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PROJECT PERFORMANCE ASSESSMENT REPORT

ST. LUCIA

**ECONOMIC AND SOCIAL DEVELOPMENT POLICY LOAN/CREDIT
(IBRD-79190, IDA-47520)**

May 30, 2014

IEG Public Sector Evaluation
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Eastern Caribbean Dollar (EC\$)

2007	US\$1.00	EC\$2.70
2008	US\$1.00	EC\$2.70
2009	US\$1.00	EC\$2.70
2010	US\$1.00	EC\$2.70
2011	US\$1.00	EC\$2.70
2012	US\$1.00	EC\$2.70

Abbreviations and Acronyms

ASYCUDA	Automated System for Customs Data
BAICO	British American Insurance Company
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CDB	Caribbean Development Bank
CLICO	Colonial Life Insurance Company
DPL	Development Policy Loan
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ES DPL/DPC	Economic and Social Policy Development Policy Loan/Credit
ESF	IMF Exogenous Shock Facility
ICR	Implementation Completion and Results report
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IEGPS	IEG Public Sector
IMF	International Monetary Fund
OECS	Organization of Eastern Caribbean States
MFPED	Ministry of Finance, Planning and Economic Development
PPAR	Project Performance Audit Report
RPS	Regional Partnership Strategy

Fiscal Year

Government: January 1-December 31

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Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Risk to Development Outcome	Substantial	High	Substantial
Bank Performance	Moderately Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Borrower Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

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IEG Mission: Improving World Bank Group development results through excellence in evaluation.
About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: <http://worldbank.org/ieg>).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) assesses the St. Lucia Economic and Social Development Policy Loan/Credit (IBRD-79190, IDA-47520) approved by the Board on June 8, 2010 and closed on June 30, 2011.

The Independent Evaluation Group (IEG) of the World Bank carried out an assessment of the above operation as part of a cluster of project performance assessments for three small middle-income countries- the Dominican Republic, Jamaica and St Lucia- that faced particular challenges during the global financial crisis.

This report is based on a field visit to St Lucia that took place in February 2013. The field visit included discussions in St Lucia with relevant government officials, financial institutions and the Caribbean Development Bank. It also includes a review of the program document, financing agreements, Implementation Completion Report and Implementation Completion and Results Report, and other relevant material as well as interviews with the Bank and IMF staff. The cooperation and assistance of all stakeholders is gratefully acknowledged.

Following standard IEG procedures, a copy of the draft Project Performance Assessment Report (PPAR) was sent to the Borrower for comments. No comments received from the Borrower.

Summary

This report assesses the Economic and Social Development Policy Loan and Credit (DPL) to St. Lucia, approved by the Board on June 8, 2010 and which closed on June 30, 2011. The loan aimed to provide timely financial support to the government of St Lucia to manage the impact of the global economic crisis. The operation had three objectives: (a) improve business environment and competitiveness, and strengthen the financial sector; (b) improve public sector governance and economic management; and (c) improve effectiveness and efficiency of social safety nets. The relevance of these objectives was rated ‘high’: the loan was expected to maintain and reinforce the reform agenda of the government to revive growth and improve competitiveness as outlined in the government’s annual budget for FY2010/11. The DPL was embedded in the Regional Partnership Strategy (RPS 2010-2014).

While the loan provided needed financial support to the St. Lucia government during the global economic crisis, the loan’s stated objectives and design were medium to long term. This resulted in a mismatch between the short-term nature of the operation (12 months) and the time needed to make concrete progress with reforms. The activities, while well aligned with the government’s medium term plans and structural reforms, were not designed to yield measurable short term results. The scope of these activities, covering many sectors, was overly ambitious and broad for a one year DPL. The relevance of design and the achievement of all the three objectives were rated ‘Modest’. There was little progress in many of the areas of reform, such as civil service reforms, reduction in the wage bill, social safety net measures and the online registration of companies.

Under the administration that came to power in March 2012, some reforms have been initiated such as the introduction of VAT, and tabling of a revamped insurance bill. However, St Lucia’s fiscal position has deteriorated and the overall deficit has widened to an estimated 12 percent of GDP for 2012 with public debt rising to 78 percent of GDP in 2012. The outcome of the operation is rated **Moderately Unsatisfactory**.

Implementation was severely affected by Hurricane Tomas which struck St. Lucia in October 2010. The hurricane diverted attention of the government to the immediate problem of responding to the affected population and rebuilding damaged infrastructures. The Bank was asked to postpone project supervision, delaying the mission and scope for midcourse corrections until shortly before the closing date.

This DPL offers four key lessons:

- A single tranche, stand- alone DPL is not the best instrument to address both short-term and medium-term challenges. The one-off DPL shored up St Lucia’s finances through the influx of funds. However, its stated objectives were medium or long-term for which the single operation DPL was not adequate. A programmatic series of DPLs would have been a more appropriate instrument for engagement, allowing the government time to implement St. Lucia’s ambitious program, particularly given known capacity constraints.
- In DPLs that are provided in the context of financial crisis to support the macroeconomic stabilization and fiscal constraints, this needs to be explicitly

recognized and evaluated to assess its effectiveness. In cases where this is not recorded as an objective, the documentation does not fully recognize the intent, nor credit the DPL with what it achieves.

- Lack of understanding or experience by the borrower requires factoring in additional time to allow for delays and greater investment in building a better understanding of process and purpose. Such situations also require greater stakeholder consultations both before and during implementation to ensure and enhance understanding. This being the first DPL, the government of St Lucia was not conversant with the Bank's internal DPL process. The Borrower's Response (ICR, Annex 4) indicated a lack of complete appreciation of the pre-board requirements or their significance in the loan process. This highlights the need for deeper and more inclusive internal discussion to attain support of key stakeholders and buy-in.
- Close supervision is instrumental for achieving Program outcomes in one-off DPLs with a more medium-term outlook and targets and outcome indicators to be met at the end of the Program. Close supervision is necessary to help in achieving the DPL and reform program's targets. In addition, following up and providing or financing technical assistance if necessary, together with country dialogue to build local capacity, could be useful to bolster reforms and enhance sustainability in the medium-term and both a good supervision plan and methods to support sustainability should be considered at the outset.

Caroline Heider
Director-General
Evaluation

1. Background and Context

Introduction

1.1 This PPAR assesses the Economic and Social Development Policy Loan (DPL) to St. Lucia, which was approved by the Board on June 8, 2010 and closed on June 30, 2011. The DPL was planned in the context of the 2008 global financial crisis. It was expected to contribute to the government's broad based response to the crisis aimed at maintaining macroeconomic stability while protecting social spending, with measures to enhance tax revenue and control expenditures

1.2 The operation had three objectives: (a) improve business environment and competitiveness, and strengthen the financial sector; (b) improve public sector governance and economic management; and (c) improve effectiveness and efficiency of social safety nets. These objectives were expected to maintain and reinforce the implementation of the longer term structural reform agenda of the government to revive growth and improve competitiveness and support the vulnerable groups in St. Lucia, who were significantly affected by the global crisis, through improved effectiveness of safety nets. In addition to the above stated objectives, the loan was also expected to provide timely financial support to the Government of St Lucia to manage the impact of the global economic crisis.

1.3 The DPL was embedded in the Regional Partnership Strategy (RPS 2010-2014) for the Organization of Eastern Caribbean States (OECS), which was organized around two pillars: (i) building resilience; and (ii) enhancing competitiveness and stimulating sustainable growth. It was also aligned with the government's annual budget for FY2010/11 which focused primarily on generating growth, securing jobs, promoting competitiveness and protecting vulnerable citizens in the face of global recession. The policy actions supported under this program were grounded in analytical evidence including IMF Article IV consultations, OECS ROSCs on Auditing and Accounting, and the Joint World Bank IMF Technical Assistance on BAICO/CLICO failures.

Country Context

1.4 St. Lucia is a middle-income country with a GDP of US\$1.23 billion and per capita income of US\$ 7,379 as of 2011. After its independence from United Kingdom in 1980, St Lucia became a member of the OECS. St Lucia is also a member of the Caribbean Community (CARICOM) and the Association of Caribbean States (ACS) and the Eastern Caribbean Currency Union (ECCU). St Lucia's currency, the Eastern Caribbean Dollar (EC\$), has been pegged to US\$ at EC\$ 2.7 since 1976. The Eastern Caribbean Central Bank (ECCB) issues the currency for eight OECS members and the EC\$ is 100 percent backed by OECS' foreign exchange reserves.

1.5 Although more diversified than several other Caribbean economies, St. Lucia's capacity to diversify is limited, which renders it highly vulnerable to economic and natural shocks (including climate change impacts). First, St. Lucia suffers from the myriad disadvantages of limited scale. Second, it has a strong degree of openness and is subject to commodity booms and busts, which compound the challenges of macroeconomic

management and create uncertain growth paths. Third, the OECS countries, including St. Lucia, consistently rank in the top ten in the world in terms of their exposure to natural disasters and climate change impacts. Fourth, St. Lucia has not benefited much from international aid for years, in part due to its middle-income status. As a result, it is highly sensitive to external shocks and faces increasingly difficult policy choices in an interdependent world, especially in the wake of the current global financial crisis.

Program Context

1.6 The economic and social context of the DPL was largely framed by: (i) the 2008 global financial crisis; (ii) the pre-crisis imbalances arising from St Lucia's expansionary fiscal policies that did not produce the desired effect due largely to a series of external economic and natural shocks; (iii) the rigidity of the budget due to high debt servicing and wage bill and the fall of fiscal revenues that limited the government's room for implementing counter fiscal policies; and (iv) the impact of the economic downturn on the vulnerable populations. The Bank's support provided through its loan and credit, was expected to help the government in maintaining macroeconomic stability and protecting the poor while enhancing economic and institutional foundations for faster development.

1.7 The 2008 global financial crisis hit St. Lucia relatively hard. St Lucia depends heavily on tourism and financial services as sources of revenues and foreign exchange. Reflecting a sharp decline in visitors and construction activity related to foreign direct investment, real GDP is estimated to have contracted by 5.2 percent in 2009 and the current account deficit reached 11.7 percent of GDP in 2009. As a result, St Lucia's fiscal position deteriorated sharply. In addition, the pre-crisis imbalances stemming from a debt-financed growth left the country with high external, public and private debt at the commencement of the global financial and economic crisis. Adding to this, St. Lucia incurred damages from an earthquake and Hurricane Dean in 2007 and the adverse effects of global food and fuel price increases.

