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IMF Engagement with Small Developing States—Caribbean Case Studies

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IMF Engagement with Small Developing States—Caribbean Case Studies

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ABBREVIATIONS

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
CARTAC	Caribbean Regional Technical Assistance Center
CBI	Citizenship by Investment Program
CCPA	Climate Change Policy Assessment
CD	Capacity Development
CIP	Citizenship Investment Program
DRS	Disaster Resilience Strategy
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EU	European Union
EFF	Extended Fund Facility
ENDA	Emergency Natural Disaster Assistance
FAD	Fiscal Affairs Department (IMF)
FATF	Financial Action Task Force
FIN	Finance Department (IMF)
FSAP	Financial Sector Assessment Program
FTE	Full-Time Equivalent
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
IDB	Inter-American Development Bank
LEG	Legal Department (IMF)
MCM	Monetary and Capital Markets Department (IMF)
NPL	Non-performing loan
OBP	Office of Budget and Planning (IMF)
OECD	Organisation for Economic Co-operation and Development
PAHO	Pan American Health Organization
PFM	Public Financial Management
PRGT	Poverty Reduction and Growth Trust
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
SBA	Stand-By Agreement
SDR	Special Drawing Right
SDS	Small Developing State
SIP	Selected Issues Paper
SOE	State-Owned Enterprise
SPR	Strategy, Policy and Review Department
STA	Statistics Department (IMF)
TA	Technical Assistance
WHD	Western Hemisphere Department (IMF)

EXECUTIVE SUMMARY

The group of Caribbean Small Developing States (SDS) comprising 12 countries, with a total population of 4.5 million, has had a lackluster economic performance in past decades. Nine of the countries are tourism dependent and three are commodity producers. In the decade between 2010 and 2019 real GDP growth averaged less than 1 percent a year—compared with 2 percent for all SDS—and real incomes per head grew cumulatively by only 3½ percent. The COVID-19 pandemic has had a devastating effect on the region, causing its deepest recession in more than fifty years.

The Fund has been closely engaged with Caribbean SDS. All countries are on the annual Article IV surveillance agenda, and most are relatively heavy users of CD. Caribbean SDS have also used emergency financing more than SDS in other regions.

Fund engagement with Caribbean SDS through surveillance is regarded as a highly valuable and unique product among IFIs that provides a rigorous, annual analysis of macro-financial developments, risks, and constraints, together with policy recommendations for tackling these risks and boosting growth. Countries appreciate the longstanding focus on fiscal, financial sector, and structural policies, which has been supported by a considerable body of research. Countries have also valued the Fund's increasing attention in recent years to the region's overarching vulnerabilities to natural disasters and climate change.

However, while there is value in repetition, over the years some familiar recommendations have had limited traction, in part because of local capacity constraints and political resistance. Authorities would like greater focus by staff on actionable, country-specific recommendations for boosting growth and jobs, and building resilience. They recognize that effective surveillance depends on understanding of local conditions. This requires some minimum continuity of mission staff, which is sometimes lacking because of high turnover in some country teams.

CD, particularly through the work of CARTAC, was highly valued as a contributor to upskilling at ministries of finance and central banks across the region. It also played a key role in supporting implementation of policy recommendations from surveillance and advancing fiscal and financial reforms. However, weak capacity in the Caribbean is a significant constraint to the effectiveness of CD. More attention to providing on the ground support to address such constraints will be vital for improved impact in this area.

Over the evaluation period, only five Caribbean countries (two case-study countries (Antigua and Barbuda and Barbados) borrowed under upper credit tranche programs. Where they occurred, such programs were quite successful in supporting adjustment and progress towards debt sustainability, benefitting from considerable IMF support. However, many Caribbean SDS continued to avoid approaching the IMF for upper-credit tranche financing, experience that seems to have reflected a range of factors including continued concerns about conditionality and associated stigma, access to alternative sources of financing, and limited concessionality of the Fund's financial support.

Authorities in the region valued more highly the Fund's role as a lender in emergencies, where its reaction speed was appreciated, and progress made in increasing the limits on lending to countries affected by natural disasters and climate change. The Fund's response to the pandemic was a case in point, although scale of access was again an issue. However, two of the five case study countries were unable to obtain access to the RFI because of debt sustainability concerns, which was disappointing to those countries.

Some of the concerns behind the Fund's limited financial engagement in the region are rooted in the Fund's history in the Caribbean, but recent successful Fund programs, the widespread support through emergency financing for the pandemic, together with the introduction of the new RST could help to increase interest in use of Fund resources. To encourage such a shift, Fund program engagement will need to be seen as responsive to the most urgent priorities of countries, which are growth, job creation, and poverty reduction, as well as building climate resilience. Countries expect that policy analysis and recommendations incorporate both technical rigor and greater attention to their impact on people, for which better data on social conditions will be needed.

A better public understanding of the work of the Fund is also essential to shift the Fund's image in the region. This will require greater public communications, through press conferences and meetings with a wider range of stakeholders, and the use of media platforms to disseminate and explain the Fund's work. The latter, together with a deeper understanding of social issues, could help address popular concerns about the Fund and increase traction.

Countries have benefited when the Fund has collaborated with other institutions to deliver joint assessments (such as FSAPs, DSAs, and CCPAs), to coordinate the provision of financing or CD, and to share information. But collaboration has not been seamless and better results will require closer teamwork in those areas in which other IFIs have more experience and deeper expertise; for example, in growth and employment policies, industry analysis, crime and security, and skills enhancement. Closer collaboration is also needed with the EU, the OECD, and the FATF, since the blacklisting and labelling of Caribbean SDS as non-cooperating or non-compliant affects investment, banking system services, and ultimately, growth potential.

I. INTRODUCTION

1. This paper presents an assessment of the Fund's engagement with five Caribbean Small Developing States (SDS) over the period 2010–2020: Antigua and Barbuda, Barbados, Belize, Dominica, and St. Lucia. Case selection sought to reflect the diversity in country-specific characteristics—size, income level, exposure to climate change and natural disasters, and Eastern Caribbean Currency Union (ECCU) membership—as well as in their relationship with the IMF—e.g., program engagement, Poverty Reduction and Growth Trust (PRGT) eligibility, and experience with IMF diagnostic assessment tools like the Financial Sector Assessment Program (FSAP) or the Climate Change Policy Assessment (CCPA).

2. All five countries are heavily dependent on tourism and are subject to shocks emanating from their main tourism markets in the U.S. and Europe. They are also among the world's most vulnerable countries to natural disasters and climate change. As a result, their main challenge is how to steer towards a path of economic growth and social progress while navigating frequent economic and climatic shocks. Economic management is affected by limited administrative capacity, brain drain, and constrained access to concessional finance. It is also complicated by high levels of public debt which narrows the fiscal space required for investment in infrastructure and social development. The COVID-19 pandemic has greatly exacerbated these strains.

3. The IMF plays a unique and vital role in providing ongoing macroeconomic analysis and policy advice, capacity development (CD) assistance, and financial support. Its focus in the country cases during the evaluation period was on fiscal and financial sector policies and related structural reforms and institutional development. There were also demands on the IMF to focus its attention more intensely on actionable policies to promote growth and jobs, reduce poverty, and help countries adapt to the digital economy. While the traditional areas of engagement will remain important, particularly surveillance and CD, new topics have emerged, such as digital currencies and climate finance, on which member countries expect the Fund to expand its contributions further.

4. The key objectives of these country studies are to: (i) to assess whether the IMF's engagement in its three core areas—surveillance and policy advice, financial support, and CD activities—was well defined and tailored to the specific challenges facing Caribbean SDS during the evaluation period; (ii) the degree to which this engagement provided value added and had traction; and (iii) to review the institutional framework and procedures for IMF engagement with these countries, including its human resource management, and engagement with other development partners and institutional stakeholders.

5. Information for the case studies was obtained from desk reviews and analysis of IMF documents, and data sets as well as interviews with (i) IMF staff—at headquarters, in regional capacity development centers, and in resident representative offices in SDS; (ii) country authorities; (iii) SDS bilateral, regional and multilateral partners; and (iv) other international

organizations. The assessment is also supported by IEO surveys of IMF staff and country authorities conducted for the evaluation on the IMF engagement with Small Developing States.

6. The paper is structured as follows. Section II presents a background on the economic challenges facing Caribbean SDS. Section III discusses the five case study countries in turn, focusing on the Fund's activities and country experiences in surveillance, program lending, CD, and collaboration with other institutions. Section IV presents key issues and lessons from the case studies and Section V concludes.

II. Regional Background

7. IMF Caribbean SDS members comprise 12 countries, with a total area of 394,020 km^2 and a population of 4.5 million. In the decade between 2010 and 2019 real GDP growth averaged less than 1 percent a year—compared with 2 percent for all SDS in the Fund's membership—and real incomes per head grew cumulatively by only 3.5 percent. In 2020, the average income (GNI) per capita in current US dollars was estimated to be about $11,427 (compared with $11,190 for all SDS). Five countries (Antigua and Barbuda, The Bahamas, Barbados, St. Kitts and Nevis, and Trinidad and Tobago) are classified by the World Bank as high income, and all the others, except Belize, are classified as upper middle-income.[1] Thirty-six percent of the population was classified as poor, and the average unemployment rate was 19 percent. The average life expectancy was 75 and the under-5 mortality rate was 12 per 1,000.

8. Caribbean SDS consist of nine tourism-dependent economies and three commodity producers.[2] Out of 166 countries included in a Tourism Dependency Index developed by the Inter-American Development Bank (IDB), the 9 Caribbean tourism-based SDS were included in the top 18. Antigua and Barbuda, The Bahamas, and St. Lucia were among the top six (Mooney and Zegarra, 2020).[3] Caribbean SDS display a broad divergence in size, population, incomes, and levels of human development. The non-island economies of Belize, Guyana, and Suriname account for 95 percent of the total area; the six small islands in the ECCU average only 463 km.[4] Populations vary from 57,000 in St. Kitts and Nevis to 1.4 million in Trinidad & Tobago. In 2020 GNI per capita in current US dollars ranged from $3,970 in Belize to $27,780 in The Bahamas, while the UN Human Development Index ranged from 0.682 in Guyana (a ranking of 122 out of 189 countries) to 0.814 in the Bahamas and Barbados (a ranking of 58). The three commodity producers are oil or gas exporters. Recent offshore oil and gas discoveries in Guyana and

[1] In its FY2022 classification, the World Bank lists Belize as a lower middle-income country. https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

[2] The commodity producers are Guyana, Suriname, and Trinidad and Tobago.

[3] The Tourism Dependency Index is calculated using 5-year averages (2014-2018) of the contribution of tourism to export receipts, GDP, and employment.

[4] ECCU members include Antigua & Barbuda, Dominica, Grenada, St. Lucia, St. Kitts and Nevis, and St. Vincent & the Grenadines, as well as two UK overseas territories, Anguilla and Montserrat.

Suriname have positioned these countries as important new destinations for fossil fuel investments.

9. Caribbean SDS are extremely vulnerable to natural disasters and climate change and are highly indebted. The region is the most vulnerable to natural disasters and climate change. Six SDS countries are in the top 15 of all 33 SDS which are vulnerable to natural disasters, and separately, six are in the top 15 countries vulnerable to climate change (IMF, 2016). In just 2019 and 2020, for example, the region experienced nine hurricanes at Category 3 and above (World Bank, 2021). The Caribbean SDS are also among the most highly indebted, with an average gross public debt/GDP ratio of 74 percent in 2019, with five of the 12 countries registering ratios exceeding 80 percent. The average debt ratio rose to 93 percent of GDP at end–2020 as countries met the costs of mitigating the effects of the COVID-19 pandemic. Servicing public debt has limited the space for spending on social development, infrastructure, and climate resilience (OECD, 2019).

10. The pandemic has had a devastating economic effect on the region, causing its deepest recession in more than fifty years, although the health impact was more moderate than in other regions.[5] Tourist arrivals came to a halt in March 2020, flows of trade, investment, and remittances slowed, while domestic demand was affected by widespread lockdowns and increased unemployment. For Caribbean SDS as a whole, real GDP contracted by 1.9 percent in 2020. Excluding Guyana, where a surge in oil production boosted GDP by 43 percent, real GDP fell by 14 percent, with a further decline projected in 2021 (IMF, 2021). In addition, unemployment and poverty headcounts rose. The pandemic also led to increases in bank nonperforming loans (NPLs), a downturn in remittances, and lower revenues from citizenship by investment schemes (World Bank, 2021).

11. The principal common economic challenge of Caribbean SDS is how to sustain growth of incomes and jobs, while reducing poverty in an environment of frequent natural disasters and climate change. Such adverse shocks reverse progress in fiscal consolidation and debt reduction and place countries into repeating cycles of uneven growth, increased deficits, and higher debt. Raising the rate of growth is vital for addressing the high rates of poverty and unemployment, as well as the debt burden. Achieving that goal requires higher productivity through enhanced skills, lower costs of energy, and improvements in the business environment. Also, increased fiscal space would contribute to productivity by allowing greater scope for spending on infrastructure, education, and upskilling (Alleyne and others, 2017). However, the constraints to meeting this challenge include a narrow revenue base, high fixed costs of government, and limited capacity. Strengthened regional integration through the liberalization of trade and labor mobility can also yield significant benefits to growth (Al-Hassan and others, 2020).

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[5] As of July 26, 2021, the number of COVID-19 cases in Caribbean SDS stood at 127,1110 (2,824 per 100,000) while the number of deaths totalled 3,008 (67 per 100,000) (PAHO, 2021).

12. The Fund's engagement in Caribbean SDS is anchored on surveillance, lending and CD support. The traditional focus of surveillance has been on fiscal policy, financial system soundness, and constraints to growth. In addition, policy advice was provided in areas such as the elaboration of medium-term macro frameworks and labor or energy markets. An important part of the staff's fiscal policy work on each country is a debt sustainability analysis (DSA). The main aim of DSAs is to provide a quantitative framework to inform borrowing decisions of SDS, taking into account their capacity to service debt. Also, DSAs are used by official lenders and donors to ensure that resources are provided on terms that are compatible with countries' debt sustainability. For borrowing countries and lenders DSAs can serve as an "early warning system" of potential debt distress.

13. In recent years, following the Staff Guidance Note on the Fund's Engagement with SDS (IMF, 2014; and revised, IMF, 2017), surveillance has placed increased emphasis on policies to build resilience to natural disasters and climate change.[6] Indeed, attention to these issues in Caribbean SDS has helped lead and shape the Fund's work in this area more generally across the membership. Notably, the Fund and World Bank collaborated on a pilot project to conduct CCPAs for vulnerable countries, which assessed country preparedness, policies for climate resilience, and the costs and financing related to building resilience.[7] Among Caribbean SDS, CCPA pilots were completed for Belize, Grenada, and St. Lucia. In addition, the Fund and World Bank collaboration to help countries develop a Disaster Resilience Strategy (DRS) aimed at developing policies to support resilience and coordinating donor support for national plans. To date a DRS has been completed for Dominica and Grenada.

14. For member countries of the ECCU, bilateral surveillance is supplemented by periodic consultations on cross-cutting regional issues with country authorities and the Eastern Caribbean Central Bank (ECCB), which are discussed by the IMF Executive Board. Over the evaluation period there were seven such regional consultations. These consultations are conducted by teams led by SDS mission chiefs, with participation by staff from the Executive Director's office. Issues discussed traditionally include financial system stability and the common exchange rate and debt target as the anchors of macroeconomic stability. More recent discussions have covered fiscal and financial integration, cross-regional payments, including central bank digital currencies, and a regional stabilization fund. Other topics covered include CC&NDs, banking and currency crisis, fiscal and debt rules, stress testing, and dominant currency pricing. The regional consultations constitute an important component of the regular Article IV consultations with individual

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[6] In 2017, the Fund issued a Staff Guidance Note on the Fund's Engagement in SDS. The Note emphasizes the importance of centering surveillance on growth and job creation, resilience and risk analysis related to natural disasters, competitiveness, fiscal sustainability, and strengthening financial systems. In addition, it recognizes the need for close collaboration with other institutions and bilateral donors.

[7] In 2021, subsequent to the evaluation period, the IMF Executive Board decided to recast the CCPA as the Climate Macroeconomic Policy Assessment to be conducted by the IMF independently. This decision followed the World Bank's decision to independently conduct its own Country Climate and Development Report. For more information see Lombardi (2021).

member countries.[8] They aim to encourage dialogue and information sharing and help stimulate research on regional issues. The last consultation was completed by the Board in April 2021.

15. In recent years, Western Hemisphere Department (WHD) staff has undertaken a significant body of research work on the Caribbean that supports surveillance and policy advice and adds to the stock of knowledge on economic and financial issues relevant to regional policy makers. Published research comprises three books and at least thirty working papers. Each of the books is a compendium of essays tackling the key policy issues facing the region. Schipke and others (2013) discussed economic and financial sector linkages, and policy recommendations to foster economic growth. Other topics covered debt restructuring, offshore financial centers, and the regional capital market. Amo-Yartey and Turner-Jones (2014) analyzed fiscal and debt issues, while Alleyne and others (2017) presented 15 papers on topics of growth, fiscal and debt policy, the financial sector, as well as energy, emigration, and violence. The issuance of working papers picked up markedly beginning in 2014. In addition to matters relating to growth, tourism, fiscal and financial sector policy, this work addressed a wide range of other issues such as the labor market, the cost of climate change, energy, and regional integration.

16. Caribbean SDS have been active users of IMF credit, more so than SDS in other regions.[9] During the evaluation period, 5 of the 12 Caribbean SDS accessed Fund financing through upper credit tranche (UCT) arrangements,[10] for a total of 7 arrangements, a relatively low use of such facilities. The objectives of UCT programs in all countries were to restore fiscal stability, achieve a sustainable level of debt, strengthen the banking system, and implement structural reforms aimed at boosting growth. For Caribbean SDS, therefore, UCT program objectives were closely aligned with surveillance and CD priorities. In some countries, programs also facilitated, and were accompanied by debt restructurings.[11]

17. In addition, five Caribbean SDS accessed emergency financing through the Emergency and Natural Disaster Assistance facility (ENDA), Rapid Credit Facility (RCF) or Rapid Financing Instrument (RFI), for a total of eight drawings during the evaluation period. All five of these countries secured financing to address the impact of the COVID-19 pandemic.[12]

18. Support to SDS through CD work has been intensive, particularly through the activities of Caribbean Regional Technical Assistance Center (CARTAC), established in Barbados in 2001.

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[8] As noted in IMF (2020a), both the staff's discussions with regional institutions and the Board discussion of the annual staff report are to be considered an integral part of the Article IV consultation with each member.

[9] Five Caribbean SDS are eligible for concessional financing through the PRGT based on the modified income thresholds applied in the case of the small country exception (Dominica, Grenada, Guyana, St. Lucia, and St. Vincent and the Grenadines (IMF, 2020b). For details on the small country exception, see Abrams, 2022.

[10] Antigua and Barbuda, Barbados, Grenada, St. Kitts and Nevis, and Suriname.

[11] Barbados, Grenada, and St. Kitts and Nevis.

[12] The Bahamas, Dominica, Granada, St. Lucia, and St. Vincent and the Grenadines. In addition, Barbados received augmented IMF financial support in 2020 through its existing Extended Fund Facility (EFF) arrangement.

Caribbean SDS received a total of 129 full-time equivalents (FTEs) in CD, or about 40 percent of CD to all SDS and 4 percent of overall CD to all countries.[13] CD dipped from an average of about 12 FTEs a year in 2010–2018 to 8 FTEs a year in 2019–2020, in part related to the pandemic. In addition to formal CD, capacity development work is also carried out by WHD country teams during surveillance missions in areas such as the elaboration of medium-term macro frameworks. Most of the CD focused on the public finance area, with an emphasis on public finance management (PFM) and tax and customs administration. Financial sector issues occupied second place, with a focus on regulation, Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), financial stability analysis, and crisis resolution frameworks. Support for improvements in statistics was also important.

19. Country work is carried out by three divisions in WHD (Caribbean I, Caribbean II, and Caribbean III), each of which work on a number of SDS as well as Jamaica. Oversight of the work on the region is carried out by two deputy directors who review country surveillance and lending activities, oversee the work of CARTAC, and guide research. Country teams comprise a mission chief from WHD and 3–4 economists in line with Office of Budget and Planning (OBP) guidelines. Most mission chiefs are at the A15 (Deputy Division Chief) level, but a few missions have been led by senior economists at grade A14. Between 2010–2019, 60 functional economists, including from the Fiscal Affairs Department (FAD), Monetary and Capital Markets Department (MCM), Statistics Department (STA), Finance Department (FIN), and Legal Department (LEG) participated in Article IV missions to SDS in WHD. Participation in missions by these functional economists varied widely among SDS. For example, staff from these departments visited Barbados and Belize on ten occasions, while only a single functional economist participated in an Article IV mission to St. Vincent and the Grenadines during the evaluation period. Consultations with all Caribbean SDS are on a twelve-month cycle. Missions are supplemented in some years by short staff visits to update information, the evolution of risks, and medium-term macro-fiscal frameworks. On missions to member countries of the ECCU[14] teams were often accompanied by economists from the ECCB and the CDB, who provided information on their institutions' activities in each country.

20. In WHD about one-third of the department's staff resources are assigned to Caribbean SDS. At the end of FY2019–2020, out of 135 WHD staff in total, 59 staff were assigned to the Caribbean, of which 48 were allocated to work on SDS. The number of staff assigned to Caribbean SDS stayed around 44 throughout the evaluation period, but their share in the departmental total fell from 36.5 percent in the first half of the evaluation (FY2010–FY2015) to 33 percent in the second half (2016–2020).[15] In addition, during the evaluation period, the region benefited from the activities of the CARTAC, located in Barbados, and there was one country

[13] These data exclude training carried out at headquarters. See de Las Casas (2022).

[14] ECCU members include Antigua and Barbuda, Dominica, Grenada, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines, as well as two U.K. overseas territories, Anguilla and Montserrat.

[15] For further details on staff and human resources management, see Rustomjee (2022).

resident representative office, also in Barbados, which was opened at the start of the country's 2018 Extended Fund Facility (EFF) arrangement.[16]

21. During the evaluation period, Management engaged with the region through a regular breakfast meeting with Caribbean heads of delegations that takes place during the Annual Meetings. The sessions allow Caribbean ministers to exchange views with management on matters of concern to them, including debt relief, integration, digital currencies, and crime. Another channel of engagement with management is the almost annual Caribbean Forum, co-sponsored by the IMF and held in the Caribbean, which brings together senior policymakers, as well as the private sector, and regional and multilateral institutions to discuss paths to sustainable and inclusive growth and regional approaches to common problems.

III. COUNTRY CASE STUDIES

A. Antigua and Barbuda

Country Profile

22. Antigua and Barbuda is a two-island state located in the northeast of the Caribbean archipelago. Its area is 443 km^2 and, according to the World Bank, its population was 97,928 in 2020, with a per capita GNI in current US dollars of US$14,250, which categorizes the country as high income. The most recent data (2015) show that the unemployment rate was 14 percent, with youth unemployment at 34 percent.[17] The country's score in the UN's Human Development Index was 78, average life expectancy was 77 years, and the under-five mortality rate was 7 per 1,000 live births.

23. The country became independent from the UK in 1972 and is a parliamentary democracy with two main political parties, the Antigua Labour Party (ALP) and the United Progressive Party (UPP). The country has a history of political stability and smooth transfers of power following elections held every five years. After being in opposition for ten years, the ALP, led by Prime Minister Gaston Browne, won the general elections in 2014 and 2018.

