



**Vulnerability**

non-communicable disease

remoteness

disaster risk management

climate change

**RISING SEA LEVEL**

diseconomies of scale

labor migration

volatile growth

natural disasters

**OECS VOLUME 1**

# Cluster Country Program Evaluation on Small States

Regional Program Evaluation of the Organisation of Eastern Caribbean States:  
Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia,  
and St. Vincent and the Grenadines



**IEG**  
INDEPENDENT  
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# **Regional Program Evaluation of the Organisation of Eastern Caribbean States: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines**

## **Cluster Country Program Evaluation on Small States**

**OECS Volume I**

**AN INDEPENDENT EVALUATION**

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All volumes of the Cluster Country Program Evaluation on Small States are found online at  
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# Abbreviations and Acronyms

AAA	analytic and advisory activities
AIDS	acquired immune deficiency syndrome
APL	adaptable program lending
BAICO	British American Insurance Company
CARICAD	Caribbean Center for Development Administration
CCRIF	Caribbean Catastrophic Risk Insurance Facility
CDB	Caribbean Development Bank
CDF	Comprehensive Debt Framework
CGF	Caribbean Growth Forum
CLICO	Colonial Life Insurance Company
DeMPA	Debt Management Performance Assessment
DRM	disaster risk management
ECCB	Eastern Caribbean Central Bank
ECTEL	Eastern Caribbean Telecommunications Authority
EGRIP	Electronic Government for Regional Integration Project
GDP	gross domestic product
GEF	Global Environment Facility
HIV	human immunodeficiency virus
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
ICT	information and communications technology
IDA	International Development Association
IDF	Institutional Development Fund
IFC	International Finance Corporation
IMF	International Monetary Fund
M&E	monitoring and evaluation
MECOVI	Mejoramiento de las Encuestas de Hogares y la Medición de Condiciones de Vida
MTDS	Medium-term debt management strategy
NCDs	noncommunicable diseases
NLTA	nonlending technical assistance
NPM	New Public Management
NTRC	National Telecommunications Regulatory Commission
OECS	Organisation of Eastern Caribbean States
PCU	Project Coordination Unit
PDNA	Post Disaster Needs Assessment
PPP	public-private partnership
RPE	regional program evaluation
RPS	Regional Partnership Strategy
RPSPR	Regional Partnership Strategy Progress Report
SEMCAR	Supporting Economic Management in the Caribbean
SME	small and medium enterprise
VAT	value added tax
WASCO	Water and Sewerage Company of St. Lucia

*All dollar amounts are U.S. dollars unless otherwise indicated.*

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# Overview

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## Highlights

The six independent members of the Organisation of Eastern Caribbean States (OECS) – Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines – face major development challenges and vulnerabilities. Their small size entails diseconomies of small scale in infrastructure, institutions, and markets. They are highly vulnerable to natural disasters, especially hurricanes, and to climate change. Their open but undiversified economies expose them to shocks. Tourism, now the dominant activity, faces eroding competitiveness and a loss of market share. A vicious circle has prevailed of low growth, high debt levels from weak public finances, and frequent shocks.

During the FY06–14 evaluation period, the World Bank Group engaged with the OECS on two pillars of development: strengthening resilience and improving competitiveness. Program design was relevant and had laudable attributes, such as a good instrument mix in several cases, support for regional solutions with a strong economic rationale, flexibility to address risk, effective use of partnerships, and provision to confront capacity constraints. Bank Group program objectives however, were broad-ranging, involving many sectors and numerous activities. Greater selectivity would have allowed greater consistency and continuity of Bank support in priority areas, likely bringing better results.

This evaluation rates the program's progress toward achieving its objectives during FY06–14 as moderately satisfactory. Bank Group support helped strengthen areas such as fiscal and debt management, disaster risk management, social resilience, and the financial sector in the wake of the 2008–09 global crisis. A particularly important contribution drew on the Bank's comparative advantage to help overcome a market failure through the establishment of a self-supporting, sustainable insurance mechanism against disaster events, the Caribbean Catastrophic Risk Insurance Facility.

Looking ahead, it will be necessary to ensure selectivity and specificity in the objectives of new Bank lending, and simplicity and flexibility in its design, with appropriate provision for the institutional capacity that it requires. The Bank Group should also continue supporting OECS-wide development solutions, but only where the economic rationale and support among country stakeholders are strong. It should also continue consolidating its portfolio of activities, ensuring complementarity within clusters of lending and nonlending products, and seek to strengthen and showcase collaboration by the World Bank and the International Finance Corporation.

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## OVERVIEW

The regional program evaluation (RPE) reviews World Bank Group support to the countries of the Organisation of Eastern Caribbean States (OECS) over FY06–14. It assesses and rates the extent to which the program met its relevant objectives. The evaluation follows IEG’s standard country program evaluation methodology, guided by the results frameworks in the Bank Group strategies for the OECS. The RPE is part of a cluster country program evaluation on small states.

With a combined population of little more than 600,000, the six independent members of the OECS—Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines—face major development challenges and vulnerabilities. Their small size results in diseconomies of small scale in infrastructure, institutions (including government), and markets. Their location makes them exceptionally vulnerable to natural disasters, especially hurricanes, and to climate change. Open but undiversified economies render them vulnerable to economic shocks. Tourism directly and indirectly accounts for almost one-third of employment and has replaced agriculture as the dominant activity.

The OECS countries were hit hard by the 2008–09 global crisis, and recovery has been slow and difficult. They are working to implement an economic union. But even before the global crisis, a combination of external factors and

shocks, compounded by poor policy choices, had eroded competitiveness. In the 1990s, growth became sluggish, and it weakened continually thereafter. The OECS market share in global and Caribbean tourism also suffered a secular decline. During 2010–14, overall growth in the OECS averaged a mere 0.4 percent per year. A vicious circle has prevailed of low growth, high and rising debt levels reflecting weak public finances, and frequent natural and economic shocks. Debt in the OECS averaged almost 90 percent of gross domestic product over 2010–14, largely exceeding the 60 percent convergence criterion of the long-standing Eastern Caribbean Currency Union, of which all of the countries are members.

Despite their vulnerabilities and economic problems, the countries’ attainment of upper middle-income—or, in the case of Antigua and Barbuda and St. Kitts and Nevis, high-income—status has been accompanied by many social gains, including good basic health indicators and near-universal primary education. Yet social vulnerabilities are significant. They include a high incidence of poverty, unfavorable learning outcomes, rising threat of noncommunicable diseases, and high unemployment, particularly among youth.

During the FY06–14 evaluation period, Bank Group support was guided by two Regional Partnership Strategies (RPSs), each adjusted through a RPS Progress Report (RPSPR). Both the FY06–09 and

the FY10–14 RPS planned for Bank Group engagement in a broad range of areas, organized in each case under two pillars. Under the strengthening resilience pillar, the Bank Group sought to support improved fiscal and debt sustainability and public sector performance; better environmental and disaster risk management and climate resilience; and enhanced human capital and social resilience. Under the second pillar, improving competitiveness, it sought to support strengthening of the country and regional financial sector; improvements in the business climate, sector linkages, and value chains; and better infrastructure services.

Underpinned by results frameworks, both RPSs sought to contribute to strategic objectives and outcomes through a combination of lending, trust fund grant financing, and analytic and advisory activities (AAA) by the Bank as well as through International Finance Corporation (IFC) investments and advisory services. While the possibility of financing from the International Bank for Reconstruction and Development (IBRD) was provided for, the core of planned Bank lending consisted of International Development Association (IDA) financing to the four “blend” IDA/IBRD countries – Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines. The other two countries are IBRD-only. During FY06–09, projected lending was about \$51 million (later reduced slightly) based on both country and regional IDA allocations.

Over FY10–14, it was about \$73 million (later increased substantially) based on country allocations only.

Deliveries of Bank Group operational products broadly matched plans, especially as revised in the RPSRs. IDA financing commitments were much larger than initially projected because of increased regional IDA funds and especially larger-than-expected country IDA allocations during the second period. Changes in the allocation formula benefited small states.

Altogether, about \$240 million in IDA financing was committed under 24 operations during FY06–14, including regional projects with coverage beyond the OECS. IBRD financing commitments amounted to \$18.5 million. Trust fund grant financing was significant, amounting to almost \$68 million under 26 projects, mostly OECS- or Caribbean-wide. The new commitments added to a significant inherited portfolio implemented during the evaluation period.

IDA/IBRD commitments were predominantly to investment projects. Both the number of projects and commitment amounts were skewed toward the latter half of the evaluation period. Only Grenada and St. Lucia, the largest overall recipients of IDA funds, received development policy financing. Although lending commitments, most concentrated in disaster risk management, were larger in the latter part of the evaluation period, the portfolio of Bank-financed operations

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underwent substantial consolidation. Portfolio riskiness increased after FY12, while disbursements showed no clear trend. The performance of projects exiting the OECS portfolio was slightly better than the averages for the World Bank and the Latin America and the Caribbean Region averages, but with significant risks to development outcomes. In terms of Bank AAA deliveries, nonlending technical assistance (NLTA) dominated. Finally, IFC delivered few investments, concentrating its efforts in advisory services, while the Multilateral Investment Guarantee Agency had virtually no activity.

There is little doubt concerning the relevance of Bank Group program objectives, which were well-tailored to the OECS countries' circumstances and responsive to expressed individual country and OECS-wide priorities. Although they were wide-ranging, this partly reflected efforts to be responsive to country demands. In addition, Bank Group resource outlays in several areas were modest, taking the form principally of AAA or activities financed through trust fund grants. Despite some deficiencies, the quality of the RPS results frameworks was broadly adequate. And while its strategies did not develop detailed contingency plans, the Bank Group retained or found sufficient flexibility to deal with risks as they emerged (notably with Hurricane Tomas, which struck St. Lucia and St. Vincent and the Grenadines in 2010).

The blend of regional and single-country support was appropriate to the countries' circumstances and reflected their demand, although the Bank's use of regional projects probably hit the limits of its effectiveness. Lending instrument mix was likewise broadly appropriate. The program used emergency recovery loans, development policy operations, and "horizontal" adaptable program lending. The latter provided a flexible regional framework for many individual country projects, helping to temper transactions costs for the Bank. Whether the Bank could have made greater use of development policy financing remains an open question. AAA generally addressed key development constraints and informed Bank Group financial support, although in a few cases greater dissemination could have enhanced knowledge transfer and impact. The program also included innovative elements. The Caribbean Growth Forum (CGF), a participatory, accountability-enhancing initiative supporting identification and implementation of growth-oriented reforms, blended region-wide and country-specific frameworks to good effect.

The Bank Group program invested significantly in building client capacity – through entire projects or components devoted to technical assistance as well as intensive use of trust funds and NLTA. Although many such initiatives were effective, some were not. Successful initiatives generally

combined sufficient priority at the policy level with operational leadership on the client side, and sufficient financial and technical input on the Bank side. Given the lack of a resident Bank Group presence in the OECS countries, a key dimension of client capacity had to do with Bank project portfolio implementation. The arrangements typically centralized fiduciary capacity in national Project Coordination Units (PCUs). The PCUs helped safeguard portfolio quality, although the sustainability of that capacity is uncertain.

The Bank has recently introduced simplified project procedures, notably on procurement, for small states, which has facilitated project implementation. Nevertheless, the high per-dollar transactions costs for delivering support to the OECS point to potentially high payoff from streamlined project models such as the Small Country Umbrella Program, which was proposed but not pursued.

Partnerships have had a highly beneficial role in the Bank Group's OECS program. In the period reviewed they included joint initiatives with multilateral and bilateral development partners, a variety of regional organizations, nongovernmental organizations, and often a combination of partners. The intensity of partnership use, while difficult to measure quantitatively, was in some respects significantly higher in the OECS program than elsewhere, and certainly

helped increase the impact of Bank Group resources.

Overall, this RPE rates the progress of the Bank Group program toward achieving its objectives during the FY06–14 period as moderately satisfactory. Under the strengthening resilience pillar, achievement of objectives was moderately satisfactory, and particularly favorable under specific aspects of disaster risk management, notably the establishment of a pooled regional mechanism providing insurance against specific weather-related disaster events. Under the enhancing competitiveness pillar, achievement of objectives was also moderately satisfactory, though more marginally so.

Regarding fiscal sustainability and public sector performance, achievement of relevant objectives was moderately satisfactory. Bank Group support contributed to strengthening debt management capacity as planned and was effective in leveraging Bank inputs. It also contributed substantially to improvements in revenue policy and administration including customs administration as well as various aspects of public expenditure management in one or more countries. In addition, the program helped lay a foundation for e-government service delivery and for inter-OECS harmonization of future progress in debt, revenue and expenditure, and e-government services management. However, in government human

## OVERVIEW

resources management, Bank support did not lead to significant reforms, and high government wage bills remain a threat to the resilience of public finances. In strategic planning and monitoring and evaluation (M&E), the Bank's support has had little impact. But program outlays in government human resources management and strategic planning and M&E were modest and largely in the form of trust-funded activities.

Concerning environmental and disaster risk management and climate resilience, achievement of relevant objectives was satisfactory. In disaster risk management, where attention was focused on Grenada, St. Lucia, and St. Vincent and the Grenadines, the Bank Group played a positive role in responses to specific events, notably Hurricane Tomas in late 2010.

Importantly, it supported a continued shift in the countries toward greater preparedness and increased resilience, though the agenda remains a large one. Bank projects helped rehabilitate and retrofit a significant proportion of high-priority infrastructure and other assets, and helped implement other vulnerability-reducing investments. The Bank also helped build knowledge about the vulnerability of critical infrastructure, although its use in decision-making needs to increase.

A best-practice Bank contribution was its leadership on conceptualizing and operationalizing a self-supporting, sustainable insurance mechanism

against disaster events, the Caribbean Catastrophic Risk Insurance Facility (CCRIF), thereby helping to overcome a market failure. The Bank's role in helping to establish the CCRIF, of which all the OECS countries are members, drew effectively on its comparative advantage, including its ability to blend provision of technical expertise and financing as well as "convening power" among development partners. The Bank also helped strengthen the countries' disaster risk management capacity, though with uneven impact. In terms of explicit climate change adaptation initiatives, the program's regional support was too small-scale to establish critical mass and had little impact. Regarding the environment, Bank support for strengthening protected areas management had variable impact. Its support for establishing sustainable financing mechanisms to conserve critical ecosystems, while ongoing, has encountered some difficulties that risk undermining progress.

Achievement of objectives related to human capital and social resilience was moderately satisfactory. The Bank completed diagnostic work on safety nets in the OECS countries and put in place follow-up implementation support in some countries. However, little progress toward greater rationalization and targeting had been made by the end of the evaluation period. In education, Bank support helped construct and equip secondary schools and increase access in several of the countries, but

did not directly address key constraints in the sector, such as the low student-teacher ratio. In Grenada and St. Lucia, Bank support helped lay a foundation for post-secondary skills development in the OECS, although the impact on youth employment numbers has been modest. In health, Bank projects made a positive difference to prevention and control of the human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS) in most of the countries, although sustaining improved HIV and AIDS prevalence trends is an emerging concern. Bank work also contributed to consciousness-raising and mobilization of efforts to address the growing threat of noncommunicable diseases.

Under the enhancing competitiveness pillar, achievement of objectives pertaining to the financial sector was satisfactory. Despite an earlier discontinuity in Bank Group engagement, the Bank contributed significantly to advancing efforts by the countries and their shared Central Bank to strengthen the financial sector following the 2008–09 global crisis. Bank technical support (leveraged through partnerships), and in select cases lending, helped develop and implement resolution plans for failed insurance companies that had substantial OECS exposure. Bank advisory support, also backed in places by lending, helped achieve key steps to strengthen regulation and supervision of nonbank (notably insurance) institutions. The

Bank remains involved in efforts to strengthen regulation and supervision for the OECS financial sector. Its work, notably an independent review of bank asset quality, has continued beyond the evaluation period. IFC supported the establishment of a market for lending to small and medium enterprises in St. Lucia, but the practice has shown little dynamism, largely because of the absence of important policy prerequisites.

Regarding the legal and regulatory business environment, sector linkages, and value chains, achievement of objectives was moderately satisfactory. Several Bank operations and IFC Doing Business reform advisory services contributed to some progress in streamlining and improving business registration and cross-border trade procedures over the evaluation period, although results varied by country. In Grenada, Bank project support for deploying ASYCUDA World, an automated customs management system, and reforming customs procedures paired effectively with IFC advisory work on trade logistics. Bank projects also helped develop other business services, although their impact is unclear. The Bank prepared analytic work on OECS tourism sector linkages that is being built upon under the latest (FY15–19) RPS. IFC advisory work in tourism development in St. Lucia was viewed by stakeholders as having had beneficial impact. In Grenada, Bank

support in agriculture helped small farmers adopt improved technologies.

On the broader growth agenda, the CGF initiative, while still unfolding, is playing a useful role in facilitating growth-oriented reforms, particularly in Grenada and St. Lucia. Regarding the growth and competitiveness agenda, an open question is whether the Bank Group could have played a more active role in advising on and supporting tourism sector development, although it also raises many challenging questions. IFC advisory services to help put in place public-private partnerships (PPPs) for St. Lucia's water utility, a hospital in Grenada, and a state insurance company in Antigua and Barbuda did not bear fruit, despite the transactions reaching the tendering stage. The Bank supported a regional infrastructure PPP roadmap as well as PPP frameworks in Grenada and St. Lucia.

Finally, regarding infrastructure, achievement of objectives was moderately unsatisfactory. In telecommunications, a Bank project approved before the evaluation period was implemented and was followed by new regionally structured project support through horizontal adaptable program lending. Bank support beginning in 1998 had facilitated the creation of regulatory structures, including a regional body, which in turn helped bring about dramatic improvements in access to, and quality and affordability of, telecommunications services. However,

impact during the evaluation period was more muted, although there was some progress. The evolution and enhancement of the regulatory framework did not keep pace with developments in a dynamic industry. Work toward universal service provision suffered major setbacks, even though it laid a foundation for expansion of information and communications technology (ICT) connectivity. The ongoing Bank project, which supports setting up Internet exchange points and business incubators and developing ICT skills, is progressing satisfactorily, despite some delays. In energy, Bank Group support contributed to improving Dominica's regulatory framework over the initial part of the evaluation period, and has since helped lay the groundwork for potential investments in geothermal energy development there and in St. Lucia. The Bank also developed a Caribbean-wide energy strategy. But progress on the central goal – to help establish an OECS-wide energy regulator – has suffered setbacks and the underlying model will need to be scaled back, although Bank engagement has helped establish national regulation. In St. Lucia's water sector, Bank financing and technical support helped realize important investments and bolster the legal and regulatory framework. But better management and financial performance of the water and sanitation utility remained largely elusive to the detriment of adequate maintenance and new investment. With



IFC advising on the transaction, Bank Group efforts to help put in place a public-private partnership to operate the utility were unsuccessful, failing political consensus around the deal.

In sum, the relevance of Bank Group OECS program objectives was not in doubt. Over time, greater selectivity and consistency of areas covered could have strengthened relevance further. However, there were good reasons – among them client demand – for the breadth of program coverage, and, in some areas, involvement was measured and exploratory. Program design was also relevant. Laudable attributes of the program included several cases of good instrument blend, support for regional development solutions with a strong underlying economic rationale, widespread and generally effective use of partnerships, and provision for addressing institutional capacity constraints.

Nevertheless, some deficiencies in the design of the program or of operational products emerged from the assessment. The breadth of program coverage also meant that tasks proliferated, increasing transactions costs and occasionally making it hard for stakeholders to see how they fit together. Project design was sometimes too complex, leading to implementation delays. M&E, also sometimes overly complex, was weak in several cases. On occasion, activities were not adequately sequenced. Project costs were sometimes underestimated, and insufficient flexibility was built in to

accommodate this. In certain program areas, notably but not exclusively where regional initiatives were involved, political economy constraints were insufficiently factored into project design and implementation. Though there was one instance of synergistic, impactful collaboration, planning and delivery of Bank and IFC support were not sufficiently integrated. Capacity-strengthening initiatives were overly dispersed, fragmented, and ambitious, although client demand was also a factor.