1.8 The wage bill accounted for a large part of government's recurring expenditure. In 2008 the central government spent 47 percent of recurrent expenditures (11.0 percent of GDP) on the wage bill. Nominal salary expenditures increased by 21 percent in 2004-2008. This increase was in part a response to greater demand for public services, low flexibility for hiring of established personnel, and in part as a consequence of an outdated pay and classification plan.

1.9 The financial crisis and the ensuing contraction in economic activity resulted in a slowdown in private sector credit demand. The collapse of the CL Financial Group with operations in St. Lucia and other Caribbean countries highlighted weaknesses in the regulation and supervision of the non-bank financial sector, particularly the insurance sector.

1.10 St. Lucia was exposed to financial distress due to troubles at the CL Financial Group and its subsidiaries in the life insurance business: Colonial Life Insurance Company (CLICO) and British American Insurance Company (BAICO). Both companies used term deposits

taken from policyholders to invest in real estate in the United States. As a result of the US real estate market downturn, BAICO came under judicial management and CLICO assets were seized by the government of Trinidad and Tobago on January 30, 2009.¹

1.11 St. Lucia's vulnerable groups were significantly affected by the economic downturn. The situation was particularly worrisome as, in 2006, one-fourth of St. Lucia's population was already living below the poverty line, crime was increasing and unemployment rates were about 17 percent. Unemployment rates among youth and women, already high, were expected to increase. The government had in place a series of social programs however these were largely piecemeal, expensive and inefficient in targeting the most vulnerable.

1.12 The government proposed to address these challenges by longer term structural reforms including a single-rate Value Added Tax (VAT),² improving efficiency in tax collection, developing a social safety net reform strategy, rationalizing the wage bill, and strengthening insurance regulation. Private sector development was a priority for the government as it prepared to respond to the changing global business environment as well as the move toward a Caribbean Single Market Economy. To adjust to this new reality, the authorities were finalizing a new Private Sector Development Strategy jointly with a National Investment Strategy.

Recent Developments

1.13 St. Lucia's economy was on a path to achieve a modest growth in 2010, buoyed by a noticeable rebound in tourism which increased by about 15 percent through September 2010. During October 30-31, 2010, Hurricane Tomas struck St. Lucia causing loss of life and substantial damages to infrastructure and agriculture. It also caused significant damages to the road network, the water supply, and the agriculture sector. The damage to the banana industry was estimated at 80 to 90 percent losses. The impact on the tourism sector, which has just started its high season, was pronounced. The total impact of Hurricane Tomas was 43.4 percent of Saint Lucia's GDP³.

1.14 The government was forced to run a large fiscal deficit to finance repair to damaged infrastructure and provide grants to the affected population. The deficit was financed through domestic and international borrowing. The authorities financed the reconstruction through grants and external concessional financing, and borrowing from IMF through the Rapid Credit Facility/Emergency Natural Disaster Assistance and from other international financial

¹ The CL Financial Group is based in Trinidad and Tobago, and provides policies throughout the Caribbean. However, due to jurisdictional issues and regulations prevailing at the time the exposed countries had limited legal recourse to mitigate the adverse financial impact of CLICO and BAICO's restructuring and reorganization which was a consequence of the financial crisis. St. Lucia was less exposed to BAICO than other ECCU members but its exposure to CLICO was significant.

² The 2009/2010 Budget Address notes that, "Government views the introduction of VAT as part of its strategic policy response in strengthening economic management, thereby building the reliance of the economy to vulnerability and external shocks. The need for this strategic approach has become even greater in light of the impact of the global recession."

³ United Nations' Economic Commission for Latin America and the Caribbean (ECLAC) Macro Socio-Economic Damage Assessment report (December 2010),

institutions. In February 2011, the Bank approved a US\$15 million credit for the Hurricane Tomas Emergency Recovery Project to provide additional resources to rehabilitate damaged infrastructure and stabilize high risk areas on an expedited basis.

1.15 St. Lucia has yet to fully recover from Hurricane Tomas. Further, the pre-crisis imbalances particularly debt-financed growth that left the country with high external, public and private debt, remain (IMF, 2012). Fiscal imbalances have widened, reflecting past expansionary policies as well as the recent stimulus efforts to boost growth, and are expected to contribute to continued sizeable external current account deficits. The policy response to support flagging growth has been strong, with a significant injection of public demand over the past three years, but policy space has been very limited and fiscal vulnerabilities have accumulated.⁴

1.16 The VAT was introduced in September 2012, which led to a jump in cost-push inflation. The already high unemployment increased sharply during the cyclical downturn. The financial system has weathered the downturn, but weak economic activity is taking a toll. The pre-crisis credit boom left financial institutions with notable asset quality problems: nonperforming loans almost doubled during the past two years, their resolution hampered in part by the inability of banks to foreclose on available collateral due to cumbersome procedures.

2. Objectives, Design, and their Relevance

2.1 The Loan Agreement states that the loan is made to support the carrying out of the government's program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and sets out the specific prior actions to be carried out as prior actions for the loan. In addition the Program Document states that the DPL aims to "support policies and reforms that will assist the Government of St. Lucia in dealing with the emerging short term economic challenges brought about by the global crisis and further advancing the country's longer term development agenda" and "supports adequate economic policies to mitigate the impact of the global economic crisis and to strengthen the framework for sustainable economic recovery and growth."⁵. More specifically, the DPL Program Development Objectives were to:

- Improve the business environment, competitiveness, and strengthen the financial sector by supporting reforms to reduce delays in starting a business, buttress financial sector regulatory environment, mitigate regional contagion risks, and promote investment.
- Improve public sector governance and economic management by supporting reforms to improve public service efficiency and performance, increase the efficiency of tax collection, enhance fiscal discipline and strategic allocation of resources, strengthen

⁴ IMF Art. IV consultations, 2012

⁵ Program Document, paragraph 47.

accountability, and help cope with the adverse consequences of the global economic downturn.

- Improve the effectiveness and efficiency of social safety nets by supporting efforts to develop objective beneficiary selection criteria and transparent targeting mechanisms and prioritize social spending to vulnerable groups.

2.2 The Program Document outlines the short term economic challenge of providing support to the government's budget and external financing needs which was critical for maintaining macroeconomic stability during the global economic crisis and keeping the government's program intact for a quicker recovery⁶. The Loan Agreement enumerates as the basis for the loan only the specific program development objectives identified in the Program Document and does not refer to the identified driving need to provide short-term financial support during the global economic crisis. For this review, the loan objectives are those specific actions set forth in the Loan Agreement. In addition the government's letter outlining the Program refers to both the pressure on the government's fiscal and debt positions because of the global crisis and the critical need for budget support for maintaining macroeconomic stability and the imperative of proceeding with the reform agenda for realigning the economy on a sustainable and growth oriented trajectory.

The Design of the Operation

KEY POLICY ACTIONS

2.3 There was one general condition - to maintain a sound macroeconomic framework consistent with the objectives of the Program- and several prior actions relating to the specific objectives of the Program.

PRIOR ACTIONS

2.4 Prior to Board presentation the actions listed numerically under each heading below had been taken by the government:

- **Improving Business Environment, Competitiveness, and Strengthening the Financial Sector:**
 - i. The Government had submitted to its Parliament an Insurance Bill.
 - ii. The Government, through its High Court, had appointed a judicial manager to perform a review of BAICO within the Borrower's territory, with a view to recommending an orderly resolution in connection with the insolvency of BAICO.

⁶ Program Document para. 8 states " the proposed DPL/DPC provides timely financial support to the Government of St. Lucia to manage the impact of the global economic crisis and to maintain and reinforce the implementation of the longer-term structural reform agenda."

- **Improving Public Sector Governance and Economic Management:**

- I. The Government had established a cap on public service employment to hold the size of funded positions at the FY 2008/2009 levels (6884 funded positions), and stopped the funding of vacant approved positions as outlined in the FY 2009/2010 budget (7603 approved positions) in said sector.
- II. The Government had merged its Ministry of Finance and the Ministry of Economic Planning and National Development to create the Ministry of Finance, Economic Affairs and National Development under the administration of a single Permanent Secretary, pursuant to its Cabinet Decision No. 989 of 2009.
- III. The Government had:
 - (a) submitted to its Parliament a Value Added Tax Bill; and
 - (b) established a VAT Implementation Unit and made the unit functional with adequate staffing and resources.
- IV. The Government had commenced the implementation of Automated System for Custom Data (ASYCUDA) World program in its customs department as follows: allocated an amount of approximately EC\$1.5 million for the implementation of the ASYCUDA program in the FY 2009/2010 budget; launched a training program for its customs administration personnel; completed a prototype software for ASYCUDA program; and developed a corporate strategic and business plan outlining a sequential implementation for the ASYCUDA World program for the next three years.

- **Improving Effectiveness and Efficiency of Social Safety Nets:**

- I. The Government had completed a Social Safety Net Assessment and conducted subsequent stakeholder consultations on the results of the assessment.
- II. The Government had established a Social Safety Net Steering Committee to spearhead reform efforts of its Social Safety Net System.

2.5 The Operations Policy Matrix also includes the expected subsequent actions of the second phase of government reform programs. Policies and reforms described in the government's Program are not benchmarks for the evaluation of this operation.

POLICY AREAS

2.6 The prior policy actions supported by the DPL aimed at advancing the country's longer term development agenda by improving the three policy areas noted above. The actions taken are discussed below:

(i) To improve the business environment and competitiveness, and strengthen the financial sector:

2.7 The move towards a Caricom Single Market Economy posed new challenges for private sector activities in St. Lucia. In particular, the diversification strategy that turned the country into one of the most diversified islands in the region was no longer relevant. To adjust to this new reality, the authorities prepared a new Private Sector Development Strategy jointly with a National Investment Strategy that focused on bringing more foreign direct investment, including from nationals living abroad. In addition, a draft Competition Law was prepared to ensure that the benefits of the Caribbean Single Market Economy are not lost to anticompetitive practices. The government was also reviewing the proposal of the creation of a new Trade and Export Promotion Agency (TEPA).