24. Antigua and Barbuda became a member of the Fund in 1972. Its quota is SDR 20 million, and it holds 0.03 percent of voting power. The main pillars of the relationship with the IMF are surveillance and CD. The country borrowed from the Fund only once during the evaluation period: a three-year Stand-By Arrangement (SBA) in 2010–2013; it was not eligible to draw on emergency financing in 2020 in response to the COVID-19 pandemic (Table 1). Data on IMF

[16] A resident representative office for the eastern Caribbean was opened in Antigua and Barbuda in 2010 and closed in 2019.

[17] Antigua and Barbuda Statistics Division, https://statistics.gov.ag/data/. There is no recent information on poverty and unemployment.

spending on Antigua and Barbuda show a sharp reduction in the provision of CD in recent years, after the substantial amounts delivered during the first half of the evaluation period (Figure 1).

Table 1. Antigua and Barbuda: IMF Engagement, 2010–2020

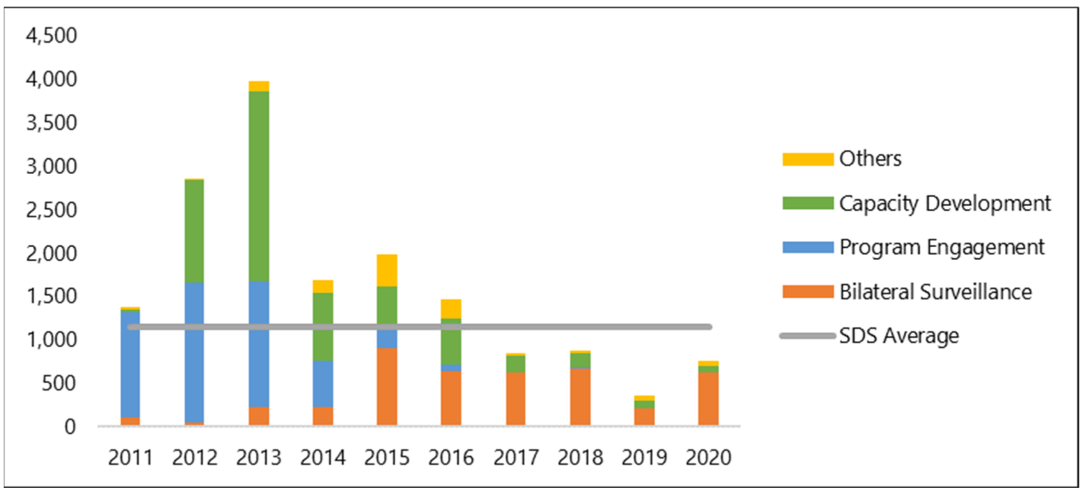
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Article IV											
Programs		SBA									
Emergency financing											
Other											

Sources: IMF; IEO calculations.

Notes: SBA=Stand-By Arrangement; CCPA=Climate Change Policy Assessment

Figure 1. Antigua and Barbuda: IMF Spending by Activity, 2011–2020

(In USD, thousands)



Sources: IMF (ACES); IEO calculations.

25. Antigua and Barbuda is highly vulnerable to natural disasters and the effects of climate change. Among all 34 SDS the country is ranked 13th most vulnerable to natural disasters and 17th most vulnerable to climate change (IMF, 2016). Over the 2010–2019 period it was hit by six tropical storms, of which three were hurricanes at Category 4 and above. In September 2017, Hurricane Irma, the strongest Atlantic hurricane on record, devastated Barbuda, which contributes about 10 percent of GDP. Almost all buildings were damaged, the entire population of about 2,000, had to be evacuated. Overall damage was estimated to be equivalent to about 9 percent of GDP.

26. The Antigua and Barbuda economy is heavily reliant on tourism, ranking fourth among 166 countries in tourism dependence. The sector accounts for 55 percent of GDP and 49 percent of employment (Mooney and Zegarra, 2020). Other important economic activities include

construction and real estate development, banking, and transportation. The public sector (including the state-owned public utilities) accounts for 15 percent of total employment. Unlike many other countries in the region, Antigua and Barbuda does not have a history of banana exports; agriculture and manufacturing each account for only 1–2 percent of GDP.

27. The start of the evaluation period was marked by a severe economic downturn as the global recession of 2008–09 affected tourist arrivals, the public finances, investment, and remittances (Figure 2). The economy contracted by an average of 10 percent a year in 2009–2010, public debt rose sharply, and outstanding government arrears to creditors and suppliers, which had been a longstanding feature of public finance, increased. Indicators of banking system soundness worsened, and there was a deposit run on one of the largest domestic banks (Bank of Antigua) which preceded the collapse of the bank's parent company, the Sanford Group, and the failure of another bank (The Antigua and Barbuda Investment Bank, ABIB) in 2011.

28. To address the crisis, Antigua and Barbuda entered into an SBA in 2010–2013. Subsequently, the economy recovered led by tourism and construction. Real GDP grew by an average of 4.5 percent a year in 2014–2019. To address continued fiscal imbalances, the government introduced a fee-based Citizenship by Investment Program (CIP) in 2014. Despite this, weak public financial management and sluggish revenues, affected by significant exemptions and the abolition of the personal income tax in 2016, put pressure on government cash flows. As a result, payments arrears persisted, rising by almost ten percentage points to 20 percent of GDP at end–2020, of which arrears to the Paris Club accounted for 6 percent of GDP.

29. The COVID-19 pandemic has had a severe effect on Antigua and Barbuda.[18] The border was closed in March 2020, and tourist arrivals came to a halt in April. Business activity, incomes and employment fell sharply, and real GDP contracted by 20 percent in 2020. A sharp decline in government revenue combined with a surge in expenditure related to COVID-19 relief resulted in a widening of the overall fiscal deficit from 4 percent of GDP in 2019 to 6 percent in 2020, while the public debt rose from an average of 87 percent of GDP in 2016–2019 to 102 percent in 2020. Arrears to Paris Club and other creditors continued to accumulate. Business closures led to an estimated[19] decline of more than 20 percent in employment in 2020, and the ratio of NPLs to total loans began to rise again.

[18] As of July 26, 2021, the country had registered 1,280 cases and 43 deaths (equivalent to 1,318 cases and 44 deaths per 100,000 of population, respectively (PAHO, 2021).

[19] https://www.caribank.org/sites/default/files/publication-resources/Antigua%20%26%20Barbuda%20CER%202020.pdf.

Figure 2. Antigua and Barbuda: Macroeconomic Developments, 2005–2020

Sources: IMF (October 2021 WEO); IEO calculations.

Main Elements of IMF Engagement

Surveillance

30. Over the evaluation period there were Article IV consultations in seven of the eleven years. There was no Article IV consultation in 2018–2019. The Article IV consultation for 2017 was completed in early 2018. Discussions on the 2019 consultation were cancelled because of conflicting demands on the former mission chief. Article IV discussions were held in February 2020, but they were put on hold because of the rapid deterioration in conditions due to the pandemic. This was followed by discussions of potential IMF financial support for the remainder of 2020 and early 2021. The Article IV discussions were completed in June 2021.

31. The focus of surveillance was on fiscal policy and debt sustainability. Other key topics included strengthening the domestic banking system and AML/CFT compliance, and measures to boost the country's growth performance. Since the issuance of the 2014 Staff Guidance Note on the Fund's Engagement with Small Developing States, Article IV discussions also included specific policies to build resilience to natural disasters and climate change. Following on Hurricane Irma, which struck Barbuda in September, the 2017 consultation underlined the need to develop a framework of policies and financing to build climate resilience. Nevertheless, most of the discussions still focused on the other pillars of surveillance, particularly fiscal sustainability and the financial sector. Overall, the 2017 consultation adhered to the five key thematic areas envisaged in the Guidance Note.

32. Since the outbreak of the COVID-19 pandemic, staff and officials have conducted regular discussions on a virtual basis, including to complete the Article IV discussions begun in February 2020. Discussions have focused on the impact of the pandemic on the economy and the government's policy response. They also have covered financial sector stability issues, CD, and the possibility of Fund assistance under the RFI or a new Fund-supported program, such as an SBA or EFF arrangement. In interviews, officials noted that the virtual mode has been effective. A good relationship has been established with the new mission chief who took over the assignment during the pandemic. Meetings have been easy to arrange at short notice, which has helped create an effective channel of communication. However, communications have at times been affected by weak internet connections and other IT related issues.

33. The priorities of the surveillance agenda throughout the evaluation period stemmed from Antigua and Barbuda's persistent problems of high debt, weak state-owned enterprise (SOE) finances, and continuous arrears on payments to creditors and suppliers.[20] These factors contributed to an almost constant state of fiscal weakness. Also, high levels of NPLs represented risks to the stability of the financial system, while perceptions of AML/CFT risks contributed to the loss of correspondent banking relationships (CBRs) beginning in 2016. In addition, fiscal and financial system risks in Antigua and Barbuda represented risks to the stability of the ECCU

[20] Antigua and Barbuda has had these problems since the early-1980s.

because of their potential impact on the credibility of the common exchange rate. Re-invigorating growth was seen as essential because of its impact on incomes, jobs, poverty reduction, and debt sustainability. Moreover, the country's own Medium-Term Development Strategy for 2016–2020 was consistent with surveillance goals, focusing on a primary surplus of 3 percent of GDP, and on generating faster growth by improving the business environment, infrastructure, and the tourism product. The basis for the above-mentioned focus of surveillance was also rooted in analytical work done in WHD, which concluded that high levels of debt were a constraint on growth, and a sound, stable banking system with low NPLs could have an important positive effect on potential growth.[21]

34. The staff's policy recommendations to achieve fiscal stability centered on strengthening outcomes and institutions in order to reduce financing pressures, eliminate persistent payments arrears, and achieve debt sustainability, while preserving social spending. Specifically, staff recommended measures to boost revenue, contain spending, and strengthen the finances of the SOEs. Policy recommendations relating to the financial system aimed to build resilience, particularly through strengthening the balance sheets of indigenous banks, enhancing supervision, and establishing a framework for bank resolution. There was also emphasis on compliance with global AML/CFT guidelines to avoid the termination by international banks of their correspondent bank relationships with local banks.

35. Recommendations on stimulating growth focused on the importance of improving the business environment, competitiveness, and productivity, and of reducing energy costs. There were also references to the need to diversify the economy away from tourism. However, these recommendations lacked specificity on how diversification could be achieved, and in what areas. Until 2017 there was little discussion by the Fund of policies related to resilience to climate change and natural disasters. In the Article IV consultation initiated in 2020 and concluded in 2021, staff and officials discussed the importance of these issues and the progress being made. This included the work toward completion of the National Adaptation Plan, which incorporates a framework for building resilience and assessing associated risks and costs. The country is a participant in the Green Climate Fund, from which it has received grant financing.

36. The authorities valued the surveillance work of staff, appreciated the candid exchange of views, and felt that surveillance was well targeted on fiscal, banking, and structural policies, and consistent with the government's priorities. They saw less value in the regional surveillance exercise, which was related more to common central bank issues than to Antiguan and Barbudan national priorities.

37. Traction in bilateral surveillance was mixed. There was generally a high degree of implementation of staff recommendations in the financial sector, where the ECCB coordinated a common approach to countries in a number of areas, and CD assistance from CARTAC helped

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[21] See for example Alleyne and others (2017).

support implementation. These areas included AML/CFT, bank resolution, and strengthening indigenous banks. There was no FSAP in Antigua and Barbuda because financial sector reviews and supervision are coordinated at the regional (ECCU) level with the ECCB. On fiscal matters officials agreed with the thrust of recommendations to strengthen the public finances, improve fiscal management, and reduce debt and arrears. However, particularly after the completion of the SBA in 2013, they did not always share staff's suggestions about the magnitude, speed, and content of adjustment, a strategy for clearing payments arrears, nor about the use of revenues from the CIP. In their view, durable fiscal sustainability could only be achieved if adjustment were accompanied by measures to boost growth. On real economy issues officials agreed that it was important to improve the business environment and raise productivity**.** Efforts to diversify the economy were also important, but officials observed that the discussions of how diversification could be achieved and in what areas were not sufficiently specific.

38. According to officials, differences of view with staff may have reflected the fact that mission staff were not always experienced or sufficiently knowledgeable about the political economy and cultural norms of the country.[22] They observed that country understanding had strengthened with the most recent missions and the quality of the engagement has improved. Earlier differences of view between staff and authorities, particularly regarding fiscal policy and debt sustainability contributed to most country reports not being approved for publication.[23] Some mission chiefs felt that more joint work with other institutions with greater experience in growth diagnostics and policy, such as the IDB and CDB, would allow missions to make more meaningful contributions to the discussion on re-energizing growth.

39. The DSA done for the 2017 Article IV consultation concluded that Antigua and Barbuda's debt was unsustainable, requiring prompt fiscal adjustment. While recognizing the importance of debt issues, some officials saw the Fund's tool for DSA as overly complex, hard to apply, and subject to being derailed by natural disasters and other shocks. As a result, they welcomed work by the Fund on developing a simplified template. Training on this new template began but was interrupted because of staff changes and the onset of the pandemic. Continued training was key to the adoption of the new template. At the same time, some officials felt that a long-term solution to the debt sustainability problems in SDS like Antigua and Barbuda should include some form of debt relief and/or concessional financing. They thought fiscal adjustment and a higher primary surplus could be counter-productive in terms of growth and social development.

40. Staff agreed that some of the surveillance tools, such as the DSA, and the External Balance Assessment, were neither easily understood by officials nor well-tailored to ECCU countries and looked forward to the introduction of the new template. Some staff felt that the 2017 Guidance Note could serve as a useful checklist, but otherwise did not have much operational value. Further, it risked becoming out of date because of the ongoing shifts in

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[22] As noted below, staff turnover on missions was high.

[23] The authorities approved publication of country reports only in 2010 and 2014.

priorities in the Caribbean. Some of these new priorities were the introduction of central bank digital currencies and increasing access to concessional finance. Overall, staff felt that surveillance was useful to the authorities, and that it was important to build a relationship of trusted advisor through openness and good communication.

41. Data for surveillance was judged by staff to be adequate. However, country reports highlighted frequent revisions to GDP data and lags in data availability in the areas of labor, wages, national accounts by expenditure, and payments arrears. In addition, staff noted that it was difficult to assess fully the fiscal situation in the absence of timely data on the finances of the state-owned enterprises. Surveillance on social issues was significantly constrained by the lack of data on labor and unemployment beyond 2015 and the absence of published data on poverty.

Program Work and Emergency Financing

42. Antigua and Barbuda borrowed from the Fund once during the evaluation period. In 2010 the country entered into a three-year SBA in the amount of SDR 81 million (600 percent of quota) to stabilize the public finances, eliminate payments arrears, and place debt on a downward trajectory. At the request of the authorities, access was later revised to SDR 67.5 million (500 percent of quota), due to lower than envisaged BOP needs. Disbursement was front-loaded, with 125 percent of quota made available on approval of the SBA.

43. The main pillars of the program were fiscal adjustment, debt restructuring, and reforms in the fiscal and financial sectors. Conditionality at the time of the final review in 2013 comprised 5 quantitative performance criteria on fiscal and debt targets, and 22 structural benchmarks—16 related to fiscal and public sector management reforms, and 6 covering the financial sector. To help monitor the program, a resident representative was appointed in 2010, with additional responsibilities for covering other member countries of the ECCU. Quantitative performance criteria were generally met, although weaknesses in capacity led to periodic non-completion of structural benchmarks related to divestment of state enterprises and fiscal legislation. Also, waivers of performance criteria were approved on the accumulation of payments arrears because of the small size of the deviations from target.

44. By the end of 2013, 10 reviews had been completed and the loan fully disbursed. Staff reported to the Board at the final review that the aims of the program had been largely met. The public finances were on a sounder footing, evidenced by the contraction in the overall fiscal deficit from 18 percent of GDP in 2009 to 1½ percent in 2010–2012. Over the same period, the debt ratio fell from 102 percent of GDP to 89 percent, due largely to debt restructuring with the Paris Club and with domestic creditors. In addition, payments arrears had been reduced, and progress made on reforms in tax collections and financial management. Banking weaknesses were being addressed. In the staff's view, these achievements helped create the conditions for a recovery of growth and a return to debt sustainability.

45. Following the final review, however, in the first half of 2014, arrears on payments, including to the IMF and the Paris Club, began to re-emerge. The SBA was followed by a period (2013–2016) under the Post-Program Monitoring (PPM) framework, at the end of which agreement was reached with officials on a package of fiscal measures that would help restore debt sustainability and provide a basis for lending by the CDB. The new government that took office in 2014 had campaigned on a platform that promised that the country would not return to IMF borrowing. Its assessment was that overall, the program had not affected the country's economic fundamentals nor created conditions for faster growth. In interviews, officials felt that, in retrospect, the SBA focused mainly on fiscal adjustment, paid inadequate attention to growth, and underestimated the time needed to implement reforms. In their view, as the country continued to recover from the global financial crisis of 2008–2009 an EFF program would have given the authorities more time to address its protracted problems of fiscal imbalance, slow growth, and deep-seated structural weaknesses.

46. After Hurricane Irma in 2017, which devastated Barbuda, the country would did not meet the Fund's debt sustainability criterion and the authorities did not request disaster assistance, relying instead on bilateral assistance and on loans from the CDB. In 2020, in the wake of the coronavirus pandemic they requested Fund assistance under the RFI because of the size of the shock and the need for urgent financial support. However, staff judged that the country did not qualify for such assistance because its debt was unsustainable. Instead, staff suggested a new SBA or EFF with fiscal adjustment and debt restructuring. Financial support to tackle the COVID-19 impact was provided by other institutions including the CDB (US$13 million) and the IDB, which allocated US$50 million to be disbursed through the CDB to seven ECCU countries, but the government was also forced to borrow from the banking system and the regional securities market.

47. Officials felt that the Fund's response to one of the largest shocks to have hit the country was disappointing and showed that there was a gap in the institution's toolkit through which SDS facing difficult circumstances could fall. Because of its ineligibility for Fund support the country had to resort to the very limited and expensive resources available from the private sector which worsened its debt position. In the view of those authorities, the Fund's decision raised questions about the clarity of rules, about eligibility for access to the RFI and associated conditionality, as well as about equal treatment in access to the RFI. Moreover, officials observed that the per capita income threshold served to deny access by micro-states like Antigua and Barbuda to concessional resources from the Fund and World Bank despite their vulnerability and the high-income inequality evident in such countries.

Capacity Development

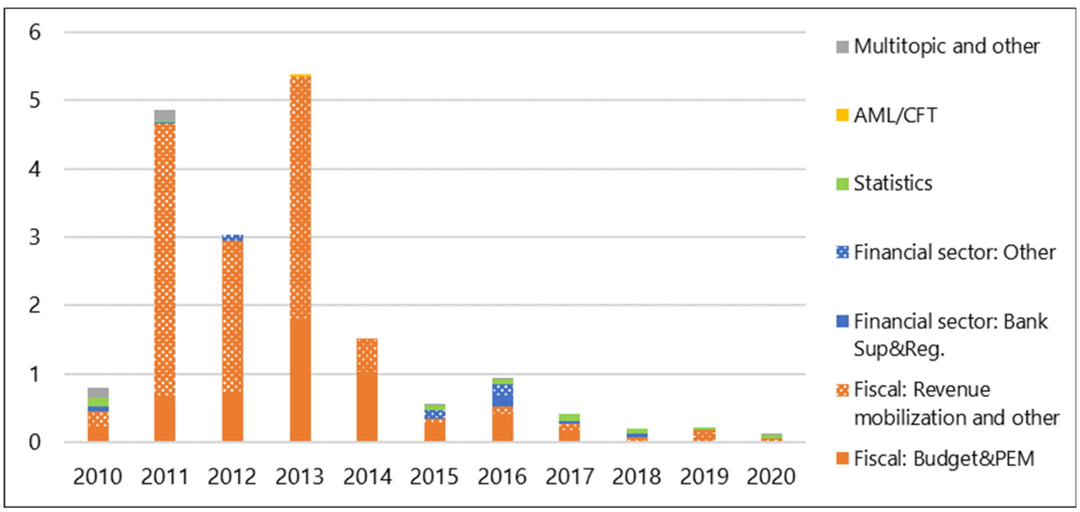
48. Of the five case study countries, Antigua and Barbuda received the largest amount of CD support during the evaluation period—a total of 17.9 FTEs. Ninety percent of this support was allocated to fiscal issues, and most of that was provided in the course of the SBA arrangement in 2010–2013 to help improve tax administration and public financial management (Figure 3). During

that period the authorities found particularly helpful the assignment of a resident tax advisor from CARTAC. CD assistance also played an important role, valued by the authorities, in the successful completion of the program reviews. Of the ten structural benchmarks in the area of fiscal and public sector reforms that were established at the start of the program, CD assistance was assigned to the completion of six. In the period following the SBA, CD assistance in the fiscal area came down dramatically, but continued to emphasize strengthened public finance management and revenue administration, in line with staff's suggestions in the context of surveillance.

49. In the financial sector, in view of the failure of two domestic banks during 2010–2013, CD support centered on ensuring a sound framework for bank resolution. Support was also provided to strengthen AML/CFT compliance to avoid losses of correspondent bank relationships particularly after 2016. Officials felt that CD in this sector had been essential in the effort to reduce risk and restore stability. In the statistics area, CD efforts targeted implementing the Fund's SDDS requirements and improving the quality of balance of payments and debt statistics. The low level of in CD in 2018–2020 appears to have been associated with the delays in conducting surveillance discussions and the complications of CD delivery during the pandemic.

Figure 3. Antigua and Barbuda: Thematic Distribution of CD Provided, 2010–2020

(In full-time equivalents)



Sources: IMF (TIMS data); IEO calculations.
Notes: "Multitopic and other" includes administrative and preparatory work, e.g., scoping missions. "Financial sector: Other" includes central banking, financial crisis preparation and management, monetary and foreign exchange policy and operations issues. "Fiscal: Revenue mobilization and other" includes mainly fiscal law and revenue mobilization issues. PEM=public expenditure management.

50. Overall, officials attached considerable value to CD, and particularly to the work of CARTAC. CD had played an important role in upgrading skills in revenue administration, PFM, and financial sector oversight, and in the past had been well integrated into program activities and surveillance. However, after 2014, the amount of CD provided reflected the cooling of the relationship with the IMF. Officials observed that the technical capacity of individual ministries of finance in the ECCU

was severely limited, with the small base depleted periodically by departures of trained staff. Consequently, a more appropriate CD strategy for the region might be to focus training, particularly on very specialized skills, toward staff of the ECCB, who could then be deployed as needed to member countries requiring assistance. This arrangement would help ensure a more stable, regional pool of skills, and could be supported by a regional resident representative.

Staffing of Country Teams and Engagement of IMF Senior Officials

51. Over the evaluation period there were four different mission chiefs on six Article IV missions. There were two mission chiefs during 2010–2013 handling the SBA as well as the Article IV consultations. One mission chief led three Article IV missions (2015–2017), while the others led one mission each. Turnover of economists on missions was high, with only two of the six missions staffed with economists who had participated in a previous mission. During the program and post-program monitoring periods WHD staff were supported by staff from Strategy, Policy and Review Department (SPR) and MCM. The current mission chief was also mission chief for Trinidad and Tobago for ten months. As noted above, assignment conflicts for the former mission chief led to the postponement of the 2019 Article IV consultation.

52. Country officials felt that the rapid rotation of MCs (especially in the first half of the evaluation period) and staff (throughout the period) did not contribute to building a relationship of trust and understanding. In particular, a change in mission chief during the program period had been disruptive to the relationship. Frequent changes in staff resulted in officials having to re-state and re-explain points which had been discussed in previous missions.