The evaluation points to several lessons, some of which relate to the small size of the OECS clients. Regarding relevance of program objectives, sustained engagement around a limited set of objectives, which allows for projects of critical mass and dedicated staff, is most likely to get results while not leading to excessive transactions costs. In terms of program design, simplicity and flexibility in project design is key, with proper sequencing of activities and sensitivity to the political-economy context. Concerning operational arrangements, national- and regional-level project coordination units embodying fiduciary capacity can safeguard portfolio implementation. But the sustainability of that capacity and ownership issues among the line agencies involved need attention. At the same time, limiting turnover of Bank Group team leaders is desirable. In a small-state context, regional development solutions and associated

## OVERVIEW

engagement offer significant gains on paper, but can face implementation difficulties in practice, especially where national solutions are in place and functioning adequately. Where there are clear gains from pooling, however, as with the CCRIF and pharmaceuticals procurement, obstacles can be overcome. Regarding Bank-IFC collaboration, concerted, complementary support can be effective in delivering results. Finally, regarding disaster risk management, political windows of attention following disasters can help advance Bank Group efforts to advocate and support long-term risk reduction. Beyond “hard” investments in resilience, attention must also be paid to the more difficult task of building “soft” systems, including data collection and analytic capabilities, and ensure that they feed into decision making.

Six recommendations emerge from the findings. They are confined to actions within the purview of the Bank Group country team for the OECS. Issues related to the modalities for delivering Bank Group support to small states will be discussed in the chapeau report on the cluster country program evaluation. The following recommendations have been developed against the backdrop of the current FY15–19 RPS, although they have general validity.

- Given the breadth of the areas in which new Bank lending is envisioned, ensure that the objectives of new lending

operations are selective and specific even as they contribute to broader development objectives.

- Ensure simplicity of design in the new lending operations, avoiding proliferation of project components and counterparts, using well-reasoned but simple and parsimonious project M&E frameworks. In parallel, keep a sufficient margin of flexibility in project funding to accommodate cost variations.
- Continue to pursue opportunities to support cooperative OECS-wide development solutions, but only where the economic rationale and support among country stakeholders are strong. Where these cannot be assured, the FY15–19 RPS’s formula of national projects under regional frameworks offers a good fallback that can lower transactions costs while avoiding political economy pitfalls and supporting coordinated action in uncontroversial areas.
- Ensure that new projects include, or are accompanied by, sufficient provision to support the institutional capacity required to implement the associated investments efficiently and sustainably, including support for national PCUs or regional executing

agencies. Where support is through development policy financing, as in Grenada, provide for parallel technical assistance as needed to implement and sustain targeted reforms.

- In parallel with new lending — and facilitated by greater selectivity and continuity of program coverage — continue to work toward consolidating the portfolio of activities and ensuring complementarity among different lending and nonlending activities, which can

usefully be organized into clusters supported by dedicated staff.

- Plan and pursue in-depth Bank-IFC collaboration in two or three specific areas — for instance, related to competitiveness and the business climate, the financial sector, or infrastructure — where the institutions' complementarity and synergy in contributing to development results can be showcased.



# 1. Introduction and OECS Country Context

This report assesses World Bank Group support to the six independent members of the Organisation of Eastern Caribbean States (OECS): Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.<sup>1</sup> This regional program evaluation (RPE) is one of two such reports – the other covering Pacific Island countries – that make up the cluster country program evaluation on small states carried out by the Independent Evaluation Group (IEG). The RPE covers support provided over the period FY06–14,<sup>2</sup> during which two Bank Group strategies--each adjusted by a progress report during implementation and both OECS-wide-- framed the engagement. In broad terms, the Bank Group program sought to help strengthen the countries' economic, physical, and social resilience and enhance their competitiveness.

The RPE follows the standard IEG methodology. It evaluates the outcome of the Bank Group program, seeking to answer: "To what extent did Bank Group support to the countries meet its relevant objectives?" While the outcomes in the strategy document results frameworks provide a useful reference, the assessment goes beyond a discussion and tally of whether these outcomes were achieved as a result of Bank Group support. In addition to a review of documentation, the evaluation was informed by semi-structured interviews with country and regional officials and other stakeholders as well as Bank Group staff and managers involved with the program.

The report contains five chapters. Chapter 1 provides background on the OECS countries, emphasizing their small-state characteristics and summarizing the economic and social context as well as key developments during the evaluation period (appendix A offers more details). Chapter 2 sets out the objectives of Bank Group support during the period, reviews the support delivered in relation to plans, and assesses key attributes of the Bank Group strategy and program. Chapters 3 and 4 review specific Bank Group objectives or "results areas," under two strategic goals: strengthening resilience and enhancing competitiveness. The chapters review the relevance of the strategic objectives and results areas given the OECS countries' context, how the Bank Group endeavored to help meet them, and the results. Chapter 5 summarizes the key findings. It also rates the Bank Group program as a whole – the extent to which Bank Group support met its objectives – building on the ratings for each of the results areas reviewed. Finally, it distills lessons and recommendations that may help increase the relevance and effectiveness of program

delivery during and beyond the current Bank Group partnership strategy for the OECS.

## **OECS Country Context**

The OECS countries are characterized by an evolving political and economic union and political stability, but costly civil services. The OECS was established by the 1981 Treaty of Basseterre, revised in 2011 to establish the OECS Economic Union. The 10 members comprise four overseas territories and six sovereign states. Eight of the members, including all six independent countries, share a common currency (the Eastern Caribbean dollar), a common central bank (the Eastern Caribbean Central Bank), and constitute the Eastern Caribbean Economic and Currency Union (Schipke, Cebotari, and Thacker 2013). The Eastern Caribbean (EC) dollar has been pegged to the U.S. dollar at a rate of EC\$2.70 to US\$1 since 1976. The six OECS countries are stable, parliamentary democracies founded on constitutions that guarantee fundamental rights and freedoms that are enforceable through the high court. Public administrations are characterized by well-established organizational structures, respect for the rule of law, and a high degree of judicial independence. Existing government systems have resulted in civil services that are large, bureaucratic, and burdensome to their small economies.

As quintessential small states, the OECS countries face major challenges and vulnerabilities, and some are eligible for financing from the International Development Association (IDA). With a total landmass of about 2,364 square kilometers and a combined population of little more than 600,000, this group of islands are small in both geographic area and in population. They are similar in culture, climate, topography, history, and language. Their economies are also similar in their proximity to the United States (their largest trading partner) and natural endowments that make them prime tourist destinations.<sup>3</sup> The countries share some structural characteristics. First, owing to their small size, they face diseconomies of scale, especially in infrastructure, institutions (including government), and markets. Second, their location makes them vulnerable to climate change phenomena such as rising sea levels and temperatures as well as to frequent natural disasters, especially hurricanes (IMF 2014).<sup>4</sup> Third, while they enjoy the benefits of open economies, they are also vulnerable to external events and shocks, including the dismantling in the early 2000s of traditional agricultural trade preferences and the ongoing impact of the 2008–09 global financial crisis. Fourth, while they have all achieved at least middle-income status, many face challenges with youth unemployment, crime, and public security, as well as weak institutions and economic management that have contributed to high public debt levels and a difficult business environment. Four

OECS members – Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines – are IDA and International Bank for Reconstruction and Development (IBRD) blend countries; the other two are high-income countries and IBRD-only.

The countries are particularly vulnerable to climate-related shocks, and have delicate natural environments. The OECS island states lie directly in the path of Atlantic hurricanes, which in recent years have increased in frequency and intensity. The countries are also at risk of storm surges, strong winds, heavy rains, drought, and volcanic eruptions. Existing threats to the region's ecosystems include overexploitation of their resource base, loss of natural habitats, changes in water quality and quantity, and climate change. The catastrophic nature of the subregion's natural disasters has typically resulted in the diversion of resources away from other development priorities to the financing of post-disaster recovery. Between 1993 and 2012, average OECS annual losses from natural disasters were 4.3 percent of gross domestic product (GDP), although individual instances have far exceeded the average – a staggering fiftyfold in the case of Grenada from Hurricane Ivan in 2004.

Weak and declining growth since the 1990s has been mainly due to negative external shocks and structural weaknesses in the OECS economies. Real GDP growth in the OECS region declined from an annual average of about 6 percent during 1980–89 to 3 percent during 1990–99 and to 2 percent during 2000–10. The slowdown that began in the early 1990s was brought on by a combination of recessions in advanced economies, structural weaknesses of the OECS economies, and negative external shocks (IMF 2013). Tourism is now the primary driver of growth and contributes more than 50 percent of export earnings, at least 30 percent of GDP, and 30 percent of total employment. Despite its significance to the region, the OECS share of global tourism, measured by both tourism receipts and number of visitor arrivals, has declined over the past decade, indicating a loss in external competitiveness.

Public finances have been under strain, especially since the global economic crisis, and debt levels are high. Expansionary fiscal policy in response to external economic shocks led to growing fiscal imbalances and an unsustainably large debt burden (table 1.1). The OECS fiscal deficit, which stood at 6.6 percent of subregional GDP in 2000, had grown to 10.5 percent by 2002. It averaged about 6.5 percent of GDP over 2000–07, subsequently declining to about 3.7 percent during 2008–14 because of measures to enhance revenue and reduce expenditure. Consequently, public debt grew from about 70 percent of GDP in 2000, peaking at 95 percent of GDP in 2004. In 2014, it stood at about 87 percent of GDP.

The erosion of competitiveness in OECS economies is a bottleneck to growth. Firms operating in the region experience cost disadvantages that are both structural and

## CHAPTER 1

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policy-driven. Labor costs are high and have grown faster than productivity, electricity costs are among the highest in the world, and the cost of credit is very high, while access is limited. There is also some evidence of over-valuation of the EC dollar. Despite these disadvantages, the countries rank well on the Doing Business indicators in comparison with other small islands and Caribbean countries. The average rankings of OECS countries for getting electricity (but not the cost of its use), contract enforcement, ease of getting construction permits, and protection of investors bode well for a growth-supporting institutional framework. However, payment of taxes, access to credit, labor market rigidities, and property registration remain weak.

**Table 1.1. OECS Macroeconomic Indicators, 2000–14**

Indicator	2000–04	2005–09	2010–14
GDP growth (average)	2.4	2.6	0.4
Fiscal deficit (% of GDP)	7.4	4.8	3.2
General government gross debt (% of GDP)	85.5	84.0	89.1
Current account balance (% of GDP)	14.6	23.6	16.7
Balance on goods (% of GDP)	-29.3	-35.3	-31.3
Balance on services (% of GDP)	17.6	13.2	13.6

*Source:* World Economic Outlook Database October 2015, International Financial Statistics September 2015, World Development Indicators database.

The OECS countries have made good progress on many social indicators, but poverty and unemployment remain high. The countries rank between 61 and 97 among the 187 states on the United Nations Development Programme’s 2013 Human Development Index. Life expectancy averages 75 years, higher than the average for middle-income countries. The primary school completion rate is close to 100 percent and both infant and maternal mortality rates are low.

These successes notwithstanding, poverty rates in the OECS range from 18 to 38 percent (using each country’s national poverty line), and threaten to undermine the sustainability of development gains. Inequality as measured by the Gini coefficient is moderate (ranging from 36.6 in 2008 in Grenada to 48 in 2006 in Antigua and Barbuda) compared to the average of 52.9 in 2009 for the Latin America and the Caribbean Region (World Bank 2014). Unemployment – especially among youth – remains a major concern. Unemployment rates range from 6.3 percent in St. Kitts and Nevis to 25 percent in Grenada (IMF 2013). Among youth, unemployment rates are as high as 34 percent in St. Lucia and 42 percent in Grenada. Gender-based issues in the OECS are complex and both men and women face challenges that shape their individual and household-level vulnerability and risk. They include higher rates of unemployment, fewer job options, and lower wages for women,



while men experience higher rates of substance abuse, underachievement, and school dropout.

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<sup>1</sup> The Organisation of Eastern Caribbean States (OECS) has one further full member in addition to the six sovereign member states – the British overseas territory of Montserrat. The three remaining (associate) members of the OECS include two other British overseas territories (Anguilla and the British Virgin Islands) and, most recently, one French overseas department (Martinique). Unless otherwise specified, references to the OECS (occasionally also referred to as the subregion) in this report are to the six sovereign member states.

<sup>2</sup> Bank Group fiscal years begin on July 1 and end on June 30.

<sup>3</sup> Unlike in the other OECS islands, mainstream stayover tourism in Dominica is not as developed due to the small number of white-sand beaches, high rainfall, and poor air connections. Instead, ecotourism is being promoted.

<sup>4</sup> On average, there is a 14 percent probability that a Caribbean country will be hit by a tropical storm in any given year, and in most countries, the probability exceeds 10 percent.

## 2. Assessment of Overall World Bank Group Support

### Bank Group Strategy and Program

World Bank Group support to the Organisation of Eastern Caribbean States (OECS) countries over the evaluation period was framed by two Regional Partnership Strategies (RPSs) bearing similar headings, each adjusted by a RPS Progress Report (RPSPR). Use of an OECS-wide strategy continued a practice initiated well before the start of the evaluation period. Over the initial part of the period, a September 2005 RPS<sup>1</sup> covering FY06–09 – complemented by a June 2008 RPSPR – featured two pillars: (i) supporting growth and competitiveness; and (ii) reducing vulnerability (for details, see appendix B). Following the 2008–09 global financial crisis, a May 2010 RPS covering FY10–14 – adjusted through an April 2012 RPSPR – had two pillars: (i) building resilience; and (ii) enhancing competitiveness and stimulating sustainable medium-term growth. Hence, despite minor differences in wording and ordering, the development pillars remained essentially unchanged over the evaluation period. The FY06–09 RPS foresaw Bank Group-wide activity, including base-case, International Development Association (IDA) financing of almost \$13 million a year, reduced slightly in the RPSPR; the FY10–14 RPS planned for Bank and International Finance Corporation (IFC) activity, including IDA financing averaging almost \$15 million per year. Details are provided in appendix B.

Results areas targeted by the Bank Group program, mostly stable over the evaluation period, were broad ranging in their thematic coverage. The consolidated FY06–09 and FY10–14 RPS strategic objectives or results areas can be set out under the two pillars of strengthening resilience and enhancing competitiveness (table 2.1). In some cases, the strategic objectives applied to only part of the period. For example, during the FY06–09 RPS period, results in debt or the financial sector were not explicitly targeted, whereas both were featured prominently in the FY10–14 RPS. There is also some arbitrariness as to the pillar under which a particular results area appears. Improving fiscal sustainability contributes to strengthening resilience, but equally helps enhance competitiveness and encourage growth. Thus in the FY06–09 RPS, this results area came under the enhancing competitiveness pillar, but in the FY10–14 RPS, it came under the strengthening resilience pillar. Subject to these provisos, table 2.1 depicts the main headings under which the Bank Group sought to engage its OECS clients. The pillar structure has been largely maintained, although it has undergone some changes in the October 2014 FY15–19 RPS.

**Table 2.1. World Bank Group Strategic Objectives, FY06–14**

<b>Pillar 1—Strengthening Resilience</b>	<b>Pillar 2—Enhancing Competitiveness</b>
1.1 Strengthening fiscal and debt sustainability and public sector performance	2.1 Strengthening the domestic and regional financial sector
1.2 Strengthening environmental and disaster risk management and climate resilience	2.2 Strengthening the legal and regulatory framework, sector linkages, and value chains for private business
1.3 Enhancing human capital and social resilience	2.3 Improving infrastructure service delivery

### THE BANK’S PROGRAM

Deliveries of Bank support combined loans, grants, and analytic and advisory activities (AAA) that did not differ radically from plans, although IDA funding was larger than expected. New Bank lending commitments during the evaluation period amounted to almost \$259 million under 24 operations, all but \$18.5 million of it on IDA terms. Beyond the IDA/IBRD financing, \$67 million in trust fund grant financing was committed to the countries under 26 projects. Commitments of IDA/IBRD financing were predominantly for investment operations, which accounted for 86 percent of the value and 87 percent of the number of commitments.<sup>2</sup> The sector composition of operations was concentrated in disaster risk management including catastrophic insurance and post-disaster recovery and reconstruction, with commitments classified under urban development accounting for almost half of total lending. Nonlending technical assistance (NLTA) dominated AAA, comprising 62 percent of the number delivered. In general, the AAA had broad thematic coverage and was either inter-OECS or Caribbean-wide. Bank support during the evaluation period is reviewed in detail in appendix B, and appendixes C and D provide a pillar-by-pillar list of operational products delivered or active during the evaluation period.

Portfolio quality was good overall, and the existing portfolio had favorable outcomes. New commitments of IDA/IBRD financing during the period added to a significant inherited portfolio of \$128 million under 20 projects. The portfolio consolidated over the period. From a peak of 25 projects in FY08, nine active projects remained in FY15, but riskiness increased. During the FY06–10, at-risk projects in the portfolio compared favorably with those in both the Latin America and the Caribbean Region and overall Bank portfolios. However, since FY12, portfolio riskiness has increased and is now slightly higher than both the Region and World Bank averages. Regarding exiting project outcomes, a total of 33 operations with net commitments of \$180 million closed during the period. IEG rated the outcomes of 26 of these projects – 79 percent of projects, representing 83 percent of commitments – as moderately satisfactory or better. This was somewhat better than the World Bank average of 72 percent of the projects and 82 percent of commitments.

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#### **THE IFC PROGRAM**

Advisory services operations dominated IFC interventions. These operations were concentrated in access to finance, public-private partnership (PPP) transactions, and business climate. Access to finance operations included technical assistance to the Bank of St. Lucia in designing and implementing a strategy for small and medium enterprise (SME) financing. PPP-related operations typically provided support for structuring transactions, such as the divestment of the state insurance company in Antigua and Barbuda, private participation in St. Lucia's water utility, development and operation of a hospital in Grenada, and private sector participation in the operation of St. Lucia's Hewanorra International Airport. Direct investments in OECS-based institutions were limited to a \$20 million operation with the Bank of St. Lucia in FY08, which IFC also provided with \$15.5 million through its Global Trade Finance Program in FY08, and a \$30 million investment in the American University of Antigua and Barbuda in FY10. IFC also invested at least \$120 million in companies domiciled outside the OECS but with operations or investments in OECS countries.

#### **Overall Assessment of Bank Group Engagement**

By any measure, the objectives underlying the Bank Group program were relevant. The two pillars, generically well-suited to the development challenges of small states, were a good fit for the OECS countries. Beyond this, the more detailed strategic objectives (results areas) also suited the OECS countries' specific circumstances.<sup>3</sup> For example, the fiscal, debt, and public sector performance issues prominent in the RPSs and RPSRs would not have been equally relevant in many other small states. Similarly, prevention and control of the human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS) assumed top relevance in the first RPS in light of its high prevalence in the Caribbean in the late 1990s and early 2000s. Once the institutional structures for addressing HIV/AIDS had been built up, the Bank appropriately sought to deepen knowledge and encourage a call to action regarding the emerging threat of noncommunicable diseases. Just as important, all indications are that solid country- and OECS-wide demand and ownership underlay Bank Group support in the various areas. RPS content underwent wide-ranging stakeholder consultations and reflected priorities expressed in country and OECS-wide strategy or policy documents that were in force or under preparation at the time.<sup>4</sup>

The range of objectives and results areas pursued was very wide, raising the question of whether greater selectivity could have been exercised. More selectivity would have allowed greater consistency and continuity of Bank support for priority

areas, likely bringing better results.<sup>5</sup> A smaller number of projects could also have lowered the associated transactions costs. In this respect, the consolidation of the active portfolio observed in recent years as well as relatively selective lending proposals in the FY15–19 RPS (box 2.1) represent steps in the right direction. At the same time, the wide range of objectives and results areas covered by the program reflected efforts to be responsive to client demand. In addition, in several areas – such as where the way forward needed clarification through analytic work or the extent of client commitment was not clear – Bank Group engagement was appropriately modest and mainly involved AAA and trust fund support.

