for *ROA* is 2%. The DBJ achieved an unmatched 8.74% *Return on Equity* by March 2020; as a direct consequence of repeated and increasing annual surpluses, the boards of the GDB and DBJ proudly paid five annual dividends to their respective governments.

As credit institutions, the performance of DFI loan portfolios directly influences the size, growth, and quality of their assets. The ECCB Prudential Guidelines are silent on asset growth ratios. The PEARLS Prudential Ratios adopted by credit unions set ***>Inflation Rate + 10%*** as the minimum acceptable annual growth rate for total assets[26]. They also stipulate that net loans should constitute 70% - 80% of total assets of the institution and these have become the regulatory guidelines.

Asset Growth among the DFIs showed interesting performance over the five years: DFC grew by 6.4%, SLDB 25%, DBJ 29% and GDB 91%. *Loan Portfolio Growth* was as follows:

- The GDB experienced an EC$43.8 mn surge (148%);
- After a 47% jump over 2015, the SLDB portfolio tapered off to 17% annual growth by March 2020, resulting in a net increase of EC$20.6 mn;
- DFC grew by BZE$3 mn in the 5-year period with negative 2.6% growth in the final year;
- DBJ ended March 2020 with a 5.7% negative output or JAD1.4 bn less than its FY 2015/16 result.

The loan portfolio growth in each case was a direct function of the size and reflow of DFI *disbursements*, which were dependent upon the timeliness and volume of *collections* from sub-borrowers and *borrowings* from the CDB and other lenders.

The *loans-to-asset* ratio is a prudential indicator of effective financial structure. The maximum set by donor agencies for non-deposit-taking lending institutions is 90%. GDB closed 2019 with the highest ratio (suggesting higher risk, but still within the limit): 82% compared to 63% in 2015. Two DFIs returned slightly declining ratios (suggesting declining risk) for the same period: 83% - 81% at DFC and 79% - 72% at SLDB. The DBJ experienced a drop from 64% to 46% (declining risk); which can be explained as a function of consistent expansion in its diversified asset base as an apex financier concomitant with efforts to improve portfolio quality among its AFIs.

[26] See www.woccu.org

Arrears and *NPLs* are also reliable measures of ***Asset Quality***. Five percent is the industry maximum for credit union loans that have defaulted on contractual repayment terms. Whereas 5% is the maximum set for NPLs in the ECCB Prudential Guidelines (2009), 10% of the total principal balance of all loans non-performing over 90 days as a percentage of the total loan portfolio number (#) is the norm for NPLs in credit unions. The EIB has allowed 15% for NPLs since the onset of the COVID-19 pandemic. I**t is recommended to use 5% (arrears) and 15% (NPLs) as the proposed regulatory ceilings for the DFIs provided that the NPL portfolio is adequately covered at all times by loan loss provisions.** The DFC Belize portfolio worsened from 4.8% to 13% in arrears and from 15.5% to 20% in NPLs. SLDB reported on NPLs only: its exposure doubled from 4.5% to 9%. In contrast, the GDB's loss prevention strategy resulted in NPLs cut from 10.9% to 2.3% and arrears reduced to 4%[27]. No such data was available from the DBJ.

In the absence of income tax and customer deposits, the principal liabilities facing the DFIs would be *borrowings* from domestic, regional and international agencies. The presentation of the audited accounts of the DFC and the GDB were exemplary in facilitating analysis **by isolating non-current from current assets and liabilities. CDB should encourage industry-wide replication of same.** The *current ratio* is generally accepted as an efficient gauge of working capital adequacy. The universal standard requires current assets in financial institutions and commercial companies to exceed or at worst equal the value of current liabilities. From 'highs' of 8.04 and 3.57 in December 2015, the DFC and GDB working capital declined to 2.95 and 2.45 by December 2019, respectively. The SLDB's unaudited December 2019 accounts report 2.02 in the absence of the March 2020 metrics. In all prior years, the audits also show that current assets were greater than current liabilities.

DFI ***profitability*** for the same five years was assessed by three yardsticks: *Net Interest Margin (NIM), Efficiency Ratio* and *Net Profit Margin*. The *NIM* is a reliable predictor of the overall surplus in lending institutions, by calculating the net interest on loans and investments (total interest income less interest expense) as a percentage of interest income; 50% is the lowest acceptable return for a viable DFI. The DBJ, GDB and DFC scored consistently above the benchmark: 60% - 58%, 72% - 56% and 77% - 63% respectively. In contrast, the SLDB trailed at 47% - 43%.

The extent to which the combined value of the Net Interest Income and Other Income is eroded by Loan Loss Provisions, Finance Charges, Administrative and Operating Expenses determines the *Efficiency Ratio*. It enables management to determine the cost outlay per dollar of income earned at any given date. To generate $100 in income, it cost the DFC $112 - $132 in expenditure, SLDB $86 - $103, GDB $87 - $83 and $60 - $57.5 at the DBJ. The DBJ's more diversified business services and income structure and its lower loans-to-asset ratio largely explain its superior efficiency ratio and perennially larger surpluses.

The GDB's annual net surplus rose from 12% of total income in 2015 to 17% by 2019. Consistent with its accumulated deficits, the DFC's *Net Profit Margin* deteriorated to negative 32% at December 2019 from 15.7% in 2015. SLDB scored negative 2.73% down from 14.5% at March 2016. This contrasts with a hike from 21% to 49.3% for the same period achieved by the DBJ.

Two additional indicators are proposed for ongoing DFI performance improvement planning and tracking. The *Collection Ratio* refers to the actual amount collected as a percentage of the total amount due. Consistent application of the CDB collection benchmarks of 85% for current and 65% for past due DFI loans will improve the quality of loan underwriting and appraisals; timely pursuit will also positively impact the Net Interest Income. In order to grow their internally generated (Tier One) capital base and reduce dependence on government equity and other injections (Tier 2), each DFI is encouraged to set aside at least 25% of annual surplus to grow the *Reserve Fund* until reserves and retained earnings surpass 10% of assets. The GDB and DBJ boards appropriated up to 40% of surplus to grow their reserves during the period under review, also to protect their institution against unforeseen losses.
Twelve of the eighteen indicators cited in Table 6 below are recommended for consistent application in all future CDB loan contracts with DFIs (as redefined).

[27] No arrears data for FY 2015 could be found in the GDB Annual Reports for 2015 or 2016.

Table 6 Key Performance Indicators Comparison – Four (4) Selected Development Finance Institutions [$ millions][28]

KEY PERFORMANCE INDICATORS	STANDARD	SLDB (EC$)		DBJ (JA$)		DFC		GDB	
		3/2020[29]	3/2016	3/2020	3/2016	2019	2015	2019	2015
Already consistently tracked by CDB									
1. Debt/Equity (Solvency)[30]	**≤4:1**	5.54	4.2	1.6	1.6	2.6	2.1	2.5	1
2. Return on Average Assets (ROA)	**≥1%**	-0.13%	0.77%	3.5%	1.4%	-2.97%	-1.33%	1.27%	0.99
3. Loan Portfolio Size $		87.4m	66.8m	$15,927	$17,318	$90	$87	$73.3	$29.5
4. Loan Portfolio Growth % (over prior year)	**5%**	17%	47%	-5.7%	3.52%	-2.6%	13.38%	15.5%	12%
5. Non-Performing Loans (= Arrears +90 days)[31]	**≤15%**	9%	4.5%	na	na	20%	15.5%	2.3%	10.9%
6. Loans Disbursed $		29.66m	29.8m	na	na	$17.1	$34.4	$20.2	$7.44
Recommended for consistent tracking in future									
7. Return on Shareholder's Equity (Profit/Av. Equity)				8.74%	3.6%			6.4%	1.9%
8. Shareholder's Equity/Total Assets	**≥8%**	15.3%	24%	38%	36%	25%	35%	28.5%	49.9%
9. Assets Growth	**5%**	$105.2	$84.4	$34,890	$27,123	$111.67	$104.95	$89.4	$46.9
10. Current Ratio	**1:1**	2.02	2.56	na[32]	3.65	2.95	8.04	2.45	3.57
11. Total Loans/Total Assets	**≤90%**	72.2%	79%	46%	64%	81%	83%	82%	63%
12. Principal Arrears (past 1 day due)	**≤5%**	na	na	na	na	13%	4.8%	4%	na
13. Net Interest Margin (per dollar)	**50%**	43.3%	47%	57.5%	60%	63%	77.2%	56%	72%
14. Efficiency Ratio (How much spent per $1 income)		103%	86%	51%	78%	132%	112.2%	83%	87%
15. Net Profit Margin (Net Surplus %/Total Income)	**7.5%**	-2.73%	14.5%	49.3%	21%	-32%	-15.7%	17%	12%
16. Reserve Fund[33]: % appropriated from Surplus	**≥25%**								
17. Collection Ratio: % total principal current	**≥85%**								
18. Collection Ratio: % total past due	**≥65%**								

28 Financial years end March 31 for SLDB and DBJ, and on December 31 for DFC and GDB
29 Data here are sourced from the SLDB unaudited financial statements at December 2019.
30 The SLDB Act stipulates maximum borrowing at 7:1 compared to CDB's ceiling of 4 times the equity.
31 Clause 4 of Schedule 4 of the Loan Agreement stipulates that "The NPL portfolio should be adequately covered by loan loss provisions".
32 na = data not available.
33 Section 29 of the SLDB Act mandates that at least 25% of annual net income should be credited to the Reserve Fund as long as it "is less than the paid-up capital of the Bank". The GDB Act also requires that 25% of surplus be appropriated to the Reserves.

4 Findings

4.1 Relevance

4.1.1 Limited explicit alignment of intermediary lending operations with CDB's strategic priorities and national development objectives

Intermediary lending operations are mentioned but not articulated at length in CDB corporate strategies (PSD Policy and Strategy, Corporate Plans, and Country Strategy Papers). As a result, CDB intermediary lending operations lack a clear strategic framework. However, individual loan agreements are well aligned with national development objectives of the BMCs.

CDB's strategic priorities. The 2017 PSDS clearly identifies intermediary lending – through DFIs or other FIs – as a key instrument / modality to implement the strategy (the emphasis being on intermediary lending to support MSME access to finance); student loans and mortgage financing are only briefly mentioned in reference to the need to broaden the range of financial intermediation. The CDB Strategic Plans 2010-14 and 2015-19, as well as other thematic strategic documents (such as the Education Policy and the Youth Policy) contain very few references to DFI/FI lending or to the three main loan categories. With respect to Country Strategy Papers (CSPs), references to DFI/FI lending are limited: they only mention existing loans / lines of the credit under the country portfolio (mostly in reference to past or ongoing lending, rather than expressing a justification / need for intermediary lending operations in the future).

National development objectives. The review of project appraisal reports for the 10 loans selected for in-depth analysis reveals that all included a discussion of the loan's alignment with national strategies and development priorities. This aspect is often addressed at several points in the reports, e.g. in the sub-section presenting the loan request, in the sub-section on the project rationale, in the matrix assessing the project's "expected performance rating" (which includes a criterion specifically assessing the "Strategic Relevance" of the project), or other parts of the report, for example:

- The project appraisal report for the Belize Sixth Consolidated Line of Credit (CLOC) highlights that the CLOC supports the Government of Belize's National Poverty Elimination Strategy, as it directly and indirectly promotes increased access to basic services (such as post-secondary education and adequate housing) and creates prospects for long-term employment and economic opportunities for the population.
- The project appraisal report for the Jamaica Sixth Industrial Line of Credit points out that the LOC supports Jamaica's long-term strategic plan Vision 2030 (Jamaica National Development Plan), and more specifically "National Outcome #8" which seeks to create an enabling business environment by increasing access to capital.
- The project appraisal report for the Jamaica Agricultural Support loan notes that the loan is consistent with the Government of Jamaica's Agricultural Development Strategy of sourcing funds from multilateral agencies for specific projects aimed at increasing agricultural competitiveness and poverty reduction.

4.1.2 Relevance of the historical focus of CDB on DFI lending

CDB's strategic focus on DFI/FI lending was appropriate in the past given the fragile history of alternative development financial products in the region, and CDB's lack of expertise needed to manage alternatives. The Bank has recently supported relevant regional initiatives to introduce the expansion of higher risk products.

For the most part, over the last 40 years, the CDB has continued to focus on offering loan financing products to DFIs/FIs. Given the limited scale of DFI/FI operations and the relatively small size of these financial markets, the CDB believes that its singular focus on loan products has been appropriate. Until recently the Bank's loan products were more attractive to national development banks than was alternative commercial financing. Interest rates, grace periods and repayment periods matched the longer-term timeframe of the region's development banking community. Nonetheless, other important financial products such as equity financing, factoring, working capital financing and lease finance have been missing.

One reason for the focus on loans is that the Bank is well-aware of the fragile history of alternative development financial products in the Caribbean. Over the last 50 years, the various equity financing initiatives that have been launched at a regional level (e.g. The Caribbean Finance Corporation, the Agriculture Venture Trust, the Caribbean Financial Services Corporation) have been stymied by a combination of factors including i) the absence of a secondary market for equity investments; ii) the narrowness of exit options, and iii) the limitations imposed by relatively outdated Company legislation. Consequently, in the context of venture capital investing, the rights of equity investors are not nearly as strong as they need to be, resulting in venture capital investors holding minority voting positions in companies in which they actually hold majority equity positions. Typical investments include convertible preferred shares and second-tier debentures[34]. Similarly, other products also lacked the legal infrastructure and supporting environment to be offered to DFIs. Only recently have credit bureaus been established in Jamaica, Trinidad and Tobago and the Eastern Caribbean, and only Jamaica has an electronic moveable collateral asset registry.

A second reason is that the CDB lacks the investment expertise needed to manage alternative financial products. Furthermore, given the Bank's financing structure, it relies on sourcing and on-lending financial resources.

For these reasons, the Bank has shied away for exploring higher-risk equity investment options for SMEs in its BMCs. However, it is supportive of regional initiatives to introduce an expansion of support services aimed at enhancing SME access to finance.[35] Also, the Bank is giving active consideration to supporting venture capital and participation in a partial credit guarantee scheme (PCGS). CDB has also considered amending its existing arrangements for working capital financing. Finally, the Bank is considering broadening its pool of resources to support MSME development, including resources from IDB and the Green Climate Fund (GCF).

4.1.3 Selection of partner DFI/FIs by CDB

CDB has appropriately chosen DFI/FIs to work with. However, the national market share and coverage of those institutions is quite limited. Sustained growth and market penetration of credit unions and other FIs suggest that CDB's market coverage for business, student, and mortgage loans could be significantly expanded. Limited market information and restrictive eligibility criteria currently constrain it from doing so.

CDB supports financing institutions that focus on targeted priority sectors: namely smaller MSMEs, low-income households needing mortgage financing, and students needing loans to pursue their academic careers. Its due diligence process is well established and consistent with that of other MDBs. It requires that DFIs/FIs meet specific criteria including profitability, liquidity, arrears management and ability to adequately meet debt service payments. In selecting candidates for LOC financing, the Bank

[34] In recent years, emerging Private Equity (PE) companies in the Caribbean have developed "work arounds" to these constraints – including stronger equity investment agreements and the use of Carried Interest provisions in such agreements. The CDB did make one investment in a Portland, a PE firm, around 2005.

[35] These include collaborations with the Inter-American Development Bank (IDB's) Compete Caribbean on improving the enabling environment and with the World Bank on the introduction of a Partial Credit Guarantee programme – now being managed by the Eastern Caribbean Central Bank (ECCB). Similarly, partial credit guarantee programmes have been established in Barbados and in Jamaica by the DBJ.

assesses their financial soundness, operating policies and procedures, institutional structure, management and staffing. These considerations are detailed in both appraisal reports and loan agreements.

CDB's loan identification processes encompass both ongoing engagement with existing borrowers as well as identifying potential new/existing borrowers consistent with the Bank's charter, risk appetite, lending policies and sector priorities. Improvement in the loan application and appraisal process is being addressed as part of the wider Bank's transformation initiative to enhance efficiency, eliminate duplication, and reduce time taken for due diligence/appraisal work. The macroeconomic and social frameworks in the requesting BMC are also considered during the appraisal process.[36]

DFIs access resources with a sovereign guarantee at the same interest rate as sovereign borrowers, guided by the Bank's OCR financial policies and risk appetite. CDB's risk-averseness would demand much stronger collateral requirements from private FIs, which they might not be in a position to offer and that could stymie potential investment opportunities.

While CDB has considered engaging deposit-taking institutions like the commercial banks, finance companies and credit unions in its financial intermediary activities, the cost of CDB's resources has in recent years been a major constraint to expanding lending, as they can access funding through deposits at a much lower interest cost. (Interest rates are no longer regulated or set by Central Banks, have declined, and are now more attractive than CDB's LOC rates.)

There are four ways the Bank could evolve its thinking on choice of partners and pursuit of opportunities in the development financing space:

- An updated study of market failure and the existence of gaps in financing experienced by its target beneficiaries.
- Assessment of the impact of financial sector liberalization on DFI niche markets and a re-thinking and re-design of lending instruments.
- Consideration of the potential for greater engagement with credit unions.
- Greater attention to emerging trends including crowdfunding for new ventures, mobile banking for poor and rural customers, creative industries, and green investment.

Identification of gaps and opportunities for CDB's DFI financing should be informed by renewed analysis of the extent to which the market failure upon which much of its current lending is predicated continues to exist. Difficulties that some DFI's have experienced in competing in mortgage financing and student lending for instance arise from much greater penetration of deposit taking institutions in these sectors. Linked to the liberalisation of the financial markets and the greater penetration of deposit taking institutions, DFIs supported by CDB currently account for a very limited share of private sector loans or asset worth in any jurisdiction as suggested by the following statistics[37]:

- DBJ's loan portfolio in 2020 accounted for 1.46% of the private sector loans aggregate for that year (2020).
- The DFC's assets accounted for 3.1% of Belize's financial services sector. Its loan portfolio contributed 4% to private sector loans in 2019.

[36] For example:

- Approval of Grenada's 4th CLOC was dependent on the GOGR launching its debt restructuring programme, agreement reached in principle with most bond holders and making satisfactory overall progress at improving debt sustainability (2014-2015).
- GOJ's performance up to the end of June 2014 in meeting the targets and structural reform benchmarks under the four-year Special Drawing Rights (SDR615.38mn3/) Extended Fund Facility (EFF). Jamaica's debt reduction and resources redirected towards growth-enhancing initiatives were factored into the approval of the 6th Industrial LOC for the DBJ (2014-12-11).