Collaboration with Partners

53. The World Bank has not been actively engaged in Antigua and Barbuda. The last Bank operation was approved in FY2013, and the country's high-income classification makes it ineligible for Bank loans.[24] Members of the ECCU are not members of the IDB, but the IDB has provided support indirectly to the group through the CDB. Consequently, most collaboration has taken place with the CDB and the ECCB. CDB and ECCB staff often accompanied IMF missions and participated in discussions. The Fund has supported the CDB's program lending operations (mainly for budget support) by providing in 2015–2016 assessment letters on the country's fiscal position and debt sustainability. Another assessment letter was provided to the CDB in 2021 to support its planned COVID-19 support loan. The European Union (EU) has supported the surveillance and CD activities of the Fund through its ongoing PFM and Tax administration project.

54. Officials observed that weak collaboration among institutions was evident in their responses to the COVID-19 pandemic. The IMF, the CDB, and the ECCB had their own information requirements and request-processing protocols, and meeting these separate

[24] https://data.worldbank.org/country/antigua-and-barbuda.

requirements took up considerable amount of officials' time. They suggested that the institutions work on developing a more coordinated approach for future disasters and pandemics that takes into account the limited resources available in Caribbean SDS.

B. Barbados

Country Profile

55. Barbados is the most easterly of the Caribbean Islands. The country's land area is 432 km^2 and its population is 287,000. It is classified as a high-income country, with a GNI per capita in current US dollars of $14,350 in 2020. Barbados gained independence from the UK in 1966, becoming a member of the Commonwealth. In November 2021, Barbados transitioned to a republic. The unemployment rate rose from 21 percent in 2019 to 25 percent following the impact of the COVID-19 pandemic. Life expectancy in 2020 was 79 years, and the under-5 mortality rate was 13 per 1,000 live births.

56. The country is located outside of the principal Atlantic Hurricane Belt and as a consequence has been less prone to large natural disasters, including hurricanes and floods. Between 1963–2020, of 34 natural disasters with a scale of damages-to-GDP of 5 percent or greater which have occurred in SDS, only one, a tropical storm, occurred in Barbados, in 1987. However, Barbados remains vulnerable to natural disasters. In April 2021 the country was impacted by volcanic ashfall from neighboring St. Vincent and in July 2021 experienced its first hurricane in 65 years.

57. Barbados is a parliamentary democracy, with two main political parties, the Democratic Labor Party and the Barbados Labor Party, which have led the government in alternation since 1966. Political transitions have generally been smooth. The Democratic Labor Party governed from 2008–2018, and the Barbados Labor Party has governed since 2018, after winning all 30 seats in Parliament in the May 2018 general election.

58. Barbados joined the IMF in December 1970. It has a quota of SDR 94.5m and a voting share of 0.05 percent. Barbados was not eligible for IMF concessional financing from the PRGT during the evaluation period, as per capita income is above the PRGT entry threshold for SDS. Since joining the IMF, the country has had three financial arrangements with the Fund, including Standby Arrangements in 1982 and 1992, both completed according to their original schedule, and a four-year extended arrangement under the EFF which was approved in October 2018, was augmented twice following the COVID-19 pandemic, in June and December 2020 respectively, and is now scheduled to expire at end–September 2022. The national currency, the Barbados Dollar, has been pegged to the US dollar since mid–1975 at the rate of BDS$2.00 = US$1.00.

59. During the evaluation period, IMF engagement included seven Article IV consultations, an FSAP in 2013, and the 2018 EFF arrangement. Consistent with the country's program status, Barbados is currently on a 24-month Article IV consultation cycle. . Fund work on Barbados was

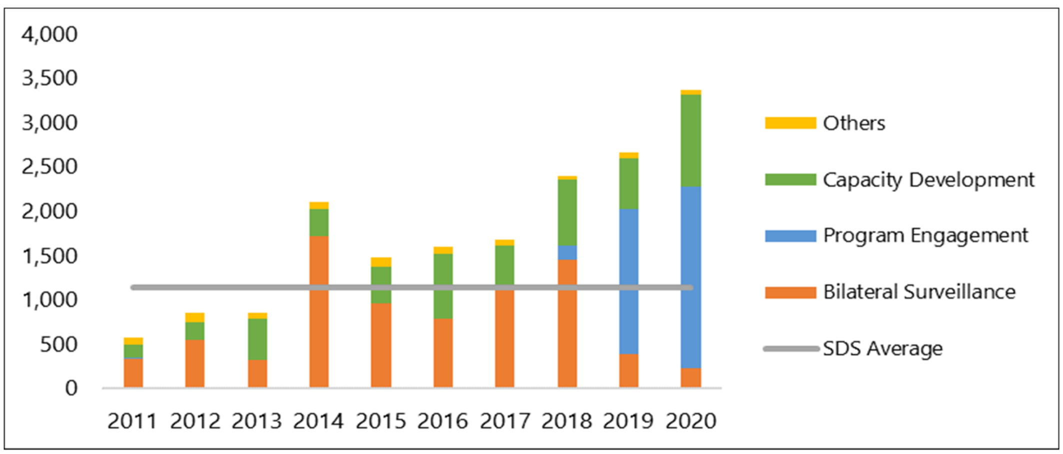
relatively low early in the evaluation period but increased sharply after 2018 with the EFF and intensified CD (Table 2 and Figure 4).

Table 2. Barbados: IMF Engagement, 2010–2020

	2010	2011	2012	2013	2014	2015[1]	2016	2017	2018	2019	2020
Article IV											
Programs									EFF	EFF	EFF[2]
Emergency Financing											
Other				FSAP							

Sources: IMF; IEO calculations.
[1] The 2015 AIV Report was not published.
[2] The 2018 EFF was augmented following the third program review in June 2020, in response to the COVID-19 pandemic.

Figure 4. Barbados: IMF Spending by Activity, 2011–2020
(In USD, thousands)



Sources: IMF (ACES); IEO calculations.

60. An IMF Resident Representative office was opened in Barbados in 2019, twenty years after the previous office closed in 1999. It is currently staffed by a Resident Representative, Local Economist, Office Manager and Office Driver. The Resident Representative position covers Barbados and is unique among SDS: it is the only Resident Representative office located in an SDS member country, out of 85 current IMF Resident Representative offices around the world. The CARTAC is also based in Bridgetown, Barbados. It was established in 1999 and currently

supports Barbados and 11 other SDS in the Caribbean.[25] In FY2020, Barbados was the second largest recipient of CARTAC technical assistance, receiving 236 Resource Person Days of support, behind Belize (295 RPDs).[26]

61. The economy is heavily dependent on external demand for tourism services. In 2019, tourism contributed 35 percent of GDP, with wholesale and retail trade, transportation and storage services highly dependent on tourism activity. Almost 12 percent of the workforce were directly employed in the sector and 23 percent indirectly employed. Reliance on tourism has made the economy highly exposed to external demand shocks, particularly to recessions in the UK, US, and Canada, the major sources of tourist arrivals. The country's share of tourism to the Caribbean has been on a declining trend since the mid–1990s, due to rising competition and increasing hotel and airfare costs and fuel prices.

62. Barbados experienced protracted stagnation following the 2008 financial crisis, with persistently low or negative growth and rising debt levels (Figure 5). Between 2008–2014, the economy contracted by an average annual rate of -0.3 percent, and registered an average budget deficit of 7.4 percent of GDP, central government debt ballooned from 51.4 percent of GDP in 2008 to 105.5 percent in 2016. Public debt increased to almost 160 percent of GDP by mid-2018. Several fiscal measures were implemented in the first half of the evaluation period, including a freeze on public sector wages, an increase in VAT, and a public sector retrenchment in 2013. Additional measures, including a reform of SOEs with CARTAC support and reform of the Revenue Authority, were initiated but progress proved slow and results were mixed.

63. Following the May 2018 general election, the new government announced a comprehensive Economic Recovery and Transformation (BERT) plan[27] and its intention to seek restructuring of domestic and external public debt to private creditors, requesting support from the IMF and other international financial institutions. Subsequently, a domestic debt restructuring was completed in November 2018, reducing the debt-to-GDP ratio by about 30 percentage points. Additionally, in October 2019, an agreement was reached with an external creditor committee on restructuring external debt to private creditors.

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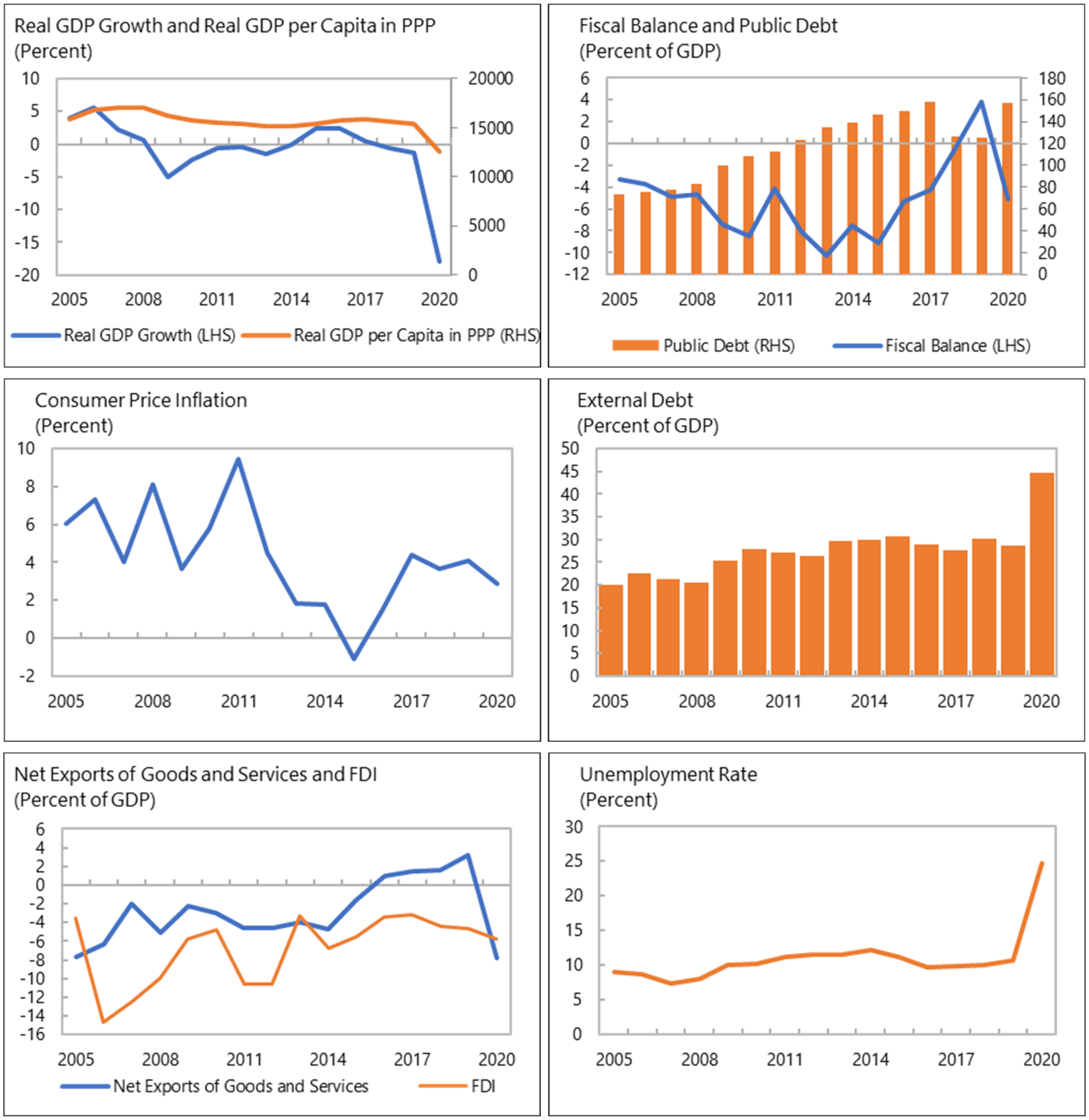
[25] In addition to serving Barbados, CARTAC currently serves 22 other countries and territories (Anguilla, Antigua and Barbuda, Aruba, The Bahamas, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Maarten, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos), of which 11 are SDS. It provides technical assistance in five core areas: public finance management, tax/customs administration, financial sector supervision and financial stability, economic and financial statistics and macroeconomic programming.

[26] CARTAC Annual Report 2020 (CARTAC_2020-Annual-Report 10 sm.pdf).

[27] The plan's macroeconomic objectives are to restore fiscal and debt sustainability, increase reserves and growth, while strengthening the financial sector and pursuing social, climate and environmental objectives consistent with the Sustainable Development Goals. The plan aims to increase the primary balance from 3.5 percent to 6 percent and to retain this level of primary balance until FY2023/2024.

Figure 5. Barbados: Macroeconomic Developments, 2005–2020



Sources: IMF (October 2021 WEO); IEO calculations.

64. The financial system in Barbados is dominated by five commercial banks, all of which are foreign owned, including three AAA rated Canadian banks (Nova Scotia, RBC and CIBC First Caribbean), which together hold 75 percent of total bank assets. Two Trinidadian banks (Republic Bank Barbados and First Citizens, both rated BBB+) account for the remaining 25 percent of the assets. The parent entities of these banks are well capitalized. The banking system is highly solvent, with strong capital buffers well over prescribed levels. The banking sector in Barbados is

well capitalized. However, the high spread between bank loans and deposits points to limited investment opportunities, and inefficiencies in financial intermediation (See Marston, 2022).

65. The COVID-19 pandemic exposed Barbados' vulnerability to the tourism sector and to shocks in markets that make up the majority of tourist arrivals. Tourism arrivals ground to a halt and economic activity stalled as the authorities sought to manage the crisis and minimize the economic impact. Economic activity contracted sharply, with GDP shrinking by 18 percent between 2019 and 2020, driven by declining tourism and lower than anticipated investment and consumption. Restrictions necessitated by COVID-19 resulted in sharp deteriorations in both long-stay and cruise ship arrivals, with impacts on the tourism sector and sectors supporting tourism.

Main Elements of Fund Engagement

Surveillance

66. Over the evaluation period, surveillance activities in Barbados comprised annual Article IV consultation discussions and staff visits to update the macroeconomic framework. The main policy priorities identified by the Fund during the evaluation period were (i) fiscal adjustment to stabilize and lower debt levels, including reform of public enterprises as a critical step in managing public finances; (ii) maintaining monetary policy consistent with the fixed exchange rate regime; (iii) preserving financial stability through close monitoring of the banking and non-bank financial sector, and stronger supervision (iv) raising growth; and (v) strengthening resilience to natural disasters. While many concerns featured throughout the evaluation period, including the need for stronger revenue measures (such as reforms to VAT and corporate income taxes), expenditure containment measures (like public enterprise reform) and the need to containing rising debt levels, surveillance priorities also shifted. Consultations, in 2010–2011 gave prominence to weaknesses in the insurance supervisory system, following the collapse of the Barbados subsidiary of a regional financial institution (CLICO). Mid-way through the evaluation period, in the context of the economy's inability to fully recover from the impact of the GFC, staff reports assessed challenges to raising growth, including through revitalization of the tourism sector, measures to strengthen competitiveness, and labor market reforms. Over the evaluation period, initial attention to short-term fiscal policy adjustment and debt sustainability in the wake of the global financing crisis shifted to a much greater focus on institutional reform.

67. The depth and coverage of surveillance also expanded considerably during the decade. Reflecting the application of surveillance tools, since 2013 AIV reports have included a range of annexes, including Risk Assessment Matrices, DSAs, assessments of the external sector, revenue mobilization, exchange rate assessment and reserve adequacy. The 2019 AIV report broadened coverage further, including annexes on medium-term diagnostics, building resilience to natural disasters and climate change.

68. Surveillance on financial sector issues focused on maintaining the stability of the financial system and strengthening supervision. Since 2000, Barbados has received an FSAP (2002) an

update in 2008 and, during the evaluation period, an FSAP in 2013. The 2013 update reviewed and assessed supervisory frameworks, safety nets, credit unions, and off-shore sector-benefits and regulatory threats. It found that while the financial system was well capitalized, challenges related to poor credit quality and an increase in non-performing loans were putting significant pressure on the financial system.

69. Selected Issues Papers were prepared in 2010, 2016 and 2018. Two selected issues paper (SIP) chapters were prepared in 2010 on the challenges and opportunities related to developing the tourism sector and on fiscal sustainability. The 2016 SIP reviewed and assessed the economic impacts of climate change and natural disasters and the 2018 SIP looked into fiscal frameworks. These SIP chapters were generally concise, provided granular information to support accompanying AIV reports, and were considered informative contributions by the Fund.

70. Country authorities felt that the research done by Fund staff in country reports and Selected Issues papers, including on fiscal rules and customs management, had been valuable. They noted that regional research and surveillance could be useful, particularly on topics and challenges common to several SDS in the region, such as tourism. They also argued that regional surveillance should capture the close interconnectivity among islands in the Caribbean in areas related to the financial sector and natural disasters, like the St. Vincent volcano eruption (April 2021), noting that in doing so, the Fund would also need to exercise caution in making conclusions from comparative studies.

71. Data provision was deemed to be broadly adequate for surveillance. During the evaluation period Barbados regularly received technical assistance (TA) from IMF experts, mainly located at CARTAC, to support strengthening of statistical capacity. Close Fund collaboration with other development partners in CARTAC also facilitated support to Barbados on data issues, including to build capacity on real sector, price, and external statistics. Barbados has participated in the GDDS since 2000. In 2019, STA prepared a draft action plan that could lead to the country’s subscription to the SDDS.

Program Work and Emergency Financing

The four-year extended arrangement under the EFF arrangement for Barbados was approved in October 2018, providing access of 220 percent of quota. The program sought to address several policy challenges that had been at the core of Fund surveillance over the evaluation period, with main program objectives of the 2018 EFF program, of which four reviews had been completed by December 2020, to restore macroeconomic and debt sustainability, address falling reserves, and increase growth. Key elements of the program, with associated structural conditions, focused on (i) fiscal adjustment; (ii) reform of SOEs; (ii) debt restructuring; and (iv) structural reforms to support introduction of a fiscal rule and plans to recapitalize the CBB and to adopt a pension law. A prior action requiring Government to launch an exchange offer for debt restructuring of the stock of central government domestic debt held by private creditors and eligible for debt restructuring consistent with EFF supported program objectives, was met in September 2018, shortly prior to program approval.

72. By the end of the evaluation period, four semi-annual program reviews had been successfully completed and most structural benchmarks met. Reflecting on the impact of the program, country authorities and staff emphasized that the program had proved successful in meeting objectives during the evaluation period, enabling Barbados to make good progress towards restoring fiscal and debt sustainability and rebuilding reserves. Officials were appreciative that throughout, the Fund had played a strongly supportive role, including through ready support for program augmentation when the COVID-19 pandemic struck and strong technical support in assessing debt dynamics prior to and following the 2018–2019 public debt restructuring. The restructuring itself proved successful in meetings its objectives to lower and stretch out the debt burden. While the COVID-19 pandemic brought tourism to a halt with only a very slow recovery expected, leading to large BOP and fiscal financing gaps, approval of the program augmentations in June 2020 and December 2020 helped to maintain adequate reserve coverage and meet fiscal financing needs. At the time of the Fourth Review of the EFF program, three program benchmarks were reset, with the Fund recognizing that the COVID-19 pandemic had delayed several elements of the structural reform agenda.

73. A notable element of Barbados' debt restructuring efforts supported by the Fund was the government's efforts to protect the country against natural disaster risk. A natural disaster clause was included in most new bonds in the 2018 restructuring of domestic public debt. These clauses allow for capitalization of interest and deferral of scheduled amortization falling due over a two-year period following the occurrence of a major natural disaster. While these clauses do not substantially reduce the debt burden, they insure against liquidity shortages at the time of a natural disaster. The trigger for a natural disaster event is a payout above US$5 million by the Caribbean Catastrophe Risk Insurance Facility (IMF, 2019).

74. Barbados did not draw on Fund emergency financing during the evaluation period. Prior to the COVID-19 pandemic, this was largely due to Barbados' limited the incidence of natural disasters and need for emergency finance. During the pandemic, Barbados requested augmentations of its existing 2018 EFF, rather than Fund emergency finance, to help absorb the impact of the pandemic shock. In June 2020, following conclusion of the third review of Barbados' EFF arrangement and in the context of strong program implementation, access under the EFF was augmented by 70 percent of quota (SDR 66 million). Subsequently in December 2020, following completion of the fourth review, access under the EFF arrangement was further augmented, by a further 51 percent of quota (SDR 48 million) as the country continued to grapple with the impact of the pandemic, bringing total drawings under the EFF to SDR 271m and total access to 287 percent of quota.

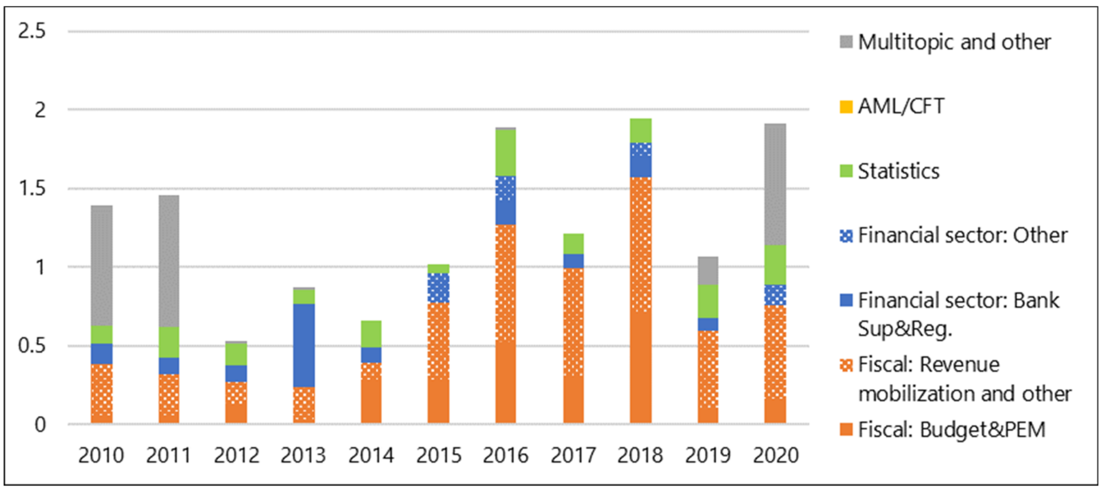
75. Interviews with officials highlighted broader appreciation for the Fund program and for the Fund's catalytic role in attracting additional emergency financing from the Caribbean

Development Bank, Inter-American Development Bank and additional funding from Latin America, to address the impact of the pandemic.

Capacity Development

76. During 2010–2020, the Fund provided substantial CD to Barbados, totaling 13.7 FTEs. Most assistance was provided for fiscal sector policy issues, including tax administration, revenue mobilization, public expenditure management, as well as fiscal policy support delivered through multitopic missions (Figure 6). Other key applications of CD were for the financial sector, including supervision, payment settlements and banking legislation, insurance supervision and liability management. Since the establishment of the EFF arrangement, a substantial share of CD has focused on fiscal policy support.

Figure 6. Barbados: Thematic Distribution of CD Provided, 2010–2020
(In full-time equivalents)



Sources: IMF (TIMS data); IEO calculations.
Notes: "Multitopic and other" includes administrative and preparatory work, e.g., scoping missions. "Financial sector: Other" includes central banking, financial crisis preparation and management, monetary and foreign exchange policy and operations issues. "Fiscal: Revenue mobilization and other" includes mainly fiscal law and revenue mobilization issues. PEM=public expenditure management.