### **Box 2.1. The FY15–19 OECS RPS**

The FY15–19 RPS maintains the two pillars of strengthening resilience and enhancing competitiveness, but makes public sector modernization a separate pillar. The three pillars support a goal of helping to lay the foundation for sustainable and inclusive growth. Under the three pillars, results targeted by the strategy are organized under nine outcomes. These range from an improved investment climate (under the competitiveness pillar) to improved budget management and transparency (under public sector modernization) and increased capacity to manage natural hazards (under resilience). World Bank Group contributions to many of these outcomes are premised on a wide array of support areas. Contributions to an improved investment climate, for instance, encompass proposed support for addressing weaknesses in the business environment; a comprehensive financial sector strategy ensuring the continued and improving health of the banking sector and its ability to support private sector-led growth; greater adoption of information and communications technology, innovation, and creative industries growth; and lower, more predictable energy prices. The results framework specifies indicators that are largely relevant for gauging progress toward the outcomes specified.

Although the reach of strategic objectives and results areas remains wide, the RPS foresees many of them being addressed through trust fund financing and nonlending work. Proposed IDA/IBRD lending – supported by indicative IDA allocations to the four blend countries over FY15–17 totaling some 22 percent more than over FY12–14 – spans four areas: competitiveness, renewable energy, social resilience and human development, and the financial sector. The latter is conditioned specifically on “adequate progress in developing a comprehensive financial sector strategy ... and under a suitable policy and regulatory environment.” It is difficult to guess how many distinct new operations this will mean in practice. Given that “implementation of regional programs has proven difficult,” the RPS proposes that lending should support country programs under regional frameworks, offering “a menu of options under a regional operation framework, allowing countries to select the mix that best suits their needs.” Nevertheless, at least in thematic coverage, this is consistent with a move toward greater selectivity in lending. While few specifics are provided on prospective nonlending work, the RPS signals a general intent to move to a reimbursable advisory services model in the high-income countries (Antigua and Barbuda and St. Kitts and Nevis).

There can be little doubt concerning the relevance of the strategy, including adequate tailoring to the small-state context and alignment with the regional and country context and priorities. It also offers potential for synergistic Bank-IFC work in competitiveness and public-private partnerships. However, for some aspects, caution is warranted. Concerning prospective lending, particularly under headings such as competitiveness which has since been partially narrowed to focus on tourism followed by agriculture, there is a need to guard against multipurpose operations, which

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often bring complexity and implementation problems. Under certain headings, such as public sector modernization, the RPS calls for a more focused program going forward (with emphasis notably on program budgeting). In so doing, however, it largely breaks Bank Group involvement in important, if admittedly difficult and frequently unsuccessful, areas such as managing and rationalizing government human resources. It also raises questions regarding the relevance of program budgeting as a top priority (and point of focus in the RPS results framework) in the area of fiscal management.

*Source: World Bank (2014).*

Despite some deficiencies, the quality of RPS results frameworks was passable. RPS results frameworks provided for the inherited portfolio as well as new approvals and were generally well constructed, although some RPS outcomes were entirely process-related. The FY06–09 RPS results framework did not specify baseline or target values for many indicators (World Bank 2005 p.33),<sup>6</sup> although most of these were later provided in the FY06–09 RPSPR. In some cases, unrealistic assumptions were made about the pace at which Bank Group-supported outputs would materialize and influence targeted outcomes. For example, the FY10–14 RPS framework expected that functional reviews and staff audits of government departments would be completed, internalized, translated into action, and lead to a reduction in the wage bill as a ratio of GDP, all within the RPS period. This proved overly rosy. Similarly, the notion in the same RPS results framework that Bank AAA for strengthening debt management could help reduce the countries' debt ratios by an average of 15 percentage points of GDP significantly overestimated its effects, as was later recognized in the FY10–14 RPSPR. Regarding feedback, while efforts were made to monitor the status of results during preparation of an RPSPR or new RPS, little indicates the results of such monitoring influenced forward-looking decisions regarding the size or composition of Bank Group support.

Although its strategies did not develop detailed contingency plans, for the most part the Bank Group dealt adequately with risks. The FY06–09 RPS appropriately identified the two main exogenous sources of risk to Bank Group program results – natural disasters and external economic shocks – as well as the endogenous risk of policy slippage.<sup>7</sup> Other than the triggers associated with the base- and high-case lending scenarios, which would have captured policy slippages, no specific actions were taken to mitigate risks or concrete contingent plans developed to alter the program in the event of risks materializing.<sup>8</sup> Nevertheless, the RPS argued – with considerable justification – that the focus on vulnerability reduction would help reduce risks.<sup>9</sup> The characterization of risks in the FY10–14 RPS was similar and pointed additionally to the risk of weak implementation capacity diluting the effectiveness of Bank Group support. Again, the RPS did not seek to develop contingent responses, arguing that the planned Bank Group program would help

mitigate risks, and in particular that capacity-building initiatives would help mitigate the risks associated with weak institutional capacity. In the event, the Bank was able to respond effectively to St. Lucia and St. Vincent and the Grenadines following Hurricane Tomas in October 2010. Finally, while the operational program generally anticipated political economy risks, there are several instances where the Bank or IFC might have better investigated and made allowances for political economy obstacles to planned reforms or potential changes in priorities following government turnover. They included support for a new public management model in Grenada, for private participation in St. Lucia's water utility, and for the establishment of an OECS-wide energy regulator.

The Bank Group's blend of regional and single-country support was largely appropriate to the circumstances. The Bank Group's determination to "go regional" in planning and delivering many of its operational products during the evaluation period was justified by the limitations of small states and a push for OECS integration.<sup>10</sup> Consequently, 29 percent of the number of IDA/IBRD-financed operations and 45 percent of the volume of financing delivered during the period had a multi-country structure, in some cases going beyond OECS clients.<sup>11</sup> For projects with client-executed grant financing from trust funds, a very large proportion was committed under multi-country initiatives (94 percent of the volume of financing, representing 73 percent of the number of projects). In addition, most of the Bank's AAA was aimed at multiple countries. However, given the many practical restraints on the pace of OECS integration and on configuring associated Bank Group support, the use of multicountry products was probably close to (in some cases, perhaps even in excess of) the limits of its effectiveness. Concerns ranged from forfeiture of national sovereignty and the cost of supra-national institutions to the asymmetry in IDA eligibility across the countries as well as inevitable country-specific needs and circumstances. As it turned out, despite the Bank Group's caution (World Bank 2010, p. 27),<sup>12</sup> not all the regional operations approved during the evaluation period have been implemented smoothly. For instance, a Bank project with the original intent of establishing electricity regulation at the OECS level is now having to be scaled back in light of reservations by the countries (even the two that have already joined the project) concerning the wisdom, or at least the pace, of transition from national to regional regulation. Partly because of the difficulties encountered in certain regional projects, the FY15–19 RPS proposes greater use of country-specific projects under "regional frameworks" rather than regional projects per se (box 2.1).

The mix of lending instruments was also broadly appropriate. While investment lending predominated during the evaluation period, the Bank did provide some budget support following the global crisis. It is difficult to fault this choice, which

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indicates responsiveness to country financing needs and requests. However, it is conceivable that the June 2010 development policy operations in Grenada and St. Lucia would have yielded better results in supporting a relatively long-term reform agenda had they been structured as a programmatic series rather than freestanding operations, similar to what has been in use in Grenada since June 2014. In addition, in certain cases (St. Lucia in 2010 and Grenada in 2014) more consistent coupling of development policy lending with technical assistance for reform implementation would likely have increased the former's effectiveness. An open question remains as to whether the Bank could have made greater use of development policy lending. In its investment lending, the Bank used a mix of instruments – including specific investment loans, emergency recovery loans, adaptable program lending (APL), and technical assistance loans – that were appropriate in light of the countries' circumstances and demand. In particular, use of emergency recovery operations in St. Lucia and St. Vincent and the Grenadines gave the Bank flexibility to help cope with the impact of Hurricane Tomas. Use of the APL instrument – structured horizontally – for projects covering multiple countries blended the synergies inherent in a common project framework with the flexibility to match project approval and implementation timeframes to the differing levels of readiness among the country clients. This helped limit transactions costs for the Bank.

AAA addressed key development constraints and informed Bank Group support, but in a few cases, greater dissemination could have enhanced knowledge transfer and impact. Thematically, there was no obvious strategic master plan for AAA deployment other than the pillar structure of the strategies, and the reason for picking the subjects covered by AAA was not always clear. In some cases, such as the Bank's work on debt and on the financial sector, the choice of subject reflected events and client demand. In others, such as IFC's work on the business climate and other work to unlock growth, it reflected long-standing constraints to development. Invariably, however, the subjects covered were important and were relevant to the countries' development. The AAA program had some very original and innovative elements, such as the Caribbean Growth Forum (CGF), a Caribbean-wide process for identifying and addressing constraints to growth at the country level using participatory, accountability-enhancing mechanisms.<sup>13</sup> The program also offered examples of how the Bank Group, often in collaboration with regional institutions and other development partners, was able to leverage its own relatively modest resources and staff time to help build technical capacity to the OECS countries' benefit.<sup>14</sup> In the latter part of the evaluation period, the shift in composition – away from formal reports toward NLTA in specific areas – emerges as a very clear and deliberate tendency to use AAA to address institutional capacity constraints. In terms of engaging



stakeholders around the findings and implications of its analytic work, some stakeholders indicated lack of familiarity with economic and sector work products.

The Bank Group program invested significantly in building client capacity. In the OECS, as in other small states, weaknesses in institutional capacity are an inherent challenge (box 2.2). Three tendencies in the Bank Group program during the evaluation period point to its heightened attention to institutional capacity development. First, several IDA/IBRD-funded projects approved during the period supported capacity building – funding expertise, training, and sometimes equipment aimed at enhancing institutional capacity. Five projects were formally designated as technical assistance loans, but there were also substantial institutional capacity building components in a number of other Bank-funded investment projects (e.g., the 2013 Antigua and Barbuda Public and Social Sector Transformation project). Second, the program included grant financing commitments for several capacity development initiatives – 26 distinct projects. This grant financing came from several trust fund sources, including the Institutional Development Fund (IDF), the Rapid Social Response trust fund, and the MECOVI program.<sup>15</sup> Third, over the evaluation period, the Bank shifted its AAA program toward NLTA in a bid to strengthen institutional capacity. Some of the formal reports, such as the Debt Management Performance Assessments (DeMPAs) or the CGF, are better seen as byproducts of processes that aimed to build know-how, including social capital. Going forward, the FY15–19 RPS signals a well-placed intent to “mainstream the building of capacity and institutions” into Bank Group program activities.

### **Box 2.2. Institutional Capacity Challenge in the OECS**

Institutional capacity limitations in small states, and in the OECS in particular, are critical but often very subtle. On the face of it, the OECS appears to fare well relative to non-small state comparators on cross-country indicators of government effectiveness (notably the World Governance Indicators “index of indices” of this dimension of governance). Nevertheless, as Brown (2010) has argued, certain fundamental characteristics of the OECS and other commonwealth Caribbean small states have acted to constrain the development of strong public institutions and their absorptive capacity (notably of resources from development partners) – as well as the effectiveness of institutional capacity strengthening initiatives. These characteristics include pervasive and costly government (including high government wage bills relative to the size of the economy), the high per capita cost of public administration and social and economic infrastructure, and the limited pool of skilled human resources, with a lack of depth in specialization to perform vital public service roles.

*Source:* Brown (2010).

Although Bank Group initiatives to help strengthen institutional capacity had mixed results, the experience suggests certain necessary conditions for success. While

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systematic assessment of the progress achieved in building sustainable institutional capacity is beyond the scope of this report, there were some successes. Effective interventions seem to require a blend of sufficient prioritization of the issues at level of national or regional policy makers; dynamic, influential leadership at the operational level by the national or regional executing agency; and Bank efforts, both financing and technical input, commensurate with the ambition and complexity of the task at hand. The Bank's efforts to develop client capacity to undertake DeMPAs, which addressed a high-profile issue of concern to policy makers (debt management) under Eastern Caribbean Central Bank (ECCB) leadership with a well-defined and circumscribed task, were apparently successful. In contrast, its IDF-funded efforts to help set up a priority public program performance information database and an associated monitoring and evaluation community of practice were ineffective. Policy-maker demand and ownership was weak, the implementing agency (Caribbean Center for Development Administration, CARICAD) experienced problems and had little influence with country or regional authorities, and the capacity-building task was not neatly bounded. More than half the funds remained unused.

Portfolio implementation arrangements have centralized client fiduciary capacity, although the sustainability of that capacity remains a concern. Unlike the business model elsewhere, the Bank Group has had no resident presence in any of the OECS countries. Its ability to exercise step-by-step implementation support has therefore been constrained, and counterpart capacity to implement projects has taken on particular importance. Although the model varied, implementation arrangements for country-specific projects usually relied on a single entity – a Project Coordination Unit (PCU) – in each country to manage the fiduciary functions in all Bank projects, while responsibility for technical aspects fell to the relevant line ministries and departments. There were exceptions. In St. Kitts and Nevis, HIV/AIDS project implementation was domiciled in the Health Ministry, with counterparts arguing that this was key to creating and sustaining ownership of the project and future implementation capacity.<sup>16</sup> Bank-supported regional projects used one of two implementation arrangements: implementation by regional bodies such as the OECS Secretariat and implementation directly by the borrower countries (with PCUs handling fiduciary aspects) using a common policy platform.<sup>17</sup> Arrangements relying on national PCUs have worked well for the most part, although they have also meant that line ministries did not build up fiduciary capacity. However, the extent of PCU integration within regular government structures is in most cases imperfect. In particular, grading and remuneration of PCU staff is not usually aligned with regular civil service scales. Although this misalignment can be explained, it also calls into question the sustainability of the institutional capacity of

the PCUs. Similar sustainability concerns arise where regional bodies – generally viewed as tangibly costly, but intangibly beneficial, in the countries – have served as executing agencies for Bank-supported projects. For instance, the regional e-government unit that served as implementing entity for the E-Government Regional Integration Project has largely been disbanded since project closure.

While the newly introduced simplified procedures for small states have facilitated project implementation, the Bank did not pursue a streamlined investment project concept for small states. With a view to enhancing project performance and delivery of results, in April 2013 the Bank introduced some exceptions to the normal requirements under its investment project financing in small states (World Bank 2013a, p. 3).<sup>18</sup> These allow greater flexibility in procurement under Bank-financed projects (World Bank 2013b). The simplified procedures and documentation requirements facilitate project implementation and foster local business development by introducing greater flexibility regarding thresholds for competitive bidding, prior review thresholds, and supplier/bidder numbers and qualifications. They have elicited positive feedback from client counterparts. In other respects, however, the Bank Group has not developed any “streamlined packaging” concepts that could reduce unit costs of delivering small volumes of financing to small states. In particular, the Bank did not pursue a new Small Country Umbrella Program instrument concept. The intent of the instrument, cited in the FY06–09 RPS as an idea under development, was to enable small states to access funding for small, simple-to-procure investment projects not involving complex safeguards issues in a way that would have reduced the transactions cost associated with project preparation and approval.

High transactions costs of delivering Bank Group support to the OECS point to potentially significant payoff from streamlined project models. Over the period FY05–15, for instance, a proxy for average lending cost per dollar of new commitments in the OECS was 16 times the Region average and 13 times the Bank average.<sup>19</sup> Over the same period, a proxy for average supervision cost per dollar of active commitments in the OECS amounted to 10 times the Region average and 11 times the Bank average.<sup>20</sup> Although the proxies used are crude, they provide a striking illustration of the orders of magnitude involved.<sup>21</sup> The large unit transactions costs of financing in the OECS help to explain the Bank’s onetime idea of developing the small country umbrella program concept.

Partnerships featured centrally in the Bank Group program. In the provision of financing, the Bank Group has been a relatively small player in the OECS. Nevertheless, various forms of partnership,<sup>22</sup> often bolstered by the Bank’s convening power, helped leverage its technical and financial contributions. These

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partnerships – with other bilateral and multilateral development partners, regional bodies, nongovernmental organizations, and sometimes a combination thereof, in addition to the beneficiary countries and institutions – facilitated more concerted channeling and arguably increased the efficiency and effectiveness of external support to OECS. Casual partnerships, which had a largely coordinating function, included the regular quarterly meetings of Eastern Caribbean development partners in Barbados, which the Bank attended. They also encompassed the Bank’s work with key players, for example, the Caribbean Development Bank (CDB) and International Monetary Fund (IMF), on specific areas of support.<sup>23</sup> In addition, several stronger, more formal partnerships underlay delivery of several Bank or Bank-sponsored activities. A very high-profile example is the Caribbean Catastrophic Risk Insurance Facility (CCRIF), where the Bank had a key role in providing the technical expertise for the facility’s design, providing start-up financing, and helping to mobilize contributions from several prominent development partners to capitalize the initial setup. Another example is the Supporting Economic Management in the Caribbean initiative. Under it, some \$19 million in financing from Canada, administered by the Bank and IMF, has supported strengthening of public finance management in 12 Caribbean countries, including all six OECS countries, since 2011. Yet another example is the CGF, a partnership of the Bank Group, CDB, Compete Caribbean (a partnership program supporting private business development), and the Inter-American Development Bank, together with Canada and the United Kingdom. In other cases, the Bank partnered with regional organizations, both supra-national and nongovernmental, as well as development partners in supporting specific areas. In debt management, for instance, the partnership has involved among others the Canada, ECCB, and IMF. In the financial sector, it has involved the ECCB, IMF, and United Kingdom. Other partnerships have involved CARICAD and the OECS Secretariat. These partnerships have made Bank Group contributions more significant than if it had acted alone.

Intuition suggests that the intensity of partnerships is higher in the OECS program compared with Bank Group programs elsewhere. In small countries with limited institutional capacity, the gains from acting with other parties in delivering support appears to be especially large. However, short of a qualitative activity-level comparison between the Bank Group’s OECS program and other Bank Group country programs, there is no easy way to confirm this. Nevertheless, certain measures can provide useful indications. For instance, trust funds housed in the Bank can be seen as partnerships between the Bank as administrator and one or more donors as contributors. In the Bank’s OECS program, the financing role that trust funds play is significantly larger than the norm (table 2.2). In this specific respect (i.e., intensity of trust fund use) then, partnerships have been used more

intensively in the Bank's OECS program compared with the Bank-wide average for country programs.<sup>24</sup>

**Table 2.2. Trust Fund versus World Bank Funding, FY06–15**

Funding Source	AFR	EAP	ECA	LAC	MNA	SAR	Bank Total	OECS Subregion
Trust fund (%)	7	6	2	2	10	3	4	21
IDA/IBRD (%)	93	94	98	98	90	97	96	79
Total	100	100	100	100	100	100	100	100

Source: World Bank Business Intelligence database.

Note: AFR = Africa Region; EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; IBRD = International Bank for Reconstruction and Development; IDA = International Development Bank; LAC = Latin America and the Caribbean Region; MNA = Middle East and North Africa Region; OECS = Organisation of Eastern Caribbean States; SAR = South Asia Region.

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<sup>1</sup> The September 2006 Regional Partnership Strategy (RPS) was in fact labeled a country assistance strategy (CAS). In substance, however, there was little difference between it and the ensuing RPS, and both covered the six independent OECS countries.

<sup>2</sup> Grenada and St. Lucia – the largest overall recipients of Bank financing – were the only recipients of development policy operations.

<sup>3</sup> In addition to the question of whether some areas covered by the Bank Group program were not relevant (i.e., possible errors of commission), the question also arises as to whether there were any areas that the Bank Group program should have covered, but did not (i.e., possible errors of omission). The question can, of course, be posed at various levels. At one level, the question is whether there were any areas that the Bank missed. In fact, there are few significant gaps of this type, although support for financial sector strengthening could have been reflected in the FY06–09 RPS, as weaknesses were already evident even before the 2008–09 global financial crisis. Similarly, in some areas (e.g., education) Bank support did not attempt to address certain issues (e.g., the excessive number of teachers) that were clearly of central relevance to improving sector performance. At another level, the question

is one of approach. For example, could (and should) the Bank Group have done more in terms of framing its support within an overall “strategic storyline” relating to the countries’ development, such as their economic and social integration? Because the matter is a highly subjective one, it is not pursued here.

<sup>4</sup> As appendix B illustrates, a large number of country- and OECS-level strategy and policy documents, both economy-wide and sector-specific, were available during all or part of the Bank Group’s two strategy periods, although their coverage was neither systematic nor continuous. Broadly speaking, priorities in Bank Group strategies reflected those in several of these documents. In any case, because the documents seldom established clear trade-offs under hard resource constraints, it would be hard to point to any explicit inconsistency between them and Bank Group strategies. In addition, the Bank Group undertook public consultations with client stakeholders as to the appropriateness of the proposed priorities in its draft RPSs, although there is always a question mark – by no means specific to the OECS case – as to how meaningfully public consultations around proposed strategies can (and do) modify the Bank Group’s plans (especially in the direction of making planned engagement more, rather than less, selective).