[37] Sources:

- Jamaica Co-operative Credit Union League Limited, Competitive Analysis in the Overall Market as at December 2020.
- Central Bank of Belize Website.
- https://www.eccb-centralbank.org/statistics/commercial-banks-credit-by-economic-sectors/comparative-report 2019 data
- https://www.eccb-centralbank.org/statistics/commercial-banks-assets-datas/comparative-report 2019 data

- The St. Lucia Development Bank's amounts to 1.68% of total banking sector assets. It also accounted for 2.47% of private sector loans nationwide (2020).
- The GDB accounted for 2.4% and 4.28% of the sector's assets and loans market share in 2019.

CDB's rationale for the exclusion of credit unions from its concept of DFIs is not clear. Credit unions have been serving the provident and productive needs of poor, unbanked, and under-banked families and communities in the BMCs for more than 70 years. Owned by over 70% of the economically active demographic and known for comparatively high unsecured lending ratios, these regulated institutions enjoy 10%-12% domestic financial market share. They have successfully demonstrated the success of the cooperative pooling model where the shareholders are the sole depositors and borrowers. Member education, financial counselling, decent work, improved housing, support to micro and small businesses and other SDGs are known features of credit unions.[38] They are therefore bona fide development finance institutions (DFIs) with untapped potential to expand the reach and impact of the CDB's financial intermediation strategy, although not state-owned or controlled. Access to the technical assistance and training resources of the CDB (for secondary capital markets development, risk management, business lending, digitisation, and management training) appears to be their primary interest. Interestingly, several credit unions have been partnering with the DBJ as AFIs under the CDB Agricultural and Industrial LOCs and other donor projects.

The Bank is set to strengthen its Private Sector Development capacity by consolidating a number of separate units within the CDB into a new Private Section Division (PSD). But until that Division is well-established it has opted to remain selective about its choice of financing intermediaries to work with. Nonetheless, the Bank clearly appreciates the need to i) re-think its loan financing model, ii) introduce new associated products and services and iii) expand the range of financing intermediaries that it will work with.

4.1.4 Lack of consideration for gender aspects at the appraisal stage of lines of credit

There has been a general lack of consideration for gender aspects at the appraisal stage of individual lines of credit during most of the period under evaluation. A number of initiatives were launched towards the end of this period but the extent to which these actions will lead to stronger relevance of DFIs/FIs' operations in addressing gender access constraints in the future could not be ascertained.

None of the Caribbean DFIs offer specific Gender Financing programmes. But they have been quite clear on their loan policies: they do not lend to clients on the basis of gender. Their primary criterion is to assess the viability of the loan proposals they receive and their risk exposure to each loan. Therefore, gender equality, while acknowledged as a developmental concern, is not a determining factor in establishing the gender mix of clients that the DFIs lend to. Still, the DFIs have noted that female borrowers generally tend to borrow less than men or companies that they are shareholders in because they (a) are more cautious about their liabilities and usually manage money better than men; (b) are starting their first businesses and therefore need smaller amounts to borrow, and (c) often have less collateral than men and are therefore less inclined to ask for significant sized loans[39].

According to the "Analysis of CDB's lending portfolio to identify gender disparities in access to credit & an assessment of the gender monitoring capabilities of six participating financial institutions (2016)[40]", "*There is no question that disparities in A2F exist between men and women, worldwide and within the Caribbean. It has also been established that women worldwide continue to face higher barriers than men in A2F, for reasons linked to thematic areas that include, for example, property rights and access to collateral.*" Hence, it is a commonly accepted view that in order to be relevant for both

38 www.woccu.org, www.caribccu.coop
39 See also: Process Review observations on Gender Equality.
40 See background Section of the Executive Summary

men and women, and given the higher barriers faced by women in access to finance, DFI/FI operations should have a gender specific approach.

Gender considerations in CDB's strategic framework for engaging with DFIs/FIs: The specific issue of gender in relation to intermediary lending is not captured in any of CDB's overarching policy/strategy documents. The wider issue of gender (not specifically related to intermediary lending) is articulatedin CDB's Gender Equality Policy and Operational Strategy (GEPOS) which aims to embed gender equality into the DNA of the organization's work and culture. GEPOS is based on the premise that "measures which support increased gender equality lead to economic growth and poverty reduction," and position the Bank "*to be a leading catalyst promoting gender equality in the Region by working with borrowing members and other development partners in a responsive and collaborative manner to analyse and address the economic and social causes of gender inequality in order to reduce poverty and vulnerability and to assist all women and men to achieve their full potential*."[41] CDB also recognizes that considerable effort is required to ensure that gender equality is embedded in all policy design, project planning and implementation. It is particularly cognizant of the challenges involved in linking gender mainstreaming to its strategic objectives of promoting economic growth and inclusive social development; supporting environmental sustainability and disaster risk management; promoting good governance; and enhancing organizational efficiency and effectiveness in its strategic plans.

Gender considerations at the design/appraisal of selected lines of credit. The absence of a CDB strategic framework for DFI lending (which should also contain a gender approach to DFI lending) led to a general lack of consideration for gender aspects at the appraisal stage of individual lines of credit during the period under evaluation. However, the following initiatives were launched in recent years[42]:

- In 2016, a study was commissioned by CDB to identify any gender inequities in the allocation of CDB's resources through its lending activities to FIs[43]. This included assessments of the extent to which there is awareness and sensitivity around gender in accessing financial services, and to outline recommendations for improvement that can contribute to greater financial inclusion. The study also sought to enhance reporting systems for the delivery of financial services in CDB's BMCs by men and women as a direct response to poverty reduction.
- In 2019, based on the findings of the above-mentioned study which point to a lack of gender specific approach by DFIs/FIs, CDB initiated the Engage TA to develop gender specific action plans for 3 DFIs in Belize, Jamaica, and Saint Lucia.

Engage outputs were generated at the time of this evaluation in mid-2020. Therefore, the extent to which the above actions will lead to stronger gender relevance of DFIs/FIs' operations in the future could not be ascertained.

4.1.5 Sub-borrowers Eligibility and Targeting

There is mixed evidence on the appropriateness of sub-borrower eligibility and targeting, both with regards to eligibility criteria contained in the CDB loan agreements, and the actual "targeting" practices of DFIs. While the evaluators were assured by the DFIs of their adherence to the eligibility criteria prescribed in the CDB loan agreements, the practices and cases observed suggest that practices vary across DFIs and loan agreements.

Eligibility criteria established by CDB in the LOCs define the types of business loans, mortgages, and student sub-loans to be offered by the lending institutions. By having the DFI/FIs commit to these criteria, the CDB aims to ensure that loan resources are directed at sub-borrowers who meet the CDB's

41 CDB's Gender Equality Policy and Operational Strategy, Table 3.1 (Goal)
42 The GEPOS evaluation from 2019 notes that "*CDB is trying to be more intentional in its work with the DFIs. In Belize, the 8th credit line for the Development Finance Corporation calls for mainstreaming climate and gender considerations. The organization's strategic plan includes promotion of gender mainstreaming and identification of a gender champion, still to be appointed, to take it forward. Staffing at the managerial level is already at 50% men and 50% women.*"
43 Analysis of CDB's lending portfolio to identify gender disparities in access to credit & an assessment of the gender monitoring capabilities of six participating financial institutions (2016)

developmental focus and sub-loan eligibility. A detailed review of the eligibility criteria for selected loans is presented in Tables 3 - 5 in Annex 1. The main characteristics per loan category are:

- **Business Loans:** The analysis of eligibility criteria of business loans as contained in the loan agreement with the DFIs is presented in Table 3 of Annex 1. For AIC sub-loans, while the narrative section of the loan appraisal documents systemically make reference to SMEs as the target recipients, there is actually no definition or criteria for the term "SME" contained in the loan agreements. The only restrictions in terms of eligibility are linked to (i) the sector (AIC sub-loans target a broad range of businesses in the agricultural, industrial and tourism sectors); (ii) the size of the sub-loan itself (in most cases there is a an upper limit ranging from USD 300,000 to USD 500,000 per individual loan, although in one specific case – the Sixth industrial line of credit to the Development Bank of Jamaica - no sub-loan upper limit was specified in the LOC, potentially allowing sub-borrowers to contract loans worth several millions); and (iii) explicit restrictions that exclude the purchase of land and/or existing buildings or working capital (except where required for start-up operations). With regards to MSE (micro and small enterprises) sub-loans, there are no restrictions in terms of sectors or otherwise (for instance MSE loans unlike AIC loans can be used for working capital), but clear eligibility criteria linked to the size of the sub-borrower business (MSEs are characterised by the following: (a) number of persons employed or (b) manufacturing area; and (c) investment in equipment - less than USD 50,000 or (d) total annual sales). Finally, it should be noted that for the RE/EE components of LOCs, sub-borrowers must meet the criteria of the CTCS definition of MSMEs.[44].
- **Student Loans:** The analysis of eligibility criteria of student loans as contained in the loan agreement with the DFIs is presented in Table 4 of Annex 1. Out of the eight selected LOCs with a student loan component or focus, five are financed through SFR funding and specifically target poor or vulnerable students. In such cases, there is an explicit requirement for the DFIs to carry out means tests to ensure that the targeted students are from disadvantaged households, or a more general mention that the DFI "will be required to collaborate with relevant government officials to update and provide to CDB, the eligibility criteria for assessing the SLS component for students from financially disadvantaged households". Regarding the three other loans that do not specifically target poor students (financed through OCR funding), while there is in most cases an upper limit in terms of the size of the credit that can be granted to individual (student) sub-borrowers (ranging from USD45,000 to USD75,000 depending on the curriculum), there are no explicit eligibility criteria in favour of poor students.
- **Mortgage loans:** The analysis of eligibility criteria of mortgage loans as contained in the loan agreement with the DFIs is presented in Table 5 of Annex 1. Unlike the two other loan categories, loan agreements systematically specify strict eligibility criteria for recipients of mortgage loans, and these include: (i) income levels of the sub-borrowers and (ii) restrictions with regards to the purchase of land.

During interviews with DFIs, the evaluators were assured of the strict adherence to the Eligibility Criteria prescribed by the CDB. When clear eligibility criteria are contained in the loan agreements, DFIs claim that not only are loan applicants required to sign the documents related to their respective means tests (in the case of certain student loans), but pay slips (for mortgages), and other methods of verification are standard practice. In addition, the evaluation did not encounter a situation or case that would suggest that the DFIs did not adhere to the eligibility criteria as contained in the loan agreements. One metric that can provide an indication of the level of adherence of DFIs to the eligibility criteria contained in the loan agreements (and hence proper targeting) is the size of the sub-loans made by DFIs. Clients most in need tend to contract smaller sub-loans, hence a small average sub-loan size is indicative of the proper targeting of clients of more disadvantaged groups by DFIs. In the table below, the numerical average of the planned sub-loan size (overall value of the loan divided by the foreseen number of sub-loans as contained in the LOC logframe) is compared to the actual sub-loan size (disbursed loan divided by the actual number of recipients). For the majority of LOCs, the actual sub-loan size was

[44] (i) Microenterprises: Owner managed with less than five employees and less than USD25,000 investment in equipment; (ii) Small Enterprises: (aa) Less than 25 employees; or (bb) Less than 4,000 ft2 of manufacturing area; and (cc) Less than USD50,000 investments in equipment; or (dd) Less than USD125,000 in annual sales. (iii) Medium-sized Enterprises: (aa) 25-50 employees; or (bb) 4,000 – 6,000 ft2 of manufacturing area; and (cc) USD50,000 – 200,000 investment in equipment; or (dd) USD125,000 – 750,000 in annual sales.

smaller than the planned sub-loan size, suggesting proper targeting by DFIs. There is only one case where the average sub-loan size was substantially larger that the planned one. The Sixth Industrial Line of Credit to the Development Bank of Jamaica granted three loans of a total value of USD8.1 mn, for an average sub-loan value of USD2.7 mn. CDB had not however placed any restrictions on loan size in the agreement.

Table 7 Deviation between planned sub loan size and actual sub loan size for selected loans for which a PCR or PVCR is available

Country and Loan	Type of loans	Planned disbursements	Total disbursements	Planned average loan size	Actual average loan size	Deviation
Belize Sixth consolidated line of credit	Housing	$2,500,000	$2,500,000	$31,250	$15,152	-$16,098
	Student Loans	$2500,000	$4,007,314	$16,667	$3,537	-$13,130
	AIC	$4,000,000	$2,750,000	$53,333	$6,643	-$46,691
	Microentreprises	$1,000,000	$489,000	$3,333	$1,500	-$1.833
Dominica Eighth consolidated line of credit	AIC	$5,000,000	$5,000,000	$111,111	$116,279	$5,168
	Housing	$1,000,000	$771,000	$18,519	$2,932	-$15,587
	Student Loans	$1,500,000	$1,729,000	$55,556	$27,444	-$28,111
Jamaica Sixth industrial line of credit	Loans to SMEs	$15,000,000	$8,107,000	$1,000.000	$2,702.333	$1,702,333
Jamaica Agricultural Support Project	Loans to rural farmers	$7,800,000	$7,800,000	$30,000	$23,009	-$6,991
Jamaica Student loan - students loan bureau	Student Loans	$20,000,000	$20,000,000	$4,000	$2,801	-$1,199
Saint Lucia Consolidated line of credit	Student Loans	$10,000,000	$10,770,000	$33,333	$16,987	-$16,346
	AIC	$10,000,000	$0	$2,500,000	n/a	n/a
Saint Vincent and Grenadines Student loan scheme - Seventh loan	Student loans (regular)	$8,000,000	$7,841,000	$22,222	$32,945	$10,723
	Student loans (poor)	$2,000,000	$1,552,000	$22,222	$16,337	-$5,885

In addition, a more qualitative review of PCRs and PCVRs[45], and direct portfolio observation, illustrate differing experiences with sub-borrower eligibility and targeting across lending categories and DFIs, with some positive and negative findings.

Business Loans. As mentioned above, AIC loans never contain a definition of the term SME (see Table 3 of Annex 1), except in the cases of RE/EE credits where the CTCS definition is used. This implies that there is no obligation on the part of the DFI to target SMEs. While the relatively low average sub- loan size for the vast majority of AIC loans suggests that SMEs were the actually the recipients of the sub-loans, there is the notable exception of the Sixth Industrial Line of Credit, which was entirely focused on three tourism related businesses as mentioned above, with a sub-loan value of USD 2,7 mn. In addition, the relatively loose “sector” requirements contained in the LOC agreements can lead to situations where DFIs channel the majority of the sub-loans to a specific sub-sector to the detriment of other sectors. In Grenada, the AIC loan was largely focused on bus drivers in the transport sector (44 percent of total loans), with only 8 percent going to agricultural and industrial enterprises.

[45] Evidence is drawn from PCRs and PCVRs for 8 LOCs to Jamaica, St. Lucia, Grenada, SVG, and Belize.

Student Loans. In Jamaica, student loans were made by SLBJ to 7,140 individuals through a meanstest with an average loan size of USD2,801, suggesting appropriate targeting of lower income families. In SVG, loans were disbursed to 333 students, of whom 95 were from poor and vulnerable households. The PCR for that intervention states that "The introduction of special provisions for increasing approval rates among the economically disadvantaged has resulted in a near equal distribution of loans between "poor and vulnerable students" and "normal SLS" students." In St. Lucia, however, student loans targeted families of "varying economic means", and BOSL declined participation in the Special Student Loans Scheme (SSLS) to persons from financially disadvantaged households.

Mortgage lending by SLDB impacted 349 borrowers from financially disadvantaged households (54 more than the target of 275, with relatively modest average loan size of $14,326).However, the AR for an LOC to DAIDB discussed housing issues for low-income earners but did not in the end target them in lending operations.

Challenges faced by DFIs. In some cases, adherence by DFIs to CDB's eligibility criteria, and their subsequent targeting of sub-borrowers, can be challenging. DFIs report the following difficulties linked to some eligibility requirements:

- Certain criteria limit the ability of the DFI/FI to take advantage of profitable and emerging loan sectors in the economy (e.g. bridging loans to small contractors, working capital loans to businesses in the case of AIC loans, short-term loans to part-time students in incremental step-by-step educational programmes and RE/EE loans linked to residential properties).
- Some loan conditionalities proved too restrictive for the sub-borrower target group. For instance, according to some DFIs, low-income homeowners are more likely to be first interested in purchasing land prior to the construction of a home. DFIs have noted that a significant share of the low-income residence market cannot afford to buy and build simultaneously – preferring instead to take a gradual financing approach over 5-10 years rather than one-off borrowing for property construction. In practical terms this means that some low-income homeowners are shut out of DFI/FI mortgage lending – until they have completed their land purchase. In turn, this inhibits the capacity of the DFI to help uplift the housing arrangements of low-income earners.

4.1.6 Limited evidence of the existence of market failure, especially in in mortgage lending

In the absence of specific needs assessments for each LOC, CDB's original assessment that the student and mortgage segments are areas of market failure has not been revisited since first established. Currently, credit unions and commercial banks are lending for small mortgages and student loans – two sectors in which they had limited engagement in the past. From the point of view of DFIs however, addressing some assumed market failures has been costly and has impaired financial performance. During the evaluation period, loan recovery rates of 40-50% and NPLs above 30% were being experienced in the student loan category by the developmental DFC, SLDB, GDB and SLBJ, necessitating institutional stabilisation in the latter case.

Definition and concept. Traditionally, the products and services offered by development banks are linked to the rationale of market failure and to economic development goals. The term "market failure" has been defined as the failure of financial markets to finance certain economic activities and has provided an argument to justify state intervention in the financial system[46]. In economic terms, market failure refers to the inefficient distribution of goods and services in the free market. Development banks "step in" where the market has failed to adequately provide essential developmental products and services in an economy.

[46] Development Banks Role and Mechanisms to Increase their Efficiency Eva Gutierrez Heinz P. Rudolph Theodore Homa Enrique Blanco Beneit. Policy Research Working Paper 5729. The World Bank, July 2011.

No CDB definition of market failure exists. A CDB definition of the concept in the context of intermediary lending does not exist. The Bank does not define what conditions would need to be met in a given market in order to qualify as "failures" (this is partly the result of the absence of a clear strategic framework for intermediary lending as discussed in Section 4.1.1).