77. CD provided by the Fund and by experts located at CARTAC is highly valued by officials and considered an important component of Fund engagement with Barbados. An FAD long-term expert serves as a resident advisor located in Barbados, to support the country's ongoing program through a comprehensive project to strengthen customs administration management and governance arrangements.

78. Officials felt that CARTAC had been invaluable both to Barbados and the region. They particularly appreciated support for Barbadian authorities' efforts to strengthen financial services delivery included support for payments systems, liquidity management, and financial stability. They noted however that needs in the financial sector are changing quickly, requiring flexibility

for the Fund and CARTAC to adapt CD delivery. While CARTAC[28] serves several members, ease of access in Barbados has helped ensure a stronger quality of interaction among its experts, the Resident Representative's office and country officials.

Collaboration with Partners

79. IMF collaboration in Barbados was most important with the CDB and IADB, which engaged with the country via program lending throughout the evaluation period. Barbados graduated from World Bank financing in 1993 and the last loan closed in FY2014. There have been no active loans since then, although in 2017, the World Bank provided technical assistance to Barbados in regard to its assessment of national risks of money laundering and terrorist financing. Most recently, however, the World Bank provided financing to Barbados to help address the impact of the COVID-19 pandemic.

80. IMF involvement, particularly in the program context, helped attract participation of other institutions interested in supporting elements of the program. And in the context of CD, there was also strong engagement and communication between the Fund and donor agencies, particularly CIDA and DFID. These donors are strong supporters of the work program in Caribbean small states and an important source of grant funding and support for climate resilience building.

81. Barbados officials have consistently objected to the use of GDP per capita indicators as a basis for IMF, World Bank and other MDB lending to small states, and have proposed the introduction of a vulnerability index among the criteria for determining such access. They have called for a unified approach by all IFIs on access, which they regard as a priority in the relationship with these organizations.

Staffing of Country Teams and Engagement of Senior IMF Officials

82. Barbados benefitted from relatively frequent Fund surveillance, with seven AIV missions taking place over the evaluation period.[29] Over the period, there were five MCs, three of whom participated in only a single AIV mission and two who participated in two missions. However, since the start of the 2018 EFF program, there has been strong MC continuity, with the same MC, appointed prior to the 2018 EFF continuing to serve in this position to the end of the evaluation period and beyond. While the average period of service of the previous four MCs was approximately two years, the most recent post has been filled for a continuous period (including the period beyond the end of the evaluation) for approximately four years. MCs. Excluding MCs,

[28] For further details on CARTAC, see De Las Casas and Balasubramanian (2022).

[29] AIV consultations took place in 2010, 2011, 2013, 2015, 2016, 2017 and 2019. Of the seven ensuing AIV staff reports, six were published.

29 staff participated in AIV missions, 20 from WHD and 9 from functional departments, including 4 from FAD,[30] 3 from SPR and 1 from MCM, and 1 from FIN.

83. Country authorities considered relations with the Fund to have improved over time, with progress reflecting the professionalism of MCs and better continuity in the staffing of missions. Earlier perceptions that the Fund adopted an inflexible approach to policy recommendations had shifted, giving way to more recent perceptions among officials of greater flexibility and more open attitude towards domestically designed adjustment, contributing to greater receptivity of Fund policy advice. Much of the progress made by the Fund in country relations was attributed to MCs seeming more willing to listen to country views and to better appreciation among MCs and in country teams of the complexities of how Caribbean economies work and of cultural factors. This greater understanding and willingness to respond to the country context had played an important part in the success of the 2018 EFF to date. In addition, greater local awareness about the Fund, boosted by the return to Barbados of Barbadians after serving in the Fund, was also helpful.

84. The reestablishment of the IMF Resident Representative office in Barbados was an important factor in strengthening Fund engagement with the country, strengthening ownership of the program. The Fund plays a role in helping to harmonize partner engagement in program and CD activities and officials look to the IMF to play this role, which includes arranging meetings between the Fund missions and donors and other institutions.

85. Country officials and Fund staff both emphasized the importance of the Fund engaging with the private sector in Barbados, as it has become important in seeking consensus on economic policies, and in monitoring programs through social partnership monitoring committees, which helps improve ownership and accountability. The Resident Representative's office ensured that regular meetings were held with the private sector and Fund missions.

C. Belize

Country Profile

86. Belize is situated on the south-east of the Yucatán Peninsula on the Atlantic coast of Central America. The country's land area is 22,860 km^2, and its population is 419,000. It is classified as a lower-middle income country, with a GNI per capita in current US dollars of $4,110 in 2020 ($4,690 in 2019).[31] Owing to migration from neighboring countries, Belize has one of the highest rates of population growth in the Caribbean, averaging 2.6 percent a year between 2010 and 2019, compared with 2 percent for the region as a whole. With real GDP growth averaging 2.3 percent over 2010–2019, it was the only country in Latin America and the Caribbean to have experienced a fall in real GDP per capita over that period (Martin and others, 2020).

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[30] Other FDs participating in AIV mission included SPR (3 AIV missions), FIN (1) and MCM (1).

[31] https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=BZ.

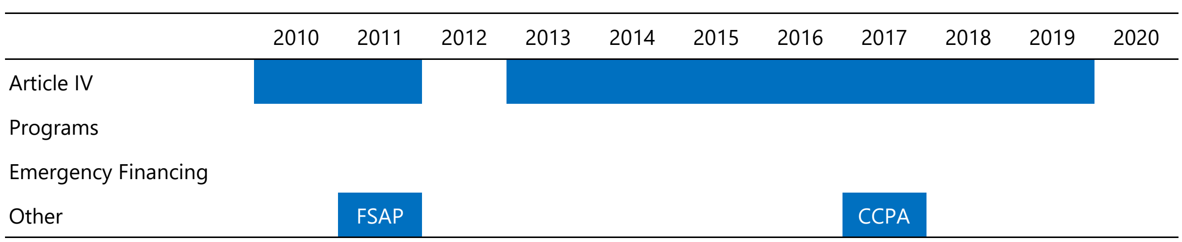
87. Belize's social conditions are precarious. Forty percent of the population are categorized as poor, 13.7 percent are unemployed,[32] and youth unemployment is estimated to be about 40 percent. Violent crime is widespread. Recent estimates show homicides at 38 per 100,000, compared with an average of 12 in emerging market and developing countries (EMDEs) (IMF, 2019). The country's average life expectancy is 74 years and the under-five mortality rate is 13 deaths per 1,000 live births. In 2020 the UN's Human Development Report measured Belize's human development index to be 0.72, compared with an average for all Caribbean SDS of 0.76.

88. Belize is highly vulnerable to natural disasters, such as flooding and hurricanes, as well as to the effects of climate change. Among small states it ranks third at risk for natural disasters and fifth at risk for climate change. Of the 182 countries in the Climate Risk Index, it ranked in the top 12 percent for climate-related disaster fatalities and the top 5 percent for losses to climate-related disasters during 1997–2016 (IMF, 2018). Belize City, the main commercial center, is on the Atlantic coast and particularly susceptible to flooding from high tides and storm surges. In 2001, Hurricane Iris submerged the city in storm surges measuring 14 feet. Mainly because of the threat of hurricanes and flooding, the capital and government center was moved from Belize City to Belmopan in 1970.

89. Under the country's parliamentary democracy, two main political parties, the United Democratic Party (UDP) and the People's United Party (PUP), have led the government since independence in 1981. Political transitions have been generally smooth. The UDP won the election in 2015 with a majority of 22 of 31 seats in parliament. In the November 2020 election the PUP of Prime Minister Briceño, won a large majority. In foreign relations, the main challenge is the ongoing border dispute with Guatemala, which claims half of Belize's territory.

90. Belize joined the IMF in 1982. Its quota is 26.7 million SDRs, and it holds 0.03 percent of total voting power. Fund engagement comprises mainly an annual Article IV consultation, CD, and frequent informal contacts between staff and officials. The country borrowed from the Fund once, in 1983–84, under an SBA arrangement (Table 3). Belize has also benefited from substantial amounts of CD support for most of the evaluation period (Figure 7).

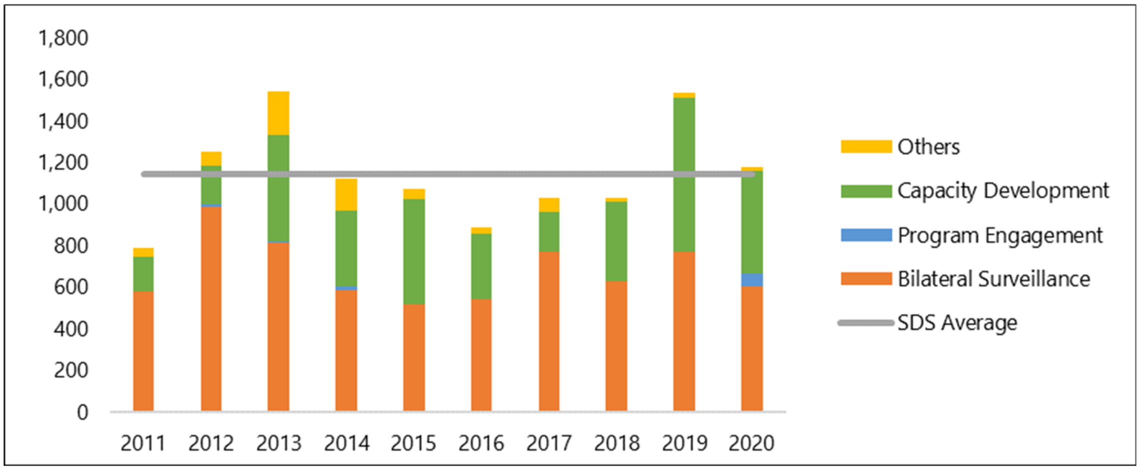
Table 3. Belize: IMF Engagement, 2010–2020



Sources: IMF; IEO calculations.

[32] 2021 Article IV concluding statement: https://www.imf.org/en/Publications/CR/Issues/2021/06/07/Belize-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-50198.

Figure 7. Belize: IMF Spending by Activity, 2011–2020
(In USD, thousands)



Sources: IMF (ACES); IEO calculations.

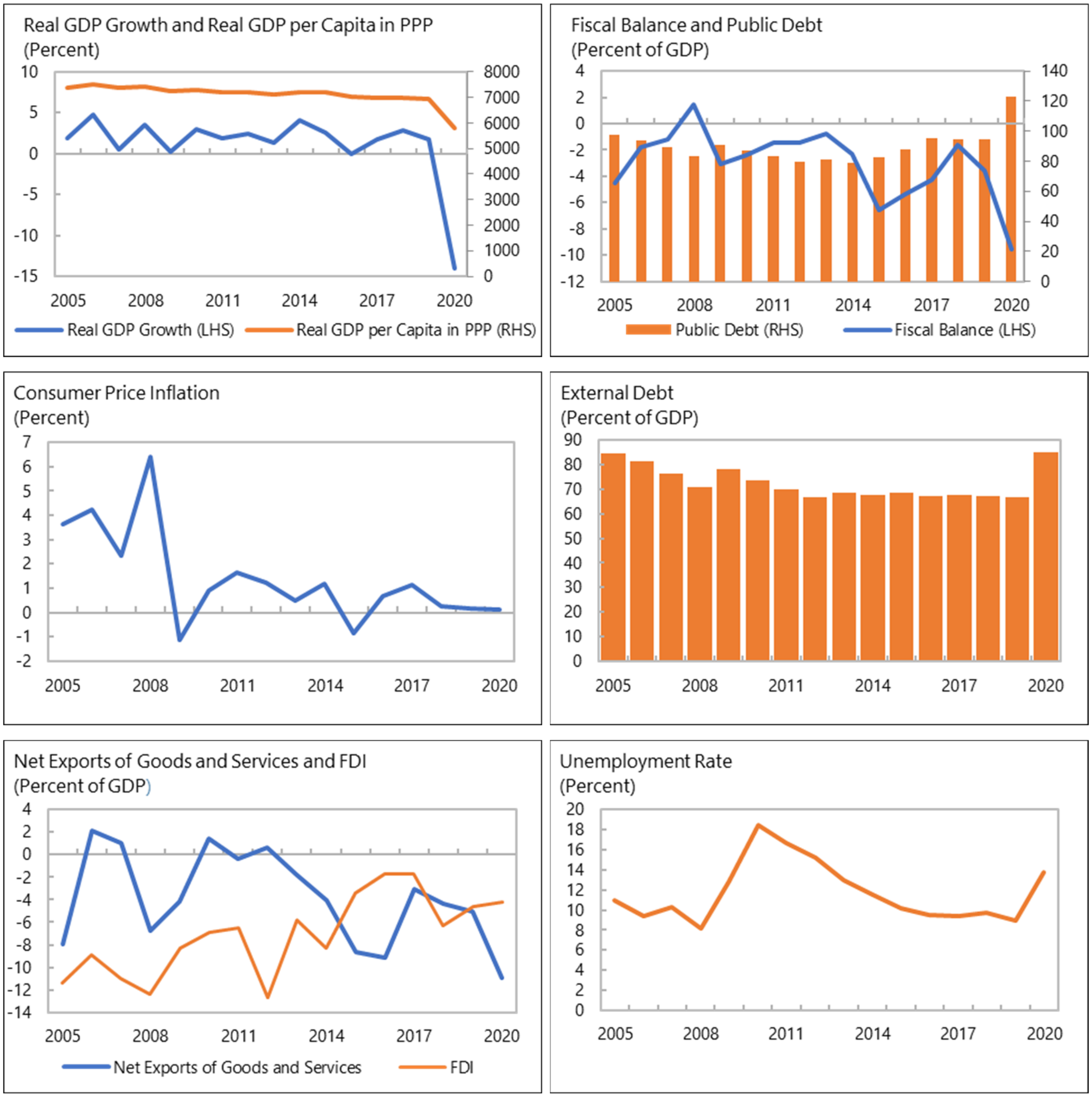
91. Belize's early economic development was based on extractive forestry (mahogany), and later on agriculture—mainly sugarcane and citrus fruit. Agriculture remains important, accounting for about 9 percent of GDP. Large scale tourism development began in the 1980s. The sector is now the main driver of the economy, accounting for about 40 percent of GDP and 37 percent of employment (Chow, 2019). In 2019 the industry received 503,000 stayover visitors, as well as 1.2 million cruise ship visitors. Other important economic activities include manufacturing and services, including transportation, distribution, and finance. Government activities account for about 13 percent of the economy.

92. The start of the evaluation period witnessed a recovery from the global financial crisis of 2008–2009 that was stronger than that of the rest of the Caribbean region (Figure 8). In 2010–2012 real GDP rose by an average of 3 percent a year as tourism recovered alongside construction and agriculture. In subsequent years, however, growth was erratic, with overall sluggish activity interspersed with short spikes in growth. The unevenness stemmed from fluctuations in agricultural output (mainly citrus and sugarcane) due to disease, low prices, and the effects of hurricanes and other weather events. Tourism activity was robust in most years, with rates of growth of stayover arrivals averaging 9 percent between 2011 and 2018, much higher than Belize's Caribbean neighbors.

93. Fiscal performance over the period was dominated by the government's efforts to lower public debt by generating primary fiscal surpluses and by negotiating debt restructurings in 2013 and 2017. However, the impact of these efforts was partially offset by an increase in the government wage bill from 10 percent of GDP in 2010 to 12.3 percent in 2019. Public sector wages increased by 25 percent between FY2014 and FY2017. Compensation payments to nationalized telecommunications and electricity companies also undermined the government's

fiscal goals.[33] However, the fiscal situation recovered between FY2017–2020 as the government strengthened revenue and curtailed the growth in spending.

Figure 8. Belize: Macroeconomic Developments, 2005–2020



Sources: IMF (October 2021 WEO); IEO calculations.

[33] According to the IMF's 2016 Country Report on Belize, ccompensation payments to the owners of the telecommunications company were equivalent to 15 percent of GDP.

94. Key issues in the financial sector were the high level of NPLs in the first half of the evaluation period; adhering to global rules on tax transparency among offshore companies and tackling AML/CFT procedures; and the loss of correspondent banking relationships (CBRs) in 2015–2016. The central bank and the largest domestic bank lost CBRs, as global banks sought to reduce reputational and compliance risks related to AML/CFT. CBR pressures eased in 2017 as banks negotiated alternative arrangements. Also, Belize was removed by the EU from its list of non-cooperative tax jurisdictions in November 2019.

95. Belize has been one of the Caribbean SDS most affected by the COVID-19 pandemic.[34] Real GDP shrank by 16.8 percent in 2020, as tourist arrivals fell by 72 percent; the hotel accommodation rate plunged to 9 percent in December 2021, compared with 36 percent at the end of 2019. Unemployment rose to 13.7 percent, and the incidence of poverty increased. As a result, the recovery is expected to be slow, with tourism and other activities not expected to recover until 2022 (BIDeconomics, 2021).

96. The fiscal situation worsened in 2020 as revenue fell sharply and spending on social spending rose to mitigate the effects of the pandemic. The primary deficit widened by 7 percentage points to 8.3 percent of GDP in FY2020, while the public debt rose from 96 percent of GDP at end–2019 to 133 percent at end–2020. The government has received financial support from the World Bank, IDB, and CDB, as well as from bilateral donors to help meet the costs associated with mitigating the pandemic. Belize requested support from the Fund to address the impact of the COVID-19 pandemic, but it was judged by staff to be not eligible for Fund support since its debt was unsustainable in the absence of strong and sustained fiscal efforts and further debt restructuring.

Main Elements of IMF Engagement

Surveillance

97. Surveillance of Belize during 2010–2020 took place in a context of low growth, falling real incomes, and weak social conditions. The public finances were characterized by rising debt and inadequate buffers to meet the need for investment in infrastructure and people that was essential for faster growth. Also, high NPLs and the withdrawal of CBRs threatened the stability of domestic banks and the entire payments system.

98. In that context, surveillance emphasized policies for sustained growth, addressing poverty and job creation, and building fiscal buffers to tackle shocks and achieve debt sustainability. Additional priorities were the strengthening of the financial system by reducing NPLs, improving supervision and compliance with global AML/CFT rules, and restoring CBRs.

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[34] As of July 26, 2021, there were 13,917 reported cases and 332 deaths from the pandemic, equivalent to 3,565, and 85, per 100,000 of population, respectively, placing Belize as the country with the 3rd highest caseload among Caribbean SDS after Suriname and The Bahamas (CNN/Johns Hopkins University).

Surveillance priorities were generally identified and agreed on in pre-mission discussions between staff and country officials, and—particularly in the fiscal and financial sectors—through the issues raised in the course of the IMF's CD work. Surveillance topics were not confined to the macro-fiscal and financial. Especially in the second half of the evaluation period, staff devoted time to discussing efforts needed to tackle crime and corruption and policies to alleviate poverty, including through education and higher female labor participation.[35] The importance of more efficient markets for labor, financial services, and public utilities was also flagged, and analytical work on factor productivity was included in the 2018 Article IV report.

99. The surveillance on Belize was conducted through Article IV consultation missions, staff visits, and frequent discussions between headquarters staff and officials at the ministry of finance, central bank, and the statistical institute to update statistics and policy developments. The annual Article IV country reports were supplemented by SIPs on key topics, and all reports were published on the Fund's website.

100. Since the onset of the pandemic, staff have been in regular (almost weekly) contact with the authorities to discuss key developments, emerging policies, and CD assistance. The Article IV consultation for 2021 was conducted virtually and without major difficulty. However, Belizean officials said that they missed the personal contacts with staff and face-to-face discussions, which in the past had helped develop the capacity of new staff in the ministry of finance.

101. Data for surveillance were assessed by staff to be generally adequate. Data on fiscal, GDP, monetary, and balance of payments developments were readily available. However, there were gaps or lags in areas such as indicators of poverty, wages, productivity, the finances of state enterprises, and GDP by expenditure. In addition, there was very limited data on the operations of non-bank financial institutions and the offshore sector.

102. The coverage of growth issues was extensive throughout the evaluation period. In the earlier discussions (2010–2016), staff focused on the need to improve Belize's business environment, as measured by the World Bank's Doing Business Indicators, particularly by tackling the poor infrastructure, the high crime rate, inadequate access to credit, and weak institutions. Discussions in the second half of the decade covered raising productivity through the reduction of skills shortages, as well as the need to diversify the economy through more effective policies of agricultural and industrial development. The emphasis on productivity and diversification was supported by research work in WHD on Belize's growth diagnostics. As an example, building on earlier work done by Hausmann (2007) and Martin (2015) for the IDB, Vasilyev (2019) identified growth constraints as including high debt, crime, skill gaps, and distortionary regulation. An additional constraint was inadequate diversification. Given the importance of tourism, discussions

[35] Measures discussed to reduce crime included providing adequate resources to law enforcement agencies and social programs for at-risk youth.

and staff's analytical work covered constraints facing the industry, and steps needed to diversify and improve the tourism product.

103. The surveillance discussions on growth were in line with the government's own Growth and Sustainable Development Strategy (GSDS) launched in 2017 and updated since on a regular basis. The GSDS set a target rate of growth of 5 percent that would be secured by enhancing the business climate, raising investment in physical and human capital, and targeting new sectors, including agri-business. In 2017, the consultation discussions included a suggestion by the staff that the authorities develop a financing strategy for the GSDS.

104. Discussions on fiscal policy throughout the period centered on the staff's recommendation that measures be taken to target primary fiscal surpluses to reduce the stock of debt, and more broadly, on avoiding a fiscal crisis which could affect the currency peg. By 2017, staff had refined its recommendation, now calling for adoption of a rules-based fiscal framework anchored on a debt target of 60 percent of GDP, supported by primary surpluses, improved PFM, and a fiscal council to oversee compliance with the rule. This was supported by research work by WHD on debt and fiscal sustainability in the Caribbean region (Alleyne and others, 2017), and subsequently by Cevik (2019). In fiscal policy as well as on growth, mission chiefs felt that research on Belize, and the Caribbean as a whole, was vital for enriching analysis and contributing to policy formulation (Appendix 1).

105. Considerable attention was also paid to tax reforms, supported by CD, to strengthen the processes and institutions of revenue collection to achieve a balanced fiscal adjustment, i.e., one that was centered not only on expenditure cuts. In addition, legislative reforms, also supported by IMF CD, were implemented after Belize was placed by the Organisation for Economic Co-operation and Development (OECD) on its list of non-cooperative tax jurisdictions in early-2019. The country was removed from the list in November 2019.

106. Regarding financial sector issues, Belize was the subject of an FSAP in 2011. It emphasized the need to improve the financial infrastructure through, for example, the setting up of a credit bureau and a more efficient inter-bank payments system. Other challenges consisted of addressing the declining quality of the banks' asset portfolio, containing exposures to large borrowers, and improving reporting from non-banks and offshore entities. The authorities felt that the FSAP had been particularly helpful as a guide to financial reform. On the basis of the FSAP, by 2014 loan classification and provisioning were strengthened, and revised legislation addressed related party transactions, consolidated supervision, and bank resolution. FSAP follow-up work is still continuing, with CD assistance from the Fund on contingency planning, a bank resolution framework, and strengthening AML/CFT processes.