<sup>5</sup> In some areas, such as public sector modernization, Bank support has been sporadic, leading to some loss of momentum in the pursuit of reforms. The same is arguably true of the financial sector (over a longer period than that spanned by the two RPSs).

<sup>6</sup> Citing the scarcity of timely and accurate data in the OECS, the RPS suggested “a more comprehensive results framework would be developed during the CAS Progress Report and as each project is developed.”

<sup>7</sup> At the time of the FY06–09 Regional Partnership Strategy Progress Report (June 2008), the magnitude and effects of the global financial crisis were not yet fully evident, although a bout of steep fuel and food price increases had taken place in preceding months.

<sup>8</sup> In practice, however, the Bank program has typically adjusted ex post – in response to country demand – to mobilize support for recovery and reconstruction when a natural disaster occurred.

<sup>9</sup> For example, the Bank’s efforts to help set up the Caribbean Catastrophic Risk Insurance Facility were clearly a major contribution to dealing with risks related to natural disasters.

<sup>10</sup> As indicated earlier, prior to the start of the evaluation period, the Bank Group was already using a regional (i.e., OECS-wide) partnership strategy to frame its support to the countries as a group rather than individually. In addition, regional project work was exemplified by the Bank’s OECS Telecommunications and Information and Communications Technology Development Project (P088448; about \$2.75 million), a technical assistance operation approved in FY05 that was part of the inherited portfolio.

<sup>11</sup> The definition of multi-country or regional operations used here is a fairly restrictive one, namely projects that received, or at least were eligible to receive, financing from the regional allocation of the International Development Association. In other words, it excludes several projects that were structured as “horizontal” adaptable lending programs where a common project framework was replicated across countries.

<sup>12</sup> Their advantages notwithstanding, the Bank Group saw regional operations as being inherently riskier and more difficult to implement than single-country projects. There is,

however, no immediate evidence that regionally-structured projects perform worse than single-country projects. In fact, over the evaluation period exiting projects of the former variety exhibited somewhat better outcome ratings on average than those of the latter variety.

<sup>13</sup> The Caribbean Growth Forum (CGF) is a multi-partner initiative aimed at helping to identify and implement growth-oriented reforms in 12 Caribbean countries, including the OECS, under three themes: investment climate, logistics and connectivity, and skills and productivity. The initiative has both a regional and a country-specific dimension, and emphasizes stakeholder (e.g., private sector, civil society) participation and accountability mechanisms to spur government reform implementation. In addition to supporting and helping to design the CGF framework, which provides for national accountability workshops featuring policymaker reform commitments and regular “traffic light” updates in the presence of civil society and private sector participants, the Bank prepared a report presenting knowledge regarding key constraints to growth in the Caribbean, including the OECS countries.

<sup>14</sup> In debt management, for instance, funding from Canada supported Bank and International Monetary Fund provision of training, coordinated by the Eastern Caribbean Central Bank, for country and regional officials on debt management performance (DeMPA) assessments, debt sustainability analysis, and medium-term debt management strategy (MTDS) preparation. In addition to preparing three DeMPA assessments, the Bank also provided support for preparation of Grenada’s MTDS.

<sup>15</sup> MECOVI is a Spanish-language acronym for a trust-funded program to improve data relating to household living conditions – *Mejoramiento de las Encuestas de Hogares y la Medición de Condiciones de Vida*.

<sup>16</sup> However, unlike Grenada and St. Lucia, Bank projects in both St. Kitts and Nevis and Antigua and Barbuda were very small in number, thereby offering smaller prospective gains from pooling fiduciary functions across projects.

<sup>17</sup> Feedback from the client governments suggests that the latter form of arrangement is preferable because it promotes ownership, facilitates implementation, and provides a better fit to local needs and preferences.

<sup>18</sup> The exceptions apply *inter alia* to “cases where the Borrower/beneficiary or, as appropriate, the member country is deemed by the Bank to ... experience capacity constraints because of fragility or specific vulnerabilities (including for small states),” and relate notably to allowing: deferral of certain fiduciary and environmental and social requirements from the preparation to the implementation phase; as well as special procurement arrangements.

<sup>19</sup> The evaluation uses Bank administrative budget data (which distinguishes new lending – that is, project preparation – and supervision costs) as well as data on the flow of new Bank lending commitments and the stock of active Bank net lending commitments (that is, the size of operations under supervision) over the period FY05–15. To proxy preparation costs per dollar lent, the ratio of new lending costs each FY to new lending commitments in the following year was calculated, taking the average for the entire period.

<sup>20</sup> To proxy supervision costs relative to project size, the ratio of supervision costs in a given FY to the stock of active net lending commitments at the end of the year was calculated, taking the average for the entire period.

<sup>21</sup> While the measures used are crude proxies to capture what is sought, two factors dampen potential bias and error: the averaging over a 10-year period and the use of a (unit-free) measure that compares one country group to another.

<sup>22</sup> The formal definition of a partnership – an arrangement, typically involving dedicated funding and common objectives for collective action, between two or more legally autonomous entities – qualifies virtually any activity undertaken by the Bank Group in the OECS during the evaluation period as a partnership, and is thus a little too broad to be useful. The evaluation uses the term to denote an arrangement involving multiple parties.

<sup>23</sup> For example, bi-monthly coordination meetings on support for public financial management in the Caribbean are held in Barbados among key development partners involved (i.e., Canada, Caribbean Regional Technical Assistance Center, European Union, International Monetary Fund, United Kingdom, World Bank Group, and occasionally, the Caribbean Development Bank).

<sup>24</sup> Available information does not however point unequivocally to more intensive use of partnerships in the OECS program. The analytic and advisory activities program in the OECS, for instance, has drawn 24 percent of its funding from trust fund sources (and the remainder from the Bank budget), but this ratio is lower than the Bank-wide average of 43 percent.



### **3. Contributions to Strengthening Resilience**

Chapter 3 assesses the progress toward World Bank Group program objectives for strengthening resilience (pillar 1). During the evaluation period, the Bank Group sought to help strengthen the resilience of Organisation of Eastern Caribbean States (OECS) countries in three areas: fiscal, debt, and public sector management, disaster risk and environmental management, and human capital and social resilience. The chapter reviews the program achievements in each of these areas. In each case, it examines the relevance, or appropriateness, of Bank Group strategic objectives given the countries' circumstances; how key components of the program addressed the objectives; and the progress made toward program objectives – as specified in the results frameworks in the two Regional Partnership Strategies (RPSs). Details of Bank Group support and operational products for strengthening resilience are set out in appendix C. The precise focus of Bank Group strategic objectives varied over the period. For instance, the FY06–09 RPS was concerned with prevention and control of the human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS), but this focus did not extend into the FY10–14 RPS period. In addition, many elements under the areas reviewed here could equally have contributed to competitiveness (pillar 2).

#### **Strengthening Fiscal and Debt Sustainability and Public Sector Performance**

Bank Group strategic objectives included debt management, public agencies and human resources (HR), public finance and services, and planning and monitoring and evaluation (M&E). Coverage of Bank Group objectives was broadly continuous through the two RPS periods, although following the 2008–09 global crisis emphasis increased on fiscal consolidation and debt sustainability. Appendix C provides a summary of the objectives and associated outcome indicators – as modified by the relevant Regional Partnership Strategy Progress Report, if applicable – during each of the two RPS periods as well as information on outturns. Combining the two, the following broad objectives can be distinguished: (i) strengthening debt management (explicitly retained as a results area only in the second RPS period); (ii) improving management of public agencies (explicitly retained as an objective throughout, albeit with specific emphasis on reducing the wage bill as a share of gross domestic product (GDP) in the second RPS period); (iii) improving public finance management and public services, with attention to regional harmonization (explicitly retained as an objective throughout, with emphasis on e-government services during the second RPS period); and (iv) strategic planning, notably strengthening links between public spending and development objectives (explicitly

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retained as an objective only in the second RPS period). In the FY06–09 RPS, the fiscal and/public sector results area was under the enhancing competitiveness pillar; in contrast, the FY10–14 RPS placed it under the increasing resilience pillar.<sup>1</sup>

#### **CONTEXT AND RELEVANCE**

While the objectives had broad coverage, their relevance was indisputable. Against a backdrop of high and deteriorating debt ratios, the relevance of strengthening debt management is evident.<sup>2</sup> Following the global crisis, the 60 percent debt-to-GDP currency union convergence criterion was exceeded in every country.<sup>3</sup> The policy concern featured centrally in the Eastern Caribbean Central Bank's Eight-Point Stabilization Plan, designed to address the impact of the global crisis in the OECS countries.<sup>4</sup> The focus on HR and public agencies also had high relevance given the OECS countries' high government wage bills and weak public sector cost-effectiveness. A FY05 Country Economic Memorandum had underscored the need for sustained fiscal adjustment and public sector reform to set the stage for higher growth (World Bank 2005a). The urgency of containing wage bills intensified with higher deficits after the crisis, even as growing unemployment increased recruitment pressures. In public finance management and public services, numerous weaknesses had been documented,<sup>5</sup> while tax and customs policy and administration also exhibited shortcomings.<sup>6</sup> E-government services were virtually nonexistent. The relevance of helping to strengthen these areas was thus strong. Finally, inadequate grounding of public spending in development strategies justified a focus on strategic planning.<sup>7</sup>

#### **BANK GROUP SUPPORT AND OUTPUTS**

The Bank combined project and development policy lending, trust fund grant financing, and analytic and advisory activities (AAA) to address these areas, while the International Finance Corporation (IFC) advised on customs reform. Beginning in 2010, the Bank used AAA, including Debt Management Performance Assessments, to help strengthen the countries' debt management capacity. Lending had only a sparing role. It also prepared the Comprehensive Debt Framework (CDF), an analytic construct clarifying the links among policies affecting indebtedness. Lending and trust fund grants sought to help strengthen agency performance and HR management capacity. Initially the focus was on Grenada, where the Bank sought to support a New Public Management (NPM) model of public service delivery, as well as Dominica. Subsequently, support for government HR management (e.g., through functional reviews) was extended to St. Lucia, as well as to Antigua and Barbuda and St. Kitts and Nevis. In both Grenada and St. Lucia, Bank lending supported the introduction of the value added tax (VAT) and strengthening of revenue administration. Lending also supported improvements in

customs in several countries, notably upgrading of the ASYCUDA computerized customs management system. In Grenada, IFC advisory support complemented Bank lending for customs reform. In addition, the Bank used regional instruments to support tax and customs policy and administration as well as public expenditure management. Since 2011 it has administered a major Canadian-funded partnership initiative to strengthen public financial management – the Supporting Economic Management in the Caribbean (SEMCAR) initiative – which provides IT-focused support in revenue and customs administration as well as public expenditure management, seeking cross-country systems harmonization and economies of scale. Beginning in 2008, the Bank supported e-government services in four countries using a regional adaptable program lending (APL) framework, the Electronic Government for Regional Integration Project (EGRIP), implemented by the OECS Secretariat. Finally, the Bank used grant resources, and in some cases lending, to support strengthening of strategic planning and M&E capacity, both regionally and in specific countries.

## **RESULTS**

Medium-term debt management strategies (MTDSs) were prepared as planned. The outcome targeted in the Bank Group's FY10–14 RPS was achieved with the preparation of MTDSs by Antigua and Barbuda, Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines. The Bank also contributed to strengthening country and regional institutional capacity for debt management – including efforts to distinguish, institute, and strengthen front-, middle-, and back-office functions. In general, the Bank's work to build debt management capacity has used partnerships that helped leverage the impact of its modest but focused outlays of resources and technical knowledge. The CDF has provided analytic underpinnings for recent Bank work in the OECS, including the latest (FY15–19) RPS and the Grenada programmatic development policy financing series, although there are indications that initial efforts to ensure wider dissemination and use have faltered. Some recent improvement in debt-to-GDP ratios in some of the countries (still largely above the 60 percent convergence criterion of the Eastern Caribbean Currency Union) have been driven by events such as debt exchanges with creditors or debt retirement through asset sales. It is hard to argue that the Bank's support contributed significantly.

Few results of Bank efforts are evident on the management of public agencies and HR. Pursuit of the NPM model in Grenada ran into constitutional obstacles and stalled. The RPS target of reducing the government wage bill as a ratio of GDP in at least three countries was not met.<sup>8</sup> In St. Kitts and Nevis and Antigua and Barbuda, the implementation of Bank-supported initiatives to strengthen public sector HR

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management has not advanced sufficiently to underpin reforms and affect outcomes. Where Bank-supported initiatives have had more implementation time, they may have provided some benefits and helped strengthen pockets of institutional capacity.<sup>9</sup> However, reforms associated with Bank support are at best a slow-paced work in progress, and at worst completely stalled. In St. Lucia, work on preparing new public service management legislation, while delayed, is now in the final drafting stages. In contrast, the work on a new government position classification and remuneration system has progressed little, despite remaining a notional priority. Even in Grenada, where Bank support has been the most sustained and intensive, it is difficult to identify any far-reaching government HR-related reforms to which Bank support has clearly contributed.<sup>10</sup> Given the political-economy complexities of government HR management as a reform area and the OECS countries' limited institutional capacity, it is unlikely that in the absence of consistent hands-on development partner support, successful reform implementation can be expected in the near term.

Several public finance- and service-related areas supported by the Bank Group have seen progress, though in some cases with delays. Although not all of the FY06–09 RPS outcomes were achieved, there has been clear progress in areas for which the Bank initiated support during the period, with associated improvements in institutional capacity. For example, recent improvements in customs clearance outcomes are likely attributable to the ASYCUDA system upgrades that the Bank supported. In Dominica, Grenada, and St. Lucia, Doing Business indicators of days to export and to import have improved in recent years, with Grenada – where IFC advisory services on trade logistics complemented Bank support – recording particularly significant improvements. Implementation of the VAT in Grenada and St. Lucia, which was supported by Bank financing, has provided a more robust and less distortionary source of revenue than was previously available. In recent years, it has amounted to 5–6 percent of GDP in Grenada. Bank support for improvements in public expenditure management have been more fragmented, although it is possible to associate some progress with its support (e.g., new procurement laws in Dominica and Grenada). More recently, the SEMCAR initiative has provided an umbrella under which support for expenditure management, as well as for revenue and customs administration, is more consolidated, although available and projected funding is unlikely to be sufficient to meet program targets or the entirety of the OECS countries' institutional capacity-building needs. Despite some implementation difficulties, EGRIP helped lay the foundations for e-government services in the four countries concerned. The online tax filing facilities developed under the project are now in use, although uptake is still low, particularly in the countries where online payment facilities are still under development. The regional electronic

pharmaceuticals procurement platform that it helped create has been in use to acquire drugs and medical supplies, and has helped to enhance efficiency and transparency, with contract awards published online.

Finally, Bank efforts to strengthen capacity for strategic planning and M&E have had little impact. An OECS-wide grant from the Institutional Development Fund (IDF) did not achieve its intended outcome of fostering creation and maintenance of an active M&E community of practice and disseminating performance information on public programs, owing in part to limited demand and buy-in from the countries. Although implementation of a Rapid Social Response grant to the OECS Secretariat fared better, the OECS Growth and Development Strategy it helped produce remained in draft form as of July 2015, and the extent to which grant activities have helped institutionalize the subsequent use of M&E is unclear. In Grenada, operation of a cabinet office M&E unit established under an IDF grant has not been sustained, while in Antigua and Barbuda implementation of the Public Sector and Social Transformation project is not sufficiently advanced to have helped strengthen strategic planning capacity.

## **Strengthening Environmental and Disaster Risk Management and Climate Resilience**

Under this subpillar, Bank Group strategic objectives spanned two areas. The bulk of Bank financing for the OECS program was directed to disaster risk management (DRM), pursued through several pathways. One pathway, although it did not feature explicitly in Bank Group objectives ex ante, was post-disaster recovery and reconstruction. Others involved seeking to reduce risks and vulnerability by supporting infrastructure investments that reduce disaster exposure or vulnerability; building capacity and encouraging policy changes for improved disaster risk management (including data and knowledge); supporting the creation of an innovative regional catastrophic risk insurance pool for disaster events; and promoting climate change adaptation. The second area covered involved management of the natural environment. Details of Bank Group strategic objectives and results sought, as well as outturn information, are in appendix C.<sup>11</sup>

### **CONTEXT AND RELEVANCE**

The OECS countries are among the most disaster-prone in the world, so placing DRM among the top priorities for Bank Group support was amply justified. The OECS countries are highly vulnerable to natural disasters, especially hurricanes and flooding. The likelihood that a hurricane of at least category 1 force will make landfall is estimated at one-thirteenth per year for Grenada and one-eighth per year

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for St. Vincent and the Grenadines. Climate change will likely exacerbate these risks. Though the direct loss of life from disasters has been relatively small, the effects from economic disruption and from damage to assets are large. The damage to Grenada from Hurricane Ivan – which exceeded 200 percent of GDP – was extreme, but many lesser events have also been crippling.<sup>12</sup> The fiscal cost of weather-related disasters has been a major driver of their public debt buildup. Disaster vulnerability is driven not just by the natural hazard, but also by exposure of people and assets in high-risk zones. The countries' high disaster vulnerability has given DRM unquestionable relevance and a central place in Bank Group RPSs beyond the evaluation period, and DRM currently dominates the Bank's portfolio both in number of projects and total financing. Nevertheless, Bank Group focus has been on public rather than private sector exposure.

Sustainable management of natural resources and biodiversity is a challenge, underscoring the relevance of Bank Group strategic objectives in this area. Both habitat and biodiversity in the OECS countries are threatened by population growth, over-exploitation of natural resources, pollution, poorly planned coastal development, and tourism. Yet the countries depend heavily on tourism, which is based largely on the appeal of the natural environment. The environment also sustains economic activity and livelihoods through fisheries and other ecosystem services.

#### **BANK GROUP SUPPORT AND OUTPUTS**

Bank support for DRM grew to account for much of the OECS project portfolio, while support for the environment was confined to Global Environment Facility (GEF) funding. Details of the Bank's support for DRM during the evaluation period, including a full list of the operational products it employed, are in appendix C. Bank engagement during the period was mostly limited to Grenada, St. Lucia, and St. Vincent and the Grenadines. There has been a perceptible shift in the Bank's focus toward pre-emptive risk reduction, strengthening institutional capacity, and comprehensive risk management strategies. Emergency Recovery Loans delivered support for recovery and reconstruction after major hurricanes – Ivan in 2005 (Grenada) and Tomas in 2010 (St. Lucia and St. Vincent and the Grenadines) – but also supported measures to reduce exposure, such as retrofitting infrastructure to enhance resilience. The Bank also undertook post-disaster needs assessments (PDNAs) following disaster events. Beginning in FY11, it provided financing for DRM investments in the four International Development Association (IDA) blend countries (including Dominica starting in FY14) through the Disaster Vulnerability Reduction Program, set up as a horizontal APL.<sup>13</sup> Physical investments aside, the successive Bank projects provided substantial support for disaster preparedness and

emergency management capacity. Through a combination of AAA, lending, and convening work, the Bank was central to the establishment of the CCRIF (box 3.1). In the creation of the CCRIF, the Bank put its comparative advantage to work, including its unique capability for blending provision of technical expertise, financing, and convening power for partnerships. Climate change adaptation was addressed through the DRM portfolio as well as through Caribbean-wide GEF projects. Finally, the entirety of Bank support for environmental management and biodiversity protection consisted of two GEF projects – seeking to help strengthen the management of protected areas and to establish sustained funding for the protection of marine ecosystems.

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**Box 3.1. Caribbean Catastrophe Risk Insurance Facility: A Successful Multi-Country Partnership**

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is an innovative instrument that solves a chronic problem. Private insurers do not provide cost-effective insurance products for small states because the transaction costs of developing those products are high, and developing a sophisticated actuarial risk appraisal requires substantial upfront investment. The CCRIF's risk pooling feature, and the Bank's work to support risk modeling for the various countries as well as design of the financial setup, overcame these obstacles. The CCRIF now has 16 member countries, and offers members – who pay risk-based insurance premiums to purchase desired levels of insurance coverage – three distinct insurance products: against a hurricane of specified wind speed, against an earthquake of a specified magnitude, and (most recently) against rainfall of specified severity. Each product is designed not to insure against losses from a disaster, but to provide rapid payouts after the event to help provide the liquidity needed to finance disaster response and early recovery phases – including fuel purchases, equipment hire, and overtime wages.