There is little discussion in strategic documents[47] on the existence of market failure that justifies CDB's intervention (in particular with regards to student loans and mortgage financing) and there is no evidence that a proper assessment of such market failures has been carried out (Table 6 in Annex 1).

In appraisal documents for individual LOCs, examination of market failures that would justify CDB's intervention through DFI/FI lending is rarely explicit. While most appraisal reports – but not all – include some references to possible market failures, these are restricted to brief mentions of possible factors explaining the inadequate access of targeted beneficiaries to funding, with no further details or analysis; the specifics of observed market failures are only discussed in a limited number of reports. On a more general level, there is no evidence for any of the loan categories that a detailed assessment of existing market failures has been carried out during the evaluation period. (See Table 7 in Annex 1).

Survey results. While the primary objective of the survey was to gather information on the effects of the loans on the sub-borrowers, one question might provide some evidence on the issue of market failures. Students and mortgage owners were asked whether they would have been able to finance their education or housing unit from other sources if they had not had access to the CDB/DFI funded loans. Answers suggest a proxy for the existence of market failures at the times the loans were made. If respondents felt that they could have accessed a loan from other financial institutions, it would suggest there was a viable market alternative to CDB/DFI credits for these groups. As shown in Table 8 and Table 9 below, the majority of students (78%) claimed that they would not have been able to secure credit from other sources, while only 50% of mortgage loan recipients felt likewise. Mortgage borrowers most frequently cited credit unions or commercial banks as their alternative. This suggests that market failures were more prevalent in the student loan market than in the mortgage segment at the times the credit were made.

Table 8 Student responses to the survey question "Had you not received a loan from the DFI, would you have been able to complete your course of study"?

Answer / DFI	SLBJ		DFC Belize		BOSL		SLDB		**Total**	
	Total	%	Total	%	Total	%	Total	%	**Total**	**%**
Yes	248	23%	21	14%	32	20%	4	24%	**305**	**22%**
No	809	77%	126	86%	125	80%	13	76%	**1073**	**78%**
Total	*1057*		*147*		*157*		*17*		***1378***	

Table 9 Mortgage recipient responses to the survey question "Had you not received a loan from the DFI, would you have been able to complete your housing unit by relying on alternative sources of financing?"?

Answer / DFI	DFC Belize		SLDB		GDB		**Total**	
	Total	%	Total	%	Total	%	**Total**	**%**
Yes	19	42%	9	82%	3	50%	**31**	**50%**
No	26	58%	2	18%	3	50%	**31**	**50%**
Total	***45***		***11***		***6***		**62**	

[47] This includes the review of documents such as Private Sector Development Strategy, CDB corporate Plans, etc.

Impaired DFI financial performance linked to some assumed market failures? It is a widespread view of most stakeholders interviewed that finance companies and commercial banks are now lending for small mortgages and student loans – two sectors that they had limited engagement within the past[48]. At the same time, some DFIs have expressed the view that addressing some assumed market failures has been costly and has impaired financial performance, especially with regards to student loans. For instance, the demand for CDB-funded student loans at the BOSL declined from 803 disbursed during 2012-14 to 179 (18%) between 2015 and 2019, partly as a result of tightened measures by this commercial bank to reduce non-performing loans (NPLs) but also because of greater competition from liquid banks and credit unions.[49] During the same period, Loan Recovery rates of 40-50% and NPLs above 30% were being experienced in this sub-portfolio by the developmental DFC, SLDB, GDB and SLBJ, spelling the need for institutional stabilisation in the latter case.

4.1.7 Lack of new innovative mechanisms/frameworks to meet changing market needs

CDB's financing instruments to DFIs have not evolved or incorporated new innovative mechanisms / frameworks to meet changing market needs. Recently, the Bank has started to explore a limited number of new product development opportunities to add to its loan programmes.

The extent to which CDB has acted on main recommendations (linked to the evolution / establishment of new mechanisms / frameworks to meet changing market needs) contained in the 2011 "Review of Performance of and Considerations of the Future Directions of CDB Financial Intermediary Lending Activities" was assessed. As shown in the table below, there has been a limited evolution of CDB's financial instruments to DFIs/FIs since 2011.

Table 10 Status of implementation of recommendations contained in the previous evaluation linked to innovative mechanisms.

MAIN RECOMMENDATION CONTAINED IN THE PREVIOUS EVALUATION OF CDB'S INTERMEDIARY LENDING OPERATIONS	STATUS
2.1.3: Increase use of DFIs as Apex Banks for CDB Loans	Partially implemented
2.1.6: Promote Small Scale Energy, Energy Efficiency and PPP	Partially Implemented: pilot projects in Dominica, Grenada & Belize linked to MSMEs only.
2.1.12 Build Relationships with Commercial Banks	Not implemented
2.1.13 Increase Usage of Credit Unions as Financial Intermediaries	Not implemented
2.1.14 Investigate leasing, Venture Capital and Private Equity Intermediaries	Not implemented
2.1.16 Insist on TA when necessary, for FIs and Sub-borrowers	Partially Implemented

48 Basic internet research of the products offered by commercial banks in BMCs confirm that they offer student loans and mortgages.
49 BOSL data: BOSL-CDB Student Loan Beneficiaries by Gender $ Outcomes 2012-19

The only changes implemented concern the promotion of Energy Efficiency: since 2012, 3 RE/EE pilot lines of credits have been made available to DFIs[50] (linked to recommendation 2.1.6). Other recommendations have been partially implemented. There is some evidence that DFIs are used as Apex Banks in Jamaica[51] (linked to recommendation 2.1.3), while there is mixed evidence with regards to TAs (recommendation 2.1.16). Various TAs to DFIs have been implemented as grants, but there is no evidence that sub-borrowers received TA linked to the loans. The CDB states that both market and internal constraints have prevented adoption of other recommendations. The reasons include:

- The Bank delayed its decision on how to treat with private sector development, linked to the upcoming internal reorganisation of CDB private sector operations;
- No significant progress was made in engagement with credit unions and commercial banks, due to the cost of CDB's resources being uncompetitive in a low interest rate environment and an inability of such institutions to offer acceptable collateral.

These findings are coherent with those contained in a 2015-16 study on Caribbean MSMEs, namely that CDB's financing instruments to DFIs have not evolved or incorporated new innovative mechanisms / frameworks to meet changing market needs. [52]

There seem to be opportunities for developing technology platforms and ICTs in areas of crowdfunding to support financing of new ventures as well as facilitating mobile banking services to improve access for low-income and rural communities. As well, with growth in the creative industries space, financing opportunities have emerged which challenge traditional approaches to lending that are heavily dependent on offering collateral, presenting opportunities for a greater focus on cash flow lending. The success with the DBJ's CEF and the ECCB's Partial Guarantee Facility deserves replication. There is an opportunity for CDB to develop appropriate financial products that lessen the dependence on collateral. Similarly, expansion of the RE/EE sector, as part of a global thrust, will open up opportunities for green investment lending, and could provide opportunities for expanded use of the Bank's resources.

It should be noted that CDB is currently considering amending its existing arrangements for working capital financing in the context of Covid-19.[53]

4.2 Effectiveness

4.2.1 Evidence of contribution of CDB intermediary lending activities to development objectives

Survey results show that the CDB lines of credit have had positive effects on sub-borrowers. Across all categories, most respondents confirmed that CDB funds provided them with enough financing and there was only a minority that had to contract additional credit from other sources. However, given the limitations of the targeting / eligibility frameworks in place within DFIs, and the absence of strong evidence on market failures, it is reasonable to assume that the survey results over-report benefits to relevant and intended beneficiaries, especially for mortgage loans.

[50] 0.27% of value by type of Loan Agreement [See p. 19] Pilots seem to have started July 2014 with Dominica Energy Efficiency Pilot of $0.5K. Dec. 2014 with 6th Industrial LOC JAM provided no quota within the $15M, just "projects that promote green economy through EE/RE"; 7th CLOC Belize: 4.8% of $10.5M; 4th CLOC Grenada: 5% of $10 M; 8th CLOC Belize: 5% of $20M. No mention of global $ input p. 35 Financial Intermediary of 2019 CDB Report.

[51] The Development Bank of Jamaica (DBJ) uses an Apex Financial Model for the CDB Facility. During the evaluation period, all DBJ loans were made through Approved Financial Institutions; e.g. commercial banks, credit unions, microfinance institutions, and cooperative banks, who on-lend to sub-borrowers. Most of the loans were distributed through the National People's Cooperative Bank of Jamaica NPCB; who is the leading provider of financing to the agricultural sector.

[52] 2016 "Micro-Small-Medium Enterprise Development in the Caribbean: Towards a New Frontier"

[53] Based on interviews with CDB.

Business loans. These sub-loans had positive effects on production, productivity, and business improvement:

- Eighty-four percent of the respondents confirmed that the business for which they received the loan was still operating. Eighty-eight percent (88%) confirmed that the loan had a positive impact on their business. The most frequent effects were increased sales and revenues, increased profitability, increased business knowledge, and increased worker productivity. Seventy percent (70%) of the respondents attributed these positive changes to the CDB loan only and could not think of other factors that might have also contributed to these improvements. Eighty-five percent (85%) of respondents confirmed that the loan was critical to the growth of their business.
- However, only 35% of respondents reported having employed more workers as a result of the loan, while most reported no change in workforce (60%).

Student loans. These sub-loans helped to improve human resource capacity in the BMCs:

- Ninety-four percent (94%) of the respondents obtained or are in the process of obtaining their certificate / degree. Eighty percent (80%) of the respondents found employment upon obtaining their degree, 77% of whom did so in their field of study; and 93% found employment at home (only 6% moved abroad). Also, 78% of the students confirmed that they would not have been able to complete their degree in the absence of the CDB loans. In terms of the benefits of the loans, two thirds of respondents confirmed that it led to a higher job classification, better job opportunity or to higher earnings.

Residential loans. These sub-loans helped to improve access to quality housing for low-income households:

- Ninety-three percent (93%) of the respondents reported an improvement in their living conditions resulting from the loan with increased space as the most frequent response. Virtually all respondents still live in the home financed by the sub-loan.
- However, 50% of respondents claim that had they not received a loan from CDB, they would still have been able to complete their housing unit by relying on alternative sources of financing such as other banks or credit unions.

4.2.2 Effects of CDB (grant) engagement on the performance of DFIs

CDB grants to DFIs/FIs focused on improving the operating capacity of those institutions, and likely resulted in positive outcomes at DFI/FI levels. But CDB capacity building grants lacked appropriate monitoring systems and therefore actual effectiveness could not be verified/validated. While generally positive, grant coverage was not as comprehensive as it could have been and had mixed effects on the actual performance of some DFIs.

Selection of grants for in-depth review. Out of the 21 grants identified as directly relevant to DFI operations depicted in Section 2.2 and in Annex 1 (Table 1), a representative sample for in-depth review was selected.[54] An outline of 12 grants (5 national, 7 regional) is in the table below, and a summary of their expected performance improvement benefits is in Annex 1 (Table 8).

[54] Two selection criteria were used: (i) the grants benefited directly (national grants) or indirectly (regional grants) in the four selected countries of Belize, Grenada, Jamaica, and Saint-Lucia; and (ii) disbursement exceeded 50%.

Table 11 Selected grants for in-depth review.

	Number of projects	Amounts approved	Disbursements	Disbursement Rate
Regional grants	7	$754.200	$619.340	82%
National grants	5	$414.620	$302.054	73%
Total	12	$1.168.820	$921.393	79%

Selected regional grants. The selected Regional TAs accounted for $754,200 or 65% of the funds approved and $619,339 or 67% of disbursements. The seven multi-country grant-funded interventions comprised four on-site technical consultancies on major topics of strategic import to the transformation and strengthening of the DFIs and FIs, as follows:

- Performance gaps analysed and rating scores assigned for seven (7) institutions.
- A Risk Management Model designed, working with data and practitioners from six (6) Organization of Eastern Caribbean States (OECS) DFIs, with a view to producing a suitable credit risk framework that would enhance their credit delivery, monitoring and management.
- Identification of gender disparities in accessing CDB credits and strengthening gender monitoring and mainstreaming capabilities at six (6) institutions.
- Performance Reviews completed at six (6) DFIs with institutional and regional recommendations provided for future direction.

Selected national grants. Disbursements of national grants totalled $302,054 out of the budgeted $414,620. National grants are a relatively small part (33% of the total) of the total grant portfolio compared to the regional projects. They benefited the DFC in Belize (2) and the SLB (1) and the DBJ (2) in Jamaica. Four involved technical assistance and one was a training grant awarded to the DBJ.

- The 2 TAs contracted by the DFC sought to set the tone for a new era of corporate performance by inculcating stronger buy-in and practices among the directorate and senior management with regard to planning and implementation, compliance with the New DFC Act, and comprehensive policy formulation.
- The SLB requested an operations review with a view to overhauling its lending and collections practices and its financial controls to avert future loan losses and improve its sustainability.
- The DBJ coordinated a software research and advisory initiative that would help modernise the lending and other business processes of the NPCB, whose 37 branches would enjoy automated connectivity. The 5-day SME Workshop targeted all its Accredited Financial Institutions (AFIs), including the National Peoples Cooperative Bank (NPCB) and other FIs involved in providing services to the MSME sector.

Findings. First, as noted in Chapter 2, the overall effectiveness of the grant engagement is constrained by its limited size and coverage. Second, when they were provided at the national level, grants were fully relevant and did generally achieve their intended outputs.

The main findings from the review of the five national grants in Belize and Jamaica are generally positive with regards to effectiveness, with some exceptions:

- <u>In Belize,</u> a first Institutional Strengthening TA Consultancy was provided as part of the Sixth Consolidated Line of Credit – Belize (18/SFR-OR-BZE). The PCR for that LOC states that the "Institutional Strengthening TA Consultancy was executed as planned and in accordance with budget and that the recommendations of the consultants were accepted by the Board of Directors and were at varying stages of implementation by DFC". A follow-up TA in Belize entitled "Compliance and Good Governance Audit at DFC" was linked to the follow-up 7th Consolidated LOC for DFC Belize. Both TAs, which were preconditions to the release of requested lines of credit, are considered as prudent and effective by placing top priority on assuring improved compliance with the Act, good institutional governance, and inculcating stronger adherence of implementation of approved policies and plans.

- In Jamaica, a number of grants were provided: (i) a TA to DBJ & NPCB for an Online Banking Software Consultancy which was effective in demonstrating the causal links between a sound credit risk management framework, systems automation and increased loan processing rates and volumes; (ii) training to DBJ linked to a MSME Workshop which improved core competencies to meet the rising demand for MSME loans, training, and technical assistance[55]; (iii) a TA to SLBJ on Strengthening Operations and Sustainability, the results of which are more mixed. Although the SLBJ grant may have addressed operational issues during 2013 weak internal systems have continued to undermine performance of SLBJ and for instance, the EY Management Letter for year ended March 31, 2016 highlights that "the current system used to manage the loan portfolio requires significant improvement.")

No national grants were provided in the other two selected countries (Grenada and Saint Lucia).

The majority of grants were regional in their coverage, including an important number of training programmes. The only regional grant for which the evaluation team has been able to review outputs and engage with stakeholders is the Engage TA, discussed in other parts of this report as part of the gender dimension. However, because Engage outputs were generated at the time of this evaluation in mid-2020, the extent to which the above actions will lead to stronger relevance of DFI/FIs operations in addressing gender access constraints in the future could not yet be ascertained. Based on (i) a review of the outputs produced (i.e. the GEPAPs of certain participating DFIs), and (ii) feedback from DFIs on the utility of these outputs[56], effectiveness of the Engage TA is likely to be mixed. While all DFIs expressed positive views regarding the general benefits of the Engage TA in terms of strengthening their capacity to better address gender specific issues, the evaluation noted a number of strategic and operational shortcomings (for instance, GEPAPs do not define gender specific outcome level indicators that DFIs should track).

4.2.3 Level of success of CDB's intermediary lending operations in reaching intended beneficiaries

As discussed under "relevance" above, there was varying experience with the effectiveness of targeting across DFIs and sub-borrower categories. Second, while achievement of output targets (numbers of sub-loans) is often verified, it was unclear if initial targets were sufficiently ambitious. As well, the overall disbursement rate of 70% suggests lost opportunities in reaching intended beneficiaries. There is limited evidence that DFI/FI resources addressed gender differentiated barriers for male and female beneficiaries.

Two main conditions would need to be met to validate the assumption that "DFI/FI resources reached the intended and relevant beneficiaries":

- DFI resources reached those most in need, in line with the notion of development objectives (MSMEs, students in need, etc.);
- DFI resources reached the output targets set in terms of amounts of loans disbursed, number of recipients, etc.

With regards to the first condition, it has already been established under the Relevance criterion that there was only mixed evidence that the relevant beneficiaries had been reached, as (i) the targeting and eligibility frameworks were sometimes appropriate and sometimes less so; (ii) there is insufficient evidence that market failures still exist in the three loan categories, especially mortgage lending. A

[55] For this specific grant, a comprehensive report was reviewed and allowed the evaluation team to make a more definite judgement on its effectiveness.

[56] As expressed by the participating DFIs during the "Knowledge Exchange Virtual Meeting on Mainstreaming Gender in Development Finance in the Caribbean" from 28 July 2020 which the evaluation team attended

number of cases where the DFIs were not specifically targeting recipients that would be relevant given the stated development objectives in all three loan categories are self-reported by CDB through its PCRs and PCVRs, or were directly observed by the evaluation.[57] Cases of high relevance, especially linked to the loans to poor students, were also presented.

With regards to the second condition, that the planned resources have reached the beneficiaries, there is also mixed evidence.

- At the portfolio level the disbursement rate of 70% for CDB's aggregated intermediary funds is significant but less than ideal.
- At the level of individual LOCs: targets set in the loan agreements for the number of loan recipients are being met consistently as shown in Table 12 below. However, since the targets set in the LOC Results Frameworks are often of poor quality (see Section 4.3.3 for a more in-depth discussion on the issue), these are not very useful measures of effectiveness of the LoCs. In particular, the (large) magnitude of target overachievement suggests that initial targets were not sufficiently ambitious.