107. Surveillance emphasized strengthening the banking system in line with FSAP recommendations regarding capital adequacy, provisioning, contingency planning, and a bank resolution framework. The latter was particularly useful in light of the failure of one of Belize's larger domestic banks in 2018. Supported by CD activities from headquarters staff and CARTAC, surveillance recommendations also underlined the need to increase transparency and AML/CFT

compliance in offshore financial businesses to reduce reputational risk and the loss of CBRs.[36] In addition, recommendations urged removal of the 2.5 percent interest rate floor on savings deposits to lower cost of credit and improve banks' balance sheets.

108. Additional surveillance topics included external sector issues such as the need to monitor closely the current account deficit, hold adequate international reserves, and maintain an appropriate level of the real exchange rate to preserve competitiveness. There was little discussion of climate related risk and resilience to natural disasters through 2015; the 2015 consultation, for example, did not include this topic in its list of surveillance priorities. However, after the issuance of the 2017 Staff Guidance Note on Fund Engagement with SDS, the list of priorities was expanded to cover specific policies to bolster the country's resilience to climate threats and the risks posed by the annual hurricane season. Some mission chiefs felt that the Guidance Note was helpful in ensuring coverage of essential issues. However, others felt that they risked being viewed as formulaic, or as a "box-ticking" exercise. Nevertheless, no mission chief felt that the Guidance Note constrained them from addressing topics that were macro-critical.

109. On growth, the financial sector, and climate change, officials generally agreed with staff recommendations. In the financial sector, in particular, the degree of consensus was high, and the advice together with CD support was helpful in implementing many recommendations. Authorities and staff agreed also that the fixed exchange rate system had served Belize well as an anchor of policy and that the current account deficit should be reduced to preserve stability. However, the authorities generally preferred to achieve this goal through export growth, rather than through fiscal austerity, as suggested by staff.

110. On fiscal policy, staff and authorities shared the view that debt had to be reduced through an appropriate primary fiscal surplus target. However, during 2014–2017 there was little consensus on the size of that target. In 2017, for example, staff recommended a surplus of 3–4 percent of GDP over the following three years, while officials felt that a lower target was more appropriate and compatible with the need to retain social consensus on adjustment. More broadly, in discussions on the appropriate balance between growth and adjustment, particularly through 2017, officials felt that the staff had tilted the balance excessively toward adjustment and had put forward adjustment paths that were politically unfeasible. They noted that staff presented only binary options: (i) no adjustment, and (ii) a single adjustment path selected by staff. In officials' view, presentation of more than one adjustment path might have had more traction and allowed deeper discussion of the pros and cons of the alternatives. By 2018, staff acknowledged progress on the primary surplus, although differences on the pace adjustment remained.

111. The surveillance toolkit has been helpful in developing the analytical capacity of the Ministry of Finance. Authorities generally agreed with the staff's analysis of risks to debt sustainability, and DSAs have been essential in framing discussions with creditors on the

[36] In 2018, there were about 36,000 international business companies registered in Belize.

country's debt restructuring exercises.[37] However, authorities have disagreed with the staff's categorization of Belize's debt as unsustainable. At the time of the 2015 Article IV consultation, for example, officials agreed with staff that the debt (at 78 percent of GDP) was higher than prudent. However, they continued to be disappointed that staff had characterized it as an unsustainable level. They referred to other countries where debt ratios had been higher than Belize's, but were nevertheless judged to be sustainable, and urged staff to be "less editorial" in their assessments. Officials also suggested that, where contingent liabilities whose values are subject to uncertainty were included in DSAs, these should be highlighted explicitly and interpreted with caution.

112. A pilot CCPA on Belize, carried out jointly with the World Bank in 2018, was a major step forward in specifying policies to build climate resilience. The exercise was welcomed by the government, which viewed it as an appropriate shift in the Fund's approach. The CCPA helped place greater attention in the budget to climate change and resilience, and to mobilizing financing from donors for climate-related projects. IMF surveillance work has adapted by highlighting climate resilience and incorporating estimates of the cost of climate resilience into the medium-term fiscal framework. Following the completion of the CCPA the government stepped up its efforts to strengthen the physical infrastructure for resilience, for example, by retrofitting roads and bridges. It also collaborated with the World Bank on setting up a contingency fund and reached agreement with the IDB on a US$10 million Contingent Credit Facility. The authorities have expressed interest in the preparation of a DRS, such as that for Dominica and Grenada.

113. Authorities indicated that the Fund's surveillance work was valued for the quality and scope of its analysis, and for its contribution in providing an independent assessment of the economy and policy options. Officials welcomed the resources and attention placed on climate resilience and its importance for sustaining growth. Beginning in 2018, mission chiefs also observed that officials appeared to appreciate the work of missions, including tools such as the DSA and CCPA, and medium term macro-fiscal frameworks. Officials and staff agreed that greater emphasis on enhancing resilience, access to climate finance, and greater specificity of policy recommendations for boosting growth would have been desirable.

Program Work and Emergency Financing

114. Despite its persistent fiscal and external imbalances Belize has not borrowed from the Fund since the SBA of 1983–1984. The main reason has been the reluctance of both main political parties to accept conditionality associated with a Fund-supported program. As in other countries in the region, conditionality has been viewed as potentially costly, to the extent that it is often presented by the political opposition as representing an incapacity by governments to

[37] In the 2017 debt restructuring agreement with creditors, Belize committed to a primary surplus target that was in line with staff advice. In the event, the target was missed and CD assistance was requested to determine why and to recommend remedial measures.

manage the economy and correct imbalances.[38] Belize was able to avoid IMF borrowing also because of its access to alternative sources of financing, including central bank borrowing and budget support loans from other lenders, including the IDB, the CDB, and the CAF. As noted, two debt reschedulings in 2013 and 2017 also released resources for the budget.

115. In 2020, faced with the economic and financial disruption caused by the COVID-19 pandemic, Belize approached the Fund for financing equivalent to 100 percent of quota (SDR 26.7 million) under the RFI. However, the country was deemed ineligible by staff without further commitments because of the unsustainability of its debt. An alternative proposal by staff—financing equivalent to 50 percent of GDP under the RFI, supported by a commitment to a subsequent SBA—was unacceptable to the government. Instead, Belize secured financing from the World Bank, IDB, and CDB, as well as from Taiwan, Province of China. In addition, the central bank issued a 5-year, US$30 million bond, with a coupon of 6.5 percent, to boost its international reserves. Officials indicate that Belize plans to press ahead with a home-grown fiscal program aimed at achieving a primary surplus through measures to contain the wage bill and other spending. The program also includes proposals for a new restructuring of the public debt.

Capacity Development

116. Over the period 2010–2020 Belize received a total of 9.4 FTEs of TA from the Fund (Figure 9).[39] CARTAC was the main vehicle for CD provision. In FY2020 alone, CARTAC fielded 17 missions comprising 20 persons who spent a total of 168 days and prepared 9 reports (CARTAC, 2020). While not included in the database, CD advice was also supplied by Article IV missions in the form of, for example, presentations and guidance on the use and analysis of surveillance tools such as the DSA, and the design of medium-term fiscal frameworks. Mission members from LEG, for example, provided valuable assistance to the authorities in the period leading up to the debt restructurings of 2013 and 2017. Finally, staff from the central bank have participated in training at Fund headquarters in topics such as advanced forecasting and cybersecurity supervision.[40] Requests for CD originated mainly from gaps identified by the authorities or by the staff in the course of surveillance work, which pointed to coherence between these two key pillars of engagement.

117. Belize has received CD in the areas of fiscal policy, PFM, tax administration, financial system regulation, and macroeconomic data. In public finance, the main areas of CD were

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[38] The sentiment is captured in the following excerpt from Prime Minister Briceño in a statement to the press in March 2021: *"As a country, and as responsible leaders, I think we have a better understanding as to what we're going through. We have people with the expertise and with the ideas to be able to put [together] a full homegrown economic recovery plan, as opposed to having people outside of Belize imposing on us what it is that we need to do. We know what we have to do, we have done it before…."* https://edition.channel5belize.com/archives/216237

[39] An FTE is defined by the IMF as equivalent to one staff member working full-time for one year. Most CD originated from authorities' requests but IMF staff also advised authorities to request CD in the financial sector.

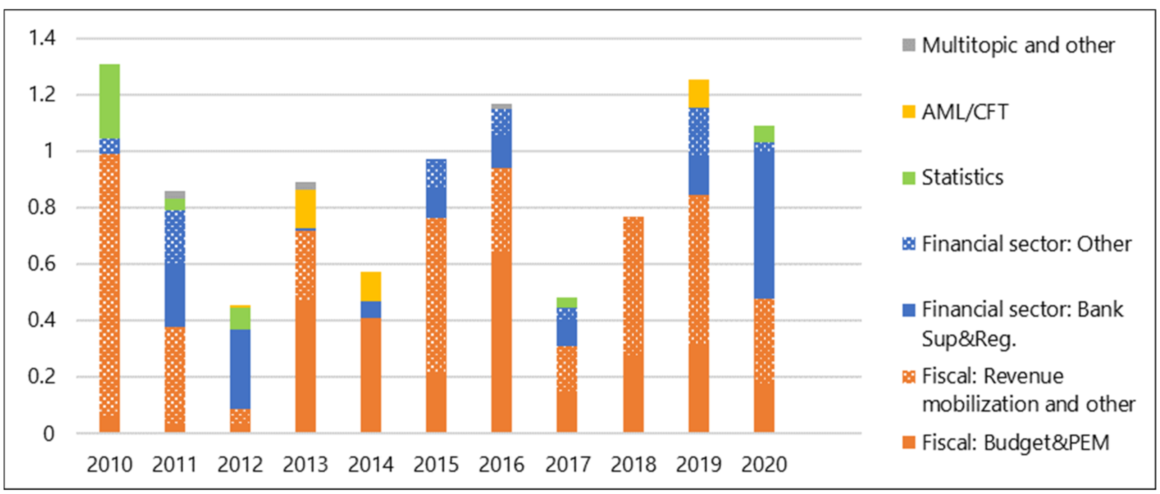
[40] Training of country officials at headquarters is not captured by the CD/TIMS database.

customs and tax administration, PFM, public investment management, establishing a front, middle, and back office for debt management operations, and advice on merging the general sales tax department with the income tax department. In the financial sector, the priorities were supervision and regulatory strengthening, setting up a financial stability framework, and developing crisis management and bank resolution plans. Support was also provided to strengthen the macro-prudential policy framework and update financial sector legislation and tools for AML/CFT oversight. Efforts in statistics targeted implementing SDDS requirements and improving the quality of balance of payments and debt statistics.

118. CD support provided by the Fund has been valued highly by mission chief and officials. Officials felt that the amount and content of CD assistance was well targeted and recognized that much of the capacity in the areas of fiscal analysis, PFM and tax and debt management in the ministry of finance, as well as in bank supervision, had been developed through the IMF's CD work. The impact of CD included also greater resilience in public finance management and the financial sector. The authorities viewed continued assistance to Belize through CD as important for strengthening engagement with the Fund. However, weak capacity, exacerbated by the brain drain, has resulted in many CD recommendations remaining unimplemented. Officials suggested that implementation could be strengthened if the Fund provided resident advisors to oversee implementation of priority projects.

Figure 9. Belize: Thematic Distribution of CD Provided, 2010–2020

(In full-time equivalents)



Sources: IMF (TIMS data); IEO calculations.

Notes: "Multitopic and other" includes administrative and preparatory work, e.g., scoping missions. "Financial sector: Other" includes central banking, financial crisis preparation and management, monetary and foreign exchange policy and operations issues. "Fiscal: Revenue mobilization and other" includes mainly fiscal law and revenue mobilization issues. PEM=public expenditure management.

Staffing of Country Teams and Engagement of Senior IMF Officials

119. Country work, including missions, was adequately resourced, led by a mission chief and supported by two full-time economists, all of whom had additional country surveillance assignments. In 2017–2019 the mission chief was also deputy mission chief for the United States. During the evaluation period, there was an Article IV mission to Belize every year, except for 2012. In addition, there were staff visits in four of those years to update information and the macroeconomic framework ahead of Belize's annual budget.

120. Staff turnover was relatively low. Between 2011 and 2019, there were four different MCs. All, except one MC led two or more missions. Missions were staffed by two-three WHD economists (except in 2019) supplemented by staff from one of the functional departments, such as MCM, FAD, LEG, or STA. At least one, and often two WHD staff participated in more than one mission, with the result that there were no missions in which the entire team was new. This has contributed to generally good relations between staff and Belizean officials.

121. While they encountered few difficulties in staffing missions, some mission chiefs felt that better incentives were needed to attract staff to work on SDS. Incentives had been eroded recently by management's decision to make promotion to grade A15 contingent on a candidate having experience in either a fragile state or a low-income country, but not an SDS.

Collaboration with Partners

122. Collaboration among institutions on Belize took place mainly on a bilateral basis between Fund staff and the staffs of the World Bank, the CDB, and the IDB. Also, the ministry of finance has helped to promote collaboration by arranging meetings on CD between the IMF and other international institutions when visits from those institutions coincide. In general, there was broad agreement between the IMF and the World Bank on the main challenges and policy priorities facing Belize. The list comprised growth potential and prospects, debt sustainability, banking system stability, and building capacity in Belizean economic management institutions. In addition, there was close collaboration on joint projects, such as the 2011 FSAP and the 2018 CCPA. Currently, the Bank is assisting Belize on climate change resilience and setting up of a fund for disaster financing.

123. Collaboration with the IDB has been helpful in increasing the IMF staff's understanding of key socio-structural issues, such as poverty, crime, labor markets, and education, to which the IDB has devoted considerable resources in Belize. Recently, IDB staff has worked alongside IMF missions to provide support in these areas, and IDB and World Bank staff participated in the 2020 Article IV mission. Currently, the IDB is providing CD support to help improve medium-term projections and expenditure management—areas in which the IMF has considerable interest. The IMF has, in turn, supported IDB lending operations by providing assessment letters on the macroeconomic situation. To improve collaboration with the World Bank and the IDB, some mission chiefs suggested that information sharing between institutions could be strengthened by

supplementing informal contacts and ad hoc meetings with a more structured arrangement consisting of regular briefings of country teams on ongoing operations, TA, and future plans. IMF country reports on Belize through 2015 refer to meetings of IMF and World Bank teams to discuss operations, however these references were discontinued in 2016.

D. Dominica

Country Profile

124. Dominica is located in the center of the group of Caribbean islands that extends from Trinidad and Tobago in the south-east to Puerto Rico in the north-west. It has a land area of 750 km^2 and a population of 75,000, the second smallest in the English-speaking Caribbean. The average GNI per capita in current US dollars in 2020 was $6,870, and it is classified by the World Bank as upper middle-income. The rate of poverty is estimated at about 33 percent, while the unemployment rate in 2019 was 24 percent. The average life expectancy was 76 years, and the under-five mortality rate was 35 per 1,000 live births. Dominica's human development index was 0.74, equivalent to a ranking of 94 among 189 countries. In recent years, Dominica's population has been falling as a result of emigration, and about half of Dominican nationals live abroad.

125. According to the Climate Risk Index, Dominica was the country with the highest losses in terms of GDP from climate-related natural disasters during 1997–2017, and it was in the top 10 percent of 182 countries in climate related fatalities. In 2015, Tropical Storm Erika inflicted damage to the country's productive capacity and infrastructure equivalent to 96 percent of GDP. While the country was still recovering, Hurricane Maria hit in 2017. It was the country's worst disaster, causing damage equivalent to 226 percent of GDP. Little was spared in each of these storms: crops and farmland, roads and bridges, the airport, manufacturing plants, hotels, and housing were all badly damaged. Staff estimated that it would take at least three years for economic activity to recover to pre-Hurricane Maria levels. Financing for hurricane relief was provided by the Fund, the World Bank, the CDB, and bilateral donors. The Caribbean Catastrophe Risk Insurance Facility made compensation payments totaling US$20 million to the government following Hurricane Maria.[41]

126. Dominica gained independence in 1978. Since then, it has been a parliamentary democracy with two main political parties, the Labour Party and the United Workers Party. In the last general elections in 2019 the Labour Party, led by Prime Minister Roosevelt Skerritt, retained its large majority in parliament.

127. Dominica joined the IMF in 1978. Its quota is SDR 11.5 million, and it holds to 0.03 percent of voting power. It has made use of the Fund's emergency financing three times

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[41] The Caribbean Catastrophe Risk Insurance Facility was established as a catastrophe insurance facility with support from the World Bank. Member countries pay premia to the facility and benefit from insurance coverage in the event of a hurricane or earthquake.

over the evaluation period. It benefitted from a DRS completed in 2021 and a constant provision of CD support throughout the evaluation period (Table 4 and Figure 10).

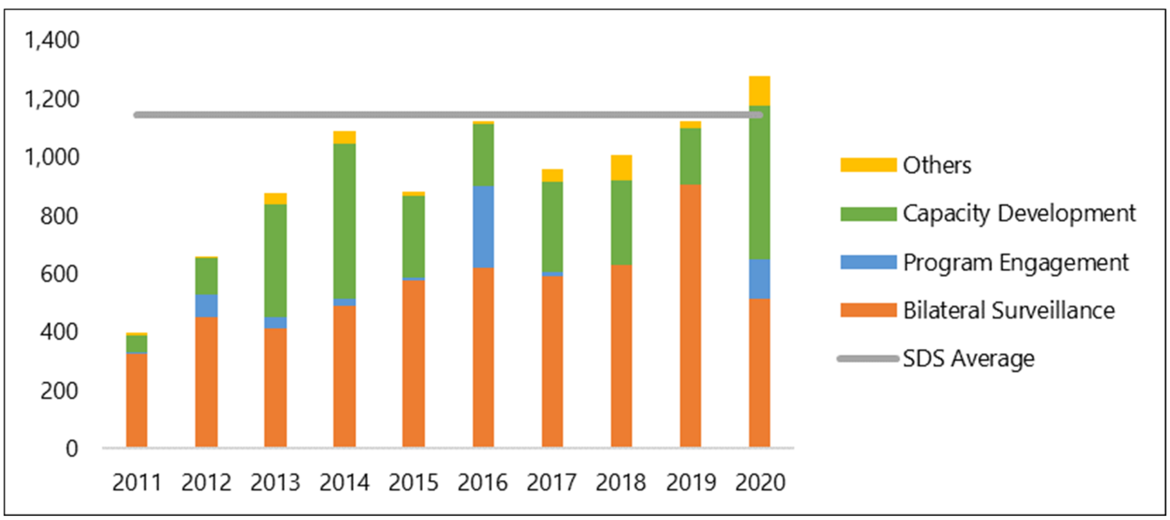
128. Dominica was severely affected by the loss of preferential access to EU banana markets in the mid-1980s. Since then, it has been managing a transition to tourism that has been slow due to low hotel capacity and the absence of an airport capable of handling direct flights from the key North America and European markets.[42] As a result, agriculture has remained an important sector, accounting for about 7 percent of GDP in 2018. Other key sectors are construction, distribution, transportation, and medical education (offshore medical schools).

Table 4. Dominica: IMF Engagement, 2010–2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Article IV											
Programs											
Emergency financing			RCF			RCF					RCF
Other											DRS

Sources: IMF; IEO calculations.

Figure 10. Dominica: IMF Spending by Activity, 2011–2020
(In USD, thousands)



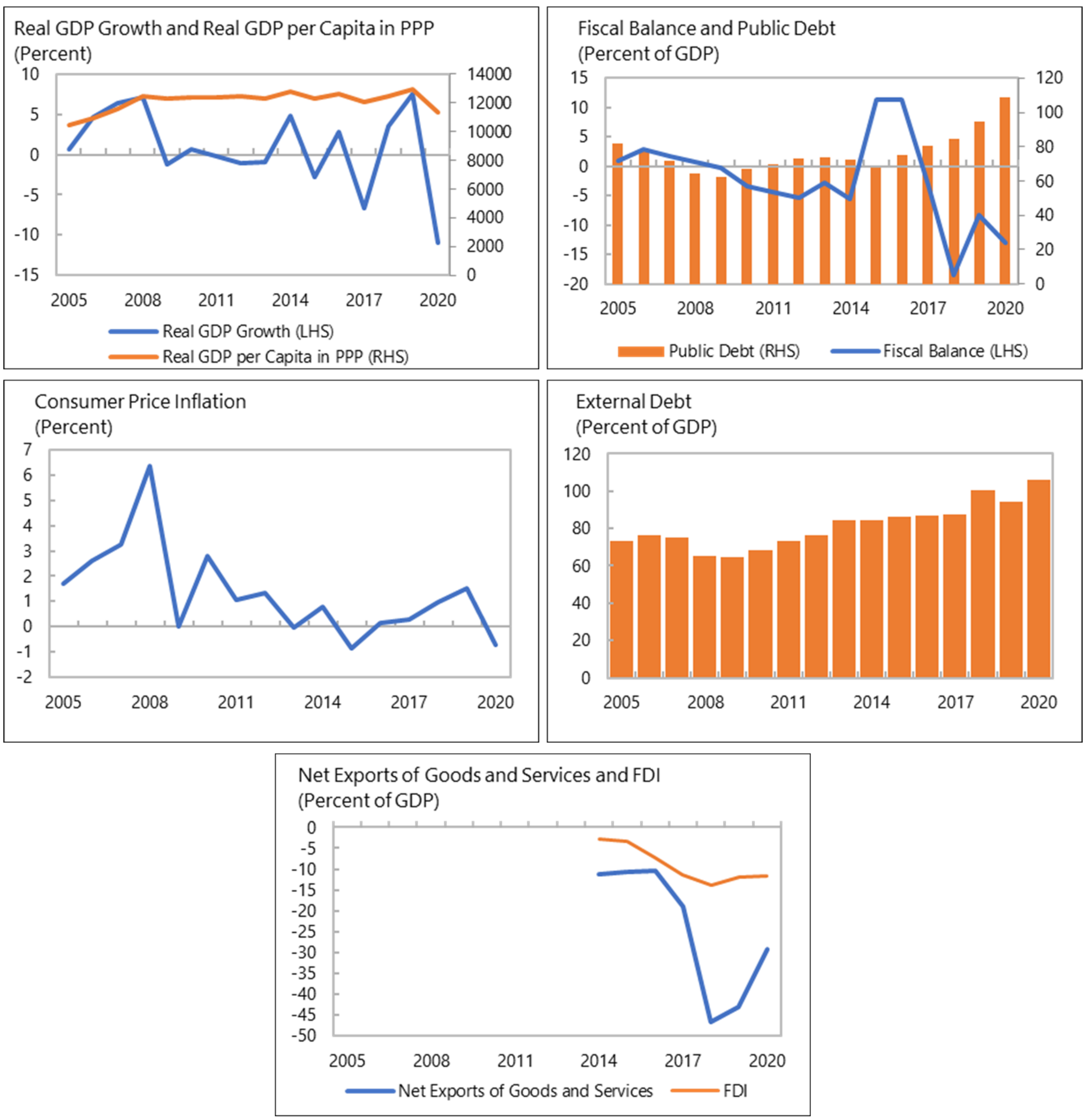
Sources: IMF (ACES); IEO calculations.

129. Dominica was not as severely affected as other Caribbean SDS by the fallout from the 2008–2009 global financial crisis partly because of its lower reliance on tourism and looser linkages to the global economy (Figure 11). Despite this, the annual average rate of real GDP

[42] Direct flights from the US started in December 2021.

growth was less than 1 percent a year in 2010–2014, and the economy contracted by 0.5 percent a year on average in 2015–2019. This compares with growth rates of 1.3 percent, and 0.3 percent, respectively, for all Caribbean SDS. Dominica's average income per capita fell by 2 percent a year in 2015–2019. The weak performance stemmed from the country's limited capacity to diversify into tourism, inadequate physical infrastructure, a shortage of skilled labor, and high energy costs. These features contributed to low productivity. Large weather-related shocks in 2011–2012, 2015, and 2017 also dampened output growth.