The CCRIF is the result of a partnership among several donors. The facility was capitalized with a grant from Japan along with capital contributions from a multi-donor trust fund (with contributions from Bermuda, Canada, Caribbean Development Bank, European Union, France, Ireland, United Kingdom, World Bank Group) as well as membership fees from the 16 member countries. Aside from the formation of the joint risk pool, development partner funds and expertise supported data collection and technical product development work. Bank contributions included a lending operation (the \$14.2 million OECS Catastrophe Risk Insurance Project) that financed the insurance premiums of the four blend OECS countries for 2.5 years. A Caribbean-wide lending operation (the \$45 million Caribbean Catastrophe Risk Insurance Project) established the CCRIF and supported its initial operations. After the initial donor support, all members except Haiti now fund their own premium payments, and the facility is a self-sustaining entity with strong support from member countries.

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## RESULTS

The Bank had a positive post-disaster role, and its funding for vulnerability-reducing investments has had a significant cumulative effect. While views on the value of Bank PDNAs are mixed, they have enabled rapid preparation of emergency response projects. Moreover, a visible Bank presence following disasters has

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contributed to positive views by governments of its engagement in DRM. Retrofit upgrade investments have been applied over multiple Bank projects to a significant portion of community centers and schools used as shelters after a disaster as well as to hospitals and clinics. Although many facilities face ongoing problems with maintenance funding, evidence is mounting that retrofit upgrades and risk reduction investments successfully reduce disaster vulnerability (World Bank 2011).<sup>14</sup> Bank financing has also covered assets such as bridges and roads, which are key to connectivity and economic activity, by funding their rebuilding to higher standards.<sup>15</sup> In addition, protective works funded under Bank projects have targeted some of the areas most threatened by severe erosion and storm surge.<sup>16</sup> A pilot project in St. Lucia appears to have been successful in reducing landslide risk, though it is unclear whether the improved drainage will be maintained, and the scale-up necessary for a significant aggregate effect has yet to occur. Overall, however, Bank DRM projects have been a main source of funding for capital investment in infrastructure, and cumulative impact over the evaluation period has been significant. Critics note, however, that the focus of risk reduction works has been almost entirely on “hard” traditional engineering works, with very little support for “soft” works that may be less disruptive to ecosystems.

The OECS countries’ exposure to disasters remains very high. Even restricting the focus to the public sector, the total scope of at-risk assets is very large, and it would take expensive retrofits to make a significant difference to their climate resilience. Some of the most critical assets, such as airports, are still very vulnerable to flooding and storms. Despite the increasing weight of DRM in its project portfolio, the scale of resources mustered by the Bank is modest relative to the need. Yet the scale of potential support is limited by country IDA funding and the ability to borrow given existing high indebtedness as well as by the absorptive capacity of governments. Thus, overall progress on risk exposure has been incremental rather than transformational. Efforts have focused almost entirely on storm and flood management; yet earthquake, tsunami, drought, and even volcanic eruption hazards are also significant. Finally, there has been limited progress in the countries where Bank has not had a DRM lending program.

The Bank contributed to some improvements in understanding vulnerability and the ability to act on it, but gaps remain, and available knowledge may be underused. While Bank support has contributed to development of a range of disaster vulnerability maps for river flooding, storm surge, and coastal inundation, these have been mainly pilot efforts. Coverage of maps is incomplete, and their use sporadic. There are some prominent examples of Bank-supported studies influencing decisions. For example, hydraulic studies made a major difference to the design of a critical bridge in St. Lucia, drought data and modeling influenced investments on increasing



reservoir storage, and studies and analytic work used in developing the CCRIF were critical in making the program feasible. Nevertheless, feedback from government officials suggests that most studies financed under Bank projects are underused in decision making. Bank projects have also enabled incremental improvements to hydro-meteorological systems, including equipment, training, and warning systems; meteorological capabilities and services remain limited.<sup>17</sup> Limitations in data collection systems in particular pose a persistent challenge.<sup>18</sup> Bank-supported geographic information system training, equipment purchase, and other measures have made some difference in data management capacity, but land information systems are still poorly integrated, with no central repository for data, and a major constraint remains the capacity of staff to use data meaningfully. Meanwhile, progress on land use planning has been very limited, and most countries still have no national zoning laws or formal disaster risk zones, which are often viewed as unfriendly to the tourist sector and encounter opposition.<sup>19</sup> This has meant that in some countries there has been considerable new development in high-risk zones, with rapid land use change from agriculture to housing. Despite a few examples of governments trying to promote preventive resettlement in local plans or donor-supported projects, efforts remain at the margin. Building codes have been established and updated in some countries, and have improved resistance to wind, although design requirements for mitigating landslide risk and seismic risk are mostly still low. Moreover, codes are generally followed in public buildings, but compliance is variable for private construction, especially for housing construction, and inspection and enforcement capacity remains limited. In general, while the Bank has financed a lot of infrastructure, studies, equipment, and training, its impact on policy has been less significant.

The Bank has also contributed to improving capacity for disaster response. Permanent national emergency management agencies have been established, and have benefited from various Bank operations.<sup>20</sup> These agencies have been involved in the creation of national emergency plans, as well as from learning reviews carried out after disasters to assess system performance and generate lessons. For example, the emergency management office in St. Lucia encountered problems after the Hurricane Tomas. There were significant shortcomings in the initial response, the emergency operations center was not fully utilized, and the communications system failed as radio repeaters were destroyed by the storm. After a learning exercise, response to 2013 flooding was smoother. The impact of Bank efforts to help build capacity has varied across countries. In some, the agency has been able to provide leadership across government in pushing for resilience, in others the agency is still weak and focused on the civil defense aspects of emergency response. Institutional effectiveness frequently depends

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on individual leadership. Some equipment gaps also remain, and facilities maintenance is an ongoing problem.

With respect to financial risk management, the CCRIF provided a largely self-supporting, sustainable insurance mechanism. In effect, the facility has allowed governments to transfer a portion of disaster risk to the pooled mechanism and onward to reinsurance markets. As of May 2015, the CCRIF had made 12 payouts to eight member countries – all less than three weeks after the triggering event – for a total of \$35 million.<sup>21</sup> All countries,<sup>22</sup> including the OECS, are renewing their policies. Finance ministries report that they intend to continue purchasing insurance and may expand their coverage. Some already have expanded to the rainfall insurance product. The coverage offers a real benefit to countries in providing funds needed for initial responses. Finance ministries note that the space in national budgets for contingencies is very limited, so liquidity is a significant problem that the facility helps them solve. Still, this form of insurance can only ever be part of a broader risk management strategy; it does not cover the vast majority of losses. Overall, governments report satisfaction with the CCRIF. While some officials argue premiums are too high and the facility is accumulating assets unnecessarily, CCRIF managers note surpluses are being used to increase capital reserves and offer some discounts on premiums. CCRIF analytic work and training courses for governments are also contributing to improved understanding of risk transfer as part of a DRM strategy.

Bank support through the series of climate change adaptation projects had limited impact. Total financing for the projects was small and spread over many countries, enabling only small-scale actions in each country. In addition, the projects were not tied into country strategies or coordinated with existing DRM programs, which contributed to weak government ownership. While many project outputs were broadly successful, the overall impact on building resilience in the Caribbean was modest. Sea-level rise monitoring stations established under the projects faced severe sustainability problems as there was no financing mechanism for maintenance.<sup>23</sup> Some data were produced but contributed little to government planning processes in the OECS. In Grenada, vulnerability and risk assessments were piloted, but faced shortcomings in acquiring baseline data and in technical capacity, resulting in a lack of credible climate change scenarios. Countries developed national adaptation policy options, but these did not bring new policies. Some specific assets financed by the GEF projects – a solar powered desalination plant in the Grenadines, for instance – had substantial impacts for local beneficiaries,<sup>24</sup> but there has been little replication.

The Bank's support for DRM has had substantial impact, but not much has been done to support anticipatory adaptation to address long-term climate change threats. Climate change will bring some state shifts beyond incremental worsening of storms, particularly through sea level rise. Little has been done to manage the extreme vulnerability of existing and continued coastal development. In addition, not much attention to climate change threats outside of DRM, such as the threat to the tourism sector from coral bleaching.

In environmental management, Bank support had impact in some countries, but the endeavor to establish sustainable financing sources faces major challenges. The Bank project aimed at strengthening protected areas management had high impact in St. Vincent and the Grenadines, where it led to significant improvements in the Tobago Cay maritime protected area, addressing livelihoods and ensuring community involvement.<sup>25</sup> In Grenada, by contrast, the project was unsuccessful. No funds were provided to implement the management plan, so the overall impact was negligible.<sup>26</sup> In most other countries, impacts were between these extremes, with some improvements in park management, but little increase in public or private sector involvement. In all countries, funding remains a major constraint. Under the sustainable financing project – which remains active – a regional umbrella fund has been established and capitalized. As of May 2015, national trust funds<sup>27</sup> were still being established, and no disbursements had yet been made. Even by project closure, it will be unclear whether additional funding is having a meaningful impact on protection of critical ecosystems. Challenges apparent from project design include the transactions cost of the national trust funds,<sup>28</sup> especially how to operationalize a requirement that governments provide matching funds from new dedicated funding sources.<sup>29</sup> In sum, impact during the evaluation period was limited. Bank staff, however, underscore the difficulty of making significant strides in environmental management so long as the source of funding for Bank support is limited to GEF.

### **Enhancing Human Capital and Social Resilience**

Bank Group objectives for this results area spanned social protection, secondary and post-secondary education, and health. During both RPS periods, the Bank Group sought to help rationalize and improve the targeting of social protection programs. It also sought to help improve post-secondary workers' skills as well as to enhance human capital through increased and more equitable enrollment in secondary education and improved management and efficiency and better-qualified teachers. Its efforts to reduce the incidence of HIV/AIDS and mitigate its impact were largely confined to the first RPS period. During the second period, the Bank Group sought

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to improve knowledge of noncommunicable diseases (NCDs). Appendix C provides an overview of the objectives and outcome indicators and outturns.

#### **CONTEXT AND RELEVANCE**

Bank Group objectives were generally relevant. Safety nets in the OECS had poor targeting and limited coverage, with vague and often subjective eligibility criteria, unconditional benefits, and high administrative costs (World Bank 2005b). Safety nets also had high costs (Grosh et al. 2008, 63),<sup>30</sup> and pressure to improve the performance of social protection systems mounted following the global crisis (Williams et al. 2013).<sup>31</sup> In the FY06–09 RPS, safety net-related outcome indicators were process-oriented, and an outcome focus took shape only in the FY10–14 RPS. Regarding post-secondary skills, the Bank’s 2011 enterprise survey identified workforce training as a constraint to business success for private firms, behind only access to finance and electricity, and unemployment has been a top concern (Williams et al. 2013).<sup>32</sup> Given the limited pursuit of tertiary education, a focus on developing better-skilled post-secondary workers was justified, although the enrollment headcount indicator used to measure progress was output-focused and did little to put the impact of Bank support in perspective. There is an open question as to whether the Bank could have helped – or indeed still could help – look into the scope for expanding access to employment opportunities abroad for the countries’ labor force, which would have both augmented remittances and relieved unemployment. In secondary education, there were shortfalls in access – in 2007, net enrollment averaged around 80 percent in the OECS countries<sup>33</sup> with the poor disproportionately affected – and systemic inefficiencies, including low student-teacher ratios and lack of teacher training.<sup>34</sup>

Finally, the Bank Group’s initial focus on HIV and AIDS, and its shift to NCDs, was also justified. In the face of alarming and rising HIV and AIDS prevalence rates in the Caribbean around the turn of the century,<sup>35</sup> OECS and other regional governments had reacted promptly, placing high priority on prevention and control.<sup>36</sup> By the end of the FY06–09 RPS period, prevention and control efforts had been largely institutionalized. NCDs and chronic conditions now clearly pose an increasingly important – and costly – threat to well-being and human capital.<sup>37</sup> The shift in Bank Group objectives was appropriate, but they did not cover health financing, and the progress indicator focused on process.

#### **BANK GROUP SUPPORT AND OUTPUTS**

A wide range of Bank Group operational instruments covered social protection, secondary and post-secondary education, and health. Following an earlier assessment of social protection programs in Dominica, Bank nonlending technical

assistance helped extend coverage to all the countries, albeit later in the evaluation period than originally planned. These laid the foundations for reform, which Bank lending helped initiate in Dominica, Grenada, and St. Lucia. Pensions were covered in regional (Caribbean-wide) Bank AAA. The Bank also provided some support for capacity-building with respect to labor statistics, but its support for direct employment programs was very limited. In terms of post-secondary skills building, Bank project support built on regional AAA and helped expand and institutionalize vocational training in Grenada and St. Lucia, while IFC invested in a university in Antigua and Barbuda. Regarding secondary education, a series of Bank projects covering all of the countries except Antigua and Barbuda and Dominica with a horizontal APL structure were implemented and helped construct, rehabilitate, and equip secondary schools, as well as support teacher training, education policy, and curriculum reform. In addition, AAA and grant funding helped generate knowledge and supported education policy and strategy development. In support of HIV/AIDS prevention and treatment, Bank projects were implemented in several of the OECS countries under an earlier-approved Multi-Country HIV/AIDS Prevention and Control Program also with a horizontal APL structure. Later, Bank AAA added to knowledge on NCDs and other health-related issues. IFC advised on a hospital public-private partnership in Grenada.

## **RESULTS**

Little rationalization or targeting of social protection mechanisms has yet taken place. Bank assistance to the OECS countries has helped raise awareness regarding the need for reform in social welfare programs. But progress has been very slow. Factors such as weak institutional capacity, high fragmentation of programs and lack of data, and limited financial resources for reforms have contributed to the slow pace. While assessments of social protection mechanisms were eventually conducted, few programs have been rationalized, and targeting mechanisms for cash transfers have yet to be implemented. Only in Grenada were three cash transfer programs consolidated into a single program known as the Support for Education Empowerment and Development, which began paying benefits in October 2011. No OECS country has yet improved the targeting efficiency of cash transfer programs or made cash transfers conditional, although St. Lucia is reviewing health and education conditions.<sup>38</sup> As a result, the latest FY15–19 RPS has retained the same focus on rationalization and targeting of social protection programs.

The Bank helped institutionalize post-secondary skills training, and enrollment targets were exceeded, even though the overall impact on labor force skills and employment was modest. Although Bank-supported skill-building initiatives in Grenada and St. Lucia have reached only a small portion of the labor force, there is

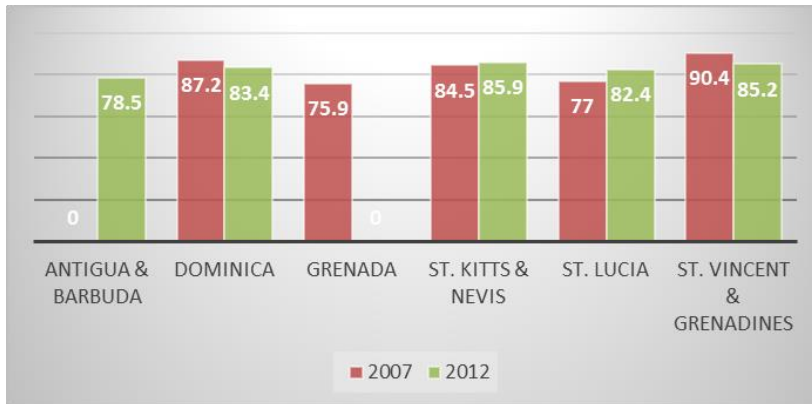
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some evidence that they are facilitating employment. With a growing number of accredited training centers in Grenada, 886 youth had completed training by 2013 and almost two-thirds had found employment within 15 months of starting training. In St. Lucia, 1,119 unemployed youth had completed Bank-supported training by 2013, and two-thirds had found employment within 15 months. Grenada is conducting tracer surveys of graduates and employer satisfaction surveys – the kind of follow-up analysis that has not yet been institutionalized, despite its value in investigating the impact of training initiatives. Most importantly, Bank support helped to establish post-secondary skills training systems, which have potential OECS-wide application.

In secondary education, RPS outcomes were partially achieved. Enrollment rates in secondary education did not register sustained increases by the targeted average of 10 percentage points across all OECS islands. Data indicate that between 2007 and 2012, there was a perceptible increase in net enrollment only in St. Lucia (figure 3.1). Nevertheless, there are indications that Bank support made a positive difference in some cases. By 2008, gross enrollment rates in both of St. Lucia's secondary school districts covered by the Bank's education project had increased substantially (to 68 and 53 percent), although they remained below the national average of 82 percent, suggesting idle capacity. In the four Bank-supported secondary school districts in St. Vincent and the Grenadines, net enrollment rose from 60 percent in 2004 to 93 percent in 2011. Similar increases in enrollment were observed in Grenada. Nevertheless, with more lower-income students entering, but also dropping out of, secondary school, gross completion rates in Bank-supported secondary school districts in Grenada declined from 82 percent in 2002 to 62 percent in 2011. Although national-level completion rates in the OECS countries generally improved, they remained extremely low. In 2012, the pass rate for the Caribbean Secondary Education Certificate exams ranged from 17 percent in Grenada to 33 percent in Dominica.<sup>39</sup> The proportion of qualified teachers increased from 59 percent in 2009 to 65 percent in 2013, surpassing the 2014 target of 62 percent. However, the teacher workforce was not reduced to adjust to a declining number of pupils, given political resistance by a strong teachers' union. As a result, the pupil-teacher ratio in Grenada dropped to an even lower level of 15 in 2010 from 23 in 2003 and to 17 from 19 in St. Lucia. The RPS target of an increased ratio was not met. Given the persistently high wage bill, the share of nonsalary recurrent expenditure in total recurrent expenditure did not increase.

**Figure 3.1. Net Secondary Enrollment Rate (percent)**



Source: OECS education statistics.

Despite data issues, Bank support undoubtedly contributed to improved HIV/AIDS outcomes. HIV prevalence has remained at about 1 percent of the population. Regarding prevention, 2006–08 data suggested that about 70 percent of high-risk groups used condoms.<sup>40</sup> The number of people receiving counseling and testing, as well as those receiving antiretroviral therapy (ART), increased in all of the OECS countries. Better treatment prolonged the mean survival time for AIDS patients and decreased their mortality rate. In St. Lucia, for example, about 93 percent of AIDS patients were receiving ART by 2010. The mother-to-child transmission rate was reduced to zero in St. Vincent and the Grenadines. In Grenada, a relatively high mortality rate in 2002–09 suggested that patients received treatment relatively late, but AIDS-related deaths declined beginning in 2010. Worryingly, however, the trend in new infections appears to be reversing: Grenada reported an increase in new HIV cases from 21 in 2012 to 32 in 2013 (UNAIDS 2014b), and in St. Lucia, new HIV and AIDS cases have increased since 2010 (UNAIDS 2012). In St. Vincent and the Grenadines, HIV incidence dropped in 2011, as did the number of new AIDS patients, but it increased again in 2013 (UNAIDS 2014a).

Finally, the Bank disseminated its analytic work on NCDs and nurse labor. The Bank's NCD work was disseminated widely. It recommended health promotion programs and prevention efforts to reduce risk factors. It also recommended the strengthening of surveillance and regional legislation and policies as well as staff training and awareness building. To improve surveillance, the OECS Commission Statistics Department has launched a regional health management information system and is considering introducing demographic health surveys.<sup>41</sup> The regional report on nurse labor and education markets was also disseminated, although several government officials interviewed were unaware of the report. It advocated scaling up numbers of trained nurses through increased completion rates and

regional collaboration as well as managing migration through agreements with recipient countries on annual flows and cost-sharing arrangement.