Findings from PCRs. The evaluation's overall assessment of effectiveness, which could be rated as mixed, or "satisfactory to marginally unsatisfactory", is broadly in line with CDB's own assessment of the various LOCs as reported in the PCRs and PVCRs, where some LOCs perform better than others:

- <u>Student Loan – Students' Loan Bureau, Jamaica (21/SFR-OR-JAM):</u> The PCR rates effectiveness at 5.9 Rating **Satisfactory** since: 90-95% of the 7,140 beneficiaries have been able to complete their programmes and approximately half of the graduates have been able to find productive employment and obtain levels of income to contribute to reduction of poverty and vulnerability.
- <u>Consolidated line of credit – Bank of St. Lucia (16/OR-ST. L):</u> The PCR gives a rating of **Marginally Unsatisfactory** for Effectiveness (with the same rating for outputs and outcomes) mostly due to the inability of the DFI to disburse the AIC line of credit.
- <u>Eighth consolidated line of credit – Dominica Agricultural Industrial and Development Bank (17/SFR-OR-DMI):</u> The Evaluator rated effectiveness as **Marginally Unsatisfactory** based on the fact that while the targeted number of sub-loans for each component were essentially achieved or exceeded, these targets were very modest based on historic performance data. Also, there was no working definition of "small and medium-sized sub-projects" and no evidence was provided that the loan beneficiaries actually fell within the target group.
- <u>Sixth Consolidated Line of Credit – Belize (18/SFR-OR-BZE):</u> The PCR gives a rating of **Satisfactory** for Effectiveness. It rates both the achievement of outputs and outcomes as Satisfactory. In its justification the PCR states that the resources were invested in sub-projects that had the best chance of providing the expected benefits both at the level of the Belize economy and the lending targets. It adds that the loan was almost fully disbursed and as at December 131, 2015, total loan withdrawals amounted to $9,987,283 (out of $10 mn). It further states that generally, the projected targets were achieved, with student loans in particular exceeding the projected number of beneficiaries given the high demand for loans.
- <u>Student Loan Scheme – Seventh Loan –St. Vincent and the Grenadines (15/SFR-OR-STV):</u> The PCR gives a rating of **Satisfactory** for Effectiveness. The project as designed significantly met the project objectives considered at appraisal; including providing student loans for about 450 students to pursue tertiary education. The proceeds of the loan were disbursed to 333 students, including 95 persons from poor and vulnerable households, and compared favorably with an estimated 450 beneficiaries that were targeted at appraisal.

[57] For example: BOSL provided access to tertiary education and training for both male and female students of **varying economic means**; low income earners were not the targets of the mortgage loans in Dominica; as well as other targeting issues in the business loans category, for instance linked to the transportation loans in Grenada and the three large loans in the tourism sector in Jamaica.

Table 12 Planned versus actual recipients of loans (by number of loans) for completed LoC[58]

COUNTRY	LOAN	TYPE OF LOANS	PLANNED RECIPIENTS	ACTUAL RECIPIENTS	DEVIATION
Belize	Sixth consolidated line of credit	New houses	80	165	**85**
		Houses repaired	100	30	**-70**
		Student Loans	150	1133	**983**
		AIC	75	414	**339**
		Microentreprises	300	326	**26**
Dominica	Eighth consolidated line of credit	AIC	45	43	**-2**
		Housing solution	54	263	**209**
		Students	63	27	**-36**
Jamaica	Student loan - students loan bureau	Student loans (poor)	5000	7140	**2140**
Saint Lucia	Consolidated line of credit	Student Loans	300	634	**334**
Saint Vincent and Grenadines	Student loan scheme - Seventh loan	Student loans (regular)	360	238	**-122**
		Student loans (poor)	90	95	**5**

Barriers for male and female beneficiaries. There is little evidence to support the notion that DFI/FI resources addressed gender differentiated barriers for male and female beneficiaries. Across the DFIs and FIs loans were not generally influenced by gender preferences. However, in view of the dominance of female borrowers in the Student Loans category (75% of recipients were female according to the survey) efforts were made by marketing and lending staff at the SLB, SLDB, BOSL and GDB to attract more males to invest in higher education. Likewise, the SLDB, DFC, GDB managers indicated that their outreach encouraged more women as heads of households to pursue mortgages and MSME credits with their partners or independently (the survey shows that 84% of the business loans and 58% of the mortgage loans were made to male beneficiaries).

4.2.4 Enabling environments and governance arrangements for DFIs/FIs

There is strong evidence that enabling environments and internal governance arrangements for DFIs/FIs directly contribute to or constrain their success. The DBJ, which exhibits a number of best practices, has demonstrated sound corporate governance, ensuring that the organisation complies with regulations and laws; and that its operations are sustainably, responsibly, and efficiently managed in the best interests of its stakeholders and shareholder. The successes and failures of other DFIs are causally linked to enabling policy and regulatory environments and internal governance weaknesses. Reinventing the development finance brand across the BMCs must start with re-engineering their governance culture.

Overall performance[59]

Development Bank of Jamaica (DBJ). Empowered by its expanded mandate and remodelled governance structure since 2000, the DBJ took strategic decisions that reduced its dependency on borrowings, grants and subsidies from the GOJ and international donors. It became a wholesaler of

58 Based on PVCRs and PCRs.
59 Note that Chapter 3 focuses more specifically on financial performance.

corporate loan funds to accredited financial institutions and gradually reduced of its direct lending activities. By March 2015, unlike the 80-90% persistent reliance by peer DFIs on loan interest income, the DBJ was deriving its regular revenues from at least four alternative areas[60]. By March 2020, the DBJ had enjoyed seven consecutive years of surpluses. Loan Interest Income accounted for 39% of its revenues and borrowings for financial intermediation accounted for only 59.8% of its Assets. The DBJ's Credit Enhancement Fund (CEF) has become the envy of the other DFIs struggling to cope with constraints affecting access to finance, posed by lack of collateral and undercapitalisation. The Audited Accounts for the FY ended March 2020 were available to the public by September 2020. These are examples of the positive outcomes that are directly associated with the unflinching commitment among the DBJ directorate to high standards of corporate governance, inclusive of a pervasive results-based management culture and a robust risk management regime.

Grenada Development Bank (GDB). Notwithstanding lean periods when funds for on-lending were insufficient to meet customer demand, and although limited to the same core products as those stipulated in successive CDB LOC agreements, the GDB posted annual profits for 2012 through 2019 and for the past four successive years declared dividends to its sole shareholder, Government of Grenada. Reducing direct provision of credit, training and technical advice to start-ups and other micro-entrepreneurs via establishment of the Small Business Development Fund (SBDF) was a bold, strategic decision which insulated the GDB's performance indicators from that high-risk segment of the business loans portfolio. This led to improved Bank financial performance and sustainability, while the separated facility honours the social demands and political pressure for supporting this admittedly high risk yet high job creation segment of the business community.

DFC Belize. The DFC remains challenged in meeting performance targets required per its LOC Agreement. Operating losses reported to date are mainly due to economic contraction, but also weak lending and collection practices, and high administrative and operating costs. The CDB's insistence on improved accountability, transparency and strategic planning has nonetheless set a new platform for stronger capacity development, operating efficiencies, and socio-economic transformation.

Saint Lucia Development Bank. SLDB is severely challenged to increase its loan interest income and other income streams, by heightening loan collection rates, minimising portfolio losses and accelerating portfolio growth. Achieving breakeven point has been elusive for the past five years.

Students Loan Bureau of Jamaica (SLBJ). SLBJ is the administrator of the Students' Loan Fund of the Government of Jamaica. SLBJ's financial performance is among the weakest of the selected DFIs undermined by the high level of NPLs of its portfolio as mentioned in several sections of the report. The long-term sustainability for the SLBJ is projected to rely more on inflows to the Fund from the tax levy and less on internal efficiencies and product innovation.

Explanatory Factors

This evaluation explored some of the non-financial explanatory factors for the successes and failures of the four selected DFIs (as well as SLBJ). The importance of institutional governance; national, regional, and global regulatory environments; and political influence were examined.

Institutional governance.

Independently appointed Board of Directors of DBJ: In lieu of being mere appointees who serve at the will and pleasure of the Minister of Finance, the DBJ's Board of Directors are selected and appointed in accordance with the Financial Services Commission's (FSC) "fit and proper" standards and each member must have satisfactorily demonstrated fitness with the required skills mix, integrity and commitment to serve. As of March 2018, 7 of the 10 directors were independent instead of the 25% required by the Act and 40% were women in sync with the global best practice on gender quota. In

[60] Privatization and PPP Projects Management, Funds Management, Microfinance Window and Accounting Services.

addition, the Board of Directors approved its Enterprise Risk Management Framework and Policy in 2014.

Greater independence and transparency in the DFC Belize: By stipulating that six of the nine directors must be representatives of named private sector and civil society organisations (e.g. Chamber of Commerce, Bar Association, Credit Union League), Belize's Revised DFC Act (2009) effectively reduced the level of direct political influence in the Corporation. Other new provisions were entrenched in the Act to ensure that the Corporation would operate more independently of Government than its predecessor. It becomes driven by ethical business values, modern policies, transparent processes, and effective strategies and plans that should render DFC more resilient, credible, and responsive in the use of State and donor funds. CDB's role as the provider of institutional strengthening support and as 'enforcer' of better behavioural and performance standards has been effective in creating a deeper understanding among the DFC directorate and top management of good corporate governance through exemplary adherence to the rule of law and to best business practices, in the eyes of staff and clients. Reviewing the past decade, members of senior management confirmed that the advent of a majority of business-oriented professionals had brought an improved skills mix, more objectivity and independent thinking into the boardroom to balance public sector interests. This has also improved Board - management relations.[61]. The rotation principle embedded in the Act has resulted in some 'changing of the guard' on the Board, with the expiry of some directors' terms and the advent of a new government[62]. Apart from these governance enhancements, effective data management will be a precondition to accountability and transparency: weaknesses in the new DPAC information system pose continuing challenges to DFC efficiencies in processing loans and performance reporting.

Improvement of GDB internal governance: Unlike DBJ, all GDB directors serve at the behest of the Minister of Finance without specified term limits, skills mix, or rotation arrangements. This is not to say that GDB has not made improvement in terms of internal governance. The turning point in the Bank's fortunes came in 2012 when the Board assumed a directive posture in tracking implementation of its comprehensive 2012-16 Business Plan focusing on five priorities including a Corporate Governance component. The GDB returned a net profit of EC$135K (USD50 K) at yearend 2012 after two successive years of losses. This was clearly attributed to the plan-focused and results-driven approach that pervaded Board meetings and shifted the organization towards a performance-driven culture, notwithstanding tough macroeconomic and social conditions[63]. In addition:

- In May 2019, the Board of Directors approved the Bank's Disaster Management and Emergency Procedures to ensure that a robust system of action and business continuity survives a disaster in response to the fact that loss of records and non-implementation of disaster mitigation disciplines severely affected GDB recovery after the disastrous hurricanes of Ivan (2004) and Emily (2005).
- Notwithstanding the change of appointees during 2013-14 by the incoming NNP Administration, the discipline of plan-based implementation and reporting against the strategic targets remained central to the Board's work ethic. Exceeding the approved qualitative and quantitative targets became the operational priorities of an incentivised senior management team. The 2016-2020 Strategic Plan saw continued leadership from the top in ensuring accountability, business growth and recurring net surpluses.

Weaker institutional governance for SLDB: The Saint Lucia Development Bank Act (2008) sought to modernise the governance structure by limiting the number of GOSL employees on the Board to four and by stipulating that directors must be representatives of defined sectors and disciplines. However, insufficient knowledge and skills in business management, financial analysis, credit appraisal, loan portfolio management and engineering among Board members pose a governance weakness. Stronger independent and professional leadership on the Board would improve the level of understanding of the

61 Based on interviews

62 For instance, 3 of the 5 private sector directors have returned, while 2 have resigned on their own volition; in keeping with sub-section 8(3) of the Act a non-state director with experience in tourism has replaced the credit union representative; 1 of the 3 public sector representatives was re-appointed; a new chairman has been appointed; and of the 9 incumbents, 2 (22%) are female (although none is under 40 years old).

63 pp. 10-12, GDB 2012 Annual Report.

complex financial and managerial decisions necessary to accelerate the transformation of the SLDB into a profitable DFI.

Very weak institutional governance at SLBJ: The Jamaica Students Loan Bureau is a state company incorporated under the Students' Loan Fund Act (1971) and is the administrator of the Students' Loan Fund. Its governing council is appointed every three years by the Minister of Finance. No change in its governance structure was attempted during the 2011-2020 decade. The evaluation team rates institution governance of SLBJ as weak, and that has been exemplified by the failure of the institution to modernize its operations over the last decade. Over the last decade, weak internal systems have continued to undermine performance in lending, profitability, and internally generated capital (for instance, the EY Management Letter for year ended March 31, 2016 highlights that "the current system used to manage the loan portfolio requires significant improvement.")

Regulatory environment (national or regional); Diversification of funding and instruments

Strong financial regulations in Jamaica: DBJ is regulated by the (central) Bank of Jamaica but is also subject to at least another five pieces of public accountability and financial sector legislation. Like the ECCB, the BOJ lowered bank deposit interest rates during the period under review. This has improved access to AIC, MSE, MF and SLS financing for poorer citizens, while rendering the CDB hike in its interest rates on the 6th Industrial Loan ill-timed and unattractive. In addition, DBJ has a mandatory reporting requirement toward Government Ministries, Departments and Agencies.

Strong supervision and compliance but limited diversification of the equity base for DFC Belize: The DFC is regulated and supervised by the Central Bank of Belize (CBB). It must also conform to the provisions of the Revised DFC Act (No. 1 of 2009). By law, the Government of Belize is liable and is the signatory for all loans awarded to the DFC. However, successive GOB administrations have shown no interest in diversifying the equity base of the DFC via private sector shareholding. The change in political administration (November 2020) has resulted in no changes in the overall policy or the Act. The Management Team has resubmitted to the new Minister of Finance some earlier prepared recommendations to result in a leaner Amended DFC Act and a more enabling framework. These include:

- removal of the impediment where GM can approve loans up to USD125,000 but authorised signatures are required for approvals above $50,000 prior to disbursement;
- revision and transfer of administrative and operational provisions (e.g. loan approval limits) from the Act and into the Credit Risk Policy; and
- updates to the Code of Conduct

GDB exposed to liquidity constraints but widening its financial products: GDB is regulated and supervised by the Grenada Financial Services Authority (GARFIN). The Government of Grenada (GOGR) is the borrower of all GDB-related loans from the CDB; the GDB is the executing agency. While it reduces the debt service ratio of the Bank, this exposes it to serious liquidity constraints (as in 2018) where the GOGR was prevented by its IMF Agreement from contracting new external debt. The GOGR has shown no interest in diversifying the equity base of the GDB via private sector shareholding. On the positive side however, the Board submitted to Cabinet during early 2020 proposed revisions for enactment. These would enable GDB to widen its range of financial products (e.g. land purchase, construction and working capital financing) and to raise deposits from the domestic market, thus improving its liquidity while reducing cost of funds and its level of dependency on sovereign guarantees for donor funding. A response from the Ministry of Finance is still awaited.

SLDB: Private equity provisions not activated: The 2008 Act provides for individual and corporate depositors and encourages increased private sector participation while capping the scope for non-state shareholders at 60% of total equity. Ministerial approval to activate these provisions has not been granted, however.

Political influence

DBJ insulated from political influence: Since the passage of the DBJ Act and the institution's embodiment of the new approach to development banking, there has been strong respect for the independence of the Bank. The appointment of senior private sector leaders to chair the Bank, the high emphasis placed by top management on refining good governance structures, systems and practices, including impeccable compliance and high levels of public reporting have discouraged the return to the pre-2000 era of corruption, inefficiencies and mismanagement associated with nepotism, cronyism and patronage. It is not by coincidence that the DBJ did not engage in student loans either directly or as a broker for the AFIs during the Evaluation period.

GDB not insulated from political influence: During the period under review the NDC and NNP administrations have appointed, with few exceptions, competent persons with a balanced mix of skills in management, finance, credit, law, and engineering. Successive Board chairs have promoted pursuit of financial autonomy through improved governance, a strong risk management culture, adherence to prudential standards and best practices, transparent reporting, and a competent, motivated, and stable management team. However, this bank is by no means insulated from political influence. Whereas the Grenada Government has been encouraged by the IMF, World Bank, CDB and ECCB to not only divest but also diversify ownership of some state corporations, and although it is evident that private sector equity would bolster the Bank's capital strength and reduce its reliance on an already stretched public purse, Cabinet has so far retained 100% state ownership of the GDB. Transferring the high-risk start-up and micro-loans sub-portfolio from the GDB to the Small Business Development Fund (SBDF) has been the compromise: enabling the Bank to better comply with industry KPIs while Government retains its political commitment to expanding self-employment and job creation opportunities for the poor and unemployed. The fact the majority of CDB-funded business loans at the sole government-controlled bank benefited bus drivers is demonstrative of political influence. Unlike in Jamaica and Belize, Grenada has not responded to advice that increased private sector representation on the Development Bank's Board would be beneficial to independence and effectiveness.

DFC Belize effectively insulated from political interference in its day-to-day operations: The management team indicated that the Corporation is effectively insulated from political interference in its day-to-day operations, thanks to the revamped legal framework and the new climate of professionalism and performance-based management ushered in by the governance reforms of 2008-2012. Whereas the Minister appoints all members of the board, he/she is constrained within the guidelines set in the Act (as mentioned above, six (6) of the nine (9) directors must be representatives of named private sector and civil society organisations (e.g. Chamber of Commerce, Bar Association, Credit Union League). Only the hiring of the General Manager requires a 'no objection' from the Minister; however, the DFC-CDB Covenant requires CDB clearance prior to the appointment of the GM and all other management personnel. The code of conduct and the internal policies implemented since 2009 have promoted and upheld good practices and transparent behaviours, while minimising political interference in the 100% government-owned DFC operations.

SLDB: The quality of appointments to the Board by incoming administrations appears to be the major governance weakness. Stronger private and professional leadership on the Board will accelerate the transformation of the SLDB into a profitable DFI. Successive GOSL administrations have shown no interest in diversifying the equity base of the SLDB via private sector shareholding.

SLBJ: SLBJ is subject to strong political influence. SLBJ's Council is to follow policy directives of the Ministry of Finance which over the years have focused on a supply-side interpretation of its mandate. This is exemplified by the 2016-17 Chairman's Message and the Operational Report which focuses on indicators such as "annual growth in the number and value of loans approved and disbursed", "increased funding becoming available for loans disbursement with the injection of proceeds from the Special Education Tax" but doesn't particularly emphasize the financial performance of the institution.