2.8 To improve the business environment, the government has moved from manual to electronic registration of companies with the aim of putting all records of the Registry Office in electronic format. Electronic registration mechanisms including electronic payment (approved by an Electronic Transaction Act) were supported by the Program to increase the ease of conducting business transactions; however the shift has been slow to start up and faced problems during its launch.

2.9 The government was fully aware of the risks in regional financial markets and intended to move ahead in mitigating these by passing into legislation a new Insurance Bill to improve regulations and mitigate contagion risks. The new Insurance Bill followed recommendations of the Eastern Caribbean Central Bank with the aim of strengthening the existing legislative and institutional capacity for better regulation of the market and was supported by the Program.

2.10 Also, to reduce the risk to financial markets, the government took actions to mitigate the adverse impact of the collapse of the British American Insurance Company (BAICO) and the Colonial Life Insurance Company (CLICO). The new Insurance Bill and the appointment by the government of a Judicial Manager to handle the BAICO financial fallout aimed at protecting protect policy holders through the financial resolution of BAICO/CLICO in the short term and help in the longer term financial regulatory reform.

(ii) To improve public sector governance and economic management:

2.11 The objective of this component was to increase efficiency in the public administration, improve productivity in public service delivery and achieve a more sustainable and predictable wage bill. In the short term, the Program focused on keeping the public wage bill fiscally sustainable through aggregate measures such as capping the level of public employment and identifying efficiency and productivity gains through functional and institutional reviews. Following consolidation of two Ministries (Ministry of Finance and Ministry of Economic Planning and National Development), the Program supported the initiation of the process for reviewing the human resource management system together with the pay and classification systems in the public administration. This included conducting an institutional review of the Ministry of Foreign Affairs, and operation and efficiency reviews

for the Ministry of Social Transformation and the Ministry of Communications, Works, Transport and Public Utilities.

2.12 The Program also supported the government's efforts to reinforce revenue generation capacity and improve efficiency of tax collection. The new Value Added Tax (VAT) bill submitted to Parliament was designed to replace four consumption taxes. The introduction of VAT will facilitate efficient collection, strengthen the revenue flow and create incentives for expanding savings. After considerable discussion VAT was introduced in 2012 under the VAT Act, but not all the provisions of the VAT Act are yet in effect. In addition, the Program supported a modernization of customs through the implementation of the Automated System for Custom Data (ASYCUDA). Both the VAT and the custom reforms were expected to help the private sector comply with laws and regulations.

(iii) To improve effectiveness and efficiency of social safety nets:

2.13 The program was designed to support government efforts to strengthen the crisis response capacity of St. Lucia's social safety net (SSN), and to improve its effectiveness and efficiency in the medium and long term. The first step was the completion of a Social Safety Net Assessment (SSNA) to evaluate the social assistance programs and identify immediate steps to improve their support to poor beneficiaries, followed by the establishment of a Social Safety Net Steering Committee to spearhead reform efforts of its Social Safety Net System. An Action Plan was formulated by the Social Safety Net Steering Committee whose priorities included the upgrading of the Public Assistance Program, and review of the Public Assistance Law. Also, an Action Plan was formulated by the Social Safety Net Steering Committee whose priorities included the upgrading of the Public Assistance Program, and review of the Public Assistance Law. These steps were largely procedural – action plans, reviews, setting up steering committees, etc. However, in the medium term the program aimed to support actions to build consensus for reform of the social safety net among key stakeholders and establish appropriate actions and sequencing of tasks to undertake that reform.

M&E Design: Key Outcome Indicators:

2.14 To monitor progress over time and judge its success the operation had the following indicators. Targets were set for each of the items to be accomplished by the closing date (June 30, 2011):

- Legislation was to be in place requiring basic solvency margin (capital requirements) for life insurance companies and annuity definitions are tightened to ensure that products offered are clearly defined as insurance products and covered under the regulations (Baseline: no capital requirements and definition of annuity products was broad and included deposit type products in 2009).
- Fiscally sustainable wage bill was to have been presented, ensuring key public services coverage and quality do not decline (Baseline: central government expenditure on wages and salaries projected to increase from 11.7 percentage of GDP in 2009 to 12.4 percentage of GDP in 2010; Target: Central government expenditure

- on wages and salaries contained to below 12 percentage of GDP in 2010 and reduced to 10.3 percentage of GDP in the medium term).
- Higher efficiency on tax and customs administration was to have been achieved (Baseline: operating costs of collecting EC\$1 were 3.3 cents in 2008; Target: operating costs of collecting EC\$1 are 3.0 cents).
 - Critical information was to exist to allow developing objective selection criteria for beneficiaries and functional targeting mechanisms for social programs (Baseline: no such information available prior to August 2009).

Relevance of the objectives is rated as **High**. The relevance of the objectives of the DPL program was high at the time of the appraisal and they remain relevant to date. St. Lucia's small, open and largely tourism-dependent economy is vulnerable to external shocks. Prior to the global financial crisis, St Lucia had faced several external shocks, both natural and economic. Declining tourism revenue following the global financial crisis severely impacted St Lucia's already stretched pre crisis fiscal position. Vulnerable groups in St. Lucia were significantly affected by the global crisis.

2.15 The priorities of the government program to address the above challenges were stated in the budget speeches for FY09/10, and FY10/11 and were articulated around the following pillars: (i) Private sector development and financial sector reform, (ii) Public sector efficiency and performance, and (iii) Social safety nets. The DPL reform program as described above was aligned with the government program pillars. Furthermore, St. Lucia is part of the Bank's Regional Partnership Strategy (RPS) FY10-14 that was adopted a few months after the DPL approval and that has two main pillars: (i) building resilience, and (ii) enhancing competitiveness and stimulating sustainable growth. More specifically, the FY10-14 RPS was to contribute to achieving improved fiscal and debt sustainability, increasing efficiency and transparency of public spending and service delivery, sustaining macroeconomic and financial stability, strengthening policy coordination and economic management, rationalizing social safety net programs and its targeting system. These objectives were fully reflected in the Program supported by the DPL.

Relevance of Design

2.16 Relevance of design is rated as **Modest**. The project was conceived in the context of the global financial crisis. The government was in need of a quick disbursing operation based on budgetary needs to address the macro-economic challenges posed by the crisis. The stand-alone DPL was to meet this need. However, the stated objectives and program were medium/long term. There was thus a mismatch between the short-term nature of the operation (12 months) and the time needed to make concrete progress in the identified areas of reform as designed. A stand-alone operation could only launch the reforms but these will take many years to complete and to achieve the objectives. The planned activities of the Program after Board presentation, as designed, merely touched on the surface some of the

deep rooted challenges which clearly required a medium to long term or a multi- year operation.⁷

2.17 The activities while well aligned with the government's medium term plans and structural reforms as identified in several Bank and Fund's analysis were not designed to yield results in the short term. The scope of these activities, covering many sectors, was clearly ambitious and too wide for the one year DPL. Planned policy actions such as the approval of new legislation by the parliament, public sector reforms, and pay classification, mergers and reviews of ministries with entrenched constituencies are not easy to formulate and implement particularly in the short term and in view of the low public sector capacity.

2.18 The operation was conceived in the context of the financial crisis and was expected to support the government's budget in maintaining macroeconomic stability under the turmoil of the global economic crisis and keeping the government's program intact for a quicker recovery. However, though clearly stated in the Program Document, macroeconomic stabilization was not included as an explicit objective in the Loan Agreement or its accomplishment, or lack of accomplishment, assessed in the evaluation reports. There is a mismatch between delivering swiftly needed financial support to meet balance of payment or budgetary constraints and giving adequate and well-structured support to spur medium-term reform programs.⁸

2.19 Overall the results matrix chain was ambitious and even unrealistic, as policy actions of the program represented in many cases only a start in comparison to what was needed to effect real change on the ground. Most indicators were consequently unrealistic given the lag in legal reform and the risk of natural disasters as discussed above. Some indicators in the policy matrix were not clearly defined, such as that relating to critical information needed to develop objective selection criteria for beneficiaries and functional targeting mechanisms for social protection programs, or the difference between solvency margins and capital

⁷ IEG's evaluation, World Bank Group Response to the Global Economic Crisis. Phase II, notes in Chapter 7: "A common message to emerge ... is that the Bank's present instruments may not be well adapted to the nature of crisis lending. Limitations appear in the content in terms of responding to the needs of the moment or in terms of achieving medium-term support. During the crisis, the Bank has had to rely largely on its existing country engagements, which then become a substantial focus of its crisis operations.... Although in some cases useful medium-term reform has been undertaken, in many cases the difficult circumstances of preparation of operations during a crisis tend to limit the extent of medium-term reform achieved. Especially in countries that may be less seriously affected, a question for the Bank is whether, given the difficulties of achieving solid medium-term engagement through crisis lending, a new form of countercyclical crisis engagement is needed that is less demanding in terms of depth of reform but that also reflects a shorter, crisis-specific engagement..."

⁸ IEG's evaluation World Bank Group Response to the Global Economic Crisis. Phase II notes that "crisis response DPOs typically supported a broad array of reforms that should help attain stronger fiscal outcomes in the future. However, as public financial management reforms require focused action over time to attain the expected results, stand-alone crisis response DPOs were ill suited to follow up on this reform agenda. Important structural fiscal reforms were sometimes disregarded." (Chapter 2). "The policy content of DPOs was often only partly relevant to the fiscal challenges of the crisis, reflecting in many cases the need for rapid processing and crisis induced pressures. Some programmatic DPOs were not modified to address the consequences of the crisis. Most also included policy components with other foci; in only half were these relevant to the crisis, despite their relevance for longer-term development objectives". (Chapter 5). "Programs were based on areas that lent themselves to swift preparation, often through prior or ongoing engagement". (Chapter 3).

requirements of insurance companies. The ICR points out that this could probably be because of the urgency (of the crisis) in which the operation was designed. Furthermore, there were no indicators for tracking public debt to GDP ratio, although maintaining a satisfactory macroeconomic framework and gradually lowering the ratio to the regionally mandated target of 60 percent was the implicit goal.

3. Implementation

3.1 This \$12.0 million DPL was a single-tranche stand-alone operation. It was a blend loan with an IBRD component of \$4.0 million equivalent, and an IDA component of \$8.0 million equivalent. It was approved on June 8, 2010, and made effective on August 12, 2010. Loan proceeds were fully disbursed at effectiveness and the operation was closed as scheduled on June 30, 2011.