### **Summary Assessment and Ratings**

In terms of increasing resilience (pillar 1), achievement of objectives related to strengthening fiscal and debt sustainability and public sector performance (subpillar 1.1) was moderately satisfactory. Under this subpillar, Bank Group support contributed to strengthening debt management capacity, revenue policy and administration (including customs administration), and various aspects of public expenditure management in one or more countries. The impact of its support varied across the specific areas and across different countries, but was certainly positive. In addition, Bank Group support helped lay a foundation for e-government service delivery (despite shortfalls in bringing services on-stream and in uptake) and, more generally, for harmonization of future progress in debt, revenue and expenditure, and e-government services management. In HR management, despite the efforts in Grenada and St. Lucia, and more recently in Antigua and Barbuda and St. Kitts and Nevis, Bank work has not led to significant reforms. The underlying concern of strengthening the resilience of public finances by curtailing government wage bills remains unresolved. Similarly, in strategic planning and M&E, little impact can be seen as a result of the Bank's support. Nevertheless, in HR management and strategic planning, resource outlays were more modest and measured.

Concerning environmental and disaster risk management and climate resilience (subpillar 1.2), achievement of relevant objectives was satisfactory. Under the broad heading of DRM, attention was focused on Grenada, St. Lucia, and St. Vincent and the Grenadines. The Bank Group played a positive role in responding to specific events, notably Hurricane Tomas. More fundamentally, it played a key role in encouraging and helping to implement a shift toward preparedness and increased resilience, although the unfinished agenda remains significant. In particular, through a combination of projects, the Bank financed retrofits and rehabilitation for a significant proportion of high-priority assets. In a similar vein, it supported a community-based pilot initiative in St. Lucia to reduce landslide risks which, while apparently successful, has not been replicated on a sufficient scale. It also supported work to enhance knowledge regarding the vulnerability of critical infrastructure, with the caveat that such work has seen little use in decision making. Perhaps the most high-profile Bank Group contribution was its leading role in conceptualizing and operationalizing a self-supporting, sustainable insurance mechanism against disaster events, the CCRIF. It used a blend of Bank instruments—including the intangible “convening power” for partnerships—to help correct a market failure.



The Bank also helped strengthen the countries' disaster risk management capacity, albeit with uneven impact. In land use management, Bank support has had few results. The Caribbean-wide project support for climate change adaptation initiatives was too small-scale to establish critical mass and had little impact. Under the broad heading of environmental management, GEF financing to help strengthen the management of protected areas had variable impact – high in St. Vincent and the Grenadines but negligible in Grenada. Bank efforts to help establish sustainable financing mechanisms to conserve critical ecosystems, while ongoing, have encountered significant challenges – notably identifying sources for the intended government matching funds – that risk undermining progress.

Achievement of objectives related to strengthening human capital and social resilience (subpillar 1.3) was moderately satisfactory. While none of the OECS countries has yet put in place rationalized, better-targeted social protection mechanisms, the Bank was able to complete diagnostic work in the countries and provide follow-on implementation support in some of them, an effort that is ongoing. Focusing on Grenada and St. Lucia, Bank support helped lay a foundation for post-secondary skills development in the OECS and implement specific skills-building initiatives, with positive though modest impact on skills and employment thus far. In education, it helped construct and equip secondary schools and increase access in several countries. Nevertheless, its support did not directly address key constraints in the sector, notably the teacher complement. From a health standpoint, Bank funding approved prior to the evaluation period made a positive difference in HIV/ AIDS prevention and control. Whether results have been and can be sustained after the closure of the Bank projects remains an open question, and the apparent reversal recorded recently in favorable incidence trends is worrisome. The Bank also contributed to efforts to raise consciousness and to begin addressing the incipient threat posed by noncommunicable diseases as well as other health sector-related issues.

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<sup>1</sup> There is a similar degree of arbitrariness as to precisely which specific areas are subsumed under each strategic objective. For instance, initiatives to strengthen public finance (revenue and expenditure) management can be viewed as contributing to improved debt management or even to strengthening the links between development objectives and public spending, just as they can be viewed as a distinct objective together with improving public services.

<sup>2</sup> While the FY06–09 Regional Partnership Strategy (RPS) retained debt reduction as an outcome that the Bank expected to influence, the associated indicator focused on the fiscal balance, rather than directly on public debt management. Perhaps as a result, the RPS Completion Report results matrix did not feature it.

<sup>3</sup> The case of Grenada is illustrative of the broader experience: from about 87 percent in 2008, debt-to-gross domestic product (GDP) had increased to over 100 percent by 2010 and continued to climb after that. Grenada eventually went into selective default in 2012, and began negotiating a restructuring of certain components of its debt with creditors.

<sup>4</sup> The RPS outcome—that at least three countries were to prepare a medium-term debt management strategy (MTDS)—was process-related, with the Bank arguing that it lacked the instruments to affect more meaningful outcomes such as the debt to GDP ratio. In fact, the RPS Progress Report changed the RPS outcome targets from reductions in the debt-to-GDP ratios to MTDS completion.

<sup>5</sup> Deficiencies in public finance management spanned many areas, including procurement and audit. The weaknesses were documented, for instance, in the FY08 OECS Policy Note on Project Fiduciary Management.

<sup>6</sup> In some countries, notably Grenada and St. Lucia, there remained evident deficiencies in tax policy given the absence of a value-added tax to replace distortionary indirect taxes that were lacking in buoyancy. Regarding tax and customs administration, at the start of the evaluation period in 2006, Grenada’s Doing Business indicator of time taken to pay taxes stood at 170 hours per year, while number of days to export (import) stood at 19 (23). For St. Lucia, time taken to pay taxes stood at a much lower 71 hours, while number of days to export (import) stood at 22 (19). Rankings for these aspects have not been available until very recent years.

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<sup>7</sup> In particular, Bank diagnostic work in the FY07 Policy Note on Fiduciary Management had pointed to the need to strengthen linkages between the selection of public investments and country/regional development strategy objectives as well as to improve cabinet-level capacity for monitoring the selection, preparation and implementation of capital projects in line with national development strategies.

<sup>8</sup> According to International Monetary Fund figures, the wage bill in Grenada, from a baseline of 9 percent of GDP in 2008, rose to 11 percent by 2011 then declined slightly, reaching 10.8 percent in 2013.

<sup>9</sup> For instance, the Institutional Development Fund grant in St. Lucia supported work on alternative strategies for negotiating with public service unions, which reportedly helped in guiding subsequent negotiations that resulted in key unions agreeing to a wage freeze for 2015–16.

<sup>10</sup> For example, the functional reviews undertaken with Bank support did not contribute appreciably to the key “three for ten” rule of thumb that is now in effect government-wide to contain the wage bill by workforce attrition. The rule allows for recruitment of a maximum of three people for every ten people departing (e.g., through retirement), with the constraint holding government-wide as well as by institution (with certain departments, such as the police force, exempted).

<sup>11</sup> Note that indicators were not always very relevant in assessing achievement of their associated objective.

<sup>12</sup> For example, Hurricane Tomas in 2010 did damage to St. Lucia of roughly 43 percent of GDP and 10.5 percent of GDP in St. Vincent and the Grenadines. A severe rainfall event in 2013 did damage of roughly 15 percent of GDP in St. Vincent and the Grenadines, including damage to bridges, roads, and water supply systems.

<sup>13</sup> In addition to country allocations from the International Development Association (IDA), the Disaster Vulnerability Reduction Program drew on the IDA Crisis Response Window, the Strategic Climate Fund, and the Pilot Program for Climate Resilience.

<sup>14</sup> In Grenada, infrastructure financed under a 2001 emergency response project survived the devastating 2004 Hurricane Ivan, and two schools retrofitted under a previous project were the only schools left largely undamaged after the storm. After Hurricane Tomas in 2010, the Bank conducted a study of whether activities supported under previous emergency recovery and disaster management operations over 1998–2011 had improved the resilience, preparedness, and response capacity of St. Lucia to natural disasters (World Bank 2011). It found that retrofitted public buildings withstood the hurricane with no damage reported, that flood-warning systems performed very well while other warning systems mostly functioned, that communication systems and the emergency operations center did not function effectively, that damage assessments were not standardized or centralized, and that advances in hazard mapping and vulnerability assessments had been minor.

<sup>15</sup> A key bridge in St. Lucia damaged by Hurricane Tomas offers an interesting case study. Hydrology studies indicated that the river flow had changed and flood risk was likely to be higher in future, so the bridge was replaced by a more resilient design, with a single span (avoiding a pile in the river that can accumulate debris in a flood) and the possibility of allowing four lanes of traffic. The new bridge was substantially more expensive than

replacement with the old design would have been (and the high costs led to significant public and political anxiety), but it is less likely to fail in future, and may have lower ongoing maintenance costs.

<sup>16</sup> For example, for a town in St. Lucia that had suffered serious beach erosion and faced extensive loss of land and regular evacuation, coastal and river protection works were constructed that allowed for reclamation of a significant section of beach, and protection of the main houses and businesses in the town.

<sup>17</sup> For instance, while warning systems have functioned for hurricane events, there was almost no warning of the flash flooding in St. Lucia and St. Vincent and the Grenadines in 2013 owing to the difficulties in predicting this type of event.

<sup>18</sup> Many sites that used to provide data have been damaged, destroyed, or stolen, and there are no funds to replace them. For example, St. Lucia once had 18 sites to collect rainfall data, and now only three sites remain functional.

<sup>19</sup> The Bank has begun to try to address policy barriers by incorporating disaster resilience actions in its recent policy lending series in Grenada. But critical policy actions on enforcement measures for physical planning, design standards, and construction practices were dropped.

<sup>20</sup> Previously disasters had mostly been handled by temporary committees established in the wake of the disaster. The creation of permanent institutions helps to provide ongoing awareness raising and act as focal point for preparedness. The Bank financed construction of headquarters buildings for the offices, along with provision of training and equipment purchase. Subsequent projects further expanded capacity, supporting for example stockpiling of emergency equipment, training programs for staff, establishment of local community liaison officers, upgrades to telecommunications systems, and simulation exercises.

<sup>21</sup> Jamaica experienced a serious hurricane in 2009 that did not trigger a payout—substantial damage from flooding notwithstanding—because at the time only the earthquake and wind coverage existed, and the wind threshold was not triggered. This generated some frustration and was one motivation for the Caribbean Catastrophic Risk Insurance Facility expanding its product line to offer rainfall coverage.

<sup>22</sup> Other than Haiti, all member countries are now paying their own premiums.

<sup>23</sup> None of the 18 stations (Caribbean-wide) established under the first project were still operational by 2005. A second attempt to establish stations was made in the second operation, but again as of 2011, only three stations were still transmitting data. No stations were left functioning in the OECS as of 2015.

<sup>24</sup> The plant has helped mitigate the effects of serious drought and offers the potential for replication in other small island communities that cannot feasibly be supplied from regular water connection services.

<sup>25</sup> The park went from a “paper” park to a genuine protected area, with park management in place, fee collection, and ecosystem monitoring. The park worked with communities to establish a formal no-take status. The project included some successful livelihoods components, and community and private sector involvement, from water taxis and small enterprises. The park management included governance representation from the water taxi

association, fishers, the tourism board, and local government, supporting public voice in resource management.

<sup>26</sup> Livelihoods components were started late in the project and were rushed, and so had little impact on stakeholders. There was also no meaningful private sector or community participation.

<sup>27</sup> The individual countries had insisted on using national trust funds because they were not confident that their constituencies would be well-served by a single “common pool” regional fund.

<sup>28</sup> The transaction costs of establishing and maintaining national cost funds are high (up to \$100,000 per country per year to run, as compared to \$400,000 of disbursements per country per year). Working regionally could achieve economies of scale and lower costs, but a lack of trust in regional institutions and a strong national desire for local control ends up raising high transaction costs. However, national trust fund supporters also argue that these have other advantages. For instance, national conservation trust funds elsewhere in the world have often become key drivers of the environmental agenda in the country.

<sup>29</sup> The tourism industry is strongly opposed to additional fees or charges. The cruise ship sector blocked a proposed \$2 per visitor tax. Some countries are proposing systems of voluntary donations by tourists. Willingness to pay studies are being carried out, but government officials caution that stated willingness to pay for voluntary fees may not match actual intention to pay. The overall goal of establishing reliable and sustainable funding is jeopardized if expenditures depend on an unreliable matching fund mechanism.

<sup>30</sup> By 2008, OECS governments spending on safety nets was above the Latin America and the Caribbean Region average of 1.3 percent of GDP and ranged from 1.3 percent of GDP in St. Lucia to 3.2 percent in Grenada.

<sup>31</sup> By 2013, unemployment had reached 23 percent in St. Lucia and 33.5 percent in Grenada, with the highest unemployment rates recorded among women, young people and the poor.

<sup>32</sup> At 42 percent in Grenada and 34 percent in St. Lucia in 2013, youth unemployment was (and remains) of particular concern. Women are also twice as likely to be unemployed as men.

<sup>33</sup> Although there is broad gender parity in access to primary and secondary education, almost twice as many women undertake tertiary education compared with men.

<sup>34</sup> The student-teacher ratio at primary and secondary levels, already below the Bank-sanctioned 25, was projected to decline further in the islands (except St. Vincent and the Grenadines) as demographic trends reduced the student population (OECS 2014). In addition, almost half of the teacher complement did not have formal qualifications.

<sup>35</sup> The prevalence rates of the human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS) in the Caribbean were estimated to be second only to sub-Saharan Africa's. By 2005, HIV prevalence in the OECS was estimated at close to 1 percent. Fears were that given the countries' small size, the disease could spread rapidly owing to risky behavior among vulnerable groups such as youth, with adverse effects on the broader economy, particularly tourism.

<sup>36</sup> In the late nineties, the Caribbean Taskforce for HIV/ AIDS was created and in 2001, the Pan-Caribbean Partnership against HIV/ AIDS was established to take a regional approach to the disease through knowledge sharing and capacity building. In 2002, pooled OECS Pharmaceutical Procurement was introduced with support from a U.S. Agency for International Development project, which decreased pharmaceutical costs by between 35 and 50 percent (Burnett 2003).

<sup>37</sup> For instance, some 10 percent of the population – predominantly of African descent – has diabetes, one of the chronic conditions that require costlier specialized care and account for a growing portion of health spending, placing increased financial pressure on OECS governments. Other challenges include relatively high levels of government health spending caused by a high wage bill, and insufficient staffing. At the same time, their small size limits the OECS countries' ability to sustain their own higher-cost specialist and tertiary care hospitals and has compelled them to enter into treatment agreements with other countries in the region, including Cuba, Mexico, Trinidad and Tobago, and the United States. Little information is available on the financial implications of overseas treatments for the OECS governments, or on the selection process for overseas treatment. Patients who need specialized care fly to Cuba, Mexico, Trinidad and Tobago, or the United States, and have to pay substantial amounts for care and transport privately. Private health insurance is available for those who can afford paying high premiums. But islands with social health insurance such as Antigua and Barbuda cover only about half of the population, with the lowest enrollment rates among the poor.

<sup>38</sup> Dominica does not apply an objective targeting mechanism for cash transfer programs, which are paid universally (e.g., to all children who transfer from primary into secondary school).

<sup>39</sup> According to a recent report, in Grenada, only 19 percent of students passed at least five Caribbean Examination Council exams in 2010, a modest increase over the 13 percent in 2000. St. Vincent and the Grenadines registered a 52 percent pass rate in the Caribbean Certificate of Secondary Level Competence (CCSLC) exams in 2011, a substantial increase over the 37 percent in 2004. In 2014, 96 percent of the first cohort of the Saddlers secondary school in St. Kitts and Nevis (renovated with Bank support) passed the five exams for the CCSLC (OECS 2014).

<sup>40</sup> More recent data on the number of people receiving counseling and testing and condom use among young people aged 15–24 and other high-risk groups are not available.

<sup>41</sup> See website at <http://www.oecs.org/stats-progs-projs/66-ongoing-projects/611-possible-introduction-of-mics-and-the-harmonization-of-household-surveys-in-the-eastern-caribbean>.

## **4. Contributions to Enhancing Competitiveness**

Chapter 4 reviews the progress toward program objectives for enhancing competitiveness (pillar 2). During the evaluation period, World Bank Group efforts to help the countries of the Organisation of Eastern Caribbean States (OECS) enhance their competitiveness covered three areas: the domestic and regional financial sector; the legal and regulatory framework, sector linkages, and value chains for private business; and infrastructure service delivery – in telecommunications, water and sanitation, and energy. The focus of Bank Group strategic objectives varied through the evaluation period. During FY06–09, the financial sector did not feature in the Regional Partnership Strategy (RPS) results framework. The RPS results framework did not encompass St. Lucia’s water and sanitation sector beyond FY09. Also noteworthy is that conceptually, several results areas under strengthening resilience (pillar 1) also potentially affected the countries’ competitiveness; public sector performance and human capital, for instance. Details of Bank Group support and operational products for strengthening competitiveness are set out in appendix D.

### **Strengthening the Domestic and Regional Financial Sector**

Bank Group strategic objectives included crisis resolution as well as the regulatory framework in the financial sector, and touched implicitly on access to credit. Strategic objectives relating to the financial sector were confined to the FY10–14 RPS, and focused on two areas (see details in appendix D). The first related to establishing a resolution strategy after the failure of two major insurance companies operating in the region. The second related to improving the regulatory and supervisory framework in the financial sector for bank and nonbank financial institutions. In addition, while no associated strategic objective appeared in either the FY06–09 or the FY10–14 RPS results frameworks, the International Finance Corporation (IFC) endeavored to help establish a lending practice benefiting small and medium enterprises (SMEs) in St. Lucia and address an underlying constraint, namely credit information, on a Caribbean-wide basis.

#### **CONTEXT AND RELEVANCE**

Bank Group objectives in the financial sector had undeniable relevance, particularly after the 2008–09 global financial crisis. Until the 2008–09 crisis, the OECS had enjoyed a long period of financial stability anchored by its currency arrangement.

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The financial sector was relatively deep, with considerable reach.<sup>1</sup> Nevertheless, joint Bank-Fund diagnostic work in 2004 had pointed to several risks, including challenges facing indigenous banks and weak regulatory and supervisory frameworks, especially for nonbank financial institutions and offshore banks (IMF 2004). These risks crystallized with the collapse of the Colonial Life Insurance Company (CLICO) and the British American Insurance Company (BAICO) in early 2009; the two failed insurance companies had exposure in the OECS countries totaling about 15 percent of the subregion's gross domestic product. Beyond the urgent need for resolution, the failures injected renewed impetus into many initiatives begun in the early 2000s to strengthen the regulatory and supervisory framework.<sup>2</sup> Overall, while the financial system remains sufficiently capitalized and highly liquid, weak economic conditions have continued to push up nonperforming loans and reduce private sector credit. The circumstances have thus been appropriate for active Bank Group involvement in the financial sector, which has also shown timely responsiveness to expressed client (Eastern Caribbean Central Bank and individual country) needs. IFC's efforts in St. Lucia to help improve SME access to credit, which aimed to address a major long-standing constraint in the business climate, were likewise highly relevant.<sup>3</sup>

#### **BANK GROUP SUPPORT AND OUTPUTS**

Largely using AAA, the Bank addressed crisis resolution and longer-term financial regulation and supervision, while IFC supported SME financing. Briefly, Bank analytic work and advice to the Eastern Caribbean Currency Union's Core Committee on Insurance focused on resolving the BAICO/CLICO bankruptcies and the associated systemic risk, and on strengthening and harmonizing regulation and supervision of the insurance sector. Beyond insurance, with a view to helping strengthen regulation and supervision in the broader financial sector, it focused on OECS banking sector diagnostics. In Grenada and St. Lucia, development policy lending supported the implementation of crisis resolution and stability-enhancing measures, such as enactment of new insurance legislation. IFC engagement in supporting the development of an SME lending practice in St. Lucia (using both financing and advisory services) followed the completion of analytic work on private sector financing by the Bank. IFC advisory services also examined the feasibility of a microfinance program and helped in setting up a Caribbean region credit bureau.