External Governance – Regulatory environment (global)

Restrictions by the IMF in Jamaica and Grenada slowed down uptake of LOCs. The respective commitments by the GOJ and the GOGR to programmes with the International Monetary Fund (IMF) have restrained both countries' capacity to draw down loan resources, since satisfactory progress made with their debt restructuring regime, public sector cost-efficiencies and steps to stimulate increased growth were preconditions to any increase in debt levels. For example, in the case of Jamaica, whereas 339 AFI loans to farmers had been approved by December 14, 2014 under PRN 3439 (DBJ Agricultural Support 2008-2018), an inactive period of approximately two years arose when there was no draw-down of the CDB resources which negatively affected the fortunes of these farms. The SLBJ incurred foreign exchange losses of $194.280 mn in 2016/17 and $208.252 mn in 2015/16 mainly on the non GOJ-guaranteed portion of its US$ denominated debt. Both were direct repercussions from the restraints imposed on the country's capacity to draw down debt resources under the GOJ's commitment to an IMF programme.[64]

4.2.5 Effects of (CDB's) capital structure and lending arrangements on activities of DFIs/FIs and their relationship with the Bank

CDB's relationship with DFIs remains strong, largely resting on the long-term financing the Bank has been providing to them. However, some DFIs consider that CDB practices and restrictions impede their competitiveness in the increasingly liberalized Caribbean financial markets and might have contributed to the DFIs' retarded progress towards breakeven and financial independence. The relatively poor financial performance of some DFIs, however, would seem to justify some of CDB's restrictions.

CDB's relationship with DFIs. Stakeholders in the various DFIs/FIs continue to highly value their longstanding relationship with the CDB despite some limitations linked to lending arrangements mentioned below. DFIs report that the strength of CDB's relationship with them largely rests on the long-term financing CDB has been providing, as well as technical assistance (although the number of TAs has been limited over the period), compliance monitoring (with CDB and Government policies), institutional strengthening, and staff training.

CDB's capital structure. CDB funding for DFI/FI Lines of Credit projects is sourced mainly from its OCR pool. CDB has indicated the existence of a "cap" or upper limit to intermediary lending, expressed as a percentage of the Bank's total capital base, although the rationale behind it has not been communicated to the evaluation. As recent evidence suggests that CDB disbursements to DFIs/FIs are declining[65], it is assumed that the upper limit (if it really exists) is unlikely to impinge on the Bank's capacity to lend to its DFI/FI borrower base.

Lending arrangements. There are two broad issues to consider:

- <u>Loan tenor:</u> Loan tenor is a major advantage for the CDB. Grace periods and the terms of loans are especially attractive.
- <u>Interest rates:</u> As noted elsewhere, variable interest rates of LOCs have at times discouraged uptake from LOCs by DFIs/FIs, with both BOSL and the DBJ opting to stop drawdowns when CDB interest rates became prohibitive. This is further discussed under the Efficiency criterion.

Other aspects of the lending arrangements have been reported as problematic by DFIs:

- <u>Delays in accessing CDB funds:</u> While delays were attributed by CDB mainly to the slow turnaround time by DFIs in meeting LOC pre-requirements, from the point of view of DFIs interruptions in the inflows from CDB can disrupt on-lending momentum.

[64] p.4 para 3.04, PCVR B4 DBJ Agricultural Support, 2018
[65] See accompanying notes to Chart 7, DFI/FI Approvals by Year Per Country 2007 – 2019 which presents several user reversals and implementation gaps identified in the CDB portfolio

- Restrictive sub-borrower eligibility criteria: As mentioned in other parts of the report, the targeting and eligibility criteria contained in the LOC can be considered too restrictive by DFIs, which has the potential to stall LOC uptake (for instance in situations of greater demand in one targeted sector than another). Linked to this, some DFIs mentioned their difficulties linked to the following situations and practices, *inter alia*:

  - A "one size fits all" means tests across the BMCs for the working poor to qualify for mortgages, which has hardly evolved with changes in local poverty levels over the decade.
  - Poor clients debarred from buying land or existing buildings for residence or business.
  - Small contractors with valid contracts to supply Government and Private Sector clients denied bridging loans from CDB funds.

4.3 Efficiency

4.3.1 CDB management framework for its lending and non-lending activities with DFIs/FIs

CDB's management framework features a strong loan appraisal function, with potential for improvement in (i) speed of loan processing time and payment of instalments of agreed loan funds; and (ii) the revision of interest rates. The supervision process is well defined and generally adhered to, but there are challenges in supervising 8 DFIs and 2 FIs with limited in-person contact. Tracking of development results is weak.

The Loan project cycle consists of three main steps: (i) Analysis of loan requests (appraisals);
(ii) Preparation of loan agreements; (iii) Project supervision including site visits, meetings, and online communications with BMC government officials and DFIs/FIs.

The loan appraisal process is extensive and includes a review of the BMC's macroeconomic framework, assessment of the financial standing of the borrowing DFI/FI and analyses of the sub-borrower sectors to be targeted. This process is designed to validate both the legitimacy of the loan request and the potential bankability of the LOC being developed for Board approval.

Notwithstanding the relative thoroughness of the CDB's operational management, some DFIs have expressed concern about the lengthy loan processing time and delays experienced in receiving instalments of agreed loan funds. The DFIs point out that the long timeframes from their initial loan applications to initial disbursement can disrupt business operations, especially when they are experiencing liquidity challenges. Similarly, delays in loan instalment disbursement can stall loan delivery to sub-borrowers which can adversely affect the DFIs/FIs' business plans and operational targets. Lengthy timeframes are attributed to complex and detailed loan management processes and the information-intensive nature of the management framework[66]. For most loans, there are 19 steps from loan approval to loan disbursement. The timeframes are also longer than they need be partly because the loan review processes are not standardized and there is some ambiguity in information needs. These include non-standardised application letters, PSDU difficulty in forming (loan) assessment teams, incomplete loan information prior to scheduled country missions, etc. The detailed levels of CDB information gathering activities, and the varied levels of DFI/FI management capacity and information systems capabilities impact on the Bank's ability to obtain information in a timely manner and influences the duration of the loan appraisal-to-loan approval cycles. Often, it requires considerable interaction with the DFI/FI applicant over six-to-twelve-month timeframes. Also, logistically, the bank deals with eight DFIs and two FIs, with in-person contact limited on average to one visit per country per year.

[66] Based on a review of the CDB private sector loan process by Rod Morgan, November 13, 2018. The reviewer documented 19 steps in the loan application to first loan disbursement process. This process took 174 days with a computed process cycle efficiency of 2.5%. With improved processing efficiency, the turnaround time for loans could be reduced to a 56-day cycle.

Revisions to interest rates based on CDB's pricing formula influence both the fluidity and the efficiency of CDB loan disbursement. During the evaluation period, some DFIs have opted to stop drawdowns for various sub-loan categories where CDB interest rate hikes have reduced the operational margins to negligible levels (e.g. the DBJ). The policy of revising interest rates with no reference to local market (pricing) conditions, is deemed a weakness in the management, affecting development outcomes.

Bank supervision of its DFI lending exhibits both strengths and weaknesses.

- Strengths[67]: Supervision missions to the DFIs/FIs are on an annual basis and PSRs recommend appropriate plans of action for the enhancement of borrowing institutions' operations. The PSDU, which leads these missions, also engages various stakeholders including the Ministries of Finance, Planning, Housing, Education, Industry and Commerce and other relevant regulatory bodies within the respective BMCs. In situations where field visits are not possible, ongoing off-site monitoring and supervision are used. As part of the ongoing supervision, loan covenants are continuously monitored to ensure compliance. In situations where loan covenants have been breached, the DFI/FI is notified, and appropriate action plans formulated and discussed with management. An Aide Memoire is prepared following each supervision mission, detailing a set of actions which DFI/FI management will need to consider. In instances where the operating performance of the DFI/FI is classified as weak with major breaches in loan covenants identified, management letters are prepared and submitted to them detailing areas of unsatisfactory performance along with proposed action plans.
- Weaknesses: Despite good supervision as described above (and the fact that for the most part, the evaluation was able to verify adherence to it by CDB), there are two important shortcomings. The Bank deals with 8 DFIs and 2 FIs, with in-person contact limited on average to one visit per country per year. More importantly, as discussed in Section 4.3.4 below, weak M&E frameworks constrain the ability to capture development results.

4.3.2 Adherence to environmental and social safeguards

Environmental and social safeguards in LOCs are appropriate and coherent with CDB guidelines. However, their effective application/implementation is constrained by limited capacities both at the CDB and DFI levels

Framework. CDB's strategic documents make ample reference to environmental and social principles. For instance, the "Instruments and Modalities" section of the Private Sector Development Strategy mentions that in the context of Technical Assistance Grants and Loans "CDB TA involvement will ensure that the investments adhere to sound environmental, social and corporate governance standards". CDB's "2014 Environmental and Social Review Procedures" is the Bank's guiding document in this regard.

Social safeguards are normally incorporated into LOCs – such as the provisions included in the most recent LOCs for Dominica's AID Bank and in the DFC Belize 7th Line of Credit. Furthermore, there is supervision to monitor compliance by the DFIs/FIs if a sub-project has ESS requirements. PSDU undertakes supervision to ensure that the sub-borrower is adhering to those requirements (although it has been noted in PCRs/PCVRs that the supervision may take place without the presence of an environmental specialist).

As required, conditions may be established in loan agreements to ensure that DFIs/FIs strengthen and monitor their environmental and social safeguards related to sub-projects funded from CDB's resources. Initially, CDB conducts a Project Launch Workshop (PLW) which includes training for the various processes as outlined in the loan agreement. This is further supported by follow up training as needed

67 This excludes aspects linked to development results monitoring, reporting, and evaluation are treated separately under section 4.3.3.

to document disbursement of CDB's loan facilities. In the PLW, the various covenants of the agreement and reporting requirements are thoroughly discussed to ensure that the DFI/FI is cognizant of its obligations in respect of the Loan. CDB in its ongoing supervision activities monitors the DFI/FI's compliance with the Loan Agreements, policies, and guidelines.

Observation of practices by the evaluation team. The information contained in the PCRs and PCVRs suggests that the inclusion of social and environmental safeguards in the LOC is not always followed up in practice[68]. Interviews with selected DFIs have confirmed this. For instance, DFIs interviewed have reported that they often lack capacity to (i) oversee sub-borrower adherence to agreed guidelines and/or (ii) procure expert technical support services locally – where that capacity does not exist within the DFI itself. The evaluators found that neither the Grenada nor the St. Lucia DFIs have specific technical support staff to oversee adherence by sub-borrowers despite having had approved Environmental and Social Screening Policies in place for more than 5 years.

4.3.3 Monitoring, reporting, and evaluation of development results

Important shortcomings persist in CDB's monitoring, reporting and evaluation of development results especially at the level of outcome and impact. The main problem is the absence of well-defined outcome level indicators and related sources / means of verification.

The adequate monitoring, reporting and evaluation of development results depends on well-defined Logical Frameworks (LFs) for each LOC and proper data collection, monitoring, and reporting.

The comments made in the PCVR of the Dominica Agricultural, Industrial and Development Bank LOC (17/SFR-OR-DMI, approved in October 2009), which have been validated by the evaluation team, are self-explanatory with regards to the adequacy of the LF:

- In the Logical Framework (LF), the assumptions informing targets at the output level were not clear, some of the indicators at the outcome level were not measurable and time bound; and outcome and output indicators were not disaggregated to track the level of participation by different categories of beneficiaries.
- The outcome level indicators, which were not SMART, were also not modified during project implementation. Some modification was done during preparation of the PCR, but this only resulted in the reporting of essentially the same achievements at the outcome and output levels.
- There was an absence of data on the achievement of outcomes; and of measures to ensure effective targeting of SMEs under the AIC component or equal access to benefits by males and females under the AIC and SLS components.
- Indicators of sustainability were limited to financial ratios and other issues likely to influence sustainability were not analysed: capacity of the FSU; ease of doing business generally and sector level risks; variability in the demand for financial services; and diversification of DAIDB's funding sources.

In addition to comments on the LF, the PCVR makes the following observations:

- Supervision by CDB was focused on activities, outputs and compliance with lending terms and conditions, but not on monitoring risks and assumptions or tracking progress towards outcomes.

[68] Eighth consolidated line of credit – Dominica Agricultural Industrial and Development Bank (17/SFR-OR-DMI): There are a number of observations in the PCVR that suggest that more could have been done to ensure a better follow-up with regards to environmental safeguards, including: (i) the CDB supervision team was limited to staff from CDB's Private Sector Division and did not include an environmental specialist to assess DAIDB's adherence to recommended practices on mainstreaming environment risk assessment into its credit review process; (iii) to the extent that CDB is introducing best practices, for example in environmental and social impact assessment, it should encourage that these measures be employed throughout the target agency's lending programmes, and not just for CDB supplied resources; (iii) there were no provisions for monitoring loan covenants (including sub-loans' compliance with environmental management standards), risks and assumptions, and sustainability readiness.

- Provisions for M&E were inadequate. In addition to the fact that the LF was not sufficiently detailed, reports requested by CDB to facilitate supervision of the Project did not require DAIDB to focus and report on the planned results, but rather more on the financial performance of the portfolio.
- There were no provisions for monitoring loan covenants (including sub-loans' compliance with environmental management standards), risks and assumptions, and sustainability readiness.

The review of the LF of the most recently approved LOC (the third agricultural and industrial credit to the benefit of the Development Finance Limited of Trinidad and Tobago) suggests that there has been limited improvement:

- Indicators still very much focus on the output level.
- There is no identified method to generate outcome level data.
- No disaggregated targets to track for instance gender or poverty levels of sub-borrowers are specified in the LF.

These findings are coherent with CDB's own assessment as contained in PCRs and PCVRs, for instance:

- Student Loan – Students' Loan Bureau, Jamaica (21/SFR-OR-JAM): It is noted that CDB supervision could have been enhanced by internal supervision support in monitoring and evaluating of the project outcomes and the rest of the results chain.
- Consolidated line of credit – Bank of St. Lucia (16/OR-ST. L) and PCR of the Student Loan Scheme – Seventh Loan – St. Vincent and the Grenadines (15/SFR-OR-STV): It is noted that 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.

4.3.4 Are CDB's current pricing and tenor structure competitive given market conditions?

CDB's loan pricing structure for DFI/FI lending was appropriate and competitive in the past. But pricing is now (relatively) elevated and inflexible and is limiting the Bank's capacity to increase its loan portfolio.

Tenor Structure. The Bank's loan structure or tenor reflects its development priorities. DFIs/FIs are offered reasonably generous terms and conditions (grace periods of 5 years and repayment terms, on average, of 20-25 years). Such terms offer considerable latitude to DFIs/FIs.

Pricing. Revisions to interest rates based on CDB's pricing formula is problematic. As exemplified in the case of SLDB in Box 1 below, some DFIs argue that the revision of the interest rate spread on CDB loans and the lack of latitude to respond to viable client demands beyond the four prescribed sectors have negatively affected their profitability and financial sustainability. DFIs in the OECS, Jamaica and Belize have expressed concern about the Bank's pricing structure, especially because the returns on sub-loans, at 0.75%-2% were quite marginal for lending institutions whose loan volumes are relatively small[69]. Under such circumstances, DFIs were forced during the period under review to either:

a) Blend CDB funds with lower-cost funds from other financiers to on-lend to their clients (DBJ, BOSL, GDB, DFC and SLDB) or
b) Discontinue lending when CDB interest rates rose in some loan categories (DBJ, BOSL) or

[69] This is not the case across all BMCs (e.g. Jamaica) where loan rates are higher than in BMCs in the OECS.

c) Continue lending at a loss using the CDB, National Insurance and other higher- priced funds in order to retain loan customers and market presence (SLDB).

Box 1: Revisions to interest rates based on CDB's pricing formula – Evidence from SLDB.

- **2015-2019:** The effective rate for CDB funds was 4.5% which allowed SLDB to lend at an average rate of 6.8% - 8% to its customers.
- March 2019: CDB increased its rate by 0.3%, to 4.8%.
- The increase in CDB rates led to a decrease in SLDB's interest income. The new interest income of 36 cents per dollar became too low to cover its operating costs and stem its cumulative deficits (with the more favourable interest rate, earnings had been up to 47 per dollar).
- With the higher interest rate, SLDB could not compete with the commercial banks and credit unions which were lending for mortgages at 4% - 6% (RBC, for example, had dropped its mortgage rates to 4.99%).
- Increased lending charges and interest rates could not be passed on to clients in circumstances where customers already considered SLDB rates to be high.

Competitiveness of CDB's pricing and tenor structure given prevailing market conditions. Three initial observations are useful when considering the competitiveness of CDB's pricing and tenor structure given prevailing market conditions:

a) DFIs report that commercial banks and credit unions are able to lend at rates that are more competitive than their own.
b) Interest rates in the BMCs vary, making CDB's loan rates relatively more attractive in BMCs with higher lending rates than in others.
c) The 70% utilization by the DFIs/FIs of the CDB's poverty reduction loan resources is low. The 30% deferral of such usage is often masked in repeated extension requests from the DFIs or in premature requests to cancel the projects. Such decisions emphasise the fact that the variable OCR rates, once raised to levels that are unattractive in domestic markets, undermine Net Interest Margin efficiency and detract from financial sustainability in the subject DFIs.

Despite the theorical observation that CDB's loan rates are relatively more attractive in BMCs with higher lending rates than in others, it should be noted that even in Jamaica, where interest rates were higher than in the Belize and OECS financial markets, USD25 mn (62.5%) of the USD40 mn loaned to the Students Loan Bureau in successive projects in 2010 and 2013 fetched the SDF fixed rate of 2.5%. Secondly, the DBJ refused to draw down 46% (USD6.89 mn) of its remaining 6th Industrial LOC for at least 2 years following the CDB decision to increase the OCR rates. At a time when CDB's OCR interest rate was 3.7%, DBJ was directly lending to the BPO/ICT sectors at an interest rate of 4.5%, which created an opportunity for such resources to be utilised. However, increases in the CDB OCR rate to 4.80% diminished the attractiveness and appetite for utilisation of such resources.[70.]