Implementation Arrangement

3.2 The Ministry of Finance was responsible for coordinating actions among other concerned ministries and agencies. A number of other agencies are involved in the implementation of the reform program being supported by the DPL including Ministry of Social Transformation, Public Service, Human Resource Development, Youth and Sports; Ministry of Health Wellness, Family Affairs, National Mobilization, Human Services and Gender Relations; Ministry of Commerce, Industry and Consumer Affairs, and Custom Administration.

Factors that Affected Implementation

3.3 In addition to the prior actions taken by the government before Board presentation of the DPL, the operation included a number of follow-up actions to implement the agreed reforms. Targets were set for these actions (see outcome indicators) under each of the three policy areas to be accomplished by the closing date (June 30, 2011).

3.4 The project had a slow start and implementation of the program of actions did not proceed as intended. Many of the planned policy actions – legal reform, introduction of VAT, mergers of ministries, pay reviews and classifications, consolidation of piecemeal safety nets and systems for targeting of beneficiaries were either delayed, not completed, had to be revamped or not achieved. Several factors were responsible for this:

- Design issues: As discussed, there was a clear mismatch between the long term nature of the reform and the short duration of the loan. Many of the planned policy actions – legal reform, mergers of ministries, pay reviews and classifications- required extensive stake holder consultations and buy-in of many constituents and hence proved difficult to implement and were either not completed, revamped or dropped. It also did not help matters that St Lucia was not fully conversant with the DPL process, this being their first DPL. The Borrower's Response (ICR, Annex 4) indicates their inability to fully appreciate the pre-board requirements and the need for deeper and more inclusive internal discussion to attain wide support of key

stakeholders and thereby assist in long-term sustainability. Some elements of the program are still to be introduced. For example, the new government has tabled a revised insurance bill based on extensive consultations and it is expected to be enacted. Technological glitches delayed the full implementation of the online registry and the ASYCUDA. While the latter is now in place the online registry is not fully operational. Likewise, introduction of the VAT took place only in October 2012 and several sectors are still exempt, though phased implementation is scheduled to take place.

- Capacity Constraints: Several constraints have been identified:
 - (i) Public sector capacity in St Lucia is low and was also stretched due to the crisis. The medium to long term nature of the proposed reforms did not help matters. The proposed legal reforms came in the wake of bottlenecks in the drafting and preparation of legislation, and consequently there was a backlog of legislation that needed to be drafted, reviewed by cabinet, and presented to Parliament for approval. Technical glitches in several systems, such as the online company registration portal, were not addressed.
 - (ii) The M&E system was not set up. There was only one officer in the Ministry of Finance who was assigned to coordinate with the Bank and this function ceased after the DPL was disbursed. . Some of the conditions such as establishing ceilings on public service employments proved challenging to implement and monitor.
 - (iii) The implementation also suffered from limited supervision. Partly because of the hurricane, the government asked the Bank to postpone a supervision mission planned for early 2011. Eventually, the mission visited St. Lucia only a couple of weeks before the closing date. An earlier visit by the Bank team could have pointed out areas where more action was needed, and could have recommended that appropriate technical assistance was procured for that purpose.
- St Lucia is also vulnerable to, and has a high risk of, natural catastrophes and this risk materialized and affected implementation of the operation. The implementation was affected by Hurricane Tomas in October 2010. As discussed in Para 1.17 the hurricane diverted the government's attention to the immediate problems at hand of responding to the affected population and rebuilding damaged infrastructures.

4. Achievement of the Objectives

4.1 The stated objectives of the operation against which efficacy is evaluated are specific objectives of the government's long-term development agenda in three policy areas: (i) to improve business environment and competitiveness, and strengthen the financial sector; (ii) to improve public sector governance and economic management; and (iii) to improve effectiveness and efficiency of social safety nets. While the required prior actions in these policy areas had been met before Board presentation, the achievement of the DPL's

objectives is measured against actions implemented after Board presentation and outcome indicators defined for each of the policy areas.

4.2 As commented on in paragraph 2.16 above, the Program Document states that while this was a single-tranche operation, it was viewed as the beginning of a multi-year engagement under the 2010-2014 Regional Partnership Strategy. The last column of the Government's policy matrix describes the Second Phase of Government Reforms⁹.

4.3 The Program Document also states that the operation's support to the government's budget and external financing needs was critical for maintaining macroeconomic stability during the global economic crisis and for keeping the government's program intact for a quicker recovery. A satisfactory macroeconomic framework is fundamental not only to support the flow of economic activity, but to lower gradually the ratio of the public debt to GDP towards the regionally mandated target of 60 percent (PD, Pg. 42). Even though it is not a stated objective against which the operation is evaluated, the DPL loan was effective in providing budgetary support to St Lucia at a critical time. Table 4.2 summarizes the achievement of objectives.

Objective 1: To improve business environment and competitiveness and strengthen the financial sector

4.4 This objective was to support the private sector development agenda by promoting investment by reducing delays in starting a business, and improving financial sector regulatory environment by mitigating regional contagion risks through the following policy actions:

POLICY ACTIONS

4.5 The prior policy actions, as noted above in paragraph 2.04, were: i) submission of the Insurance Bill to Parliament ii) appointment of a Judicial Manager to perform a review of BAICO. After loan approval, the Borrower was to implement additional policy actions, namely: (i) launching the on-line company registration portal; (ii) development of a regional plan for the orderly resolution of BAICO/CLICO collapse and active participation by St. Lucia in implementing the regional resolution; and putting in place legislation requiring basic solvency margin (capital requirements) for life insurance companies and tighten annuity definitions to ensure that products offered are clearly captured as insurance products and that they are covered under the relevant regulations.

4.6 **Insurance Bill:** The bill that was submitted was sent by Parliament to a select committee for review. The bill, which was lacking in many respects, lapsed after the election of the new government in March 2012. A new bill was resubmitted to Parliament and is now

⁹ (Program Document, Annex 2).

with the select committee for review. The bill has broad support of concerned government bodies and is expected to be passed. The new Act would increase capital requirements as well as solvency margins for general insurance, and would establish a solvency margin for life insurance. It would also define annuities to ensure that they are insurance products and not partly cash deposit type instruments and that the online registration is in place.

4.7 Appointment of a Judicial Manger to perform a review of BAICO: The Borrower, through its High Court, appointed a judicial manager to perform a review of BAICO with a view to recommending an orderly resolution in connection with the insolvency of BAICO.

4.8 Regional plan for the orderly resolution of BAICO/CLICO collapse. St. Lucia nominated the Director of the Financial Supervision Unit, in the regional Technical Core Committee as a representative for resolution of BAICO/CLICO. The representative actively participated in the resolution plan and currently also chairs the regional committee of insurance regulators. The DPL supported this action with Technical Assistance. In April 2013, an agreement was reached at the regional level on the creation of a new entity to take over BAICO's insurance portfolio (Annex B).

4.9 Launching of the online company registration portal. The registry was launched in 2009, which included a search component and a company registration component. The first component has been in operation for some time, but the second component was undermined by technical glitches. Consequently, at the time of the ICR in October 2011, no companies had been registered through the portal, and the Registrar of Companies and Intellectual Property Office continues to do the process manually. The Doing Business Report on St Lucia (2014), however, states that other than easing up the business start- up process by making it possible to reserve/ check availability of company name on-line in 2010, St Lucia has not taken any other steps to make it easier to start a business between 2011-2013.

ACHIEVEMENT OF THE OBJECTIVE

4.10 The only performance indicator to measure the achievement of the objective was that the time required to register a business has been reduced by 80 percent or takes four days to register a business (Baseline: 20 days to register a business in 2009). There were no intermediate outcome indicators to measure the impact of the settlement for BAICO or the insurance law. This target was only partially achieved with the introduction of the online registry and the easing up of the business start- up process by making it possible to reserve/ check availability of company name on-line in 2010. The registration of businesses continues to be manual and the number of days it takes to register a business in St. Lucia was 14 days in 2010. The 2013 data indicates that the time to register a business takes 15 days with five procedures and 6 days at the registrar's office (Doing Business, 2014).

4.11 Based on the partial implementation of the policy actions supporting this objective and the modest improvement in the time required to register a business, IEG's Rating of Efficacy for this objective is Modest.

Objective 2: To improve public sector governance and economic management

4.12 This objective was expected to increase efficiency of Inland Revenue and Custom departments, and enhance fiscal discipline and improve expenditure efficiency in the public administration. These goals were to be achieved through the following policy actions (including prior actions) :-

POLICY ACTIONS

4.13 There were four prior actions that were implemented prior to the DPL: i) Cap on public service employment ii) Merger of Ministry of Finance and the Ministry of Economic Planning and National Development iii) Submission of a Value Added Tax Bill and establishing a VAT Implementation Unit and making it functional with adequate staffing and resources iv) commencement of the implementation of the ASYCUDA program. Additional policy actions to achieve this objective were that before closing date of the DPL the government would initiate the institutional review of the Ministry of Foreign Affairs and operation and efficiency reviews for the Ministry of Social Transformation and the Ministry of Communications, Works, Transport and Public Utilities.

4.14 **Cap on public service employment.** This cap aimed at holding the size of funded positions at the FY 2008/2009 levels (6884 funded positions), and stopped the funding of vacant approved positions as outlined in the FY 2009/2010 budget (7603 approved positions) in said sector. While the number of funded established positions was kept below the cap, the actual number of employees was higher than the funded positions: funded positions were 6,732 in 2009/10 and 6,840 in 2010/11, while the actual number of established employees in central government was 6,632 in 2008/09, 6,834 in 2009/10 and 7,050 in 2010/11. Part of the increase in 2010/11 was due to the recruitment of police officers to address the rising security concern, and it seems that the effort has been successful in reducing crime. At the same time, the number of other employees (non-established, capital, in training and others) declined somewhat in 2010.

4.15 **Ministerial mergers.** The Ministry of Finance and the Ministry of Economic Planning and National Development were to merge to create the Ministry of Finance, Economic Affairs and National Development under the administration of a single Permanent Secretary, pursuant to its Cabinet Decision No. 989 of 2009. The government announced a merger of the two ministries of Finance and Economic Planning and National Development. However, there was no follow through and the merger has yet to be consummated.