Figure 11. Dominica: Macroeconomic Developments, 2005–2020



Sources: IMF (October 2021 WEO); IEO calculations.

130. At the start of the evaluation period, Dominica operated under a robust fiscal framework with relatively low debt. Fiscal policy was anchored on maintaining a primary surplus of about 3 percent of GDP, and the authorities' adherence to this target led to a reduction in the debt/GDP ratio from 84 percent of GDP in 2001–2008 to 72 percent in 2010–2014. However, because of hurricanes in 2015 and 2017 fiscal and debt targets had to be deferred to accommodate spending on relief and rehabilitation. Most of this was financed by revenues from the Citizenship by Investment (CBI) program, grants, and concessional loans.[43] By the end of 2019 the debt ratio had reached 91 percent of GDP.

131. The financial system in Dominica comprises one domestic and four foreign banks, several credit unions, and 18 insurance companies. There was a small offshore sector during 2010–2018 but the government has stopped issuing licenses for new activity. Credit unions manage about 60 percent of the assets (equivalent to about 50 percent of GDP) in the financial system and their membership covers about 80 percent of the population. The emphasis of the authorities was on maintaining stability in the financial system by monitoring the asset quality of banks and credit unions. Due to its membership in the currency union, Dominica does not conduct independent monetary or exchange rate policies. Liquidity in the banking system was high due largely to weak credit growth stemming from inadequate borrower information and the inability of small firms to meet banks' credit underwriting requirements. Despite this, lending rates remained at about 9 percent, owing in part to a floor on deposit rates of 2 percent set by the ECCB.

132. The COVID-19 pandemic had a devastating impact on Dominica,[44] although three hurricanes had a greater GDP impact during the evaluation period. The government's response included a sharp increase in health-related expenditure, cash transfers to the unemployed, and a temporary extension of the deadline for income tax payments. As a result, the fiscal balance shifted to deficit of 2.5 percent of GDP in 2020, and the public debt rose from an average of 81 percent of GDP in 2015–2019 to 97 percent at end–2020.

Main Elements of IMF Engagement

Surveillance

133. Surveillance activities in Dominica over the evaluation period comprised annual visits by missions to conduct Article IV consultation discussions and staff visits to update the macroeconomic framework. Between missions, staff and country officials were in frequent contact to exchange information and discuss emerging issues. During 2010–2020, five Article IV consultation staff reports were published, four were not published, and in 2014 and 2020 there were no consultations. The 2019 Article IV consultation was conducted on a lapse-of-time basis.

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[43] The CBI allows successful applicants to obtain Dominican citizenship through a cash contribution of US$100,000 or an investment of $200,000 in a pre-approved investment project.

[44] As of July 26, 2021, the country had registered 209 cases (278 per 100,000) and no deaths from the virus (PAHO, 2021).

134. Since the outbreak of the COVID-19 pandemic, the frequency of contact between country officials and staff has increased and virtual surveillance has facilitated the involvement of more ministry of finance staff and other officials in the exercise. A downside has been the uneven quality of internet connections that can result in meeting cancellations. Also, in the virtual setting mission staff lose first-hand information on local conditions and communication is affected by the loss of face to-face contact. Officials felt that after the pandemic Article IV visits may no longer be necessary every year; options for some countries could include face-to-face missions in alternate years.

135. Throughout the evaluation period, the main issues discussed in surveillance were fiscal targets and policies to achieve them, measures to preserve stability in the financial system, and how to address the constraints to growth. Other topics discussed included productivity and the economic impact of natural disasters. Staff research on these issues was presented in SIPs and annexes to staff reports. Topics covered in SIPs included the macroeconomic implications of fiscal consolidation, management of CBI programs, and vulnerabilities in the financial sector. Annexes explored diversification of the economy, energy issues, and the finances of SOEs. Because of the three tropical storms/hurricanes that hit the country in 2012, 2015, and 2017, surveillance also covered discussions on how to manage post-hurricane spending on relief and rehabilitation, build resilience, and preserve debt sustainability. Following the 2015 hurricane staff prepared papers on the impact of tropical storms and on a proposal for a savings fund for natural disasters. After Hurricane Maria in 2017, the government's primary focus shifted to building climate resilience and making Dominica the world's first climate resilient nation.

136. In the discussions on fiscal policy, staff recommended that the main objectives should be to preserve a level of primary fiscal surplus (2–3 percent of GDP) that would allow reaching the debt/GDP target of 60 percent by 2030 established by the ECCB for all members of the currency union. Staff suggested achieving these targets through reductions in tax exemptions and cuts in current expenditure, which would create space for spending on infrastructure and on relief and rehabilitation following natural disasters. Resources from the CBI program would be allocated to resilient infrastructure and a savings fund for natural disasters. This framework would be supported by the introduction of a fiscal rule and strengthened PFM. Country officials agreed with staff's recommendations, noting that some would need to be implemented with CD support. That said, officials felt that surveillance over fiscal policy could have been strengthened through increased coverage of the processes and quality of public investment, and the financial condition of SOEs, comprising mainly public utilities and a development bank, with debt equivalent to about 12 percent of GDP.[45]

137. There was a sustained discussion of growth throughout the evaluation period. Staff's analysis was that there was limited scope for higher public investment as an engine of growth. Dominica already had one of the highest ratios of total government expenditure and capital

[45] In 2018 the Staff Report included an annex on SOEs, including the impact of Hurricane Maria.

expenditure to GDP and the scope for increased spending was limited by the need to maintain a sustainable level of debt. As a result, faster growth required higher rates of private investment that could be promoted by a better business environment, incorporating improved and resilient infrastructure, streamlined business regulations, lower energy costs, and better access to credit through the creation of a central credit registry. Also, drawing on the experience of other SDS, including Mauritius, staff recommended that the authorities increase productivity by addressing the shortage of skills and the inflexibility in labor regulations.[46] Moreover, there was scope to upgrade the tourism industry and pursue diversification.[47] Officials broadly agreed with the staff's recommendations. They noted that they were consistent with the government's Growth and Social Protection Strategy (GSPS) for 2014–2018, which prioritized (i) diversification away from agriculture, (ii) upgrading infrastructure and making it more resilient, (iii) addressing the skills deficit, and (iv) lowering energy prices, including through developing the country's geothermal potential.

138. Discussions on the financial system centered on stability issues, including high NPLs, weak balance sheets, and inadequate capital in banks and credit unions. Staff called for actions to address NPLs, which had increased as a result of Hurricane Maria in 2017, and a strengthening of supervision over credit unions and insurance companies. Staff also discussed policies to tackle structural rigidities, such as the minimum savings rate of 2 percent set by the ECCB, which contributed to high deposit and lending rates, as well as the high level of bank liquidity and slow credit growth. In light of Dominica's reliance on remittances and CBI revenues, staff also emphasized the need to strengthen AML/CFT practices to reduce the risk of losing CBRs. Officials broadly agreed with these recommendations, except for the suggestion to reduce or eliminate the minimum savings rate, as this required the agreement of all members of the ECCU.

139. Regarding surveillance tools, officials acknowledged the DSA as a robust analytical tool for debt and macro analysis. Debt was a critical issue, and a tool like the DSA was vital for a thorough analysis. However, they considered that the DSA was overly complex, particularly in its modelling aspects. Some staff agreed that the DSA was overly complex and required inputs and data that were not always available in SDS. They looked forward to the continuation of work started in ICD on simplifying the DSA.

140. According to staff interviewed for this evaluation, statistics needed for surveillance are adequate. However, they saw the need for more timely and improved data on fiscal and agricultural indicators, credit union finances, the balance of payments, and, especially, on social indicators and the labor force.[48] These weaknesses reflected capacity gaps in the statistics

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[46] The Selected Issues Paper in April 2017 assessed the effect of natural disasters on productivity and the impact of out-migration on human capital. It concluded that Dominica's low growth was the result of the declining contribution of total factor productivity, and that labor was allocated to sectors with low productivity.

[47] See "Export Development and Diversification in Dominica," in Selected Issues and Analytical Notes, June 2018.

[48] The latest labor force indicators on the website of the Central statistical Office cover 2011.

division, the ministry of finance and the credit union regulator, and constrained a more thorough analysis of the economy. CARTAC, the ECCB, and the Canadian Statistics Agency are assisting in strengthening capacity and the organizational structure of the Statistics Division.

141. Bilateral surveillance of Dominica was complemented by the annual regional surveillance exercise over the ECCU. It sought to promote consensus on strengthening the currency union by addressing risks to financial stability, entrenching prudent fiscal rules, and building resilience. Surveillance was supported by research on a wide range of topics. The last regional surveillance mission in 2019 concluded with a final meeting in which ministers of finance and financial secretaries participated.

142. Overall, Dominican officials interviewed for this evaluation valued bilateral surveillance, as the exercise provided the only comprehensive annual analysis of the economy and policy recommendations. SIPs, annexes, and boxes provided helpful analytical insights on specific topics. In addition, tools such as medium-term macro frameworks and DSAs helped identify risks and measures to address them. The inclusion of specific sections on the authorities' views was considered a welcome addition, aiding balance and context. There was broad agreement between officials and staff on the key actions needed to support growth and achieve fiscal as well as financial sector stability. The authorities consented to the publication of most consultation reports but objected when they thought staff's statements could be taken out of context, politicized, or cause anxiety (for example, about the banking system). Regional surveillance provided the authorities opportunities to discuss measures needed to strengthen the currency union, but it was seen as less relevant than bilateral surveillance to the priorities of domestic policymaking.

Program Work and Emergency Financing

143. Dominica has been a frequent user of the Fund's emergency financing over the evaluation period. Disbursements of SDR 2.05 million (25 percent of quota) and SDR 6.15 million (75 percent of quota), respectively, took place in 2012 and 2015 under the RCF. In 2020, Dominica borrowed again under the RCF (SDR 10.28 million, or 89 percent of quota) to address the effects of the COVID-19 pandemic.[49] Although emergency financial does not involve ex post conditionality, the Dominican authorities made policy commitments in a letter of intent to help address policy imbalances. Under the 2015 RCF drawing the government made policy commitments, equivalent to 6 percent of GDP over five years, that included raising taxes, containing wage growth, and re-programming capital expenditure. Commitments under the 2020 drawing were equivalent to 5.7 percent GDP over 6 years, beginning in 2021, and related to revenue strengthening, civil service and pension reviews, and the efficiency of capital transfers. At the time of the 2020

[49] Borrowing in 2020 was facilitated by a temporary increase in the limit for access under the RCF from 50 percent of quota to 100 percent.

request, it was envisaged that the Fund would finance about one-quarter of the total financing gap, of about US$65 million, and the World Bank and CDB would finance the remainder.

144. The Dominican authorities expressed concerns regarding the Fund's emergency financing facilities for dealing with natural disasters, particularly the cumulative limit of 133.33 percent of quota. [50] They appreciated the fact that the Fund was the first among international institutions to arrive in the country after Hurricane Erika in 2015 and worked hard to get the loan disbursed only one month after the storm. However, the size of the support was equivalent to less than 2 percent of the estimated total damage. After Hurricane Maria struck in 2017, with a loss equivalent to about 226 percent of GDP, Dominica was deemed not eligible for access under the RCF because its outstanding debt under the facility was already at the limit at that time (100 percent of quota). The authorities were disappointed with that decision and considered that the Fund's facilities were not adequate to cope with the high vulnerability of Caribbean SDS to natural disasters. Both staff and officials felt that this inability to respond represented an important gap in the Fund's toolkit. Nevertheless, officials acknowledged that the Fund's involvement was catalytic, as the medium-term macroeconomic framework developed by the staff helped facilitate lending from other sources, mainly the World Bank and CDB (through budget support loans and by re-programming project loans). Additional resources came from donors and the CBI program.

145. Dominica did not borrow under SBA or EFF arrangements during 2010–2020. The reasons are similar to those put forward by other Caribbean SDS: low access levels, the desire to avoid conditionality, and the availability of resources from other lenders, including the World Bank and the CDB, as well as from domestic sources, such as CBI revenues. In addition, according to officials, the public perception of the IMF is still influenced by a narrative of harsh conditionality in earlier IMF programs in the region, including wage and employment cuts. Thus, there is high reluctance to incur the political risk and stigma of requesting a program from the IMF with ex post conditionality.

Capacity Development

146. During the evaluation period the country received substantial CD from the Fund: a total of 10.2 FTEs, equivalent to 8 percent of all CD received by Caribbean SDS. Most of the assistance was provided in the fiscal area, particularly PFM and customs and revenue administration (Figure 12). Other key areas were the financial sector (supervision, stress-testing frameworks and crisis management for nonbanks), macroeconomics and programming (macro-fiscal programming), and statistics (national accounts and the balance of payments).

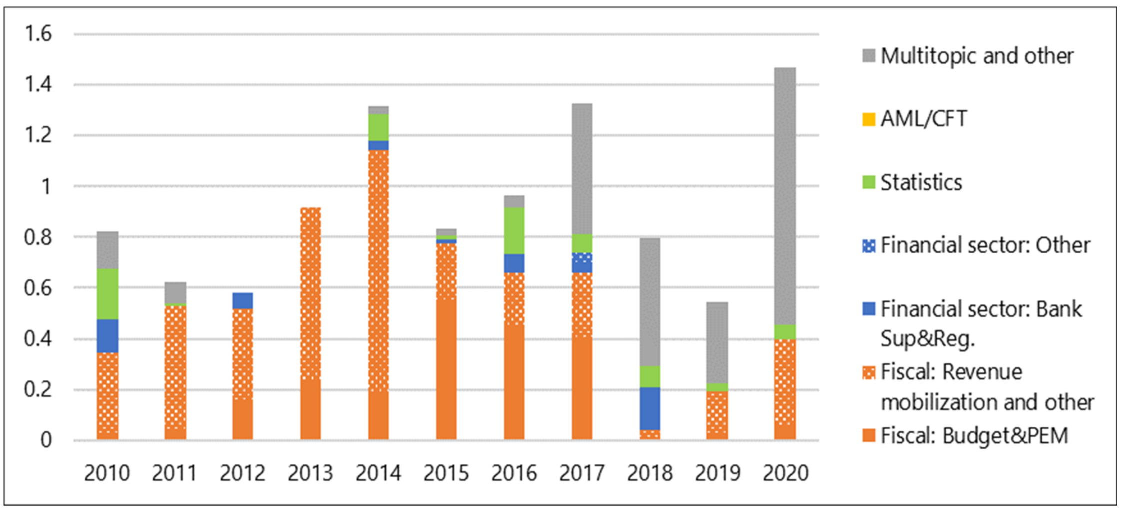
147. Most CD was provided through CARTAC, which, according to officials, does an excellent job in terms of responsiveness. In FY2020, for example, CARTAC fielded 8 missions totaling 59 days, most of which were in customs and tax administration and PFM—key priorities

[50] https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility.

identified in surveillance. Mission teams have also provided CD through their continuous advice and analytical inputs into fiscal frameworks, cash flow analysis, and fiscal measures. According to officials, some CD, particularly follow-up missions from HQ, has been supply-driven, but the timing of CD visits is determined by the ministry of finance.

148. Officials felt that Fund HQ staff and CARTAC experts delivered CD effectively, although the limited domestic capacity to implement recommendations is a challenge. A recent example of effective CD delivery and implementation was the work over several years to improve Dominica's budget and treasury processes. CD was carefully designed and support was provided during the implementation phase. Officials felt that resident advisors can be helpful in speeding up implementation of complex reforms, such as customs modernization. They observed that CD is output-based (number of visits, days, etc.) and should be more outcome-based, and that resident advisors can help in this transition.

Figure 12. Dominica: Thematic Distribution of CD Provided, 2010–2020
(In full-time equivalents)



Sources: IMF (TIMS data); IEO calculations.
Notes: "Multitopic and other" includes administrative and preparatory work, e.g., scoping missions. "Financial sector: Other" includes central banking, financial crisis preparation and management, monetary and foreign exchange policy and operations issues. "Fiscal: Revenue mobilization and other" includes mainly fiscal law and revenue mobilization issues. PEM=public expenditure management.

Disaster Resilience Strategy

149. The process of developing a DRS was facilitated by the considerable amount of work done in Dominica on disaster preparedness beginning in 2012.[51] After being devastated by two hurricanes in 2015 and 2017, Dominica declared its intention to become the world's first disaster-resilient nation. Against this background, the government agreed to participate in a pilot DRS

[51] For a list of these initiatives, see Government of Dominica (2018).

exercise. As set out in the Fund's 2019 policy paper on building resilience in developing countries, the DRS would provide a roadmap for policy design and sequencing and facilitate coordination of donor support for national plans. It would help focus national attention on preparation for disasters, while providing a basis for support from development partners. In the view of officials, a DRS could help support and refine initiatives already undertaken by the government to address its climate vulnerability, and in the absence of a CCPA, a DRS could help define Dominica's priorities regarding climate resilient projects and be shared with donors. Also, as a regional leader in climate resilience, Dominica could share its DRS with other vulnerable countries.

150. Dominica's DRS was finalized in February 2021. It was prepared by the Dominica Ministry of Finance, in consultation with the Climate Resilient Execution Agency of Dominica (CREAD), with support from the IMF. The report benefitted from comments from other partners, including the World Bank and the Caribbean Development Bank. The process was time consuming, requiring research and climate damage modelling. The modelling of estimates of the financing needs for disaster resilience was carried out by Fund staff, drawing on earlier work of the NRDP and CCRP, and information from the CREAD which has responsibility for facilitating the execution of large projects aimed at promoting resilience.[52]

151. The DRS sets out the authorities' strategy to build resilience against natural disasters that is anchored on three pillars: structural resilience, financial resilience, and post-disaster resilience. The cost of resilience-building is incorporated into the country's medium-term macro-fiscal framework, and the DRS itself is integrated into the country's disaster resilience framework and policies. In 2020 the latest draft of the DRS was annexed to the country's Climate Resilience Plan and was submitted to parliament and made available to the public. The authorities are working on preparing projects included in the DRS for implementation and hope that the DRS will provide donors with the information they need to support resilience building projects in infrastructure, agriculture, or education, among others.

Staffing

152. Article IV missions to Dominica are typically staffed by one mission chief and four economists, who also work on other Caribbean countries. Staff generally felt that work on Dominica was valued by the authorities and provided opportunities to interact with senior policymakers and contribute to policy formulation. However, some felt that there was a stigma attached to working on Caribbean SDS, which affects negatively their career prospects. The stigma derives from a perception that work on SDS economies is not valued highly in the Fund, in part because of their small size, population, and GDP. Also, work on members countries of the ECCU requires less sophisticated analytical skills because the currency union arrangements imply no scope for monetary and exchange rate analysis. In addition, small size translates into fewer

[52] The June 18, 2018 Selected Issues and Analytical Notes that accompanied the Staff Report contained a paper which used a general equilibrium model to quantify the impact of natural disasters and the returns to investment in resilient infrastructure.

resources assigned to these countries, including through their exclusion from review lists of FAD and MCM. These perceptions affect recruitment to SDS assignments and have resulted in the understaffing of some missions in terms of both the number of economists and their level of experience.

153. Dominica has had stability at the mission chief level in recent years. During 2011–2015 each mission chief served at least two years, and since 2016 the mission chief has remained unchanged. However, of the ten economists participating in missions during 2017–2019 only one visited the country more than once. Officials noted that missions appear to be staffed by less experienced economists, and that surveillance is less beneficial when there is frequent turnover, and new economists need to be constantly briefed on local circumstances. Officials also noted that some missions now seem to be staffed with fewer economists, who also stay in Dominica for a shorter time. Besides, staff are now required to focus on more issues, such as climate change, which results in insufficient time to focus on other important topics, such as the finances of SOEs.

Collaboration with Partners

154. In Dominica, IMF collaboration is most important with the World Bank, the CDB, and the ECCB. World Bank collaboration focused on the fiscal area, where Bank and Fund staff agreed that a fiscal rule would help entrench prudence, and the Bank incorporated a fiscal rule in its own policy work. Also, in FY2020, CARTAC staff participated in the Bank's Dominica expenditure review exercise. Collaboration among the staffs of the Fund, Bank, and CDB helped facilitate Bank and CDB disbursements to mitigate the effects of the COVID-19 pandemic.

155. According to authorities, there is a need for better collaboration among the Fund, the World Bank, and the CDB. Officials suggested that all institutions work with IMF Article IV reports as the basis for their analysis, instead of each institution doing their own diagnostic and discussing the same issues separately with officials. In cases where the Fund and Bank were involved in the same topic, such as PFM, it was important for the authorities that the institutions avoid duplication and coordinated their approach and policy recommendations. In the past collaboration between the Fund and Bank in economic analysis work was achieved by having Bank staff participate in Fund missions. This no longer takes place. Dominican officials promoted collaboration by inviting CDB and ECCB staff to participate in meetings with Fund missions.

E. St. Lucia

Country Profile

156. St. Lucia is the largest of the islands in the eastern Caribbean, with a size of 616 km^2, and a population of about 184,000. It is also the country with the largest GDP among members of the ECCU, and is classified as upper middle-income, with a GNI per capita in current US dollars of $8,790. In 2019, unemployment stood at 19 percent (with youth unemployment at about 40 percent and female unemployment at 22 percent). The latest estimate by the World Bank puts

the percentage of the population below the poverty line at 25 percent. Life expectancy in 2018 was 76 years, and the under-5 mortality rate was 22 per 1,000 live births.

157. St. Lucia gained independence from the U.K. in 1979. The country is a parliamentary democracy with two main political parties, the United Workers Party (UWP) and the St. Lucia Labour Party. In July 2021 the Labour Party won the general elections, securing 13 out of 17 seats in the House of Assembly.

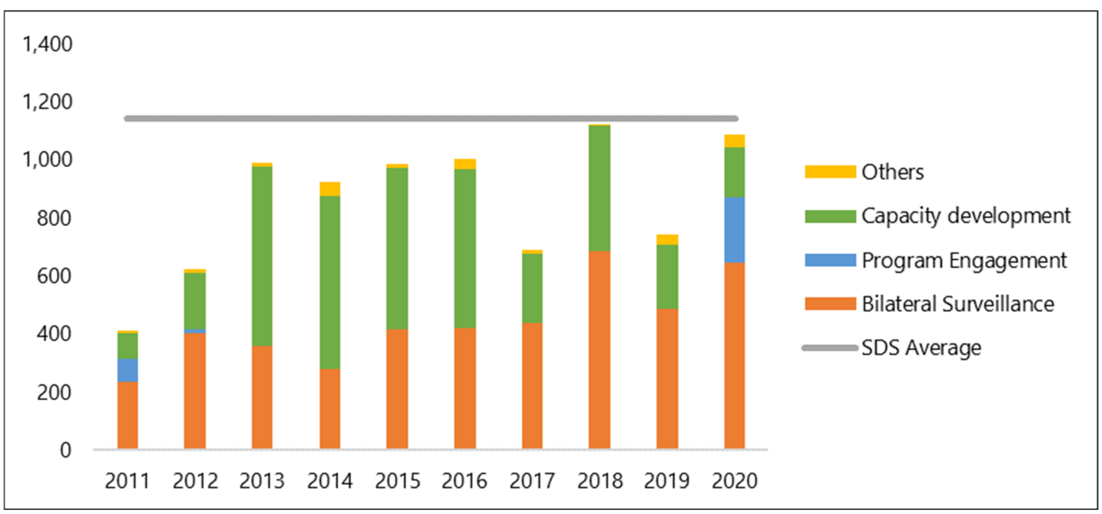
158. St. Lucia became a member of the Fund in 1979. Its quota is SDR 21.4 million, and it holds 0.03 percent of voting power. It held eight Article IV consultations in the evaluation period. The last was completed in February 2020. The country has borrowed from the Fund twice during 2010–2020, on both occasions under emergency facilities (Table 5). IMF provision of CD was especially intensive during the central years of the evaluation period (Figure 13).