Other examples stand out. For instance, in 2019, the GDB's projected income was negatively impacted by a $296,000 increase in interest expense over the previous year as a direct result from a hike to 4.8% in the CDB interest rate on its 4th CLOC funds, effective December 31, 2018.[71]

[70] p.5-6 PSR 2018 DBJ 6th Industrial LOC
[71] p.26 GDB 2019 Annual Report

4.3.5 Government guarantee requirement and other possible collateral options

There is limited evidence that the requirement of government guarantee has hindered DFI uptake of Lines of Credit from CDB. But the absence of similar guarantees for FI lending has limited the marketability of CDB loan products to a much broader/larger financial (FI) market. In the face of continued financial sector liberalisation it may become essential for the CDB to look for alternative funding streams outside of its current model. If it does not, it is likely to face anaemic uptake of its financial products by DFIs and could become a marginalized supplier of long-term financing. To eliminate the constraint of its own (higher cost) financing and circumvent the need to require guarantees that FIs could find unacceptable, the CDB could consider securing separate and independent sources of finance that are de-linked from its own current sources of finance and from its risk management systems.

Preliminary considerations. It is difficult to assess the extent to which guarantees may have hindered greater uptake of CDB LOCs. One reason is that the DFIs and BMC governments are still largely dependent on the CDB for development finance. In a more developed financial market environment, a reluctance to borrow with guarantees could be assessed by comparing the terms and conditions offered by other lenders to DFIs. In addition, if a BMC is under an IMF programme its government may not be able to offer guarantees associated with a CDB loan to a national DFI.

Findings. In the portfolio review of LOCs over the 2012-19 evaluation period, 19 of the 21 loans (90.5%) were covered by 100% sovereign guarantees.[72] The CDB does negotiate and accept non-sovereign security. In such cases, security for the loan will be the sub-loans and the security given by sub-borrowers for such sub-loans, which will be held by the DFI in trust for CDB, at no cost to CDB, subject to the acceptance by CDB of the sub-project and the security. Also, CDB could accept other forms of security on similar arrangements. The DFI would supervise the security portfolio at no cost to CDB. The holding of such security by the DFI in trust for CDB provides CDB with recourse to specific assets at any time of default. This arrangement also significantly reduces any legal costs that may arise from the assignment and release of the security relating to such subprojects and affords continuous monitoring of the assets financed without CDB's direct intervention.

Sovereign guarantees can be an impediment to loan access where the macroeconomic health of the BMC constrains the use of such provisions. This has happened where BMCs were under IMF macroeconomic rehabilitation programmes (e.g. Jamaica and Grenada) and committed to limiting their debt exposure. In such cases, non-sovereign security schemes are negotiated with the DFI. However, these tend to be exceptions rather than the rule.

Alternative sources of international finance are emerging for DFIs. For example, Grenada, like the DBJ, has recently accessed two long-term Petro Caribe loans by assigning the cash flow proceeds of the (on-lent) retail loans to sub-borrowers to Petro Caribe in the event of a GDB loan repayment default. These loans are offered on competitive pricing terms (2.5%), mirror the tenor of CDB loan funds, and are on-lent via a blending strategy to sub-borrowers. Under such arrangements, national Governments are able to avoid the issue of a sovereign guarantee and to still obtain loan funds for their countries' DFIs. Such strategies are likely to become more commonplace as non-ODA donors continue to increase their development financing offers to BMCs.

[72] The two exceptions were: (i) LOC# 30/OR to the DBJ in 2014 which was secured "on the strength of DBJ's Balance Sheet and the inability of GOJ under the IMF programme to provide a guarantee"; and (ii) LOC#16/OR to the Bank of St. Lucia (BOSL). Being a privately owned FI, BOSL had to provide collateral other than a government guarantee".
In addition, according to CDB, two DFI credit requests were pending as of September 2020: (i) US$20 million from the CIFI (since June 01, 2019), a privately-owned, Panama-based regional infrastructure DFI without a Government guarantee; and (ii) US$3 million from SOFIHDES (May 2019) stalled by the unstable environment in Haiti.

For the CDB, the bigger issue would be whether DFI/FI risk management systems are strong enough to justify any modifications to the status quo[73]. Further, actual introduction of alternative sources of finance to DFI/FIs could compound CDB non-guarantee exposure because the alternative lender may have secured its loan(s) by priority assignment of sub-borrower cash flow proceeds – leaving the CDB more exposed to loan defaults than it would be via the securing of sovereign guarantees. In that regard, it should be noted that the risk management systems of some DFIs (e.g. DBJ) are somewhat more advanced than the smaller ones (e.g. SLB-J, Grenada, St. Lucia, St. Vincent). However, generally, there has been gradual positive improvement in risk management systems amongst CDB-financed DFIs.

4.3.6 DFIs/FIs pricing to their clients

In the past, CDB's tenors and lending rates were attractive to DFIs/FIs. More recently CDB's lending rates have discouraged DFIs from accessing loan resources and offering appropriately priced lending products to targeted clients. This could be a longer-term challenge for the CDB if interest rates in BMCs remain low.

Feedback from OECS DFIs suggest that CDB loan pricing does not allow those institutions to make a good margin on their loans. One reason is that the competing commercial banks' financial systems are now deregulated, resulting in substantial declines in both deposit and lending rates in those systems. This puts pressure on DFI lending rates in the increasingly competitive environment in which they operate.

National market conditions do not have an influence on the interest rates charged to targeted sectors by DFIs because CDB's pricing is determined by its own OCR financial policies. CDB lends to DFIs on OCR terms priced at the same interest rate as sovereign borrowers. However, in an environment of declining interest rates within financial systems across CDB's BMCs, this pricing structure has lost its attractiveness.

The following examples illustrate the above statement:

- The Bank of St. Lucia ceased lending for AIC (business) loans by December 2017 because the cost of funds from CDB meant it was no longer a viable business case for them. (As an FI and therefore deposit taking institution it had access to less expensive funds.)
- The DBJ reached the same conclusion one year later having drawn down 54% of funds approved for the 6th Industrial Project. By March 2020, its dependence on CDB funds was 9.3% compared to 57.8% on Petro Caribe.
- In the case of the GDB, that bank negotiated three long-term, fixed-price borrowings with no sectoral or means tested restrictions with the National Insurance Board and with Petro Caribe – both of which the GDB claimed, provided faster responses than the CDB: (i) EC$4 mn @ 7% from the National Insurance Board[74]; (ii) EC$10 mn @ 3% concurrently with $15 mn @ 2.5% from Petro Caribe.
- The DFC has been balancing its indebtedness to lenders while staying solvent and responsive to borrowers, using similar considerations. By December 2019: (i) 45% of its BZE$71.7 mn debt was held by the CDB under 9 loans at rates from 2.5% to 4.8%; (ii) 21.6% ($15.5 mn) by the Social Security Board @ 8.05%; and recently (iii) 28.5% ($20.47 mn) with the GOBZ (@ zero % interest).

[73] The CDB and six DFIs participated in a Grant programme to establish a risk management model (PRN 3594) for DFIs that was hosted in Antigua in 2012.

[74] While the rate of the NIB is more expensive than CDB's lending rate, the borrowing is made without restrictions which carries a risk of inappropriate targeting of development oriented projects or sub-borrowers.

The PSDU stated that "there is no flexibility for any adjustment in pricing for LOCs as the source of funding must be considered"[75]. This presents an opportunity for the CDB to consider additional funding options for LOCs, although such a discussion is beyond the scope of the evaluation.

4.4 Sustainability

4.4.1 Sustainability of benefits to national economies

Sustainability of the benefits of the loans to the beneficiaries and to the wider economy largely depends on factors exogeneous to the intermediary lending operations. The single most important one is macroeconomic stability. Survey results found encouraging signs of sustainability for the student and business loan categories, as evidenced by the high self-reported employment rate among students, and the self-reported growth of the businesses. The evidence for the mortgage loans is more limited.

Evidence from five PCVRs and PCRs suggests that sustainability of DFI lending benefits depends significantly on the health of the wider economy:

- Student Loan – Students' Loan Bureau, Jamaica (21/SFR-OR-JAM): The PCR notes that the project's sustainability depends on the extent to which the graduates find rewarding employment on an ongoing basis to enhance their well-being. It notes for instance that graduates in the areas of maritime and technology have been able to find employment more easily than those who from management studies. It also discusses how the economic downturn has had an impact on the project as employment opportunities expected at the time of the appraisal were reduced at the end of the implementation period when there was an increase in unemployment.
- Consolidated line of credit – Bank of St. Lucia (16/OR-ST. L): 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.
- Eighth consolidated line of credit – Dominica Agricultural Industrial and Development Bank (17/SFR-OR-DMI): The PCVR notes that the weak demand for labour due to a poorly performing economy may limit positive outcomes from the SLS component in the short term.
- Student Loan Scheme – Seventh Loan – St. Vincent and the Grenadines (15/SFR-OR-STV): The PCR notes that graduates' earning capacity and disposable incomes will determine their ability to adequately service the loans upon graduation. The higher their earning capacity and disposable income, the higher their debt service ratio. Increases in the borrowers' earning capacity, which is envisaged as a result of their higher certification and qualification profile, should enhance sustainability.

Survey Results. As noted in Section 4.2.1, productive sector as well as housing and student lending resulted in positive benefits to borrowers. The following additional considerations in terms of sustainability were noted as part of the survey answers:

- **Business Loans:** Evidence paints a mixed picture. On the one hand, business loans had a positive impact on the growth of the businesses according to survey results, which can be considered an indication that the loans will result in sustainable benefits for the sub-borrowers. On the other hand, the very nature of some loans has limited inherent sustainability potential. For instance, in Grenada, less than 10% of the loans made went to the productive sector and over 40% of the business loans were made to sub-borrowers for the acquisition of new vehicles/buses[76].

[75] From "Questionnaire for CDB". Returned to the evaluation team in writing by 10 September 2020.
[76] Here, a distinction between productive sector loans (i.e. agriculture, industry) and business loans, which cover a wider area of lending activity is made.

- **Student loans:** The immediate outcome of the loans is a degree, which usually has a lifelong impact on the individual's jobs and earnings. Survey evidence points out that the vast majority of students did obtain their degree and had already been able to find employment in their area of study as a result of the loans. Also, loans mainly benefit national economies as most students found work at home. Only 6% had migrated to seek work overseas.
- **Mortgage loans:** Residential mortgages have an intrinsic element of sustainability as suggested by the nature of the benefits reported by survey respondents (improvements in housing conditions were confirmed by nearly all respondents). However, there is less evidence of benefits to the wider economy. Also, the longer-term benefits tend to be limited to the sub-borrower and their immediate family as opposed to the national economy (the typical number of people living in houses built from the residential loans is around four according to the survey results).

4.4.2 Financial and institutional sustainability of DFIs

The financial and institutional sustainability of a number of DFIs supported by CDB appears to be very limited. The extent to which DFIs/FIs are likely to become self-sustaining will depend on continued strengthening of governance and operational policies and the liberalization of loan policies at both CDB and DFI levels – including more market-sensitive, responsive, and competitive financial products offered by CDB to DFIs.

Five PCVRs and PCRs of LOCs approved during the evaluation period were reviewed. A first finding is that CDB's own ratings of institutional and financial sustainability is overly generous**:**

- Students' Loan Bureau, Jamaica (21/SFR-OR-JAM): This PCR rates sustainability as 5.9 (**satisfactory**). It notes that based on the projected operational and financial performance of SLB, sustainability of the institution is likely. It also mentions that sustainability will be enhanced by the Risk Management Unit, which is to be established shortly (the evaluation cannot confirm that the Risk Management Unit was established). The PCR also notes that while there was no specific institutional strengthening component, the project assisted in increasing and broadening the base of resources available to SLBJ for on-lending, which in the view of the evaluators is not a strong argument. The PCR mentions that other resources and legal, institutional, and financial reforms, have contributed to enhancing the capability of SLBJ to carry out its mandate, without providing more concrete details. Finally, it argues that the stipulation by CDB in its terms and conditions that SLBJ should update some of its operating policies and submit operational and financial information and annual audited reports, contributed to the enhanced governance and institutional development of SLB. **This assessment appears to be overly positive for the following reason: the high double-digit NPL and loan recovery rates on Student Loans of SLBJ are a clear sign that SLBJ has poor financial and institutional sustainability.**
- Sixth Consolidated Line of Credit – Belize (18/SFR-OR-BZE): The PCR rates Sustainability as **highly satisfactory**. It states that in general DFC made efforts for the strengthening of its operating systems and procedures and enhanced staff capacity along with realigning its organisational structure to lay the foundation for sustainable financial operations. The PCR states that while revenues from the current LOC were separately managed as an agency function, financial projections indicate that such operations will be viable during the forecast period. It further adds that DFC can now access more funds and so its productive assets and its revenue base will now contribute to a more sustainable operation. In the PVCR, the Evaluator rates Sustainability as **satisfactory** and notes that while DFC has fully satisfied the Debt-to-Equity ratio for the period 2009-2015 and the Debt Service Coverage for most of this period, it has been unable to consistently meet the required target for the ROA ratio for most of this period. **This assessment although it might have been made in good faith with the information available at the time the PCR was written, appears to have been overly positive in hindsight for the following reason: by the time the present evaluation report was written the financial trend was negative – poor collections, high and rising operating costs, unstable Other Income sources.**
- Student Loan Scheme – Seventh Loan –St. Vincent and the Grenadines (15/SFR-OR-STV): Unlike other PCVRs, this PCVR does not address financial and institutional sustainability in detail

(according to CDB this is due to the fact that the loan size was very small compared to the asset base of that institution). The PCR focuses on the sustainability of the project. With regards to institutional sustainability, it only mentions that BOSVG is regulated by the Eastern Caribbean Central Bank (ECCB) and also has in place risk management and mitigating measures to minimise all significant risks, suggesting **satisfactory** sustainability. Whereas the resumption of ECCB regulation and supervision is a positive signal, the future sustainability of this bank will be determined by the reduction of political interference in its governance and operations, availability of attractive, convenient, and competitively priced products and services, and the competency and responsiveness of its employees.

On the other hand, the assessments below are deemed appropriate:

- Consolidated line of credit – Bank of St. Lucia (16/OR-ST. L): The PCVR states that 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 concurred with the **satisfactory** rating of the PCR.
- Eighth consolidated line of credit – Dominica Agricultural Industrial and Development Bank (17/SFR-OR-DMI): The PCVR notes that DAIDB demonstrated some improvement in its financial viability but performance against some financial indicators is still weak. In addition, DAIDB is yet to diversify its source of funding for on-lending; demand for lending is variable; DAIDB's services are not explicitly inclusive; there remain institutional capacity gaps (e.g., credit appraisal, marketing, risk management, monitoring and evaluation, strategic linkages, etc.); and regulation and supervision by the FSU is inadequate. During the validation period, the Financial Services Unit (FSU) still lacked the capacity to supervise DAIDB's operations.

Additional findings and discussion. Financial and institutional sustainability hinge on the DFIs/FIs' capacity to lend profitably and on their human resource capacity to manage operations effectively. Key operational variables for sustainability are listed in the table below.

Table 13 Key actions to improve sustainability of DFIs

Operational Variables	Relevance to Sustainability
Refocus DFI boards and managers on ERM & profitability.	This will grow internally generated capital.
Monitoring of DFIs financial sustainability by CDB	Monitoring an improved set of indicators uniformly will allow CDB to better assess and influence DFI financial sustainability
CDB to migrate to a fixed interest rate regime for OCR funds, with increased sensitivity to BMC financial markets.	Greater certainty in DFI interest income and overall financial projections.
Investment in modern MIS and M&E systems and improved data gathering and analytics.	Better-informed strategic and tactical planning will improve markets penetration, reduce losses and increase profitability.
Stronger on-site management development and financial expertise for selected DFIs.	Increased rate of progress by selected DFIs to institutional and financial sustainability.

The evaluators found that the 2012-19 period witnessed progressively stronger performances in governance, managerial and technical capacity, financial growth, and sustainability efforts at the 4 sampled DFIs. The restrictive features[77] inherent in the CDB Lines of Credit have generally challenged the boards and managers of most DFIs to sharpen operating efficiencies. However, results were mixed. In spite of USD40 mn worth of CDB credits disbursed in May 2010 and December 2012 at the best available interest rates and in spite of a generous TA Grant (PRN 3716, December 2012) of $175,000 accompanying the second loan and focused on correcting ongoing deficiencies in its loan portfolio quality, the operations of the SLB-J appeared to be worsening in subsequent years. By March 2014 the loan recovery rates ranged between 40% and 50% and NPLs were 24%. SLB-J experienced continuing difficulties in achieving the low 1% ROA threshold set by CDB. Bold steps to improve management capacity and to change the policy and regulatory environment were needed to combat "the culture of entitlement exhibited by some SLB borrowers" since these were projected by successive administrations as Government loans for the poor and intended to keep local colleges and universities afloat.[78]

4.4.3 Country conditions / regulatory factors associated with institutional sustainability

Climate change, public health, the macroeconomic context, a modernised regulatory framework and strong governance are five important conditions influencing DFI sustainability.

Access to Finance and Macroeconomic Context. Examples of macro-economic factors having impacted access to finance during the evaluation period are presented below:

- **Macroeconomic environment:** During 2012-15, the economic downturn affecting most BMCs was reflected in low lending volumes and double-digit arrears and NPLs for the smaller portfolios serving the vulnerable, lower-income borrowers. Some DFIs interviewed admitted to worrisome migration of their clients to the banks offering more attractive interest rates, terms of repayment and other inducements. As macroeconomic conditions improved during 2015-2019, working class and poor citizens enjoyed greater access to finance on more attractive terms with the advent of central bank deregulation of bank interest rates resulting in increased liquidity among the commercial banks and credit unions. Reference has been made in other parts of the report to the influence of these factors on certain selected DFIs, for instance: (i) the BOSL's decision to cancel usage of 46% of committed CDB LOC funds; (ii) the DBJ's decision not to take up 46% of its approved LOC for the 6th Industrial Project was influenced by the offerings from more responsive DFI lenders to the changing macroeconomic environment.
- **IMF / Austerity measures:** Where governments undertake IMF-driven or home-grown debt restructuring programmes, access by DFIs and FIs to drawdowns from CDB, EIB, World Bank and other IFIs becomes contingent on satisfactory ratings received on the progress of the government's steps to improved debt sustainability. Both the DBJ and the GDB and their sub-borrowers (corporate and individual) endured significant financial setbacks from protracted denial of access to scheduled borrowings when their national debt restructuring programme failed the tests.[79]
- **Catastrophic Events:** Hurricanes, floods, volcanic eruptions, epidemics, and pandemics impact the CDB Region and the livelihoods of DFI/FI clients on a regular frequency. Loss of income and jobs in the tourism, transportation and other services, distribution and agriculture sectors were features of Hurricanes Gilbert (Jamaica), Ivan (Grenada), Erica (Dominica) and Dorian (The Bahamas), for instance. The COVID-19 Pandemic – unlike the Zika and Dengue epidemics - has wreaked unprecedented havoc on all facets of national and global economic activity throughout most of 2020 and continuing in 2021: the DFIs like commercial banks and credit unions have been providing moratoria and other debt rescheduling concessions to affected sub-borrowers, while new lending

[77] Some of the restrictive features include: (i) overall, strict allocations of resources between business, student and mortgages categories that limit the ability of DFIs to shift funds across categories based on evolving market demand; (ii) eligibility restrictions (precluding working capital for business loans, land purchase for mortgages).