4.16 **Institutional Reviews.** Functional reviews were carried out in the Ministry of Social Transformation and in the Ministry of Communication, Works, Transport, and Public Utilities. The Ministry of Social Transformation supported the recommendations of the review, which included additional resources for the Ministry. Recommendations to achieve better strategic management and policy operations, and enhance public sector efficiency in select ministries were submitted to Cabinet for approval. However, the Ministry of Communication, Works, Transport, and Public Utilities did not concur. Cabinet took note of

the recommendations but did not adopt them. There were no indicators to track enhanced efficiency and performance of public sector institutions.

4.17 Value Added Tax Bill and VAT Implementation Unit. The Bill was submitted to Parliament however it was not till October 2012 that the VAT was finally introduced. The unit is housed in the Inland Revenue Department and the staffing arrangement is adequate and implementation as the Budget statement for 2013 shows is in progress and has largely been smooth. However, many sectors have been left outside its ambit. According to IMF Article IV 2012 the expected “gain from the VAT will be realized only if all sectors contribute, and the base is shielded from the exemptions that have eroded the yield of other taxes.”

4.18 Implementation of ASYCUDA. The government implemented this program in its customs department and allocated approximately EC\$1.5 million for the implementation of said program in the FY 2009/2010 budget. It launched a training program for its customs administration personnel; completed a prototype software for the ASYCUDA program; and developed a corporate strategic and business plan outlining a sequential implementation of the ASYUDA program for the next three years.

4.19 St. Lucia launched ASYCUDA in September 2010. However migration to this ASYCUDA program was done in one shot, which caused difficulties for users. A prototype was not completed as planned. There were technical glitches in the new system, and there was no back up. In October 2011, the ICR points out that ASYCUDA was still at a developmental stage due to resource constraints. The e-documents were still to be introduced, and overall implementation was about 50 percent. The new system was expected to be fully operational by end-2011. Among recent developments the e-documents were introduced¹⁰ in January 2012 and St Lucia has operationalized ASYCUDA¹¹. St Lucia’s experience in implementing ASYCUDA is helping others in the region; St Kitts recently sent a team of experts to St Lucia in February 2013 to “experience first- hand the capabilities of ASYCUDA.”¹²

ACHIEVEMENT OF THE OBJECTIVE

4.20 The following were the outcome indicators to measure the impact of the policy actions:

- **Fiscally sustainable wage bill ensuring key public services coverage and quality do not decline.** The government’s expenditure on wages and salaries was projected to increase from 11.7 percent of GDP in 2009 to 12.4 percent of GDP in 2010 and reduce to 10.3 percent of GDP in the medium term. This outcome was not achieved:

10 Statement by Comptroller of Customs & Excise: St Lucia: <http://customs.gov.lc/comptroller.php> download date 31st October 2013

11 St Lucia Customs and Excise Department: <http://www.customs.gov.lc/world.php>

12 LANCE, St Kitts: <http://www.skncustoms.com/lance/Lance%20April%20-%20June%202013.pdf>

government was able to contain growth of the central government wage bill: expenditures on wages and salaries were EC\$316.2 million (10.77 percent of rebased GDP) in 2009/10 and EC\$342.7 million (10.84 percent of rebased GDP) in 2010/11. The ratios with respect to the old GDP series were 11.87 percent and 11.92 percent respectively. The Governments' Wage Bill continues to be high and according to the St Lucia's Budget Statement 2013 represents almost 13 percent of GDP. This was far above the target of 10 percent.

- **Improvement in indirect tax collection and Higher Efficiency in tax and custom administration.** The government's indirect tax collection (inland revenue and customs) was expected to improve by EC\$28 million, or 1.0 percent of GDP (Baseline: Indirect tax collection on instruments replaced by the VAT was EC\$168 or 6.0 percent of GDP in FY2009/10). This outcome was largely achieved. The VAT was introduced in October 2012. With the implementation of the VAT, five taxes were repealed, namely Consumption Tax, Hotel Accommodation Tax, Environmental Protection Levy, Motor Vehicle Rental Fee and Mobile Cellular Telephone Tax. The VAT is administered by the VAT Section of the Inland Revenue Department. The introduction of VAT is expected to broaden the tax base and increase the effectiveness of tax collections.

4.21 For the period October 2012 to March 2013, the Inland Revenue Department had a gross collection of \$63.6 million. During the same time period, the Customs and Excise Department collected \$77.6 million, an average of \$12.9 million for 6 months of importation. These four taxes yielded EC\$174.1 million in FY2009/10 (5.92 percent of GDP) and the estimated revenue for 2010/11 is EC\$153.2 million. Taking into consideration that in FY2010/11 the consumption tax on fuel was converted into an excise tax, which raised EC\$44 million, revenues of those taxes increased by about EC\$23 million in 2010/11.

- **Higher efficiency on tax and customs administration.** The operating costs of collecting EC\$1 were 3.3 cents in 2008. The target was to have the operating costs of collecting EC\$1 improve to 3.0 cents. This target was partially met. For customs only, the operating cost of collecting EC\$1 was 3.30 cents in FY2008/09, 3.25 cents in FY2009/10, and 3.39 cents in FY2010/11. The equivalent costs of Inland Revenue were 1.37, 1.57, and 1.62, respectively. The total costs for Customs and Inland Revenue combined were: 2.40, 2.51, and 2.59 cents. With the improvements reported in Para 4.22 the customs administration is expected to improve.

4.22 As discussed above, the implementation of the policy actions to achieve this objective was only partial for some actions (mergers and reviews of ministries and capping of funded positions and at 13 percent the wage bill is way above the 10 percent target) but there has been progress in the implementation of VAT as well as the ASYCUDA. Consequently, the IEG Rating of Efficacy for this objective is Modest

Objective 3: To improve effectiveness and efficiency of social safety nets

4.23 This objective was to improve efficiency and coordination of safety net programs which were largely uncoordinated, fragmented, with many duplications and gaps.

Policy Actions:

4.24 Prior actions taken before Board presentation of the DPL included that: (i) the government had completed a Social Safety Net Assessment and conducted subsequent stakeholder consultations on the results of the assessment and (ii) established a Social Safety Net Steering Committee to spearhead reform efforts of its Social Safety Net System. Additional actions to be taken after Board presentation included: (i) development of an action plan for reforming the social safety nets and initial implementation of the plan; (ii) completion of a review of targeting for Koudemain and revision of the targeting mechanism based on this review; and (iii) existence of a technical ground for proxy means testing for broader social safety net programs.

4.25 The following are the outcome indicators to measure the impact of these policy actions:

- Action plan for reforming the Social Safety Nets has been developed and is being implemented. The Action Plan formulated by the Social Safety Net Steering committee includes upgrading of the safety net and review of the Public Assistance Law. A key recommendation of the assessment was to consolidate all programs targeted for the poor under the Ministry of Social Transformation. It also provides for introducing a transparent targeting mechanism, streamlining payment mechanisms, and documenting policies and procedures to strengthen the efficiency and effectiveness of the program. It was expected that the consolidation of programs targeted for the poor, and improved targeting of social assistance programs, would yield fiscal savings. However, the plan has not been implemented due to lack of budget. A Poverty Reduction Strategy and interim work plan were completed in July 2011, and were scheduled to be submitted to cabinet by end-October 2011.
- Review of targeting for Koudemain was completed and mechanism was revised based on this review. Technical grounds exist for proxy means testing for broader social safety net programs. The objective of the review was to lay the ground for a proxy means test that can be used for the broader social safety net programs. The assessment led to the conclusion that its targeting mechanism, based on the Poverty Assessment, was not appropriate for other programs. The assessment identified the improvement of the targeting mechanism of the Koudemain program- a pilot program modeled on Chile's Puente program, covering 47 of the poorest households in 4 communities in St. Lucia.
- Critical information exists to allow developing objective selection criteria for beneficiaries and functional targeting mechanisms for social programs. This was not achieved and there is currently no new specific information for the selection of beneficiaries. The Ministry of Social Transformation views information from the Survey of Living Conditions and Household Budget (SLC-HBC) of 2006, which was part of the Country Poverty Assessment, as still pertinent for an objective beneficiaries selection criteria and targeting mechanism. The next Survey was planned for September 2012. An action plan for reforming the social safety nets has been developed and is being implemented.

4.26 The implementation of the policy actions to achieve this objective was only partial. Consequently, the IEG Rating of Efficacy for this objective is Modest.

Table 1. Policy Matrix: Actual Performance		
<i>Objective 1: Improving Business Environment, Competitiveness, and Strengthening the Financial Sector.</i>		
POLICY AREA /PRIOR ACTION (IN BOLD)	PERFORMANCE INDICATORS	ACTUAL PERFORMANCE
The online company registration portal has been launched.	Time required to register a business has been reduced by 80 percent or takes 4 Days (Baseline: 20 days to register a business in 2009)	Partially achieved. In April 2009, St. Lucia launched an online company registration portal, which included a search component and a company registration component. The first component has been in operation for some time, but the second component was undermined by technical glitches. Consequently, at the time of the ICR in October 2011, no companies had been registered through the portal, and the Registrar of Companies and Intellectual Property Office continues to do the process manually. According to the Doing Business 2011, the number of days it takes to register a business in St. Lucia was reduced from 20 days in 2009 to 14 days in 2010. Doing Business 2013 Report, says this has increased to 15 days to register a business with five procedures and 6 days at the registrar's office.
The Borrower has submitted to its Parliament an Insurance Bill	Legislation is in place requiring basic solvency margin (capital requirements) for life insurance companies and annuity definitions are tightened to ensure that products offered are clearly captured as insurance products and that they are covered under the relevant regulations.	Partially Achieved. The new Legislation has passed the Parliament's first reading only. Thereafter, Parliament created a special committee, chaired by the Speaker, to revise the draft in consultation with stakeholders. Existing legislation has many of the required measures. The new Act would increase capital requirements as well as solvency margins for general insurance, and it would establish a solvency margin for life insurance. The new Act would also define annuities to ensure that they are insurance products and not partly cash deposit type instruments.
The Borrower, through its High Court, has appointed a judicial manager to perform a review of BAICO within the Borrower's	A regional plan for the orderly resolution of BAICO/CLICO collapse has been developed and St Lucia actively participates in implementing the regional resolution (Baseline: no mitigation plan	Largely Achieved. A regional plan for the resolution of BAICO has been developed. St. Lucia played an active part in the resolution plan through the participation of its nominee, the Director of the Financial Supervision Unit, in