#### **RESULTS**

Bank Group support enabled progress in crisis resolution and in laying the groundwork for a stronger financial sector regulatory framework, but less so in developing SME lending. Bank technical work and financing contributed to the



development by 2011 of a resolution plan for BAICO. Implementation of the plan has advanced. By early 2015, individual policyholders had received payments of up to \$300,000, but payments for institutional holders are still being worked out. A resolution plan for CLICO took significantly longer to develop, and no buyer had been found. Bank support has also contributed to strengthening financial sector stability and more generally the regulatory and supervisory framework, notably for the insurance sector. A new Insurance Act, filling several gaps in insurance legislation, became effective in 2010 in Grenada. Although similar legislation in St. Lucia was submitted to Parliament in 2010, it has not yet been approved. Working with several partners, the Bank has also helped lay the groundwork for additional, more comprehensive improvements in financial sector regulation and supervision, although it remains very much a work in progress. IFC's support for catalyzing SME financing in St. Lucia helped offer a range of financial services to SMEs and saw some uptake in lending. The practice, however, has largely been confined to vehicle loans and has lacked dynamism, as critical constraints in the broader environment were being only partially addressed.<sup>4</sup>

### **Strengthening the Legal and Regulatory Framework, Sector Linkages, and Value Chains for Private Business**

Bank Group strategic objectives pertained to the legal and regulatory framework – including procedures for business entry and foreign trade – as well as to public-private partnerships (PPPs). As detailed in appendix D, strategic objectives under this subpillar spanned both RPS periods. During the FY06–09 period, the emphasis was on strengthening OECS competitiveness through the modernization and streamlining of the legal and regulatory framework for private investment, with a specific focus on St. Lucia. During FY10–14, this emphasis persisted, but was more specifically directed to procedures for starting a business and for trading across borders, while the reach was broadened to all of the OECS countries. Throughout the evaluation period, the Bank Group sought to help strengthen service delivery through PPPs, although this strategic objective was only reflected in the results framework in the FY10–14 RPS. Finally, while this did not feature explicitly as a results area, the Bank Group also sought to improve sector linkages especially between tourism and agriculture, strengthen individual value chains (again in tourism and agriculture), and encourage the entry and growth of local SMEs, chiefly by improving access to finance.<sup>5</sup>

#### **CONTEXT AND RELEVANCE**

Bank Group strategic objectives – guided by prior AAA – were relevant, although the rationale for prioritizing specific areas was not always clear. Objectives and

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results areas were generally consistent with the findings of comprehensive FY05 Bank diagnostic work on the growth and competitiveness agenda in the OECS, which documented numerous weaknesses in the business climate and constraints to growth.<sup>6</sup> Improving this situation was a priority for country and regional policy makers. Nevertheless, from a private sector and severity of constraints perspective, the analytic basis for the FY10–14 RPS’s priority focus on business registration and, in some countries, even on trade facilitation, was not entirely clear. For instance, 2010 enterprise surveys in four of the OECS countries, with samples dominated by domestic SMEs, suggested that enterprises were far less concerned with business start-up constraints than with other impediments – including access to finance, electricity, tax rates, and workforce skills.<sup>7</sup> Areas of focus may have been guided by judgments regarding political tractability or “low-hanging fruit” opportunities, or the argument that some Bank Group or other development partner engagement was already provided on more important constraints. Equally, however, the feedback from firms would likely have argued in favor of a more selective Bank Group agenda, focusing on regional and national priorities, including financial sector development, electricity, workforce skills, and perhaps corporate tax reform.

#### **BANK GROUP SUPPORT AND OUTPUTS**

Bank and IFC activities sought to promote sector linkages, business environment improvements, and PPPs. Although its efficacy varied, Bank Group analytic and advisory work helped identify reform opportunities and track implementation. The Bank prepared analytic work on backward linkages for the OECS tourism sector. In Grenada, it prepared AAA on cocoa and nutmeg logistics and an agriculture risk management strategy, and undertook a grant-funded project to help small nutmeg, cocoa, and livestock farmers adopt improved technologies.<sup>8</sup> IFC undertook an advisory services operation on tourism investment in St. Lucia. The Caribbean Growth Forum (CGF) initiative established useful country-by-country mechanisms for identifying and tracking implementation of reforms in the focus areas of investment climate, logistics and connectivity, and skills and productivity. It also encompassed a Bank diagnostic report discussing key constraints to growth in the Caribbean. Regarding business environment reforms, IFC’s Doing Business reform advisory services provided technical guidance on business start-up and trade logistics streamlining in several OECS countries. Bank lending operations also supported measures to help improve the business environment, including improvements in public services such as customs clearance. The interventions were selective rather than systematic. Finally, IFC advisory services sought to help realize PPPs in specific areas, including tertiary health care in Grenada and water and sanitation, and airport services in St. Lucia. In parallel, the Bank helped develop a regional infrastructure PPP roadmap, and assisted with PPP frameworks in Grenada

and St. Lucia. Appendix D provides greater detail on Bank Group activities during the evaluation period.

## RESULTS

Although Bank Group support under this subpillar had limited impact on improving sector linkages, it is associated with some improvement in the business environment. Although several counterparts interviewed indicated they were unaware of the Bank's AAA work on tourism sector linkages, the work is being built upon through project support under the FY15–19 RPS. In Grenada, small farmers' adoption of improved technologies has helped enhance their resilience, productivity, and incomes. Bank lending in Grenada supported a new tourism authority, but with unclear impact on boosting private sector-led growth in tourism. As in other OECS countries, tax incentives have continued to be the primary mechanism to promote investment in Grenada's tourism sector, although fiscal constraints and provisions under the country's International Monetary Fund (IMF) program have placed some restrictions on their use. In St. Lucia, IFC's advisory work on tourism development – well-regarded by local participants, owing largely to hands-on engagement of a Facility for Investment Climate Advisory Services manager over a sustained period – helped bring together key actors, produce relevant and timely inputs, and catalyze consensus-building discussions on strategy, leaving in place a permanent advisory body on tourism with high-level participation and support and a concrete action plan. In Grenada, training of entrepreneurs by the Grenada Industrial Development Corporation (GIDC) took place under a Bank project, but there was little evidence of impact, and implementation of the new GIDC strategy was very slow. Regarding competitiveness more generally, the CGF initiative has proved useful in advancing some reforms, particularly in Grenada and St. Lucia, although it remains a work in progress and faces some constraints. Regarding the business environment, outcomes targeted in the RPS were partly achieved. Business entry regulations were issued in Dominica and Grenada. In St. Lucia, the introduction of electronic registration of businesses in 2010 had negligible uptake. In Dominica, Grenada, and St. Lucia, improvements in procedures for trading across borders (in part as a result of Bank support for ASYCUDA upgrades and customs reform) resulted in reduced time to comply with import and export regulations. Grenada recorded particularly significant improvements and is a success story in terms of effective IFC-Bank collaboration in support of trade facilitation (box 4.1).

IFC's advisory work on PPPs produced few results. Initiatives to put in place PPPs have had almost no concrete results. In several major cases, advice was given and steps were taken to structure a PPP and solicit bids, but ultimately the government

decided not to proceed with contract award. Despite conducting the bidding process for a management contract for the Water and Sewerage Company of St. Lucia (WASCO), the lack of political consensus around the deal led the government to terminate the process in 2009, after two bids were received but prior to bid selection. Interviews suggested that there has been little real movement toward PPP in WASCO since. The IFC advisory work for the partial divestiture of the Antigua and Barbuda State Insurance Company (SIC) in 2009–12 proceeded as planned. However, even as ownership limitations imposed by the government limited private interest in the company, domestic political opposition to divestment was evident (Caribbean 360 2008). Ultimately, the government decided not to proceed based on the proposals received and SIC remains a public company. Counterparts interviewed lauded the quality of IFC advice and technical support for the Grenada hospital PPP. Nonetheless, after receiving a qualifying bid, it was decided not to proceed with the transaction. The lack of fiscal resources clearly played a role, but political support for the PPP arrangement appears to lack depth. While the government remains interested in some form of PPP or concession arrangement, it is hard to see that IFC's work thus far has had a tangible, lasting benefit. Finally, PPP frameworks were approved in Grenada and St. Lucia. In Grenada, this was a trigger for the second loan in the Programmatic Resilience-Building development policy credit series (approved after the end of the evaluation period).

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**Box 4.1. World Bank Group Assistance for Trade Facilitation in Grenada: A Success Story**

One notably successful area of engagement during the evaluation period was Grenada's customs reform. Through Bank and IFC activities that, according to those interviewed, maintained continuity, Grenada received sustained technical support as its customs service transitioned to the use of ASYCUDA World, introduced paperless customs processing, and streamlined and automated procedures. The FY15–19 RPS reports that IFC worked closely with the Bank on business registration, trade logistics, and credit bureaus in the prior RPS period. The Bank's FY08 technical assistance credit (TAC) helped "improve the efficiency and effectiveness of customs," focusing on systems and procedures (including better risk management), upgrading information technology, and building staff capacity through training to operate and maintain the upgraded systems and procedures. When government funds proved insufficient to finance network servers and other hardware required, a portion of TAC funds were reallocated through a restructuring to this more urgent need. Earlier, through the Facility for Investment Climate Advisory Services, the Bank Group had delivered a trade and logistics assessment for Grenada. Although there is no cross-reference in project documents between the TAC and IFC's technical support under its "Trade Logistics in the Caribbean" advisory project under the "Grenada Port TA" subproject, it appears from interviews that officials regarded the overall Bank Group support effort as effectively coordinated with strong technical content. However, customs officials indicated that longer-term guidance on organizational "change management" would have been welcome. Overall, the experience was regarded as positive and successful.

*Source:* IEG staff document review and interviews.

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## Improving Infrastructure Service Delivery

In infrastructure, Bank Group strategic objectives covered telecommunications and information and communications technology (ICT), water and sanitation, and energy. Strategic objectives as well as outcome indicators and outturn information are detailed in appendix D. Objectives in the FY06–09 RPS focused on reductions in communications tariffs, including broadband, as well as increasing broadband usage and strengthening national and subregional regulatory frameworks for telecommunications. They also sought to improve the operation and oversight of the water and electricity utilities in St. Lucia, although the FY08 Regional Partnership Strategy Progress Report did away with the electricity-related objective. In the FY10–14 RPS, the focus on ICT and electricity was maintained, but not except in the context of disaster risk management of water and sewerage. Strategic objectives and results areas concerned increasing ICT access for the general population and laying the groundwork for the establishment and operationalization of the Eastern Caribbean Energy Regulatory Authority (ECERA) as an eventual OECS-wide energy regulator.

### CONTEXT AND RELEVANCE

Bank Group strategic objectives were appropriate given the OECS countries' circumstances and the Bank's relatively modest lending envelope. For the Bank to focus on infrastructure areas outside of transport appears reasonable, given not only the limits imposed by the countries' borrowing capacity and the blend countries' allocations from the International Development Association, but also the presence and capacity of other development partners such as the European Union and the Caribbean Development Bank in this area. With some exceptions, the main issues in the infrastructure service areas of Bank Group focus had less to do with access than with affordability and – especially with WASCO in St. Lucia – with the financial sustainability of their operations, which affected investment capacity and service quality, including reliability of access. Electricity tariffs, for instance, were extremely high, and have consistently featured among the top constraints in the business environment.<sup>9</sup> Since the high costs of energy and telecommunications constituted significant impediments to competitiveness, the motivation for reducing them was strong. In telecommunications, the Bank Group's rationale for focusing on tariff reductions in the FY06–09 RPS was therefore sound. The rationale for paying attention to the regulatory framework, of which rapid changes in technology required prompt adaptation, was likewise sound. In energy, Bank Group attention in the FY10–14 RPS to the regulatory framework was also relevant, although improved utility performance and lower tariffs from better regulation is less robust than for telecommunications and ICT. Nevertheless, a strong, harmonized

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regulatory framework is crucial to encourage private investment in renewable energy sources, which show significant promise for the OECS countries. Finally, attention in the FY06–09 RPS to WASCO was justified in light of chronic inefficiencies in the utility’s operations, below-cost-recovery tariffs, and inability to realize the investments needed to upgrade the country water and sewerage system. Arguably, however, the Bank Group’s approach of promoting private participation in the utility was ill-suited to St. Lucia’s political economy context.

#### **BANK GROUP SUPPORT AND OUTPUTS**

Infrastructure objectives were addressed through Bank projects, complemented in one instance by IFC advisory services. In telecommunications and ICT, financing under two regional projects – one approved just prior to the evaluation period and the second in the latter part of it – sustained long-standing Bank support for regulatory framework development and sought to increase access to and use of ICT services. Water and sanitation received financing under two Bank projects in St. Lucia, both approved prior to the evaluation period. The first, a technical assistance operation, focused on the institutional framework and improving WASCO’s performance, with IFC serving as transaction adviser for a planned management contract for the utility. The second supported urgent water supply investments in preparation for St. Lucia’s hosting of the 2007 Cricket World Cup. Concerning energy, a Bank project supported strengthening of the regulatory framework for electricity in Dominica. In parallel, the Bank pursued a regional energy regulation model. Project financing to help establish an OECS-wide energy regulator was eventually provided under the First Phase of the Eastern Caribbean Energy Regulatory Authority (ECERA) Program, covering Grenada and St. Lucia, but it has since run into major implementation difficulties.

#### **RESULTS**

Bank Group support for telecommunications and ICT during the evaluation period saw some progress. Assistance supporting the design of a new telecommunications regulatory system in the late 1990s and early 2000s had been remarkably successful. It had seen the establishment of the Eastern Caribbean Telecommunications Authority (ECTEL) and National Telecommunications Regulatory Commissions (NTRCs) in five of the countries.<sup>10</sup> Bank Group interventions during FY06–14 produced more modest results. Although the OECS saw some progress in reducing the cost of communications and broadband services and improving Internet penetration, there is limited evidence that Bank Group support contributed to these results. The new Electronic Communications Bill prepared under a Bank project – which expands the mandate of ECTEL and the NTRCs – is not yet enacted. ECTEL and the NTRCs have thus been constrained in assuring that regulation is able to

keep pace with a rapidly changing ICT industry.<sup>11</sup> For instance, the emergence of new users of telecommunications services raises questions about the adequacy of the current licensing regime. The convergence of telecommunications, Internet, digital, and information technologies makes the separation of telecommunications and ICT regulatory functions obsolete.<sup>12</sup> In addition, the lack of a competition authority in OECS means that the ECTEL and the NTRCs cannot deal adequately with noncompetitive practices in the sector. Regarding access and use, Bank support saw the preparation and implementation (with some delay) of Universal Service Guidelines and the establishment of Universal Service Funds in all ECTEL member states.<sup>13</sup> However, implementation of the Universal Service projects under the Bank's first project encountered many difficulties. Capacity issues at some NTRCs caused delays in defining the projects. But the biggest challenge was a shortfall of interest by private providers, which necessitated bidding deadline extensions. In the end, each country implemented one pilot project, resulting in some expansion of ICT connectivity and thus laying a foundation to be built upon but falling short of the targeted penetration.<sup>14</sup> Implementation of the Bank's second regional project has fared better, though it is too early to judge results. In particular, a pooled procurement conducted under the project was a success, with smooth completion of the evaluation, selection, and contract award process for a consultancy to conduct a broadband assessment study.

In St. Lucia's water sector, Bank Group support did not result in sustained performance improvements. Bank project support was useful in helping to complete targeted infrastructure investment in a timely way, ensuring water supply in northern St. Lucia at a critical time. However, the Bank's technical assistance project had few results. Progress in improving the regulatory framework was slow. A new Water and Sewerage Act in 2006 (amended in 2008) paved the way for the creation in 2009 of the National Water and Sewerage Commission in 2009, which began functioning only in 2012.<sup>15</sup> Although a tariff review in 2013 allowed WASCO to begin recovering operating costs,<sup>16</sup> its finances continued to deteriorate over much of the period, and St. Lucia's aging water and sewerage infrastructure leads to periodic severe water shortages and makes the country vulnerable. As discussed under subpillar 2.2, WASCO's much-anticipated transition to private sector management never occurred. The process was aborted by the government owing to "a profound lack of consensus amongst key cabinet members regarding the PPP structure" (World Bank 2009, 6).

Despite helping to strengthen the regulatory framework in Dominica, the Bank Group goal of laying the groundwork for regional energy regulation has been set back. In Dominica, earlier Bank engagement had helped bring about enactment of a new Electricity Supply Act in 2006, which liberalized the energy sector and provided

for independent regulation of electricity. The Independent Regulatory Commission has since been broadly successful,<sup>17</sup> although the expected reduction in electricity tariffs did not follow from energy sector liberalization. The Bank technical assistance credit had also supported the drafting of alternative energy legislation to define the legal and regulatory framework for developing alternative energy technologies. A geothermal bill was drafted but not yet enacted. The Bank has provided technical and policy advice on geothermal energy development in Dominica and St. Lucia, helping to pave the way for potential investments. The central theme of the Bank's engagement in the OECS energy sector was to create a regulatory body at the subregional level. While the OECS governments agreed in principle that addressing the energy challenges required a regional approach, support for the ECERA initiative varied.<sup>18</sup> Ultimately, only Grenada and St. Lucia made concrete commitments – on which doubts have since been cast – to the ECERA project, and the resulting momentum proved insufficient to support the creation of a full-fledged regional regulatory body for energy. Despite the project's lengthy preparation phase, more work was needed *ex ante* to align stakeholder interests and to manage expectations.<sup>19</sup> In hindsight, a technical assistance project may have been more appropriate to support the studies and the legal reviews being financed through the ECERA project. It would have allowed for a more considered assessment of the best approach to addressing the region's energy challenges consistent with both political and technical realities. In sum, the ECERA experience illustrates the pitfalls in a model that, at least from a technical standpoint, offers a sound small-state development solution. Nonetheless, Bank engagement under the project has helped develop national energy regulation in the two countries.

## **Summary Assessment and Ratings**

Achievement of objectives related to strengthening the financial sector in the countries and regionally (subpillar 2.1) was satisfactory. Although there was a five-year hiatus in engagement following in-depth diagnostic work in 2004, the Bank contributed significantly – largely through AAA instruments, supplemented by some development policy lending, and together with other development partners, notably the IMF and the United Kingdom – to advancing efforts to strengthen the financial sector following the 2008–09 global crisis. In particular, technical advisory support and (in Grenada and St. Lucia) lending helped develop and advance implementation of a strategy for the resolution of the insurance companies that failed in 2009. Beyond crisis resolution, Bank technical and advisory support backed to some extent by lending has helped achieve key steps in strengthening the regulatory and supervisory framework for nonbank (notably insurance) as well as bank institutions. The remaining agenda is significant, and Bank support – notably



for an independent review of bank asset quality – has continued beyond the evaluation period. Finally, while not directly reflected in RPS objectives, the SME lending practice in St. Lucia that IFC support endeavored to catalyze has shown little dynamism, largely because of the absence of important prerequisites such as an effective credit information system, which IFC has since begun trying to help establish.

Regarding the legal and regulatory business framework, sector linkages, and value chains (subpillar 2.2), achievement of relevant objectives was moderately satisfactory. Bank Group support – including several Bank operations and IFC’s Doing Business reform advisory services – contributed to some progress in streamlining and improving business registration and cross-border trade procedures over the period, although results varied by country. In Grenada in particular, Bank project support for deploying ASYCUDA World and reforming customs procedures paired effectively with IFC advisory work on trade logistics. The Bank also helped strengthen other business services in the countries, but with unclear impact. The Bank’s contribution to tourism development and sector linkages was largely in the form of regional analytic work. In contrast, stakeholder perceptions of IFC advisory work in tourism development in St. Lucia were very positive. Bank engagement helped strengthen resilience and productivity of small farmers in Grenada. IFC advisory services aimed at putting in place PPPs for St. Lucia’s WASCO, a replacement hospital in Grenada, and a state insurance company in Antigua and Barbuda were unsuccessful, despite reaching the tendering stage.

Finally, regarding infrastructure, achievement of Bank Group program objectives was moderately unsatisfactory. In telecommunications, Bank support – implementation of an investment project approved prior to the start of the evaluation period and through a new regionally structured, horizontal adaptable program lending project – tried to build on the success of support that started in 1998. This success had facilitated the creation of regulatory structures, including ECTEL, and enormously affected access to, and quality and affordability of, telecommunications services. Although there was progress, impact in two areas fell short. The evolution and enhancement of the regulatory framework needed to keep pace with a rapidly moving industry lagged, and work toward universal service provision suffered major setbacks, though it laid a foundation for expansion of information and telecommunications technology (ICT) connectivity. Ongoing Bank support, notably for setting up Internet exchange points and business incubators and for developing ICT skills, appears to be progressing satisfactorily, with delays in some countries. In energy, the Bank Group program made substantive contributions to improvements in Dominica’s regulatory framework over the initial part of the period. Nevertheless, the central goal underlying Bank Group engagement – to

establish and begin operationalizing ECERA as a regulator, eventually serving all of the OECS countries – has had serious setbacks. In the water sector, where Bank Group support was focused on WASCO during the initial part of the evaluation period, Bank financing and technical support helped implement key investments and strengthen the legal and regulatory framework. However, improvements in WASCO's management and finances – critical to sustaining adequate operations and maintenance in addition to investment – have remained elusive. Bank Group efforts, with IFC as transaction adviser, to help introduce a PPP never progressed beyond the tendering stage owing to a lack of political consensus within government.