[78] P.5 Executive Director's Report, SLB 2013-2014 Annual Report

[79] p.14 para 1, Appraisal Report, 4th LOC, Grenada

activity is being cautiously managed as economic contraction deepen nationwide and as debt-to-GDP ratios rise monthly. CDB's recent decision to allow DFI/FIs to provide working capital loans for start-up enterprises connotes acknowledgement that thousands of client businesses have been on the brink of collapse and that most DFIs will experience significant revenue shortfalls for 2020 and 2021. Reduction of capital reserves as annual deficits resume is therefore likely in some DFI/FI cases.

- **Regulatory factors and institutional sustainability*:*** As discussed at length in Section 4.2.4, the institutional and external governance (enabling environment) at the BMC level are the most important factors affecting institutional sustainability. Reference has already been made to the expanded mandate and the good governance revisions as well as central bank supervision and therefore the issue is not revisited under this section.

4.4.4 Lessons from intermediary lending programmes of other IFIs

The intermediary lending programmes of other international financial institutions are more impactful and sustainable because they offer a wider range of financial products than those offered by the CDB.

Overall, literature review reveals that the MDBs'[80] approach to financial sector development extends beyond DFIs. Lending to FIs, which are well situated to work with SMEs, has become a major feature of MDB finance to the private sector over the last 10 years. Greater FI investment can also help develop the capacity of financial markets in developing countries. The detailed sources and findings stemming from the literature review are presented in Annex 2 and are summarized in this section. Three key sustainability lessons can be gleaned from the broader portfolio offerings of MDBs.

1) **Private sector development financing is more effective when a broad range of instruments is used,** allowing wholesalers to improve the effectiveness and impact of their financing efforts. On its own, a singular focus on one or two financing products will prove inadequate in addressing the private sector's diverse financing needs. The Bank will have to first make its traditional Line of Credit product more price competitive and will also have to strengthen its technical and human resource capacity to introduce new products to the FI market. The evaluators noted that the CDB is only active in one of the eight product lines offered by larger international finance institutions[81]. Current obstacles to expanding FI lines of credit need to address interest rates and collateral requirements for FI loans.
2) **Lending institutions, at both wholesale and retail levels – have to build capacity to manage new financial products competently**. Sound financial products can perform poorly if they are badly managed or if encumbered with complex eligibility criteria and application processes. CDB would have to foster considerable business environment-related improvement and capacity building work in the financial sector to facilitate introduction of additional financial products in Caribbean markets. Nonetheless, some of the less complicated options e.g. a partial credit guarantee program, a donor-supported investment facility targeting SMEs and a more effective trade finance facility, could present near-term opportunities for the Bank to broaden its private sector lending and investment portfolio.
3) **The combination of financial sector deepening, financial inclusion, and broader private sector development is more impactful than targeted private sector lending alone.** On its own, a Lines of Credit strategy does not address all of the demand-side and supply-side deficiencies in the system. Therefore, developing and deliberately inserting broader programmatic functions to support financial sector development will lead to improvements in A2F for the Caribbean population at all scales of operations and will bring higher levels of facilitation – in helping lending institutions, individual entrepreneurs, and companies to evolve and become more sustainable over time.

[80] See: Multilateral Development Bank Lending Through Financial Intermediaries: Environmental and Social Challenges. Atiyah Curmally, Joh Sohn and Christopher Wright. World Resources Institute (WRI). June 2005.

[81] See list in Annex 4: Additional Research on the Practices of Other DFIs, below.

5 Conclusions

5.1 Portfolio Review

The disbursement rate of 70% for CDB's aggregated intermediary funds was significant but less than ideal. The bank's combined investment during 2012-2019 for improving access to affordable credit by lower income families across 5 economic and social sectors and in strengthening the loan delivery capacity and self-sustainability of the DFIs and FIs can be valued at net $157 mn (lines of credit) and $1.2 mn (technical assistance and training grants). This represents 13,5 % of the Bank's total disbursements over the period. Yet a cumulative opportunity loss of $61 mn in undisbursed funds was experienced, for various reasons.

The bank's disbursement rate has slowed down. Total approvals during 2017-2019 were $22 mn, compared to the annual average of $29 mn over the evaluation period. Reduced attractiveness of the CDB loan funds, as currently priced and administered, appears associated with this decline in demand.

CDB's portfolio management systems exhibit exemplary risk management. The Bank's loss exposure to these entities is less than 5% of its outstanding portfolio, thanks to sovereign guarantees (and other forms of collaterals in a very limited number of cases), and the fact only one (1) regional private sector entity is in default for $1.7 mn.

Grant Portfolio. A limited number of grants were provided to DFIs during the evaluation period. The financial figures on the grant portfolio support the notion that the grant portfolio was marginal in size and coverage in relation to the loan portfolio.

DFI Performance Review. The evaluation provides a performance overview of 4 selected DFIs: Saint Lucia Development Bank (SLDB), Development Bank of Jamaica (DBJ), Development Finance Corporation Belize (DFC) and Grenada Development Bank (GDB). The financial performance of the DFIs is measured against a defined set of 17 performance indicators over the 2015-2020 period, which we recommend CDB to use in the future (linked to Recommendation 3 below). This approach allows comparative analysis of beneficiary institutions, highlighting potential areas for performance improvement as well as areas of strong performance for replication.

The table below provides a snapshot of the growth of selected indicators for the selected DFIs over the 2015-2020 period. These three indicators show that important variations in financial performance exist across the four DFIs:

- Significant challenges confront the SLDB in spite of 25% asset growth since March 2015.
- Cumulative deficits have starved the DFC Belize of reserves and retained earnings.
- GDB asset management has yielded impressive annual surpluses which have boosted its reserves and retained earnings and reduced its reliance on government.
- The 230% increase in surpluses by the DBJ reflects an exceptional annual yield on assets.

5 Years of Growth in Assets, Equity & Profits by 4 DFIs.

DFI/YEAR	ASSETS	EQUITY	NET PROFIT
SLDB 2016-2020	24.6%	7%	-23.6%
DBJ 2016-2020	28.6%	39%	230%
DFC 2015-2019	6%	-23%	-137%
GDB 2015-2019	91%	9%	167%

5.2 Relevance

CDB's strategic focus on DFI/FI lending was appropriate in the past given the fragile history of alternative development finance products in the region, and CDB's lack of expertise needed to manage alternatives. Given its historical strategic focus, CDB has appropriately chosen the current DFI/FIs to work with. In addition, individual loan agreements are well aligned with national development objectives of the BMCs and the recent initiatives by the Bank to explore a limited number of new product development opportunities to add to its loan programmes are positive developments. However, relevance of intermediary lending operations is constrained by the facts that:

- Intermediary lending operations are not articulated in CDB corporate strategies and lack an overall strategic framework.
- The marginal share of the DFIs in their national markets, and sustained growth and market coverage of credit unions and other FIs suggesting that CDB's own market coverage for business, student and mortgage loans is not as comprehensive as it could be. In that context, the Bank lacks market information and inclusive eligibility criteria that could justify expanding its partnerships with a much larger number of FIs.
- In the absence of LOC specific needs assessments, CDB's assumption that the student and mortgage segments are areas of market failure has not been revisited since first established. Currently, credit unions and commercial banks are lending for small mortgages and student loans – two sectors that they had limited engagement with in the past.
- There has been a general lack of consideration for gender aspects at the appraisal stage of individual lines of credit during most of the period under evaluation.
- There is mixed evidence on the appropriateness of eligibility frameworks in place in both loan agreements and within DFIs. In addition, some DFIs have pointed to challenges linked to the application of CDB's eligibility criteria in dynamic financial markets.
- Considering recommendations contained in previous studies or reviews, CDB's financing instruments to DFIs have not sufficiently evolved or incorporated new innovative mechanisms / frameworks to meet changing market needs.

5.3 Effectiveness

Despite survey results showing that the CDB lines of credit have had positive effects on the categories of sub-borrowers; not all DFI/FI resources end up being directed at the intended and relevant beneficiaries. A number of factors need to be considered:

- There is mixed evidence that sub-borrowers are rigorously targeted with regards to the stated development objectives.
- The disbursement rate of 70% of the overall loan portfolio suggests that fewer beneficiaries than planned were reached.
- While the achievement of output targets for an LOC is often verified, there are issues with the quality of the targets.
- Logic frameworks do not clearly specify outcome level results or feasible indicators, undermining the ability to demonstrate effectiveness.
- Given the absence of a gender specific approach by DFIs, there is limited evidence that DFI/FI resources addressed the most important barriers for male and female beneficiaries.

There is strong evidence that enabling environments and the internal governance arrangements of DFIs/FIs directly contributed to or constrained success in some of the BMCs.

Finally, some DFIs (despite maintaining a strong relationship with CDB) consider that restrictions in CDB lending arrangements in some respects impede their competitiveness in the increasingly liberalized Caribbean financial markets. In their view, this retarded their progress towards breakeven and financial independence.

5.4 Efficiency

There are strengths and weaknesses in CDB's management of its intermediary lending programme:

- CDB's management framework is appropriate with regard to its loan appraisal function however there are important areas for improvement including (i) timeliness of approval and disbursement and; (ii) the periodic revision of interest rates.
- Important shortcomings persist in the ability of CDB to adequately monitor, report and evaluate development results especially at the level of outcome and impact. The main problem is the absence of well-defined outcome level indicators and related sources / means of verification.
- CDB's current loan pricing structure for DFI/FI lending is limiting the Bank's capacity to grow its loan portfolio. There is recent experience of DFIs being discouraged from accessing CDB loan resources to offer appropriately priced lending products to targeted clients.
- While the requirement of a government guarantee has not hindered DFI uptake of Lines of Credit from CDB, the unavailability of similar guarantees for FI lending has limited the marketability of CDB loan products to a much broader/larger financial (FI) market.

5.5 Sustainability

Sustainability of CDB's intermediary lending programme presents a mixed picture:

- Sustainability of the benefits to the beneficiaries and to the wider economy largely depend on factors exogeneous to the intermediary lending operations of CDB. The single most important one is macroeconomic stability. Nevertheless, survey results find encouraging signs of sustainability for the students and business loan categories, as evidenced by the high self-reported employment rate among students, and the self-reported growth of the businesses. The evidence for the mortgage loans is more limited.
- The financial and institutional sustainability of 3 of the 4 selected DFIs supported by CDB was found to be very fragile. The extent to which DFIs/FIs are likely to become self-sustaining will depend on continued strengthening of governance systems and operational policies and the liberalization of loan policies at both CDB and DFI levels – including more market-sensitive, responsive, and competitive financial products offered by CDB to DFIs.
- Climate change, public health, the macroeconomic context, a modernised regulatory framework and strong governance are five important conditions influencing DFI sustainability.

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6 Recommendations

6.1 Introduction and Context

This report has attempted to document the experience of CDB's intermediary lending programme over the past decade, finding strengths as well as areas for improvement. It is important to recognize that lending has been pursued within the context of the Bank's existing financial structure and risk management practice. These influence, and sometimes circumscribe, the nature and extent of CDB's lending to DFIs/FIs. While it has not been within the scope of this evaluation to question that existing context, where appropriate, observations have been made on its interplay with lending to DFI/FIs. The important elements are:

- **Level of interest rates.** CDB's intermediary lending programme must contend with the high cost of capital and relatively high interest rates passed on to DFIs, when liquidity in the region has been rising and loan interest rates charged by DFI competitors have been falling.
- **CDB's collateral options for FI lending.** The requirement of a government guarantee, inherent in CDB's overall risk model, limited the marketability of CDB loan products to a broader/larger financial (FI) market during the decade under review.

Understanding this context, a number of strategic and operational recommendations are offered for focused improvement of the Bank's intermediary lending programme.

6.2 Recommendations

Recommendation 1: Develop a Strategic Framework for intermediary lending

CDB should develop an explicit Strategic Framework for its intermediary lending operations This is needed to address the fact that the intervention logic, including the assumption of some degree of market failure in provision of credit for small scale productive activities, student loans, and mortgage finance has not been revisited since the early years of the programme**.** Clearer strategic guidance and linkages to CDB's multi-year development goals and strategies is needed. An updated framework should consolidate into one forward looking document the key strategic and operational features of future intermediary lending operations, based on the evaluation recommendations contained in the rest of this report. The following actions and strategic orientations should be considered:

- <u>Carry out a comprehensive assessment of the regional financial market:</u> The objective would be to improve understanding of financial market trends and coverage and implications for positioning of intermediary lending efforts. Among others, an assessment of market failures,[82] new product introductions, private sector and consumer finance trends, product prices and lending terms should guide the development of the Strategic Framework.
- <u>Increase focus on DFI institutional governance and financial sustainability:</u> The evaluation has pointed to the importance of institutional governance in constraining or enabling DFIs' success, as well as the limited financial sustainability of some DFIs supported by CDB. Actions to be considered in this area include: (i) explicitly recognizing and promoting good practices in institutional governance, for instance by the development of a CDB paper on best practices; (ii) more systematic TAs/grants for institutional strengthening in support of LOCs.

[82] There is no recent study confirming the existence of market failure in the three loan categories, and survey results from this evaluation call into question whether such failures exist in the mortgage loan category.

- Review conditions linked to eligibility and targeting of sub-borrowers: CDB should review its lending conditions with DFIs in order to ensure appropriate eligibility and targeting of sub-borrowers while safeguarding the sustainable financial performance of DFIs, and LOC uptake by DFIs. Evaluation findings suggest: (i) a lack of clarity of sub-borrower eligibility criteria contained in the loan agreements (for instance, there is no definition of SME contained in the AIC loans); (ii) targeting of sub-borrowers was not always aligned to the development mandate of DFIs[83] (iii) some DFIs consider certain restrictions (linked to financing working capital for businesses, and the purchase of land by mortgage owners) to be inappropriate and possibly contributing to a declining uptake and disbursement of LOCs in recent years.
- Review relative mix in the overall portfolio: The current mix between business, student, and mortgage loans[84] needs to be revisited in light of a number of factors, including (i) CDB's focus on Private Sector Development as laid out in the new PSD Strategy; (ii) the review of the regional financial market and updated understanding of where credit is most constrained.
- Broaden the DFI beneficiary universe: Previous studies have also recommended this. Credit unions would be the most relevant new partner for CDB, given their development-oriented philosophy, ownership structure and financial independence.
- Expand the list of eligible DFI/FI credit instruments: This has also been noted in previous studies. Partial credit guarantees should be the first priority, given that they would help address the constraints that high collateral requirements impose on Access to Finance in the region.[85] Recent successful initiatives such as DBJ's CEF and the ECCB's Partial Guarantee Facility have shown promising results and deserve replication.

Recommendation 2: Strengthen monitoring and reporting on outcome level results

CDB should strengthen monitoring and reporting on the outcome level (or development) results of its intermediary lending programme. Among others, this would involve:

- Strengthening Logical Frameworks (LF) at the LoC design stage: Outcome statements and feasible indicators reflecting aggregate expected improvements in the well-being of sub-borrowers should feature in LFs. Critically, the data collection needed to substantiate progress on indicators, and the capacity of DFI/FIs to collect and report on it, should be taken into consideration.
- Conducting outcome and impact surveys: The administration of outcome surveys on a periodic basis for all LOCs would substantiate reporting on development results. The methodological approach of the survey carried out for this evaluation could be used as the basis for such surveys.
- Ensuring that Project Completion Reports are systematically produced for Grant interventions as well as disbursed loans: PCRs and PVCRs developed for LOCs are useful tools in the context of the review and assessment by CDB of its development results. Extending such practices to grants especially in the context of the shortcomings noted in DFI institutional governance and operational efficiency would allow CDB to evaluate and draw lessons from its grant interventions.

Recommendation 3: Establish Uniform Financial Performance Indicators and Standards for the DFI/FIs

CDB should establish Uniform Financial Performance Indicators and Standards for the DFI/FIs, to better monitor and influence DFI sustainability. Done in conjunction with regulatory authorities and key stakeholders this would be an important step towards measuring and influencing the financial sustainability of DFIs. To this end, a list 17 proposed Financial Performance Indicators and Standards

83 For instance: The Sixth Industrial Line of Credit to DBJ was entirely focused on three tourism related businesses with a sub loan value of USD2.7 mn each. In St. Lucia, student loans targeted families of "varying economic means", without a particular focus on poor students.

84 Student loans account for account for almost ½ of the portfolio, and productive sector just over 1/3.

85 IMF Working Paper WP/18/53 Western Hemisphere Department. "Financial Development and Inclusion in the Caribbean." Prepared by Chuan Li and Joyce Wong. March 2018

that CDB should review periodically is presented in Section 3 of the report alongside specific operational aspects, *inter alia* (i) adjusted standards / targets for the proposed financial performance indicators; and (ii) reporting best practices. Two specific ones stand out:

- Use of 5% (arrears) and 15% (NPLs) as the proposed regulatory ceilings for the DFIs provided that the NPL portfolio is adequately covered by loan loss provisions.
- Noting that presentation of the audited accounts of the DFC and the GDB were exemplary in facilitating analysis by isolating non-current from current assets and liabilities, CDB should encourage industry-wide replication of same.