Table 5. St. Lucia: IMF Engagement, 2010–2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Article IV											
Programs											
Emergency financing		ENDA/RCF									RCF
Other									CCPA		

Sources: IMF; IEO calculations.

Figure 13. St. Lucia: IMF Spending by Activity, 2011–2020
(In USD, thousands)



Sources: IMF (ACES); IEO calculations.

159. St. Lucia is one of the SDS most exposed to natural disasters and the effect of climate change. It ranks 5th among all small states at risk for natural disasters and was in the top 10 percent of 182 countries in the Climate Risk Index for losses to climate-related natural disasters during 1997–2016 (IMF, 2016). In 2010 Hurricane Tomas caused damage equivalent to 34 percent of GDP, as storms affected roads, the water supply, and 80–90 percent of the vital banana crop. The country's annual loss from of wind-related events and floods averaged about 3.4 percent of GDP during 1997–2016.[53] St. Lucia's main climate-change concerns are damage from extreme weather, threats to water supply, and economic costs to tourism and primary sectors from rises in temperature and sea level.

160. During the 1980s, St. Lucia was the region's largest banana exporter to preferential markets in the EU/UK under the EU's trade agreements with the African, Caribbean, and Pacific (ACP) group of countries. Those arrangements expired in the early 1990s, resulting in a sharp fall in rural incomes, employment, and government revenue. The economy continues to adjust to that shock, and has shifted to being heavily dependent on tourism, which now accounts for about 60 percent of GDP and 24 percent of employment. A small manufacturing sector is hamstrung by high energy costs and skills shortages, while high levels of NPLs in some banks have restrained new lending to the private sector.

161. Following a period of steady growth, St. Lucia's tourism sector was severely affected by the global recession of 2008 (Figure 14). Growth averaged less than 1 percent a year in 2010–2014. The unemployment rate averaged 21 percent in 2009–2011 as the effects of the recession exacerbated the already high rates caused by the loss of employment in the banana industry. The authorities responded with a significant fiscal stimulus, which resulted in a widening of fiscal deficits and an increase in debt from 52 percent of GDP in 2010 to 60 percent in 2012–2013.

162. Tourism and related activities, such as construction, recovered beginning in 2016. Real GDP grew by about 3 percent a year during 2016–2019, and the unemployment rate fell from 24 percent in 2015 to 19 percent in 2019. Youth unemployment also declined markedly. At the same time, revenue measures, including from the CIP, launched in 2016—helped to turn around the fiscal performance. The primary balance swung to surplus in FY2018/2019, and the debt/GDP ratio fell from 68 percent of GDP in 2015 to 60 percent in 2019.

163. A key challenge facing the financial sector has been the high level of NPLs in domestic banks, much of which was related to exposures in the tourism sector. The failure of the Trinidad-based Clico Financial Group in 2009 highlighted the importance of stronger supervision over regional conglomerates, and the risk of fiscal spillovers from such failures. St. Lucia was not as affected by loss of CBRs as other regional countries.

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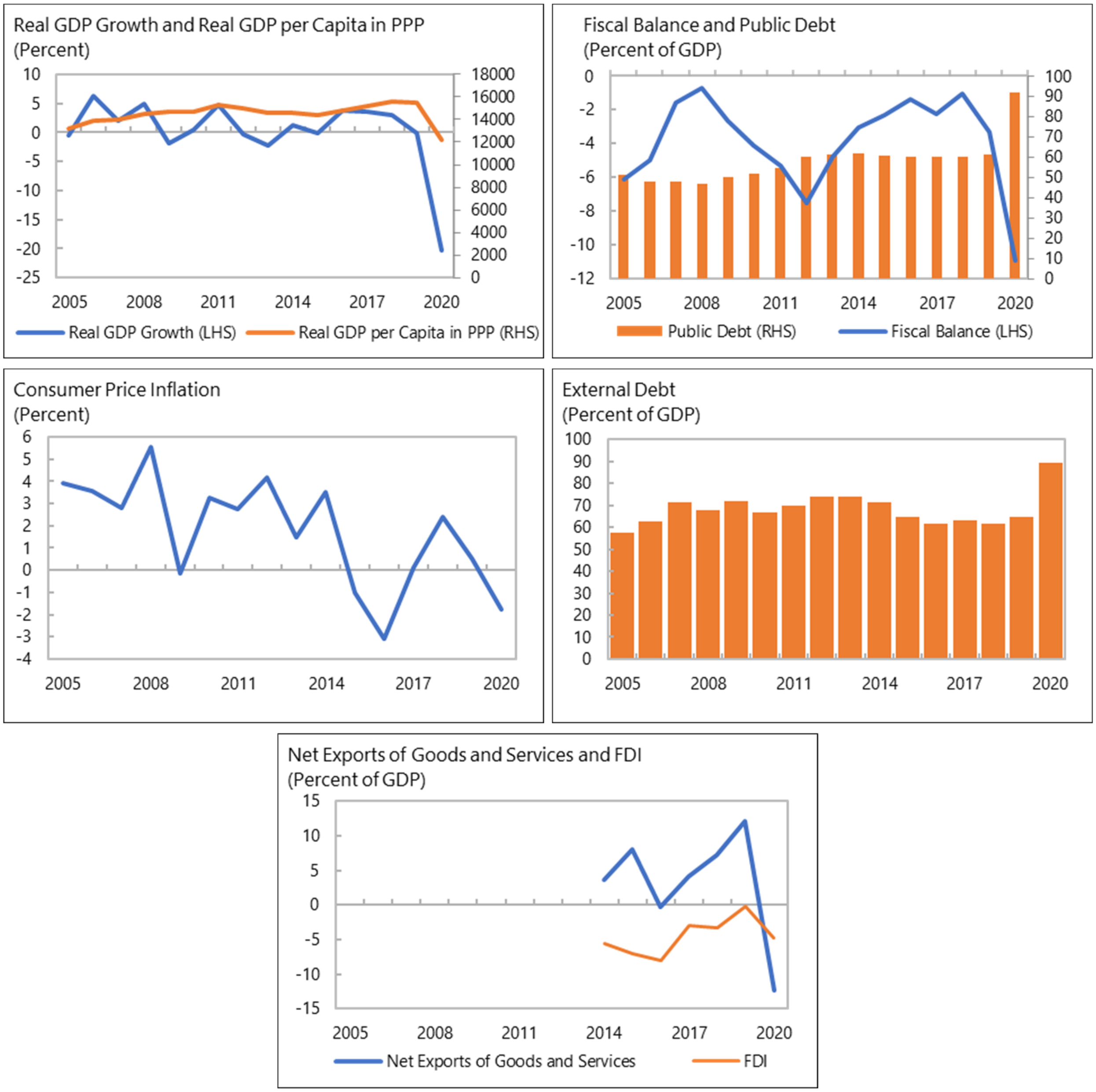
[53] St. Lucia CCPA, 2018.

Figure 14. St. Lucia: Macroeconomic Developments, 2005–2020



Sources: IMF (October 2021 WEO); IEO calculations.

164. With about 40 percent of the economy based on tourism, the COVID-19 pandemic has had significantly adverse economic effects.[54] Tourist arrivals came to an abrupt halt in March 2020, and real GDP contracted by 19 percent for the year as a whole, the steepest among Caribbean SDS. Unemployment, which had been falling steadily during 2016–2019, reversed that

[54] As of July 26, 2021, St. Lucia had recorded 5,520 cases of COVID-19 infection, and 88 deaths, equivalent to 3,020, and 48, per 100,000, respectively (PAHO, 2021).

trajectory, reaching 21 percent in June 2020. Expenditure on the health services and income support, together with the erosion of revenue from tourism and other activities caused a widening of the fiscal deficit from 3.4 percent of GDP in FY2019 to 10 percent in FY2020. The debt/GDP ratio rose by 23 points to 87 percent.

165. The government has launched initiatives to mitigate the impact of the COVID-19 pandemic (PAHO, 2021). These include a Health Response Plan, a Social Stabilization Programme, and an Economic Recovery and Resilience Plan. These programs have been supported by financing from the IMF, equivalent to US$26 million under the RCF. The World Bank has committed support totaling US$40.5 million, while the CDB and IDB have also made financing available. In addition, St. Lucia has benefited from cash flow relief provided through the G-20 Debt Service Suspension Initiative.

Main Elements of IMF Engagement

Surveillance

166. During the evaluation period there were Article IV consultations every year, except 2013 and 2016. The focus of surveillance was on achieving medium-term fiscal stability by reducing debt and building fiscal buffers. Fiscal stabilization was viewed by staff as necessary for achieving other surveillance priorities: promoting sustained growth in incomes and jobs and preserving the fixed exchange regime under the region's currency union arrangements. Growth was discussed in broad terms, with a focus on factors explaining past growth performance and a listing of measures that could help improve competitiveness and achieve faster growth. Another key surveillance priority was putting in place policies and regulations to achieve stability in the financial system. Missions placed particular attention on the indigenous banks, which experienced high levels of NPLs, inadequate capital and provisioning, and low profitability.

167. There has been increased focus on policies to promote resilience to climate change in surveillance discussions since the issuance of the Fund's 2017 Staff Guidance Note.[55] In 2018, St. Lucia participated in the pilot CCPA, prepared jointly by the Fund and the World Bank, which analyzed policies and practices to enhance resilience to climate change and natural disasters. The Article IV mission that immediately followed the CCPA explicitly discussed approaches and policies for strengthening resilience building on that assessment. With that addition, missions have been covering all of the five pillars set out in the GROWTh framework of the Guidance Note. Mission chiefs generally felt the 2017 Guidance Note was useful as a checklist to ensure that key topics were covered in surveillance, and that they had adequate flexibility to include topics that they and the authorities saw as critical for addressing the challenges facing St. Lucia.

[55] In the year following the 2014 Guidance Note, there was little reference in the Article IV report to policies to promote resilience to natural disasters and climate change.

168. Throughout the evaluation period, staff's recommendations on fiscal policy called for a growth-friendly fiscal adjustment within a multi-year framework. The objectives were to build fiscal buffers to fund infrastructure and build climate resilience and reduce the debt overhang by meeting the ECCU debt target of 60 percent of GDP by 2030. The authorities shared this view and achieved a level of debt close to that target throughout most of the period. In the later years, missions recommended introduction of a fiscal rule, strengthened PFM, and measures to protect the poor and vulnerable. Staff also advised that revenues from the CIP be used only to build fiscal buffers, fund growth-inducing infrastructure, and reduce debt. They also recommended that expenditure be financed from concessional sources rather than expensive bond financing.[56] As work on climate resilience took hold toward the end of the evaluation period, staff moved forward to incorporate natural disaster costs into the medium-term fiscal framework.

169. In the financial sector, staff's advice called for strengthening the finances of indigenous banks by resolving their high level of NPLs and restarting bank lending. The advice was in line with research in WHD indicating that addressing NPLs could help generate significant gains in medium term growth (Alleyne and others, 2017).[57] This could be achieved in part through the activities of a new Eastern Caribbean Asset Management Company (ECAMC), set up to manage "bad assets" of regional banks. In addition, it was important to strengthen compliance with international AML/CFT, and global tax guidelines. Staff also recommended the removal of the interest rate floor on savings deposits in the ECCU of 2 percent to facilitate lower lending rates.

170. On growth, surveillance in the second half of the evaluation period incorporated the results of extensive research work done on the region. In SIPs, working papers, and books, low growth was assessed to result from low factor productivity, which itself stemmed from skills shortages and the weak business environment (see Appendix 1 for a list of research). As a result, surveillance reports began to refer more pointedly to skills gaps and the need for reforms in education and training. Other recommendations for boosting growth included tackling labor market rigidities, improving tourism infrastructure, and pursing renewable energy to reduce the high cost of fossil-based fuels. Missions also proposed diversifying the economy. However, there was often little detail on how this objective could be achieved.

171. Data for surveillance was assessed by staff to be generally adequate. Data on fiscal, GDP, monetary, and balance of payments developments were readily available. However, some data, such as GDP, were subject to frequent and significant revisions, and there were data gaps in areas such as wages, the labor market, housing prices, and the balance of payments. These gaps and lags were due partly to staffing shortages in the national statistics department.

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[56] St. Lucia is eligible for IDA resources under the IDA-19 replenishment for the period through June 2023.

[57] See, in particular, the paper by Chamon and others in Alleyne and others (eds) 2017.

172. The St. Lucian authorities felt that surveillance missions were valuable and insightful, and that staff's analysis reflected the key economic challenges facing the country. In addition, missions helped officials to consider risks and their mitigation beyond the short-term budgetary cycle. Officials valued the close collaboration with mission staff and agreed with their surveillance priorities and the thrust of policy recommendations. This was particularly the case in the financial sector, where the urgency of achieving stability, resolving weak banks, and complying with international standards on tax and AML/CFT matters was shared, and the authorities made progress in implementing staff's advice, with the support of CD.[58]

173. Since the outbreak of the pandemic in early 2020, staff has been in frequent contact with St. Lucian officials (weekly, on average). In those discussions key indicators are updated, information exchanged on recent developments and policy issues, and TA needs reviewed. For staff, the benefits of the virtual mode are that it dispenses with the need to travel, while virtual meetings have been easy to arrange. However, the lag in responses to staff requests for information has been longer compared with on-the-ground missions.

174. The pilot CCPA completed in 2018 was welcomed by the authorities. They appreciated the considerable efforts of the staffs of the Fund and the Bank in providing useful guidance on building resilience, which they felt would serve as a framework for mobilizing donor finance. They planned to move forward with costing the six pillars of the CCPA, including preparedness, mitigation, and adaptation. The CCPA found that St. Lucia had a good basis for making progress on climate change. Progress has been made in implementing CCPA recommendations in the areas of updating the national and sectoral adaptation plans, preparing a climate financing strategy, and mobilizing resources from global climate funds. However, the country needed to move beyond this through appropriate legislation, strategic planning, and investments in the areas of climate mitigation and adaptation. Resilience-building investments were needed urgently for critical infrastructure, water supply, land use, and food security. The CCPA suggested more self-insurance, including a larger contingency buffer of about 5 percent of GDP. Financing for climate change would likely be supplied through private investment in renewables, donor assistance for infrastructure, and supplemented by grant financing from climate funds. Citizenship-by-Investment revenues could also be used for these purposes.

175. Regarding other tools of surveillance, DSAs were useful mainly as a benchmark against which the authorities measured the results of their own DSA module. However, for officials as well as the public, the DSA was overly complex, and its assumptions had to be tailored to the experience of St. Lucia. CARTAC and ICD are working on a simplified template for ECCU countries. Because of its complexity, some officials saw the DSA as not useful in its present form, noting that regional investors viewed the credit ratings assigned to the country by CariCRIS as a more market-based and relevant indicator of creditworthiness. There was no Financial Sector

[58] The last Financial Sector Stability Assessment of the ECCU in 2004 highlighted the main risks to the regional financial system as (i) the rapid build-up in government borrowing; (ii) weaknesses in the regulatory framework; (iii) substantial levels of NPLs; and (iv) the absence of contingency plans to deal with deposit withdrawals.

Stability Assessment (FSSA) conducted for St. Lucia since, following the 2004 ECCU FSSA, the appropriate basis for financial sector assessments was viewed by countries as regional, as the relevant issues and regulatory frameworks were common across the currency union.

176. Regarding the content and balance of policy recommendations, as early as 2010 the authorities indicated to staff that they would like to see greater attention in surveillance to growth as the country's most pressing challenge. In their view, staff had correctly identified the need for improved infrastructure, lower costs, and structural reforms in the business environment, education, and training. The authorities also shared the view that diversification of the economy was important. But they would have welcomed more specific recommendations on topics such as raising the productivity of public investment, maximizing the benefits of regional integration, and diversifying the tourism product. Officials noted that it was also important for staff to elaborate on policies to re-vitalize agriculture and manufacturing, which could help mitigate youth unemployment and rural poverty. More broadly, officials felt that the quality and relevance of IMF policy recommendations could be enhanced by a deeper understanding by staff of the microeconomic aspects of the economy (e.g., the structure and operations of individual sectors). In this context, officials observed that contacts during Article IV missions are generally limited to government ministries, bank and business representatives, and labor unions. They felt that staff could consider visits outside of the Article IV framework and meet a wider range of groups to understand better local conditions and the context for policymaking.

177. On fiscal policy, officials appreciated the value of the fundamental message from staff, which was that an appropriate primary surplus was needed to reduce debt and achieve fiscal sustainability. However, they often differed on the speed of adjustment toward the ultimate fiscal goal. In their view, the pace of adjustment had to be carefully calibrated to local conditions, including the impact of measures on the poor. As a general point, they felt that a greater emphasis by staff on how fiscal policy recommendations would affect ordinary people would help increase traction. Conversely, staff should bear in mind that continued repetition of previous advice not implemented for political considerations was counterproductive.

178. During the evaluation period, eight Article IV reports were produced, of which three were not authorized by country authorities for publication. Officials noted that reports were not published when they were perceived to be not appropriately balanced in recognizing the views or policy efforts of the government or contained sensitive information. Some mission chiefs felt that statements to the press at the end of missions provided a good source of information to the public on the activities of the mission and their policy recommendations. The statements were carried in local newspapers. Officials, however, suggested that there was a need for better communication to the public of the Fund's work in St. Lucia. This could be achieved through press conferences instead of press statements at the end of missions, and the using social media to disseminate information.

Program Work and Emergency Financing

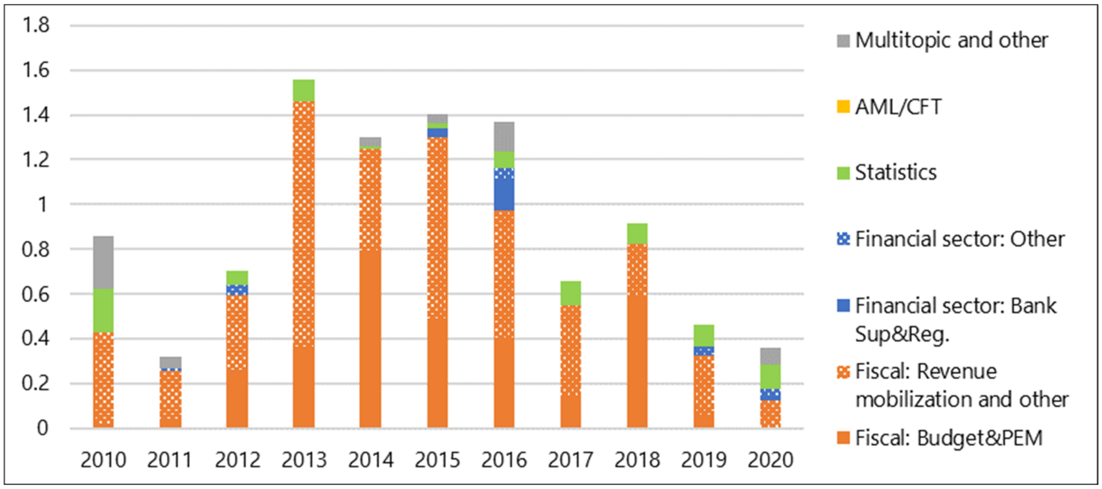
179. St. Lucia borrowed from the Fund twice during 2010–2020. In 2011, it borrowed SDR 5.36 million (25 percent of quota) under the Fund's emergency assistance facilities (ENDA/RCF) to help meet reconstruction costs after hurricane Tomas. In April 2020 the country made a drawing equivalent to 100 percent of quota (SDR 21.4 million) under the exogenous shock window of the RCF to finance health-related spending and income support following the outbreak of the COVID-19 pandemic. On both occasions the authorities appreciated the speed of the Fund's response. They commended the commitment and dedication of staff in 2020 to ensuring prompt disbursement under difficult conditions. While the amount available was low relative to needs, the loan had helped catalyze support from other institutions, such as the World Bank and the CDB. At the time of the RCF disbursement in 2020 staff estimated that the country's financing need in that year would be US$154 million, of which the Fund would provide $29 million, other institutions and bilateral donors $88 million, and the ECCB $37 million.

180. During the evaluation period, the authorities were reluctant to engage in Fund-supported programs in the upper-credit tranches. They appeared to prefer to explore all possible alternative sources of financing before considering borrowing from the Fund. This reluctance stemmed from a range of factors. First, there was a political cost associated with borrowing from the IMF, rooted in the IMF's history in the region during the 1970s, 1980s, and 1990s, when conditionality was considered excessively stringent. Second, despite recent more positive experiences (e.g., Grenada, Barbados, and Jamaica) borrowing engagements with the Fund still carried a stigma, associated with poor domestic economic and financial management and loss of control over national economic policy. Third, the amount of financing obtained through Fund-supported program was considered low, constrained by the size of quota, and not justified against the potential political cost. For these reasons, IMF is still seen as a lender of truly last resort. St. Lucia's external financing needs were satisfied mainly through the Caribbean regional securities market, the CDB, and bilateral donors.

Capacity Development

181. During 2010–2020, the IMF provided a total amount of CD equivalent to 9.8 FTEs (equivalent to 8 percent of all CD to Caribbean SDS), of which 80 percent was in the fiscal area (Figure 15). The focus was on strengthening revenue collection from the VAT and integrating the VAT into the operations of the Inland Revenue Department. Also, budget processes were improved to incorporate medium term projections and a framework was introduced to monitor state-owned enterprises. Financial sector CD, including through the help of a long-term expert, aimed to establish a framework for bank resolution, strengthen Basel II implementation, develop stability indicators, improve governance, and introduce stress-testing in credit unions. These areas of support addressed key needs identified in Article IV discussions. In statistics, support from CARTAC was provided in balance of payments statistics and the development of quarterly GDP estimates.

Figure 15. St. Lucia: Thematic Distribution of CD Provided, 2010–2020
(In full-time equivalents)



Sources: IMF (TIMS data); IEO calculations.
Notes: "Multitopic and other" includes administrative and preparatory work, e.g., scoping missions. "Financial sector: Other" includes central banking, financial crisis preparation and management, monetary and foreign exchange policy and operations issues. "Fiscal: Revenue mobilization and other" includes mainly fiscal law and revenue mobilization issues. PEM=public expenditure management.

182. St. Lucian officials felt that CD was one of the most valuable services of the Fund and CARTAC was a responsive and efficient channel for providing it. Some officials felt that CD was more valuable than surveillance in developing key institutions. CARTAC's location and its proximity to St. Lucia conveyed a sense that there was ready access to CD when needed. CD had been well targeted to the country's priorities and helped develop strong institutions. Officials pointed to the work of CD experts from CARTAC in areas such as income tax reform, the VAT, and bank resolution frameworks as particularly targeted and effective. They felt that short-term experts were most useful in CD aimed at providing continuing support for establishing or strengthening institutions, such as revenue agencies.

183. Some officials welcomed the introduction of new areas of CD, such as gender-based budgeting, and suggested that CARTAC explore options for expanding sources of budget financing beyond the regional securities market as part of the ongoing work on improving debt sustainability. CD delivered through virtual channels was also welcomed, allowing a larger number of local staff to be trained at lower cost, but it was not considered an equally valuable substitute for in-person engagement.