territory, with a view to recommending an orderly resolution in connection with the insolvency of BAICO	existed in 2009).	the regional Technical Core Committee for resolution of BAICO/CLICO. An agreement was reached at regional level in April 2013 on the creation of a new entity to take over BAICO's insurance portfolio.
<i>Objective 2. Improving Public Sector Governance and Economic Management</i>		
<p>The Borrower has established a cap on public service employment to hold the size of funded positions at the FY 2008/2009 levels (6884 funded positions), and stopped the funding of vacant approved positions as outlined in the FY 2009/2010 budget (7603 approved positions) in said sector.</p> <p>The Borrower has merged its Ministry of Finance and the Ministry of Economic Planning and National Development to create the Ministry of Finance, Economic Affairs and National Development under the administration of a single Permanent Secretary, pursuant to its Cabinet Decision No. 989 of 2009.</p> <p>Institutional review of the Ministry of Foreign Affairs and operation and efficiency reviews for the Ministry of Social Transformation and the Ministry of Communications, Works, Transport and Public Utilities have been initiated</p>	<p>Fiscally sustainable wage bill ensuring key public services coverage and quality do not decline. Central government expenditure on wages and salaries projected to increase from 11.7% of GDP in 2009 to 12.4% of GDP in 2010; The program document target was that central government expenditure on wages and salaries will be contained to below 12% of GDP in 2010 and reduced to 10.3% of GDP in the medium term.</p> <p>Enhanced efficiency and performance of public sector institutions would be accomplished through reviews with the objective of improving public service efficiency and performance are undertaken; And recommendations to achieve better strategic management and policy operations, and enhance public sector efficiency in select ministries are submitted to Cabinet for Approval.</p>	<p>Not achieved. The actual expenditures on wages and salaries were EC\$316.2 million (10.77% of rebased GDP) in 2009/10 and EC\$342.7 million (10.84% of rebased GDP) in 2010/11. In 2013 wages and salaries \$450m and accounted for 48 percent of recurrent expenditure and represents almost 13 percent of GDP. According the Budget Statement 2013 :”Public Service pay is out of control and way above the 9-10 percent agreed to among the ECCB member countries”</p> <p>2010/11: The number of employees in central government was 6,632 in 2008/09, 6,834 in 2009/10 and 7,050 in 2010/11. Part of the increase in 2010/11 was due to the recruitment of police officers to address the rising security concern.</p> <p>Partially achieved: By October 2011 functional reviews were carried out in the Ministry of Social Transformation and in the Ministry of Communication, Works, Transport, and Public Utilities. The Ministry of Social Transformation supported the recommendations of the review, which included additional resources for the Ministry. However, the Ministry of Communication, Works, Transport, and Public Utilities did not concur. Thus, Cabinet took note of the recommendations but did not adopt them (ICR, 2011). The status remained unchanged at the time of the PPAR mission.</p>

<p>The Borrower has: (a) submitted to its Parliament a Value Added Tax Bill; and (b) has established a VAT Implementation Unit and made said unit functional with adequate staffing and resources.</p> <p>The Borrower has commenced the implementation of ASYCUDA program in its customs department as follows: (a) allocated an amount of approximately EC\$1.5 million for the implementation of said</p>	<p>Government's indirect tax collection (inland revenue and customs) improved by EC\$28 million, or 1.0 percent of GDP (Baseline: Indirect tax collection on instruments replaced by the VAT was EC\$168 or 6.0 percent of GDP in FY2009/10).</p> <p>Higher efficiency on tax and customs administration. Improved efficiency of Inland Revenue and Customs Departments</p>	<p>Partially achieved. The VAT was introduced in October 2012. With the implementation of VAT, five taxes were repealed, namely Consumption Tax, Hotel Accommodation Tax, Environmental Protection Levy, Motor Vehicle Rental Fee and Mobile Cellular Telephone Tax. The VAT is administered by the VAT Section of the Inland Revenue Department. The introduction of VAT is expected to broaden the tax base and increase the effectiveness of tax collections. According to IMF Article IV 2012 however, the expected "gain from the VAT will be realized only if all sectors contribute, and the base is shielded from the exemptions that have eroded the yield of other taxes."</p> <p>For the period October 2012 to March 2013, the Inland Revenue Department had a gross collection of \$63.6 million. During the same time period, the Customs and Excise Department collected \$77.6 million, an average of \$12.9 million for 6 months of importation. These four taxes yielded EC\$174.1 million in FY2009/10 (5.92% of GDP) and the estimated revenue for 2010/11 is EC\$153.2 million. Taking into consideration that in FY2010/11 the consumption tax on fuel was converted into an excise tax, which raised EC\$44 million, revenues of those taxes increased by about EC\$23 million in 2010/11. 2) The program document expected that higher efficiency on tax and customs administration will be achieved and the baseline operating costs of collecting EC\$1 of 3.3 cents in 2008 would attain the target operating costs of collecting EC\$1 are 3.0 cents. This was not achieved. The operating cost of collecting EC\$1 was 3.30 cents in FY2008/09, after coming down to 3.25 cents in FY2009/10, the cost now stands at 3.39 cents in FY2010/11.</p> <p>Partially achieved: St. Lucia launched ASYCUDA in September 2010. Migration from ASYCUDA++ was done in one shot, which caused difficulties for users. A prototype was not completed as planned. There were technical glitches in</p>
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		<p>the new system, and there was no backup. In October 2011, ASYCUDA was still at a developmental stage due to resource constraints. The e-documents were still to be introduced, and overall implementation was about 50%. The new system was expected to be fully operational by end-2011 (ICR, 2011). Among recent developments however the e-documents were introduced¹³ in January 2012 and St Lucia has operationalized ASYCUDA.¹⁴ St Lucia's experience in implementing ASYCUDA is helping others in the region. Prior to implementing ASYCUDA, St Kitts sent a team of experts to St Lucia in February 2013 to "experience first-hand the capabilities of ASYCUDA."¹⁵ With these improvements the customs administration is expected to improve.</p>
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13 Statement by Comptroller of Customs & Excise: St Lucia: <http://customs.gov.lc/comptroller.php> download date 31st October 2013

14 St Lucia Customs and Excise Department: <http://www.customs.gov.lc/world.php>

15 LANCE, St Kitts: <http://www.skncustoms.com/lance/Lance%20April%20-%20June%202013.pdf>

Objective 3. Improving Effectiveness and Efficiency of Safety Nets

<p>The Borrower has: (a) completed Social Safety Net Assessment; and (b) conducted subsequent stakeholder consultations on the results of said assessment.</p> <p>The Borrower has established a Social Safety Net Steering Committee to spearhead reform efforts of its Social Safety NetSystem.</p> <p>An Action Plan has been formulated by the Social Safety Net Steering Committee whose priorities will include the upgrading of the Public Assistance Program, and review of the Public Assistance Law.</p> <p>The government has initiated the review of the targeting mechanism for the Koudemain program in order to lay the ground for a proxy means test that can be used for the broader social safety net programs.</p>	<p>Critical information exists to allow developing objective selection criteria for beneficiaries and functional targeting mechanisms for social programs</p> <p>An action plan for reforming the social safety nets has been developed and is being implemented (Baseline 2009: no action plan or strategy).</p> <p>Review of targeting for Koudemain is completed and mechanism is revised based on this review. A technical ground exists for proxy means testing for broader social safety net programs</p>	<p>Not achieved. There is no new specific information for the selection of beneficiaries and targeting mechanism. The Ministry of Social Transformation views information from the Survey of Living Conditions and Household Budget Survey (SLC-HBC) of 2006, as still pertinent.</p> <p>Not Achieved. The first Action Plan was not implemented for lack of budget. A Poverty Reduction Strategy and interim work plan were completed in July 2011, and were scheduled to be submitted to cabinet. Phase 1 of the reform will address the public assistance program, and other programs will follow.</p> <p>Partially Achieved. The St. Lucia Social Development Fund and the Ministry of Social Transformation have carried out separate reviews of the targeting mechanism of the Koudemain program. The conclusion of the Ministry, however was that the targeting mechanism used by the Koudemain, which is based on the Poverty Assessment, was not appropriate for other programs. The Ministry is developing a new mechanism using proxy means testing, which would be piloted by Koudemain as it expands its coverage from 47 households to about 150.</p>
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5. Ratings

Outcome

5.1 The relevance of objectives was High, while the relevance of design and the achievement of the objectives was Modest. The overall outcome of this operation is rated as Moderately Unsatisfactory. The DPL was expected to achieve the following outcomes: (i) improve business environment and competitiveness, and strengthen the financial sector; (ii) improve public sector governance and economic management; and (iii) increase effectiveness and efficiency of social safety nets. Two of three objectives were partially met and one was not met. As this PPAR has shown, the reform program was ambitious and it was unrealistic to be attained in a short period and in the context of the crisis where the government's resources were already stretched. There was limited public sector capacity to carry out the agreed reforms. Although the program document envisaged a robust M&E system, it was never set up. Some envisaged reforms such as the VAT were recently introduced and are expected to broaden the revenue base; however, full coverage is lacking as some sectors are exempt. The Insurance bill is in the final stages of being adopted and the BAICO resolution is in sight. However, there has not been any progress on wage bill, public sector and investment climate reform. The central government's overall deficit has widened to an estimated 12 percent of Gross Domestic Product (GDP) by fiscal year 2012 (ending in March 2013), and public debt has increased to about 78 percent of GDP. Consequently the outcome of the DPL is rated as Moderately Unsatisfactory.