Recommendation 4: Develop a gender approach to DFI lending

CDB should define operational requirements with respect to gender equality and gender mainstreaming for its LOCs. Building on the results of the Engage TA, the Bank should develop a gender specific approach to the intermediary lending environment. This approach should outline *inter alia*:

- Responsibilities of DFIs in terms of sub-borrower targeting / eligibility from a gender perspective;
- Gender specific output and outcome indicators;
- Responsibilities of DFIs for tracking those gender indicators.

Recommendation 5: Improve approval and disbursement turnaround times

As part of its ongoing Transformation process, CDB should seek to improve the turnaround time for approvals and disbursements in the LOC cycle. Delays have on occasion interrupted disbursement flows to DFIs - resulting in illiquidity and loss of income. Deficiencies in both BMC loan readiness and CDB internal processes[86] have been contributing factors.

Recommendation 6: Encourage DFIs to develop auto-decisioning customer interfaces to improve operational efficiency

CDB should encourage DFI migration towards more automated processes in loan-related decision-making. Since all DFIs are seeking to increase profitable lending in their business, education, and mortgage portfolios, their 2021 goals should focus on seamless, end to end remote lending to modernize their core business processes and reduce operating costs. Research on opportunities available to automate lending workflows, eliminate manual steps, and incorporate alternative data to boost auto-decisioning for low to medium risk sub-borrowers should be initiated. These improvements would lead to reduced overheads, minimize risks, and increase loan profitability. Auto-decisioning will improve the response process for sub-borrowers and, most importantly, facilitate affordable access to credit for more entrepreneurs, students, and homeowners.

[86] See: Page 68, "Future State Mapping" in the Operations Process Review – Current State and Assessment Report prepared by Rod Morgan in January 2019.

PUBLIC DISCLOSURE AUTHORISED

APPENDIX 1

CARIBBEAN DEVELOPMENT BANK

MANAGEMENT RESPONSE

EVALUATION REPORT

CARIBBEAN DEVELOPMENT BANK'S WORK THROUGH

DEVELOPMENT FINANCE INSTITUTIONS

AND

OTHER FINANCIAL INTERMEDIARIES (2012-19)

JUNE 2021

MANAGEMENT RESPONSE

The Private Sector Division (PSD) presents the management response to the recommendations contained in the Evaluation of CDB's work through Development Finance Institutions (DFIs)and other Financial Intermediaries (FIs) for the period 2012–19, which was assessed against four performance criteria: Relevance, Effectiveness, Efficiency, and Sustainability. The evaluation mandate was to assess past performance, draw conclusions, and make forward-looking recommendations.

General Comments:

1. PSD considers the final report a valuable and pertinent assessment since it depicts a snapshot of the intermediary lending at CDB. PSD also considers the report as a roadmap to improve the provision of resources to the private sector by CDB, where the majority of the stated recommendations were accepted, although most entail engaging in a wider dialogue with other entities within the Bank and the ultimate approval by the corresponding senior management.

2. The evaluation approach was sound, and the report succeeded in reflecting CDB's interaction with DFI's. The evaluation was timely, given the ongoing internal transformation of CDB's interaction with the private sector. The evaluation provided solid evidence-based information of what has worked best, lessons learned, and offered some practical suggestions to possible next steps, many of which have provided the justification and logic behind several sections of the upcoming CDB's definition of its policy, strategy and operational framework aimed towards this sector.

3. Along this line, substantially addressing the challenges identified in this Evaluation and ensuring that CDB remains a relevant partner for FIs in the Caribbean, will require the Bank to reform/adapt its existing structures, instruments, and procedures aimed at this segment of the private sector, and to build-up relevant technical and human capacities. To steer these efforts, PSD has developed a Private Sector Development Policy and Strategy (PSDPS) guiding its activities and interactions between 2023 and 2027, which will be put to the consideration of the Board of Governors at its December 2022 meeting. The PSDPS recognises DFIs and Commercial Financial Intermediaries (CFI) as two major institutional channels by means of which its strategic pillars and strategic objectives are to be operationalised, particularly:

    (a) Expanding the range of loans and financial services offered to DFIs and CFIs.

(b) Increasing the access to finance to private enterprises in BMCs by prioritising the current and unique needs that these entities display in the Region.

(c) Promoting overall enterprise development, with an emphasis on the MSME private sector.

4. Upon approval of said PSDPS, a Private Sector Operational Framework (PSOF) will be structured and set in place, with the purpose of ensuring the successful implementation of the aforementioned Policy and Strategy. The PSOF will make a profound review of the existing array of CDB's policies and guidelines applicable to private sector financing (presently estimatedat 23 different documents), and propose one single reference document that codifies, harmonises,and articulates such documents in one single document, identifying and solving potential contradictions or conflicts between them, recommending relevant updates and improvements with the ultimate purpose of facilitating CDB's expansion in the private sector. It will also propose a Delegation of Authority scheme for the swift administration of sovereign and non-sovereign private sector-related Capital Investment projects, as well as for Technical Assistance (TA) initiatives.

5. The consultancy for the development of the PSDPS and the PSOF is currently underway, and the PSOF is expected to be delivered by the end of Q2–2023. The definition of the tasks stated in the terms of reference of said consultancy was very strongly based on the findings of this **Evaluation of CDB's Work Through DFIs and Other FIs (2012–19)**, with the intent of addressing the recommendations issued therein. Some of these tasks are:

(a) Review all relevant materials and existing reports in preparation for consultative visits with various stakeholders, including among others, past private sector strategies, CDB's current policies and guidelines applicable to private sector financing, and independent evaluations of CDB's private sector-related activities and operations.

(b) Conduct a Strengths Weaknesses Opportunities Threats (SWOT) analysis of PSD.

(c) Conduct an institutional assessment of the governance, management, organisational structure, systems, policies and procedures, and identify streamlining opportunities, while assessing risks and non-negotiable issues.

(d) Discuss whether internal CDB policies and approach may have impacted on the level of activity and degree of implementation or are in line with other multilaterals and DFI's. For instance, by determining whether:

(i) CDB's approach to security is in line with other Multilateral Development Banks (MDBs) and DFIs for both financial intermediaries and other lendings.

(ii) CDB's processes, for instance in relation to disbursement and documentation are unduly onerous compared to other DFI's.

(iii) The financial limits of financing for individual projects present an obstacle.

(iv) The overall limit on non-sovereign exposure presents a constraint for expansion.

(v) The resources provided to PSD in terms of staff and skills are adequate to achieve the objectives.

(vi) CDB should develop a risk pricing model that is flexible and competitive with other DFI's.

(vii) It makes sense seeking to maximise co-financing opportunities with other DFIs and adopt their policies and approaches in such instances.

(viii) CDB should modify its existing financial limits on the amount of non-sovereign exposure, perhaps by adopting the practice whereby the amount of risk capital required is related to the credit rating of the project (e.g., of the African Development Bank).

(e) Review and propose improvements on the following:

(i) Credit approval process.

(ii) Risk Committee oversight process.

(iii) Board Risk Committee process.

(iv) Board Alignment process.

(f) Review the nature of the different types of TA that PSD provides and propose linkages with capital investment projects.

(g) Develop a results framework to monitor and ultimately evaluate the effective implementation of the PSDPS, by defining outcome statements and feasible indicators.

6. The PSD team is grateful to the Evaluation team for its observations regarding the implementation of past DFI/FI operations, which are important for ensuring accountability and maximising their development impact. The team particularly appreciates the focus on lessons learned from intermediary lending programmes at other IFIs and other guidance that has helped justify and inform the strategic shift proposed in the PSDPS 2023–27: this evaluation has been invaluable in providing additional independent insights and evidence that have been taken in consideration in said PSDPS and PSOF. The attached matrix indicates "acceptance" and "acceptance with modification" with each recommendation. It presents the actions, responsibilities, and timelines planned or implemented in response to the recommendations.

7. The accepted recommendations were the ones that PSD has direct control over, in terms of private sector engagement repositioning, new areas of focus for the Bank, and strategic alignment with the Bank's overall Strategy and Policies. The recommendations which were "acceptance with modification" reflected mainly interventions, which are beyond the specific scope of PSD, but in which PSD will engage with other areas of the Bank to seek a solution.

Particular Comments:

1. In relation to CDB's continued relevance of intermediary lending operations, specifically the market failures in the student and mortgage segments, it is worth mentioning that contribution and collateral requirements for first-time homeowners continue to be a major hindrance in their efforts to secure home loans. CDB's resources are only used in Mortgage Finance (MF) programmes to assist first-time homeowners with acquisitions and or home improvements. As discussed in the matrix below, funding of land by MDBs has always been contentious.

2. A similar argument can be made for some student loan schemes[1/] (SLS): in Lines of Credit (LOCs) with student loan components targeting the poor there is a requirement for the DFI in question to establish eligibility criteria that includes family income and are approved by CDB. SLS programmes offered by commercial banks and Credit Unions (CUs) are based on existing credit relationships mostly in situations where existing collateral is being held. DFI's SLS portfolios tend to be aligned to the human resource development needs of the country by way of priority lists for areas of study. To suggest that limited market failure exists for SLS is to suggest that any student desirous of pursuing tertiary-level training can readily access funding and this is not the case. There is evidence of market failure in several sectors of borrowing member countries (BMCs).

3. Regarding the targeting effectiveness, mortgage and student loans stemming from CDB's LOCs to DFI's carry specific access criteria, as is also the case for productive sector loans' limits and sector focus.

4. In the case of MF, CDB's current policy does not support land purchase as a discrete activity of any form whether in a LOC or a development project. In LOCs funding can be accessed to finance home acquisition whether house and land as a package or to construct a house where land is already available. No funding is made available to purchase land only and this position is consistent with that of other MDBs. In addition, the declining uptake for MF resources from CDB has to do with the cost of resources and tenor. CDB funds cannot compete with commercial banks and CUs when CDB funds are being made available to FIs at 2% on top of OCR. Also, some FIs are offering MF loans for up to 30 years and CDB funds are being offered to FIs for up to 17 years thereby creating a duration mismatch. PSD will review eligibility criteria to consider the recommendations issued.

5. Regarding the LOC "Anguilla bank resolution - bridge bank capitalisation" (7/OR-ANL) approved by the Board on May 18, 2016, it must be clarified that it refers to a Bank Consolidation Loan, which greatly differs from other LOCs considered in the Evaluation. The purpose of the loan to the Government of Anguilla was to capitalise a bridge bank as part of an intervention to support two failed indigenous banks whose selected assets and liabilities were being transferred to the bridge bank. This loan was fully disbursed, and the Government of Anguilla received the proceeds in August 2018 after being held in escrow by Eastern Caribbean Central Bank (ECCB).

[1/] Universalia (2005). Assessment of the CDB Student Loan Scheme (SLS). Volume 1: Final Report. https://www.yumpu.com/en/document/view/7732519/assessment-of-the-cdb-student-loan-scheme-sls-caribbean-/29

6. Finally, Project Completion Reports (PCRs) not completed on time during the period in question were due primarily to the scarcity of resources within PSDU, which focused on competing priorities related to the implementation/supervision of the ongoing portfolio and the appraisal of the incoming pipeline in the context of coping with the effects of the COVID-19 pandemic that affected FIs throughout the Region.

ACTION PLAN:

Recommendations	Management Comments/Responses *(Accepted/Accepted but Modified/Rejected)*	Commitments/Actions	Responsibility Centre	Target Completion Date (Y/M/D)
1. Develop a Strategic Framework for intermediary lending. **CDB should develop an explicit Strategic Framework for its intermediary lending operations**	***Accepted.*** PSD is currently developing the Private Sector Development Policy and Strategy (PSDPS) and Private Sector Operational Framework (PSOF), whose terms of reference are very strongly based on the findings of this Evaluation with the intent of addressing the recommendations issued therein. In particular, the PSOF will review eligibility criteria to consider the recommendations issued in the evaluation.	PSDPS and PSOF to be developed and approved by Q4 2022 and Q2 2023, respectively.	PSD, subject to SAT/EMT/BOD approval.	PSDPS: Q4 2022 PSOF: Q2 2023
2. Strengthen monitoring and reporting on outcome-level results. **CDB should strengthen monitoring and reporting on the outcome level (or development) results of its intermediary lending programme**.	***Accepted.*** Management recognises that to date, results planning and reporting for LOCs have been primarily at the output level. Stating, monitoring, and reporting outcome-level results has been a challenge, in part because of capacity limitations at DFIs, while impact-level reporting is typically outside of the project implementation period for which PSD does not have a budget. Through its survey of end recipients, the Office of Independent Evaluation (OIE) evaluation has contributed to understanding the degree of achievement of some of the development outcomes that the LOCs are aiming for. Going forward, Management recognises the need to increase both CDB and DFI attention to planning for and reporting on, outcome level results of its LOCs. In relation to "Ensuring that Project Completion Reports are systematically produced for Grant interventions as well as disbursed loans PCRs related to a Grant": (a) In cases where grants are part of a LOC, the LOC PCRs already address issues pertaining both to loan and institutional strengthening grants.	PSD is guided by the Bank's overall results framework, lending policies and procedures and since 2021 has been monitoring and reporting consistently on samefrom inception. Along this line, PSD will make sure RMFs for future LOCs do incorporate expected results, and indicators, atthe outcome level. When providing support to individual DFIs, CDB will assess their ability to track and report on the outcomes of their sub-loans. Where necessary, TA will be provided to strengthen DFIcapacity to do so, including in their Management Information Systems.	PSD	Continuous task, beginning on Q4 2022. By Q4 2023, list of TAs provided to DFIs to strengthen their outcome level results management

Recommendations	Management Comments/Responses *(Accepted/Accepted but Modified/Rejected)*	Commitments/Actions	Responsibility Centre	Target Completion Date (Y/M/D)
	(b) In cases where standalone grants are made, PSD will strive to observe the timely preparation of PCRs for these interventions when surpassing USD40,000[2/].	At the overall programme level, PSD will strive to improve the tracking of the development results of its LOC, by proposing: (a) A TA aimed at financing outcome and impact surveys for a representative sample of projects to be conducted by independent evaluators. (b) In each yearly budget, resources for the timely elaboration of PCRs.	PSD, subject to ARC/BOD approval. PSD, subject to SAT/EMT/BOD approval.	Q4, 2024 Q3, 2023
3. Establish Uniform Financial Performance Indicators and Standards for the DFI/FIs. **CDB should establish Uniform Financial Performance Indicators and Standards for the DFI/FIs, as a way to better monitor and influence DFI sustainability**	***Accepted but Modified.*** Standard benchmarks are already incorporated in each LOC agreement, based on existing guidelines[3/], which align with the benchmarks set by regulatory authorities. Benchmarks are included in individual Loan Agreements. In order to avoid an environment of information overload in case of having 17 benchmarks alongside RMF reporting, an automated CDB platform and tools for reporting could be developed and provisioned to FIs. Similarly, related to Key Performance Indicators Comparison, PSD ponders that development lending is influenced by several factors including those that are macroeconomic in nature. Placing growth targets on assets and loans would not necessarily translate into improvement in profitability or asset quality.	Conduct a dialogue with IT Department and senior management to develop an automated CDB platform to facilitate FI's reporting on performance indicators, while defining the set of financial performance indicators to be actually considered. This platform could also allow FIs to automatically produce financial compliance information by simply	PSD in coordination with IT Department, subject to SAT/EMT/ORM	Q2 2023

[2] TA Policy and Operational Strategy. Paper BD 55/12. December 2012.

[3/] CDB's Eligibility Criteria for Development Finance Institutions.

Recommendations	Management Comments/Responses *(Accepted/Accepted but Modified/Rejected)*	Commitments/Actions	Responsibility Centre	Target Completion Date (Y/M/D)
	Correspondingly, it is not advisable to set net interest margin targets as interest rates are influenced by several externalities outside of DFI's or CDB's control.	uploading their financial statements.		
4. Develop a gender approach to DFI lending. **CDB should define operational requirements with respect to gender equality and gender mainstreaming for its LOCs.**	***Accepted.*** The PSDPS incorporates gender mainstreaming as a critical policy priority in all private sector-related interventions promoted by PSD. This entails alignment with CDB's Gender Equality Policy and Operational Strategy (GEPOS) to address gender disparities and consider gender equality and potential enhancement of gender capacities, as well as gender data collection. Specific measures will be adopted and implemented to tailor each intervention, such as: bringing awareness and promote financial literacy among women-led businesses; empowering female entrepreneurs to increase their productive capacities and ensuring the collection of entrepreneurship sex and age-disaggregated data.	Include and refine gender-specific output and outcome indicators in PSD projects. Train DFIs for tracking those gender indicators.	PSD in coordination with SSD.	Ongoing task dating at least since 2020.
5. Improve approval and disbursement turnaround times. **As part of its ongoing Transformation process, CDB should seek to improve the turnaround time for approvals and disbursements in the LOC cycle.**	***Accepted but Modified.*** PSD recognises the importance of improving approval and disbursement turnaround times. Towards this end, the PSOF will aim at simplifying internal approval/implementation processes and procedures for CDB's financial private sector operations to expedite decision processes. Also, consideration will be given to developing a semi-automated, paperless platform that could facilitate disbursement/justification turnaround times during the implementation stage.	PSOF to be developed andapproved by Q2 2023. Conduct a dialogue with PPU to support the implementation of an e-claims process, which is currently being developed underCoreFin and OP365 projects. Interaction with IT and PPU.	PSD, subject to SAT/EMT/BOD approval PSD/PPU/IT	Q2 2023

Recommendations	Management Comments/Responses *(Accepted/Accepted but Modified/Rejected)*	Commitments/Actions	Responsibility Centre	Target Completion Date (Y/M/D)
6. Encourage DFIs to develop auto-decisioning customer interfaces to improve operational efficiency. **CDB should encourage DFI migration towards more automated processes in loan-related decision-making.**	***Accepted.*** While this is highly desirable, the issues have been accessing to affordable and appropriate software applications. Further discussions with DFIs and their Information Technology (IT) departments would confirm challenges in accessing off-the-shelf packages for the automation of business processes. TA and Loan assistance could be offered to FIs for this particular purpose.	Enhanced analysis of core banking systems from potential DFIs to recommend modernisation of their core business processes and reduce operating costs. TA Grants or Loans for a broader IT implementation across DFIs could be assessed per each upcoming intervention.	PSD/CTCS subject to ARC/BOD approval.	Continuous task, beginning on Q4 2022