Staffing of Country Teams and Engagement of Senior IMF Officials

184. Missions generally comprised a mission chief and 2–3 economists from WHD and other departments and were generally accompanied by a staff member from the ECCB and the CDB. In addition to country duties, the mission chief has responsibilities as deputy division chief of one of the Caribbean divisions, while the economists are also assigned to at least one other country. In

2012–2014, missions were accompanied by staff from MCM and LEG, who provided specialist support on AML/CFT and bank resolution issues.

185. Mission chiefs reported no difficulty in staffing surveillance work in St. Lucia, and missions have not experienced large turnover. WHD economists were assigned continuously to the country, and when needed, additional staff was readily available from other departments. Over the evaluation period there were a total of five mission chiefs, of which two served on one mission, while the others, including all mission chiefs since 2014, participated in at least two missions. Except for one year (2016) all missions have been staffed by at least one economist with previous experience on St. Lucia. Country officials agreed that turnover was not problematic, and that continuity among some mission members helped maintain a satisfactory engagement.

Collaboration with Partners

186. Most of the IMF's collaboration with other institutions took place with the World Bank and the Caribbean Development Bank. St. Lucia is not a member of the IDB. In 2018, the Fund and the Bank carried out jointly a pilot CCPA exercise, which was welcomed by the government (see above). In March 2018 the Fund provided an Assessment Letter to support World Bank policy-based lending to the health and other social sectors. Given the size and complexity of the World Bank, some mission chiefs reported problems identifying World Bank staff best suited for collaboration on specific issues. They felt that a more formal arrangement for information exchange would be useful and would help ensure that policy messages and CD assistance were coordinated. As regards collaboration with donors, the Canadian government has provided the services of a long-term expert in bank resolution, located at the ECCB, which will help St. Lucia address the resolution of the domestically owned Bank of St. Lucia.

187. Officials suggested that the Fund should collaborate more closely with the OECD, the EU, and the Financial Action Task Force (FATF) because of the role of these bodies in standard-setting, and in designating countries as non-compliant in tax transparency and AML/CFT matters. They noted that St. Lucia was blacklisted by the EU in 2018 as a non-cooperating tax jurisdiction. The designation was removed subsequently, but such actions affect fiscal revenues, investment, and growth potential, issues which are within the surveillance mandate of the Fund. They hoped that the Fund could play a role in convening these institutions and facilitating an exchange of views and information between them and Caribbean countries.

IV. KEY ISSUES AND LESSONS FROM THE CASE STUDIES

Surveillance

188. Country officials interviewed for the case studies generally found that bilateral surveillance conducted through Article IV consultations provided substantial value added to their work on economic management and policymaking. The staff's independent analysis of developments and policies and its exchange of views on fiscal policy and financial risks were

particularly useful. Officials also valued the analytical work done by staff on forecasting the trajectory of the economy and assessing debt vulnerabilities in the context of medium-term macro-frameworks, which helped to highlight emerging risks and policy gaps. In some countries these frameworks helped inform the authorities own targets and policies, extending them beyond the short-term. Officials observed that the Fund was the only international institution providing this type of comprehensive, annual macroeconomic analysis, advice, and forecasting. An important, but less mentioned benefit of surveillance is its role in helping develop the analytical skills of young country professionals in the above-mentioned areas as well as in financial sector diagnostics and country risk analysis.

189. Policy advice together with discussions between staff and officials on possible financial arrangements and CD assistance have continued largely unimpeded despite the travel restrictions implied by the COVID-19 pandemic. Staff noted that meetings have been arranged seamlessly, with occasional interruptions caused by poor internet connections. Officials observed that contacts were more frequent with staff and appreciated a sense of more continuous engagement. Some officials indicated that a new model for bilateral consultations, blending virtual and face-to-face visits, may be feasible without a loss of quality in surveillance.

190. Policy advice was most useful when it was specific, well-targeted, and actionable. This was the case with most of staff's recommendations on the financial sector, many of which were supported by CD to aid implementation. Fiscal policy advice was also generally specific and actionable, and often supported by CD involvement too, but it had less consistent traction because there was often insufficient domestic political support for the content and speed of measures proposed by staff. Officials felt that linking fiscal policy recommendations more closely to their potential impact on the population would help enrich the policy dialogue and likelihood of support. In areas of growth and structural policies advice was less helpful, as staff recommendations lacked specificity. An example was the common recommendation that authorities pursue diversification to boost growth. This recommendation generally contained no specific suggestions on sectors or areas into which diversification was feasible, or on how diversification should be pursued given particular country circumstances. A similar lack of specificity often accompanied recommendations to upgrade education and skills, or to match skills more closely to demand.

191. Regional surveillance of the ECCU was helpful in focusing on the common challenges in the currency union and the policies needed to address them. Country officials felt that this annual exercise allows member countries to share knowledge and learn about policy experiences in other countries. Also, staff's research on regional issues helped inform domestic policy considerations. However, some staff felt that the balance of resource allocation between regional and bilateral surveillance had swung too far toward the regional and noted that regional surveillance had failed to develop traction at the country level, because it often did not have a clear connection to the immediate policy concerns of individual countries. Each country has its

own history, politics, and policy tolerance, so policies discussed at a regional level have to be calibrated to each country's situation.

192. The 2017 Guidance Note on Fund Engagement with SDS was useful in setting out the core content of surveillance discussions. Some staff saw it as a useful checklist of surveillance topics that matched the policy focus of country officials. Also, staff generally did not feel constrained by the Guidance Note and felt that there was adequate flexibility to tailor surveillance discussions to the particular circumstances of each country. However, others felt that there was a risk that the Note could encourage a "box-ticking" approach to surveillance, which could divert attention from macro-critical issues not explicitly covered by the Guidance Note or others that are of interest to the authorities.

193. Officials brought attention to a number of emerging issues that were not addressed in the Guidance Note and deserved increased attention. Such areas included crime, social issues, central bank digital currencies, the effect of technology on the financial system, and the Blue Economy. Officials felt that it is important that the Fund increase its support these priorities. Staff have responded by stepping up research in these areas but the challenge remains of converting research conclusions into country- or sector-specific recommendations. Supplementing research with closer collaboration with other institutions, like the World Bank and IDB, which have expertise in these areas, would be a useful way forward, as demonstrated recently in the case of Belize, and as recognized in the 2017 Staff Guidance Note.

194. Thorough analysis and targeted policy recommendations in areas mentioned above, as well as in employment and other social conditions are stymied by significant data gaps. Despite this, staff reports continue to indicate that data are broadly adequate for surveillance, and the standard table in each report on Common Indicators Required for Surveillance exclude data on unemployment and poverty. This points to insufficient focus in surveillance on jobs and social circumstances that is inconsistent with the Fund's goal of promoting inclusive and sustainable growth.

195. The main surveillance tools applied in the Caribbean were the DSA, CCPA, and, lately, DRS. The work done on DSAs has been very useful to some governments as well as creditors or potential lenders. This was particularly the case for countries undertaking debt restructuring operations. DSA methodologies also helped Ministry of Finance staff in some countries to refine their own analytical skills. However, some officials and staff members found DSA methodologies overly complex and cumbersome and not particularly well aligned with SDS circumstances. Authorities looked forward to a forthcoming simplified version, tailored for the Caribbean, now being developed by Fund staff, which would incorporate shocks to which the region is particularly vulnerable. CCPAs have been helpful in supporting and strengthening national climate resilience plans, and in providing a framework for discussions with donors. Staff and country officials recognize that this is not yet an area of expertise for the Fund, and that initiatives, such as estimating the costs of climate resilience measures and the quality of

spending, are complex, requiring the support from outside experts. The recruitment by the Fund of climate experts has been a helpful step forward.

196. Only one FSAP was done for a Caribbean country case study during the evaluation period. The exercise was useful and its results helped shape the agenda and actions on financial sector reform. Given this value added and traction, it would seem desirable to provide more resources to such exercises—including to repeat the 2004 FSA for the ECCU. The FSSR could be a useful diagnostic tool to achieve this in a more streamlined fashion—although the tool could be usefully extended to cover issues such as financial inclusion and the evolution of central bank digital currencies.

197. There seems to be a case for re-visiting the main outputs of surveillance: country reports, SIPs, and missions' concluding statement to the press. In cases where these are available to the public they are widely read, including by creditors, donors, and potential investors, and help generate discussion on the economic situation and prospects. Some interviewees felt there was a need to simplify the language in Article IV reports to make them more reader-friendly and accessible. However, some countries did not consent to publication of their country reports due to political risk, confidentiality, or concerns that parts of the text of reports might be misinterpreted by the public. To address this, some staff felt that there was a need for more frequent and timelier web-based reporting and outreach through such vehicles as quarterly updates, short notes, and use of social media platforms.

Program Work

198. A number of Caribbean SDS during the evaluation period were quite active users of IMF resources, both through UCT programs and emerging financing, including for support to address the COVID-19 pandemic. However, many other members have been unwilling or unable to access Fund resources and the case study experience sheds some light on the reactions.

199. Countries using emerging financing to address natural disasters (notably hurricanes floods,) and the impact of the COVID-19 were generally highly appreciative of the speed with which the Fund responded to a hurricane disaster (Dominica) and the fallout from the COVID-19 pandemic (Dominica and St. Lucia). However, the size of the Fund's support was considered small relative to the size of the shock. At the same time, it was recognized that the Fund's engagement had been catalytic in facilitating disbursements from the World Bank and the CDB. However, Antigua and Barbuda and Belize requested support for pandemic relief under the RFI but were declared ineligible by staff because their debt was judged to be unsustainable without additional policy commitments. The fact that Fund resources were not available on the occasion of one of the largest global shocks in history was disappointing to those countries and has influenced negatively their perception of the responsiveness of the Fund and the appropriateness of its toolkit. An earlier example in which emerging financing was not available was Dominica, which was unable to access the RFI in 2017 after suffering its largest national disaster in history because it had already reached the cumulative limit for such financing.

200. Of the five case study countries, two—Antigua and Barbuda (2010) and Barbados (2019)—borrowed from the Fund under its non-emergency arrangements. Through two augmentations in June and December 2020, respectively, Barbados also drew on its EFF arrangement to support the country's response to the COVID-19 pandemic.

201. A lesson from the single completed case of program engagement (Antigua and Barbuda) is that formal compliance with program targets and benchmarks does not translate into fundamental change. In the program's final review staff noted that fiscal adjustment was achieved. However, this was due in part to cuts in investment, and one-off settlements of back taxes and other payments.[59] Looking back on the 2010–2013 program, it did yield short term benefits, such as a reduction in the debt ratio. However, debt remained unsustainable, banking system weaknesses persisted, and the economy remained uncompetitive because the program did not tackle successfully the deep-seated structural weaknesses in fiscal management and the financial system.

202. While it is too early and beyond the scope of the current evaluation to assess the impact of the Barbados' current EFF program, experience in the early phases of the program through end–2020 suggest that it was successful in supporting adjustment, helping to frame a substantial debt restructuring and catalyze reforms needed to restore macroeconomic stability. Moreover, the EFF augmentation provided resources supporting Barbados efforts to grapple with the heavy economic fallout from m the pandemic. Key factors contributing to these outcomes included the presence of a Resident Representative, a long-term resident advisor supporting the fiscal component of the EFF program, appreciation of the local context by both resident and mission staff, close coordination with CARTAC, CD support, and continuity provided by just one MC from prior to the start of the program through the end of the evaluation period and beyond.

203. For the countries that did not borrow, one of the reasons was the availability of alternative funding from the IDB, CDB, the central bank (in the case of Belize), and the regional securities market (in the case of ECCU countries). Revenue from Citizen by Investment Programs (CIPs, or CBIs) has also been used to fill financing gaps. Another factor was countries' reluctance to accept IMF conditionality, explained by the perception that a government seeking IMF conditional financing cannot manage its affairs and requires analytical and policy support as well as financing.[60] Stigma, originating in the experiences of past Fund programs, still carries potential political costs. It is not yet clear if the success of recent and ongoing programs in Jamaica, Grenada, and Barbados, will reduce stigma concerns. The Fund could leverage these successes by stepping up its communications efforts, with the participation of officials of those countries.

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[59] Antigua and Barbuda: Tenth and Final Review of the Stand-By Arrangement, May 23, 2013, p. 13.

[60] Such a concern was expressed well by Carmen Reinhart in *The Economist*: "Going to the IMF carries a stigma, much in the same way that banks have historically resisted tapping the discount window of the Federal Reserve in the United States. It is an admission of weakness or even failure" (Reinhart, 2020), available at https://www.economist.com/free-exchange/2010/02/21/emf-roundtable-one-promising-feature.

204. In considering incentives for greater use of IMF loans, some staff and officials have suggested that longer term arrangements, for example, lasting five to seven years, might be helpful in giving SDS more time to address structural weaknesses. In addition, as proposed by the prime ministers of Antigua and Barbuda, St. Lucia, and Barbados, the Fund and the World Bank should consider adjusting their eligibility criteria for access to concessional lending to take account of the Caribbean's vulnerability to natural disasters and climate change. Some staff felt that access to upper credit tranche resources should also be adjusted upward for vulnerability.

Capacity Development

205. CD support is a highly valued component of Fund engagement by officials. CD activities provide knowledge and expertise that are vital for tackling issues in areas such as tax reform, bank resolution mechanisms, and risk and vulnerability assessments. CARTAC is seen by officials and staff as the most important channel for CD provision to the Caribbean and is appreciated for its responsiveness and understanding of local conditions. In many countries it is the main contributor to upskilling at ministries of finance and central banks in fiscal analysis and financial sector supervision and development. Long-term experts were particularly helpful in implementing complex reforms, such as to tax and customs administration in Antigua and Barbuda.

206. However, many CD recommendations remain unimplemented because of capacity constraints and small core teams in key institutions in Caribbean SDS. In some countries, these teams can be overwhelmed by the sheer volume of CD assistance being provided by the Fund. Another reason for implementation gaps has been the persistent brain drain of key staff to the private sector or overseas. Major challenges for the Fund in Caribbean and other SDS, therefore, are how to measure implementation and address poor implementation. Some officials have suggested that CD recommendations include proposals on how countries could improve their staff retention policies. In the ECCU, officials have called for CD efforts to be focused on developing a larger pool of skills at the ECCB, which would be subject to a smaller brain drain and readily available to member countries as needed.

207. Similar to findings elsewhere in this evaluation, for SDS in the Pacific (Maret, 2022), and Africa (Lane), the location of a Regional Technical Assistance Center, in this case CARTAC, in an SDS, has contributed to a stronger quality of interaction among its experts and officials of the host country. Further, the additional presence of a Resident Representative's office in the RTAC host country, helped strengthen coordination of the Fund's surveillance, program and CD activities.

Staffing Issues

208. WHD has generally been able to staff SDS surveillance work in line with OBP guidance. Mission chiefs generally felt that some aspects of assignments to SDS were rewarding for SDS team members. They had opportunities to work closely with high-level officials and contribute more directly to policy proposals, which is not always the case in larger economies. Also, in WHD,

some SDS mission chiefs were given the opportunity to work simultaneously on larger economies, which helped improve their mobility and overall career prospects. While some mission chiefs felt there was no stigma associated to working on Caribbean SDS, others attributed to it a slower pace of mobility and promotion.

209. Nonetheless, despite the advantages of assignments on Caribbean SDS, there are concerns, including among senior staff, about WHD's ability to attract high-performing staff on a sustained basis. An important factor negatively affecting attractiveness is the perception among some staff that SDS are not sufficiently sophisticated in terms of analytical complexity and policy formulation. This perception resonates particularly with respect to those countries, such as members of the ECCU, which do not have scope for independent monetary and exchange rate policy. Another factor that militates against the attractiveness of SDS assignments is the perception among staff that these countries are often used across the Fund as training grounds for new staff and to test promotion potential. As a result, some staff view assignments to Caribbean SDS as not helpful to career progression, visibility, or mobility.

210. The limited attractiveness of assignments on Caribbean SDS has been exacerbated by the recent policy requiring experience on fragile states and low-income countries for promotion to Grade A15. In WHD, however, there is only one fragile state (Haiti) and no low-income countries. All staff interviewed and some country representatives felt that it is important to remove this policy's implicit disincentive to work on SDS by adding them to the list of countries in which experience is required.

211. Both staff and officials expressed concerns about the adequacy of experience of country teams and high rates of turnover. In some cases, mission chiefs and officials felt that staff resources were inadequate, given the range of issues to be covered and often poor data availability. Many officials felt that staffing and turnover did not affect the quality of surveillance, but some expressed concerns about depth of understanding of particular SDS-related issues, such as how to diversify economies or to adapt to climate change and natural disasters, and other vulnerabilities. Excessive turnover within country teams was especially a problem in two of the five case studies and, when it did occur, it was disruptive to engagement with the Fund. One consequence of rapid staff turnover was that officials had to spend more time briefing new staff and going over questions which had been settled on earlier missions, reducing the resources available to tackle the most pressing issues. To address turnover, some staff suggested a minimum tenure of 2-3 years for mission chiefs and desk officers.

Collaboration with Other Institutions

212. When it functions efficiently, collaboration between the IMF and World Bank augments value added to member countries. The CCPA pilots with St. Lucia and other countries, especially Belize, were good examples of how joint work with the World Bank can provide a framework for

actions and financing to tackle one of the greatest challenges facing the region.[61] On a more routine level, mission participation by WB, IDB and CDB staff was seen as generally helpful. Collaboration also helped increase the size of the financing envelope available to countries through the issuance of IMF assessment letters, which helped release funding from other multilateral institutions in the absence of an IMF program or recent IMF consultation report.

213. Some mission chiefs commented that sometimes collaborations could be impeded by institutional constraints. For example, contacts could often be stymied by the size and complexity of the Bank and the frequent rotation of staff, which make it difficult to identify the right counterpart quickly. Also, closer collaboration would help avoid conflicting policy advice or duplication and could enrich the IMF's advice in areas where the Bank's analysis would usefully augment the Fund's—such as growth, poverty reduction, and climate change. Some staff found collaboration with the IDB staff to be easier, possibly because of the accessibility of specialists in country offices and in Washington. Noting the importance of compliance with global standards on taxation and AML/CFT matters, country officials called for greater IMF collaboration with the OECD, the EU, and the FATF on the designation of Caribbean countries as non-cooperating or non-compliant jurisdictions, which ultimately affects correspondent bank relationships, foreign investment, and growth.

V. CONCLUSIONS

214. This review of IMF engagement with five Caribbean SDS discussed the value added of and the constraints faced by Fund activities in surveillance, CD, financial assistance, and collaboration with other institutions.

215. Surveillance and CD are highly appreciated by countries. Surveillance provides a valuable, annual, independent analysis of macro-financial developments, and policies for addressing fiscal imbalances, high debt, and financial system weaknesses. Surveillance work also has increasingly paid attention to the concerns of Caribbean SDS, including how to address key constraints to growth, and has begun in some countries to tackle climate resilience and its financing, based on initiatives such as the CCPA and DRS.

216. However, the impact and traction of surveillance can be diminished because familiar policy recommendations, particularly on fiscal policy, have been repeated over many consultation cycles in the face of political and institutional constraints that limit policy responses. There has also been a lack of specific and actionable recommendations on the key priorities of growth and job creation. In addition, surveillance's focus on quantitative frameworks, fiscal targets, and complex tools, such as DSAs and External Balance Assessment, may sometimes

[61] As noted above, the IMF and World Bank have decided not to collaborate on CCPAs in the future, with each institution developing its own instrument. This decision was made after the end of the evaluation period covered in this paper.

create a perception in the region that surveillance is about getting to the right numbers, and not about the impact of policies on people and poverty.

217. Surveillance in the Caribbean SDS needs to be better tailored to address the emerging priorities of governments, including how to re-vitalize key sectors, tackle youth unemployment and crime, and mobilize financing for climate resilience. Achieving this will require better data, especially on labor and social conditions, and a deep understanding of the micro-underpinnings of key sectors and potential growth triggers. It will also require intensified collaboration with other institutions that have expertise in these areas. These efforts could result in increased traction by helping connect surveillance more closely to its impact on people. In addition, surveillance would benefit from greater public understanding of the work of the Fund, which points to the importance of improving communications and outreach.

218. CD, particularly channeled through CARTAC, supports surveillance by building skills and strengthening institutions in key areas of analysis and policymaking. It has been well targeted, relevant, and responsive to the needs of the region. But CD makes a lasting impact only if its recommendations can be implemented, and this is severely constrained by weak capacity and a continuous brain drain. The Fund and authorities will have to address this major bottleneck as they consider future CD work. Some suggestions from countries include greater deployment of resident experts.

219. The case studies show that countries appreciated the rapid delivery of financial support by the Fund in response to emergencies, notably after the outbreak of the COVID-19 pandemic, and its role in catalyzing additional assistance from other institutions. This is a vital contribution that underlines the Fund's role as a provider of finance in times of catastrophe. However, the amount of financing was seen as limited in the face of very large GDP contractions. Moreover, the fact that the Fund could not provide financial assistance to Dominica on the occasion of one of its worst natural disasters in 2017, and that it could not lend to two other Caribbean countries to mitigate the effects of the pandemic because of debt sustainability issues, point to a concerning gap in the institution's financial tools. Addressing constraints on access would clearly improve the utility of the Fund's emergency financing support, and the general perception of the institution, in the region.

220. Over the evaluation period, only five Caribbean countries (two case-study countries (Antigua and Barbuda and Barbados) borrowed under upper credit tranche programs. Where they occurred, such programs were quite successful in supporting adjustment and progress towards debt sustainability, benefitting from considerable IMF support. However, many Caribbean SDS continued to avoid approaching the IMF for upper-credit tranche financing, experience that seems to have reflected a range of factors including continued concerns about conditionality and associated stigma, access to alternative sources of financing, and limited concessionality of the Fund's financial support. Some of these concerns are rooted in the Fund's history in the Caribbean, but recent successful Fund programs together with the introduction of the new RST and greater attention to growth and resilience in Fund-supported programs could

serve as a basis for a concerted outreach and engagement to shift the Fund's image in the region.

221. Countries have benefited when the Fund has collaborated with other institutions to deliver joint products, such as FSAPs, coordinate financing and CD, or to deepen the analysis on social sector and climate issues. But there is still a need for closer teamwork in those areas in which other IFIs have more experience; for example, in growth and employment policies, industry analysis, crime and security, and skills enhancement. Closer collaboration is also needed with the EU, the OECD, and the FATF, since their blacklisting decisions in the areas of tax and AML/CFT affect investment and growth.

Staffing

222. Work on Caribbean SDS has a number of advantages for staff, including the ability to discuss policies with the most senior levels of officials and cabinet ministers. However, perceptions among many staff that the Fund attaches less importance to work on Caribbean SDS continue to affect the quality of engagement. The perceptions are held by both staff and officials and are reflected in high country team and mission turnover, difficulty in attracting new staff to SDS assignments, and complaints about the slow pace of mobility and promotion of some SDS staff. These perceptions have been reinforced by the recent HR policy to require experience in fragile states and low-income countries—not in SDS—as condition for promotion to grade A15.

223. WHD has worked to strengthen the quality of engagement with Caribbean SDS through the allocation of significant resources for operational work, research, and outreach. But at its root, the quality of engagement depends on the leadership and composition country teams, and the perceptions of these teams of the value to the Fund of their work. Also, good engagement will not be sustained if countries perceive—including through economist and mission chief turnover rates—that the Fund attaches less value to work on SDS. This is a longstanding issue that needs to be addressed urgently if the Fund is to sustain its efforts to strengthen the nature of its engagement with Caribbean SDS.

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