Risk to Development Outcomes

5.2 The risk to development outcomes is Substantial given the stagnation in tourism industry, large fiscal and current account deficits, and slow progress in implementation of the reforms specified in the policy matrix of the DPL. Furthermore, the wage bill continues to be unsustainable. The on-going wage bill negotiation with eleven labor unions in the public sector that are currently demanding a 15 percent increase in wages poses a difficult challenge for the authorities given the fiscal and economic fundamentals. On the revenue side, the introduction of the value-added tax in October 2012 is expected to broaden the revenue base. However, there is scope to further widen the tax base by reducing tax incentives and exemptions. The government that came to power in March 2012 stated commitment to carrying out necessary reforms and to restoring growth. However, its ability to achieve this also depends to a large extent on the recovery of the tourism sector which in turn depends heavily on global economic recovery. Challenges, at the country level, include the slow pace of reform in the business climate and the public sector. The risk of natural disaster is high too. Although St. Lucia participates in the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and major private enterprises are partly covered by their own insurance, the potential costs of a major natural disaster to the economy would still be high.

Bank Performance

QUALITY AT ENTRY

5.3 St Lucia was severely impacted by the global financial crisis in 2008. The budgetary support provided by the DPL was therefore relevant in addressing challenges in key areas of the country's social and economic life. The short term duration of the DPL reflected St Lucia's need for a quick disbursing loan. However the project's stated objectives and policy actions to achieve them - though all relevant and based on previous and ongoing analytical work- were medium to long term in nature. The operation thus reflected a clear design mismatch.

5.4 In addition, the expected pace of implementation, and the results matrix of the operation was also unrealistic given limited public sector capacity in St Lucia. The government also had no experience with DPLs and lacked understanding of the Bank's process. To the Bank team's credit, the DPL was designed under the pressures to respond to St Lucia's urgent needs following the global financial crisis. At the same time it put together an ambitious program both from the point of the time needed to implement it and the context of the DPL. The Bank team was aware of and acknowledged the implementation capacity related challenges but did not include any specific provisions to build capacity of the public sector.

5.5 Some reforms were not clearly defined, such as "critical information needed to develop objective selection criteria for beneficiaries and functional targeting mechanisms for social protection programs" or the difference between solvency margins and capital requirements of insurance companies.

5.6 Bank team identified several risks including natural disasters and political risks that could affect the achievement of objectives. Some of these risks materialized: Hurricane Tomas, delays in mergers of Ministries and wage revisions and legal reforms. The seriousness of the challenges of natural calamities, as well as getting the buy-in of entrenched constituents affected by the proposed change particularly in the public sector, proved hard to mitigate. The Bank team's full appreciation of these challenges merited a more realistic and well sequenced/ phased program design which the Bank team failed to put together.

5.7 Quality at entry is rated **Moderately Unsatisfactory**.

QUALITY OF SUPERVISION

5.8 The weak public sector capacity would have required an intensive supervision program to ensure successful implementation. However, this was not achieved in part due to a change in the task team leader of the DPL after the Board approval which resulted in a gap in Bank's follow up of program implementation. The Bank team subsequently proposed to carry out an Implementation Support mission in early 2011, but following Hurricane Tomas, the government was focused on reconstruction efforts and it asked the Bank to postpone the mission several times. The mission was finally held in June 2011,

just a few weeks before the closing date. This certainly undermined the function of implementation support.

5.9 Overall, the Bank's performance is rated as **Moderately Unsatisfactory**.

Government Performance

5.10 The government program identified crucial issues for the future development of the country, and reached agreement with the Bank on the Program to address an important part of those issues. However, this PPAR mission findings (based on the discussions with the relevant ministries) are that the DPL was largely prepared by the Bank team and that broad based consultation with key stakeholders in the country on the reform program were not held. The DPL was not included in the World Bank project unit in the ministry and the government did not set up a monitoring and evaluation system as envisaged in the program's design. This being St Lucia's first DPL, the government also felt that the Bank team did not fully explain the significance of the conditionality associated with a DPL or the meaning of the pre-conditions for presenting the DPL to the Board of Directors of the Bank. The government was in need for funding and agreed to the program for which there was no broad ownership of key stakeholders. The ability of the government to carry out the reforms was also largely impaired by Hurricane Tomas which struck St. Lucia in October 2010, a few months after disbursement of the DPL.

5.11 Overall there were significant shortcomings in the achievement of the operations' objectives. There was little progress in many of the areas such as civil service reforms and reduction in the wage bill, social safety net and the online registration of companies, which is not operational four years after launch. Under the current government some reforms have recently been initiated such as the introduction of the VAT, and tabling of the revamped Insurance bill with broad stake holder support. Significant progress is also being made on BAICO resolution. However, the fiscal position has deteriorated, and the overall deficit widened to an estimated 12 percent of Gross Domestic Product (GDP) by fiscal year 2012 (ending in March 2013), public debt increased to about 78 percent of GDP and the public sector wage bill has increased to 13 percent of GDP.

5.12 IEG rates the Government Performance as **moderately unsatisfactory**

Monitoring and Evaluation

5.13 **Design:** The Ministry of Finance, Economic Affairs and National Development was responsible for coordinating actions among other concerned ministries and agencies, including the Ministry of Social Transformation, Public Service, Human Resource Development, Youth and Sports; the Ministry of Health Wellness, Family Affairs, National Mobilization, Human Services and Gender Relations; the Ministry of Commerce, Industry and Consumer Affairs, and Customs Administration.

5.14 As part of the preparation process, the Bank discussed with all relevant institutions the development of M&E process to ensure adequate feedback to policy-makers. The Bank team recognized that M&E is traditionally a weak area in small islands including St. Lucia but there is strong understanding of the need to strengthen such mechanisms.

The Bank thus agreed to maintain a dialogue with counterparts in the Ministry of Finance. The government and the Bank agreed on a results framework with a number of process, output and outcomes indicators to be assessed in June 2011, the closing date of the program. Those were the agreed benchmarks for evaluation of the program supported by the operation. These indicators, described in the Policy Matrix in Annex 2 of the Program Document (Annex B), represent the agreed benchmarks for future evaluation of the program supported by the DPL.

5.15 Implementation and Utilization of the M&E framework was limited. One of the reasons for this was that the attention of the St. Lucia government was drawn by Hurricane Tomas and its aftermath. The Bank responded quickly with an Emergency Recovery Loan, which was approved by the Board in March 2011, but at the request of the government, there were no supervision missions for the DPL until mid-June 2011, only three weeks before the closing date.

5.16 The PPAR mission found that there was apparently no ownership of the system and conditions described in the policy matrix. Second, there was no follow through by the Bank to ensure that such a system was being established. Thirdly, the government's attention shifted to responding to the devastation caused by Hurricane Tomas. However, the government did provide a progress report to the Bank as a part of the ICR preparation mission in June 2011. Since the M&E was never set up there was no M&E implementation. The World Bank project unit in the Ministry of Finance also stated that it was not involved in the negotiations of the DPL and had no knowledge about the status of implementation.

5.17 IEG rates the quality of the M&E system as **Negligible**.

6. Lessons

6.1 The DPL has four key lessons:

6.2 A single tranche, stand-alone DPL is not the best instrument to address both short-term and medium-term challenges. The one-off DPL shored up St Lucia's finances through the influx of funds. However, its stated objectives were medium or long-term for which the single operation DPL was not adequate. A programmatic series of DPLs would have been a more appropriate instrument for engagement, allowing the government time to implement St. Lucia's ambitious program, particularly given known capacity constraints.

6.3 In DPLs that are provided in the context of financial crisis to support the macroeconomic stabilization and fiscal constraints, this needs to be explicitly recognized and evaluated to assess its effectiveness. In cases where this is not recorded as an objective, the documentation does not fully recognize the intent, nor credit the DPL with what it achieves.

6.4 Lack of understanding or experience by the borrower requires factoring in additional time to allow for delays and greater investment in building a better understanding of process and purpose. Such situations also require greater stakeholder

consultations both before and during implementation to ensure and enhance understanding. This being the first DPL, the government of St Lucia was not conversant with the Bank's internal DPL process. The Borrower's Response (ICR, Annex 4) indicated a lack of complete appreciation of the pre-board requirements or their significance in the loan process. This highlights the need for deeper and more inclusive internal discussion to attain support of key stakeholders and buy-in.

6.4 Close supervision is instrumental for achieving Program outcomes in one-off DPLs with a more medium-term outlook and targets and outcome indicators to be met at the end of the Program. Close supervision is necessary to help in achieving the DPL and reform program's targets. In addition, following up and providing or financing technical assistance if necessary, together with country dialogue to build local capacity, could be useful to bolster reforms and enhance sustainability in the medium-term and both a good supervision plan and methods to support sustainability should be considered at the outset.

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Annex A. Basic Data Sheet

ST. LUCIA: ECONOMIC AND SOCIAL DEVELOPMENT LOAN (P117016)

Key Project Data (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	12.0	12.0	100.0
Loan amount	12.0	12.0	100.0

Cumulative Estimated and Actual Disbursements

	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>
Appraisal estimate (US\$M)	-	-	12.00
Actual (US\$M)	-	-	12.01
Actual as % of appraisal	-	-	100%
Date of final disbursement 08/12/2010			

Project Dates

	Original	Actual
Initiating memorandum	06/05/2009	07/15/2009
Negotiations	07/21/2009	12/14/2009
Board approval	09/24/2009	06/08/2010
Effectiveness	09/24/2010	08/12/2010
Closing date	06/30/2011	06/30/2011

Staff Time and Cost

Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY09	12.08	14,708
FY10	49.57	48,496
Total:	61.65	63,205
Supervision/ICR		
FY11	9.19	23,652
FY12	2.15	21,117
Total:	11.34	44,770

Task Team Member

Names	Title	Unit
Zafer Mustafaoglu	Lead Economist and Sector Leader	LCSPR
Kathy Lalazarian	Senior Public Sector Specialist	LCSPS
Mariano Lafuente	Public Sector Mgmt. Specialist	LCSPS
Jane C. Hwang	Financial Sector Specialist	LCSPF
Karla J. Mcevoy	Social Protection Specialist	LCSPF
Francesca Lamanna	Social Protection Economist	LCSHS
Svetlana Klimeno	St. Financial Management Specialist	LCSHS
Denis Medvedev	Country Economist	LCSPE
Enos Esikuri	Senior Environmental Specialist	LCSPE
Rolande Pryce	Senior Country Officer	LCC3C
Andresa Lagerborg	Research Assistant	LCSPE
Michiel Paris	Research Assistant	LCSPE
Carolina Biagini Majorel	Research Assistant	LCSPE
Valentina Rollo	Consultant	LCSPE
Martha Garica	Program Assistant	LCSPE
Ole Hagen Jorgensen	Economist	LCSPE
David Yuravlivker	Consultant	LCSPE