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<sup>1</sup> In fact, the extremely high penetration rate raises the question of whether the region is overbanked.

<sup>2</sup> In the banking sector, the Uniform Banking Acts had been revised during 2004–06 in relation to the Basel core principles. Following the crisis, additional actions were taken to strengthen capital buffers, to move toward risk-based supervision, to expand the perimeter, and to implement consolidated supervision. For nonbank financial institutions (NBFIs), there was an initiative beginning in 2002 to establish a Single Regulatory Unit (SRU) in each member state. Progress was uneven, but by 2011, all OECS countries except St. Vincent and the Grenadines had passed the SRU legislation and all countries had established an SRU. In 2014, the Eastern Caribbean Currency Union's Monetary Council (the currency union's top policy-making body) established a core committee to create an Eastern Caribbean Financial Services Regulatory Commission as the regional regulator and supervisor of the NBFIs. There was also some progress in harmonizing insurance, money services, and credit union acts and in developing prudential reporting guidelines and standards.

<sup>3</sup> FY08 Bank analytic work noted, “SMEs [small and medium enterprises] in the OECS countries are basically constrained by high collateral requirements and hence resort to retained earnings as the main source of financing” (World Bank 2007, 8).

<sup>4</sup> Constraints related inter alia to enforceability of collateral, effective credit information, and adequate planning and financial skills and payment culture of local entrepreneurs. In addition, provision by the St. Lucia Development Bank of subsidized credit to a portion of the market is reported to have crowded out some market-based lending.

<sup>5</sup> Bank Group program effectiveness in improving SME access to finance is reviewed in the preceding section.

<sup>6</sup> The FY05 country economic memorandum defined skills as the leading issue in small states, but also laid out a much broader competitiveness agenda under the rubric of pursuing “greater openness, competition and a more level playing field in the domestic economy.” Key elements involved steps to reduce barriers to trade and improve factor mobility across member states; promote a “level playing field” and fair competition in domestic markets; strengthen private sector capacity through education, standards, and reward of innovation; and improve public service delivery (World Bank 2005).

<sup>7</sup> A similar picture emerges from the Doing Business 2011 indicators, which refer to 2010. While a case for focusing on business registration could be made on the grounds of facilitating business formalization in Grenada and St. Vincent and the Grenadines, where informal competition was identified as a major constraint, research shows that registration reforms on their own have little long-term impact on formalization (Bruhn & McKenzie 2013).

<sup>8</sup> The activity received funding under the Japan Social Development Fund.

<sup>9</sup> Power generation in the OECS countries is almost entirely thermal, using imported diesel, and tariffs are among the highest in the world. In the 2010 enterprise surveys conducted in four of the OECS countries, 66 percent of firms in Dominica identified electricity as a severe constraint; in St. Lucia, the equivalent percentage was 55.

<sup>10</sup> Antigua and Barbuda is not a member of the Eastern Caribbean Telecommunications Authority (ECTEL), although it has attended ECTEL Council meetings as an observer.

<sup>11</sup> Substantial duplication exists between the mandate of ECTEL and that of the National Telecommunications Regulatory Commissions (Favaro 2008).

<sup>12</sup> The creation of ECTEL in 2000 only liberalized the telecommunications market. The mandate of ECTEL and the NTRCs is to regulate the telecommunications sector, while that of information and communications technology (ICT) is with the relevant ministry.

<sup>13</sup> The 2000 ECTEL Treaty and Telecommunication Acts provide for universal service and Universal Service Funds in each member state to promote the widest possible access to telecommunications at an affordable cost. The Telecommunications Universal Service Guidelines were approved by ECTEL Council in July 2008.

<sup>14</sup> The project facilitated the extension of broadband service to three targeted areas in Dominica, the establishment of Community Access Points in 10 rural communities in Grenada, the provision of laptops to students as part of the government’s initiative to establish a wireless network in St. Kitts and Nevis, the provision of ICT hardware and

software to five institutions catering to persons with special needs in St. Lucia, and a telecommunications system for improved VHF coverage for maritime areas within St. Vincent and the Grenadines.

<sup>15</sup> As St. Lucia moves to establish a National Utilities Regulatory Commission, a multisector regulator for both electricity and water, the National Water and Sewerage Commission (NWSC) will cease to exist, leaving some uncertainty as how the new regulator will function.

<sup>16</sup> The 2013 review by the NWSC led to tariff increases of 66.15 percent in water and 50.8 percent in sewerage.

<sup>17</sup> Government authorities in Dominica are reportedly satisfied with the way in which the Independent Regulatory Commission (IRC) operates, while both the utility and the public appreciate the presence of an independent arbiter. Experience with the IRC has motivated several neighboring countries to set up similar utility regulators. However, the IRC continues to be financed by government budget rather than through license fees and other fees and levies as originally envisaged, which can potentially compromise its independence.

<sup>18</sup> In particular, those from countries with state-owned electricity utilities – Antigua and Barbuda, St. Kitts and Nevis, and St. Vincent and the Grenadines – showed limited interest in relegating regulatory oversight to an independent regional entity.

<sup>19</sup> Although the ECERA concept enjoyed broad support from the stakeholders, expectations differed considerably. Governments and the general public expected ECERA to bring about lower electricity tariffs through energy sector liberalization; the utilities expected ECERA to have true regulatory powers without political interference; and the Bank expected ECERA to enhance the region's capacity to think strategically, and design and implement appropriate rules and regulations for the OECS energy sector's long-term development. While these goals are not incompatible *per se*, they were not fully reconciled before the ECERA project was launched.

## 5. Learning and Recommendations

### Conclusions

The World Bank Group's program objectives for the Organisation of Eastern Caribbean States (OECS) over the evaluation period were relevant, though with caveats. Program objectives – both the pillars and the detailed results areas – were relevant, especially within a single Regional Partnership Strategy (RPS) period without regard for its long-term engagement in the OECS. Two attributes could have further strengthened relevance of objectives. The first is greater focus or selectivity. This was true both for the pillars and the subpillars. Under the fiscal and debt sustainability and public sector performance subpillar, for instance, the Bank Group tried to help strengthen debt management, revenue policy and administration, multiple facets of public expenditure management, public sector performance – including Human Resources (HR) and civil service – management, e-government service provision, and strategic planning and monitoring and evaluation (M&E). While all were important, pursuing even one or two of them would already have been a significant challenge. This is equally true of several other subpillars. There were plausible reasons for Bank Group involvement in these multiple areas, not least client demand, and involvement in several areas was measured and involved limited resource outlays, with support primarily through analytic and advisory activities (AAA) or trust fund grants. The second attribute concerns greater consistency and continuity of objectives over time. A proviso here is there may be natural stopping points with disaster risk management (DRM), and crisis conditions may justify ramping up attention to certain areas, such as the financial sector. In sum, pursuing fewer results areas with greater continuity could have strengthened the relevance of objectives. While the strategic objectives in the latest RPS (FY15–19) continue to have very broad reach, selectivity at the subpillar level has increased. In addition, long-term consistency and continuity of certain program objectives, such as those relating to social protection, are evident.

The design of the Bank Group program was also relevant; positive qualities included good instrument blend and support for regional development solutions. In key areas the Bank Group used an appropriately sequenced combination of instruments – including upstream technical work and policy dialogue, lending, and partnerships – to outstanding effect. Although the RPSs did not plan for contingent responses to exogenous shocks affecting the countries, the Bank Group program maintained, or was able promptly to find, the flexibility to respond effectively – with emergency project lending to St. Lucia and St. Vincent and the Grenadines following Hurricane

## CHAPTER 5

### LEARNING AND RECOMMENDATIONS

Tomas and with development policy lending to Grenada and St. Lucia following the global crisis. Where a strong economic rationale existed, the Bank Group program sought to encourage, and help realize, regional approaches and development solutions. In some cases, this facilitated the mobilization of regional resources to complement the four blend countries' IDA allocations, and also helped create and sustain a basis for engagement with the two IBRD-only countries, where willingness and capacity to borrow from the Bank was more restricted.

Other positive qualities of program design included pursuit of partnerships and attention to institutional capacity constraints. The Bank Group was effective in seeking and capitalizing on opportunities for partnerships. These involved regional organizations, bilateral and multilateral development partners, national and regional nongovernmental institutions, and often a combination of several types of partners. The program was also very effective – much more so than usual for the Bank – in leveraging trust fund grant resources. In addition, the Bank Group program took account of, and tried in several ways to address, the countries' limited institutional capacity. Several projects had a primary purpose of delivering technical assistance and related support for strengthening capacity. Other investment projects had significant capacity-building components, often aimed at vital functions, such as support for permanent national emergency management offices. Trust fund grant financing and a handful of advisory operations of the International Finance Corporation (IFC) provided additional support for strengthening capacity. AAA was similarly oriented toward capacity building. In the absence of a resident presence in the OECS countries, the Bank also helped build and sustain implementation capacity for its project portfolio in the active client countries and regional institutions, at least on the fiduciary side.

The assessment also identified some deficiencies in the design of the Bank Group program or of its components, including task proliferation and weak M&E. The large number and wide diversity of strategic objectives in the subpillars induced a focus on, and proliferation of, transactions (tasks), leading to program fragmentation and associated climb in transactions costs. In interviews, some government counterparts lamented what they perceived as an excessive focus on transactions by the Bank Group. A related criticism was that the various strands of Bank Group work sometimes appeared scattered and insufficiently integrated. Few, for instance, came to see the complementarity among the Comprehensive Debt Framework-related work on the links between growth and debt, the participatory, accountability-oriented work on the constraints to private-sector-led growth under the Caribbean Growth Forum, the Doing Business advisory work, and past Bank diagnostics. Some projects, such as the Electronic Government for Regional Integration Project (EGRIP), had an overly complex design, particularly with regard

to M&E, which necessitated restructuring and led to implementation delays. At the same time, M&E – for instance, provisions for tracking even the most basic outcomes that the Bank Group program was trying to impact – was insufficiently emphasized in projects and other activities, despite the Bank’s cross-cutting efforts to help strengthen data collection. For example, projects to address the human immunodeficiency virus and acquired immune deficiency syndrome had too little provision for monitoring the evolution of sexual behavior and condom use among different age groups.

Shortcomings were also apparent in project cost estimates, understanding of political-economy constraints, integration of Bank-IFC efforts, and capacity-strengthening initiatives. Cost estimates under certain projects did not sufficiently provide for constraints peculiar to the OECS clients’ remoteness and smallness. EGRIP, for instance, encountered difficulties in finding prospective suppliers willing to tender at close to the original cost-estimate parameters, leading to delays. Infrastructure cost estimates under DRM projects ran into similar problems. In certain cases, the Bank Group did not do sufficient work to gain in-depth understanding and address political-economy constraints apt to affect delivery of its support. Such cases include the Bank’s support for a New Public Management initiative in Grenada and for early civil service reforms in Antigua and Barbuda; Bank and IFC support for water sector performance improvements in St. Lucia; and IFC support for the hospital public-private partnership in Grenada. Similar risks materialized in regional programs, such as the ECERA project, leading to implementation delays and a need to revisit design. Just as significantly, apart from one very positive experience, integration of IFC and Bank programs was very uneven and generally insufficient. Finally, while the emphasis on strengthening institutional capacity in the countries and regional institutions was laudable, the efforts were sometimes scattered, sporadic, or had overly ambitious objectives. In some instances, notably under some of the DRM projects, allowances for building capacity were insufficient to prevent bottlenecks in implementation and funding absorption.

The extent to which the Bank Group program in the OECS achieved its relevant objectives during the FY06–14 period is rated moderately satisfactory. In terms of efficacy, few subpillars saw universally positive outcomes. While in a few areas the Bank Group’s work warrants a best-practice label and was effective in attaining objectives, in others, many targeted results were not met, and not many positive results can be associated with its efforts. Nevertheless, under most subpillars, the Bank Group was able to make at least some contribution toward positive outcomes. Under the increasing resilience pillar, achievement of relevant objectives was moderately satisfactory, and particularly favorable under aspects of disaster risk

management (table 5.1). Under the enhancing competitiveness pillar, Bank Group achievement of relevant objectives was also moderately satisfactory, albeit more marginally so.

**Table 5.1. World Bank Group Program Ratings, FY06–14**

Bank Group Program Pillars and Subpillars	Rating
<b>Pillar 1—Strengthening Resilience</b>	MS
1.1 Strengthening fiscal and debt sustainability and public sector performance	MS
1.2 Strengthening environmental and disaster risk management and climate resilience	S
1.3 Enhancing human capital and social resilience	MS
<b>Pillar 2—Enhancing Competitiveness</b>	MS
2.1 Strengthening the domestic and regional financial sector	S
2.2 Strengthening the legal and regulatory framework, sector linkages, and value chains for private business	MS
2.3 Improving infrastructure service delivery	MU

Note: MS = moderately satisfactory; MU = moderately unsatisfactory; S = satisfactory.

## Lessons

- Relevance of program objectives. Sustained engagement on a small number of well-chosen strategic objectives is more likely to get results. Sporadic engagement on a particular objective or results area, particularly in the face of lofty outcome targets and in difficult areas such as improving public sector HR management, is unlikely to be associated with lasting results. At the same time, wide dispersal of objectives and results areas is likely to come at the expense of results and impact. A limited number of objectives allows for deeper, more hands on engagement, particularly important in OECS countries given their limited institutional capacity. Selectivity also allows for the development and maintenance of a cluster of activities in a specific sector, larger project size to counter high transactions costs per dollar of assistance delivered, and dedicated staff who build country knowledge and relationships.
- Relevance of program design. For both national and regional projects, it is important to keep designs simple to allow for limited institutional capacity. Flexibility in project designs is also important. In small states, indivisibilities, remoteness, and limited private sector capacity can mean fewer, higher-cost bids than expected on project contracts. It is thus important to build flexibility in project designs to accommodate costs that significantly exceed initial estimates. Proper sequencing of Bank Group activities also aids effectiveness, and can make the difference between success and failure. In St.



Lucia, IFC's efforts to help build a market for small and medium enterprise finance were substantively unsuccessful, as fundamental constraints remained unaddressed. Finally, project design, including the underlying paradigm, needs to be consistent with the country and regional political economy backdrop.

- Operational arrangements. Project Coordination Units (PCUs) are important repositories of fiduciary capacity. Where the Bank Group does not have a resident presence, national-level PCUs can help protect portfolio quality and ensure cost-effectiveness better than implementation units for each project. They cannot, however, address capacity shortfalls in the technical ministries and agencies involved in project implementation. At the same time, incomplete integration of PCUs into regular government structures can raise issues concerning the sustainability of the associated capacity. Similar observations hold for capacity repositories at the regional level. Finally, particularly in the absence of resident Bank Group presence, it is desirable to minimize turnover of operational staff, especially task team leaders, during project preparation and implementation.
- Regional engagement. With respect to small states pursuing economic and political integration, a sound rationale – based on regional public goods, externalities, and scale economies – is necessary for regional Bank Group engagement, particularly regionally packaged financing. Crucial additional criteria include: Does the regional development solution underlying the Bank Group support adequately safeguard individual country interests? Are the costs associated with the regional solution reasonable? Is an adequately functioning national solution already in place? Despite the challenges involved, there can be the potential for transformational regional engagements. The CCRIF is successful precisely because its regional nature allows for risk pooling. But regional engagement also has limits. Infrastructure projects can often be best structured nationally, even in small states. Understandably, countries prefer to devote their national funding from the International Development Association to investments with local rather than regional benefits. National projects have better country ownership, which is important for infrastructure projects that will impose ongoing costs. Some functions make sense to undertake at a regional level, such as those requiring specialized expertise that may not be feasible to develop and maintain at the local level (e.g., hydrometeorology services or climate change expertise). In particular, regional procurement can yield significant benefits. Certain experiences in regional procurement, including some under Bank projects, have brought significant payoffs. The regional e-procurement in bulk of pharmaceuticals under the EGRIP-enabled platform

is generally thought to have been successful. In information and communications technology, the regional procurement under the Caribbean Regional Communications Infrastructure Program is similarly perceived as beneficial. Even where functions remain wholly national, there are often gains from cross-country knowledge, training, and capacity-building work.

- Political economy backdrop. A thorough understanding of the political economy around an area of prospective Bank Group support is essential. As demonstrated by the Bank Group involvement in St. Lucia's water sector and in regional energy regulation, for both national and regional projects, it is important to gain an in-depth understanding of, and to internalize, political-economy risks in the design and implementation of Bank Group support. Thorough stakeholder consultations can help reduce such risks and make smooth project implementation more robust in the face of government and counterpart turnover or simple wavering of political commitment.
- Bank-IFC collaboration. Concerted World Bank-IFC support can have impact in addition to projecting a favorable image among stakeholders. Proper alignment of, and complementarity in, support can be effective in helping to bring about favorable results, as demonstrated by the experience with customs reform in Grenada. Although political economy complications ultimately made the collaboration unsuccessful, Bank-IFC "teaming up" to support reform in St. Lucia's water sector also represented model alignment of efforts.
- Disaster risk management. It is important to use the political window of attention created by a disaster to advocate and support long-term risk reduction. Severe weather events in Grenada, St. Lucia, and St. Vincent and the Grenadines helped make DRM a priority for them, enabling the Bank's now-substantial portfolio. Given the historical waxing and waning of attention to DRM, the long-term challenge will be to ensure that approaches focusing on preparedness can be sustained as the memory of recent disasters fades, such as by raising awareness of the long-term trends from climate change. In DRM implementation, building the "soft" systems is more difficult than undertaking "hard" investments. Investments in works can reduce disaster risk, even at significant financial cost and with implementation constraints. Building softer systems, such as data collection and analytic capabilities, and ensure that they are tied to decision-making processes, is more challenging. It is thus important that project designs provide not just for the needed capacity-building work, but equally for initiatives to link data and analytics to end users in government, the private sector, civil society, and the public.

## Recommendations

Several recommendations emerge from the findings of this regional program evaluation. These are confined to actions that are within the purview of the Bank Group country team for the OECS. Issues relating to the modalities for delivering Bank Group support to small states will be discussed in a chapeau report of the cluster country program evaluation. The recommendations have been developed against the backdrop of the current (FY15–19) RPS, although they have general validity.

- Given the breadth of the areas in which new Bank lending is envisioned, ensure that the underlying objectives of new lending operations are selective and specific even as they contribute to broader development objectives.
- Ensure simplicity of design in the new lending operations, avoiding proliferation of project components and counterparts, using well-reasoned but simple and parsimonious project M&E frameworks. In parallel, keep a sufficient margin of flexibility in project funding to accommodate cost variations.
- Continue to pursue opportunities to support cooperative OECS-wide development solutions, but only where the economic rationale and support among country stakeholders are strong. Where these cannot be assured, the FY15–19 RPS’s formula of national projects under regional frameworks offers a good fallback that can lower transactions costs while avoiding political economy pitfalls and supporting coordinated action in uncontroversial areas.
- Ensure that new projects include, or are accompanied by, sufficient provision to support the institutional capacity required to implement investments efficiently and sustainably, including support for national PCUs or regional executing agencies. Where support is through development policy financing, provide for parallel technical assistance to implement and sustain targeted reforms.
- In parallel with new lending – and facilitated by greater selectivity and continuity of program coverage – continue to work toward consolidating the portfolio of activities and ensuring complementarity among lending and nonlending activities, which can usefully be organized into clusters supported by dedicated staff.

Plan and pursue in-depth Bank-IFC collaboration in two or three specific areas – for instance, related to competitiveness and the business climate, the financial sector, or infrastructure – where the institutions’ complementarity and synergy in contributing to development results can be showcased.