Other Project Data

Borrower/Executing Agency: Government of St. Lucia

Follow-on Operations

Operation	Credit no.	Amount (US\$ million)	Board date
Hurricane Tomas Emergency Recovery Project	IDA-48710	SDR 9.7 million (US\$15 million equivalent)	03/10/2011

Annex B. Program Matrix for the Proposed Economic and Social Development Policy Loan/Credit (ES DPL/DPC)

Objective	Issue	Policy Actions Supported under ES DPL/DPC	Expected Outcomes from ES DPL/DPC (by June 2011)	Second Phase of Government Reforms
Component I. Improving Business Environment, Competitiveness, and Strengthening the Financial Sector				
Improving Doing Business Indicators	Administrative Bottlenecks at the Registry of Companies and Intellectual Property Office was delaying the time to start a business in St. Lucia.	The online company registration portal has been launched.	Time required to register a Business has been reduced by 80 percent (Baseline: 20 days to register a business in 2009).	The Electronic Transaction Act has been enacted allowing the electronic processing of fees associated with business registration. Company registration is be entirely electronic, including fee payments and all records will be available electronically
		The Borrower has, submitted to its Parliament an Insurance Bill.	Legislation is in place requiring basic solvency margin (capital requirements) for life insurance companies and annuity definitions are tightened to ensure that products offered are clearly captured as insurance products and that they are covered under the relevant regulations (Baseline: no capital requirements and annuity products included deposit type products in 2009).	The new Insurance Bill has been enacted and made effective. All secondary regulations have been issued and the new Insurance Bill is being implemented.
Mitigating the adverse impacts of BAICO and CLICO collapse	The financial collapse of BAICO and CLICO are having severe repercussions on the financial sector and have the potential of developing into a systemic risk for the financial sector at large of the Caribbean region.	The Borrower, through its High Court, has appointed a judicial manager to perform a review of BAICO within the Borrower's territory, with a view to recommending an orderly resolution in connection with the insolvency of BAICO.	A regional plan for the orderly resolution of BAICO/CLICO collapse has been developed and St Lucia actively participates in implementing the regional resolution (Baseline: no mitigation plan existed in 2009).	Establishment of a viable entity to which BAICO's life insurance portfolio has been transferred.

Objective	Issue	Policy Actions Supported under ES DPL/DPC	Expected Outcomes from ES DPL/DPC (by June 2011)	Second Phase of Government Reforms
Component II. Improving Public Sector Governance and Economic Management				
Improving Public Service Efficiency and Performance	<p>The wage bill has grown fast in the recent years, creating significant pressures on the budget, especially due to increases in non-established wages and allowances that derive from piecemeal reforms to an outdated public service pay and classification plan.</p> <p>Outdated HRM management systems reduce managerial capacity and demoralize staff, negatively affecting public service performance.</p>	<p>The Borrower has established a cap on public service employment to hold the size of funded positions at the FY 2008/2009 levels (6884 funded positions), and stopped the funding of vacant approved positions as outlined in the FY 2009/2010 budget (7603 approved positions) in said sector</p> <p>The Borrower has merged its Ministry of Finance and the Ministry of Economic Planning and National Development to create the Ministry of Finance, Economic Affairs and National Development under the administration of a single Permanent Secretary, pursuant to its Cabinet Decision No. 989 of 2009.</p> <p>Institutional review of the Ministry of Foreign Affairs and operation and efficiency reviews for the Ministry of Social Transformation and the Ministry of Communications, Works, Transport and Public Utilities have been initiated.</p>	<p>Fiscally sustainable wage bill ensuring key public services coverage and quality do not decline (Baseline: Central government expenditure on wages and salaries projected to increase from 11.7% of GDP in 2009 to 12.4% of GDP in 2010; Target: Central government expenditure on wages and salaries contained to below 12% of GDP in 2010 and reduced to 10.3% of GDP in the medium term).</p> <p>Enhanced efficiency and performance of public sector institutions (Baseline: No rigorous reviews with the objective of improving public service efficiency and performance are undertaken; Target: Recommendations to achieve better strategic management and policy operations, and enhance public sector efficiency in select ministries are submitted to Cabinet for Approval.)</p>	<p>Public Service pay and classification review is ongoing.</p> <p>Operation and efficiency reviews are completed for at least 3 more ministries and action plans following recommendations of reviews supported under ES DPL/DPC with the objective of achieving better strategic management and policy operations in individual ministries and enhance public sector efficiency have been approved by Cabinet.</p> <p>A Public Service Bill that modernizes St. Lucia's HRM legal framework with the objective of enhancing public service performance has been submitted to Parliament.</p>

Objective	Issue	Policy Actions Supported under ES DPL/DPC	Expected Outcomes from ES DPL/DPC (by June 2011)	Second Phase of Government Reforms
Improved efficiency of Inland Revenue and Customs Departments	Outdated management systems and delays in the implementation of VAT limit the potential of the government to collect more revenues and provide better services	<p>The Borrower has: (a) submitted to its Parliament a Value Added Tax Bill; and (b) has established a VAT Implementation Unit and made said unit functional with adequate staffing and resources.</p> <p>The Borrower has commenced the implementation of ASYCUDA program in its customs department as follows: (a) allocated an amount of approximately EC\$1.5 million for the implementation of said program in the FY 2009/2010 budget; (b) launched a training program for its customs administration personnel; (c) completed a prototype software for ASYCUDA program; and (d) developed a corporate strategic and business plan outlining a sequential implementation of said ASYCUDA World program for the next three years.</p>	<p>Government's indirect tax collection (inland revenue and customs) improved by EC\$28 million, or 1.0 percent of GDP (Baseline: Indirect tax collection on instruments replaced by the VAT was EC\$168 or 6.0 percent of GDP in FY2009/10).</p> <p>Higher efficiency on tax and customs administration (Baseline: operating costs of collecting EC\$1 were 3.3 cents in 2008; Target: operating costs of collecting EC\$1 are 3.0 cents).</p>	<p>Further streamlining of organizational placement of VAT implementation unit confirmed (i.e. either stand-alone unit or integrated within inland revenue). Outreach and public relations campaign for VAT implementation underway.</p> <p>VAT has been introduced.</p> <p>ASYCUDA has been implemented in all customs offices</p>

Objective	Issue	Policy Actions Supported under ES	Expected Outcomes from ES DPL/DPC (by June 2011)	Second Phase of Government Reforms
Enhancing fiscal discipline and strategic allocation of resources	Lack of the forward looking process for budget preparation and prioritization of expenditures leading to inefficient allocation of public resources and hindering ability to achieve intended results			The policy along with the detailed Action Plan outlining the future budget reform is approved by the government.
Enhancing financial accountability of public sector	Absence of timely and accurate information pertaining to the budget execution impedes governments' ability to make decisions about the future allocation of funds, as there is no adequate knowledge of how money was used in the past and what was actually achieved			Government's financial statements for the period 2004-2008 are prepared and audited. Improved quality and timeliness of annual financial statements are indicated by PEFA indicator 25 increasing to a C+ rating (Baseline: D rating in PEFA report October 2006)
Improving expenditure efficiency and transparency through public procurement reform	Lack of adequate assets management results in the inefficient use of public funds and may lead to unjustified procurement decisions			New Procurement Bill is enacted Improved competition, value for money, and controls in procurement in the public procurement function are indicated by PEFA indicator 19 increasing to a C+ rating (Baseline: D+ rating, PEFA report October 2006)

Objective	Issue	Policy Actions Supported under ES DPL/DPC	Expected Outcomes from ES DPL/DPC (by June 2011)	Second Phase of Government Reforms
Component III. Improving Effectiveness and Efficiency of Safety Nets				
Improved efficiency, effectiveness, and implementation of social safety net	Safety net uncoordinated and fragmented, with many duplications and gaps.	The Borrower has: (a) completed a Social Safety Net Assessment; and (b) conducted subsequent stakeholder consultations on the results of said assessment.	Critical information exists to allow developing objective selection criteria for beneficiaries and functional targeting mechanisms for social programs (Baseline: no such information available prior to August 2009).	Clearly defined selection criteria for beneficiaries and functional targeting mechanism for social programs has been approved by the Cabinet.
		<p>The Borrower has established a Social Safety Net Steering Committee to spearhead reform efforts of its Social Safety Net System.</p> <p>An Action Plan has been formulated by the Social Safety Net Steering Committee whose priorities will include the upgrading of the Public Assistance Program, and review of the Public Assistance Law.</p> <p>The government has initiated the review of the targeting mechanism for the Koudemain program in order to lay the ground for a proxy means test that can be used for the broader social safety net programs.</p>	<p>An action plan for reforming the social safety nets has been developed and is being implemented (Baseline 2009: no action plan or strategy).</p> <p>Review of targeting for Koudemain is completed and mechanism is revised based on this review. A technical ground exists for proxy means testing for broader social safety net programs</p>	<p>Continued involvement of steering committee in reform process.</p> <p>Launching of a second set of reform tasks, including <i>inter alia</i> the design and launching of a MIS; creation of a Central Beneficiary Registry; creation of complaints and appeals mechanisms; and documentation of policies and procedures</p> <p>Review of subsidies on food products such as flour and rice.</p>

Annex C. List of Persons Met

Barbados

Christine Dawson, Chief Economist, Caribbean Development Bank

Ian Duranti, Country Economist, Caribbean Development Bank

St. Lucia

Reginald Darius, Permanent Secretary, Ministry of Finance, Economic Affairs and Social Security

John Calixte, Deputy Permanent Secretary, Ministry of Finance, Economic Affairs and National Development

J. Calixte Leon, Director, Financial Sector Supervisory Agency

Embert St. Juste, Director of Research and Policy, Ministry of Finance, Economic Affairs and National Development

Mr. Titus Preville, Permanent Secretary, Ministry of Commerce, Business Development, Investment and Consumer Affairs

Ms. Vera Emanuel, Acting Director, Debt Management Office, Ministry of Finance, Economic Affairs and National Development

Ms. Cheryl Mathurin, Manager, Project Management Unit, Ministry of Finance, Economic Affairs and Social Security.