



2004

Private Sector
Development
Strategy



CARIBBEAN DEVELOPMENT BANK

PRIVATE SECTOR DEVELOPMENT STRATEGY

April 2004

ABBREVIATIONS

BMCs	-	Borrowing Member Countries
CARICOM	-	Caribbean Community
CDB	-	Caribbean Development Bank
CSME	-	CARICOM Single Market and Economy
CTCS	-	Caribbean Technological Consultancy Services
CIFI	-	Corporacion Interamericana para el Financiamiento de Infraestructura, S.A. (Inter-American Corporation for Infrastructure Finance)
DFI	-	Development Finance Institutions
FIs	-	Financial Institutions/Intermediaries
IDB	-	Inter-American Development Bank
IFI	-	International Financial Institution
MDB	-	Multilateral Development Bank
MFI	-	Microfinance Institutions
mn	-	million
NGO	-	Non-Governmental Organisation
PPI	-	Participation in Private Infrastructure
PPIAF	-	Public-Private Infrastructure Advisory Facility
PSD	-	Private Sector Development
R&D	-	Research and Development
SMEs	-	Small and Medium-Scale Enterprises
TA	-	Technical Assistance

CONTENTS

	PAGE
1. RATIONALE	1
2. COOPERATION WITH INSTITUTIONS ASSISTING THE PRIVATE SECTOR	2
3. STRATEGY	3
Introduction	3
4. COMPONENTS OF PSD STRATEGY	4
Business and Product Development	4
Financial Intermediation	4
Direct Support	5
Private Infrastructure	5
Privatisation	6
Technical Assistance	6
Environmental Management	8
Research and Development	9
Catalysing Investment Flows	9
Capital Market Development	9
5. DEVELOPMENT OF THE FINANCIAL SECTOR	10
Equity, Funds and Investments	10
Creating an Enabling Environment	11
Policy Dialogue	12
Public and Corporate Governance	13
6. RISK MANAGEMENT	13

APPENDICES

- 1. MATRIX SUMMARY OF INSTITUTIONS ASSISTING
THE PRIVATE SECTOR IN THE REGION**
- 2. SUMMARY OF PRIVATE SECTOR DEVELOPMENT
STRATEGY**

1. RATIONALE

1.01 Private Sector Development (PSD) is an integral component of the Caribbean Development Bank's (CDB's) Strategic Plan and Poverty Reduction Strategy. CDB's current strategy focuses mainly on indirect and, to a lesser extent, direct lending, the latter being very small relative to the total loan portfolio. In the context of the changes taking place in the external environment, there is need to develop a more responsive and comprehensive approach to PSD in CDB's Borrowing Member Countries (BMCs) to enable the private sector to benefit fully from the Bank's comparative advantages as partner, client and resource in promoting regional development.

1.02 As a partner to the private sector, potential benefits from CDB's intervention include:

- (a) Knowledge Capital: To be competitive the private sector will need an enabling environment and an efficient public administration which can deliver improved services. Policy reform will have to be directed at improving the efficiency in both public and private sectors. One of CDB's strengths is its understanding of the regional, financial and economic environment of its BMCs, as well as issues relating to the development of small island states. This makes CDB a valuable "honest broker" in policy dialogue between the private sector, public sector and other social partners.
- (b) Influence as a Regional Institution within the Caribbean Community (CARICOM): In an increasingly competitive external environment, regional and international cooperation is vitally important for the development of the BMCs. CDB has established, and continues to play, a key role in regional and international fora and can help development partners to the Region forge a greater understanding of private sector needs.

1.03 As a client of CDB, benefits to the private sector include:

- (a) Strong Capital Structure and High Credit Rating: CDB's high credit rating provides access to borrowed funds at attractive interest rates and enhances its ability to act as an efficient long-term lender to meet some of the investment needs of the private sector.
- (b) CDB's Preferred Creditor Status: CDB's preferred creditor status is an important element, underpinning its role as a financial catalyst for private sector development in the BMCs. Through its *de facto* preferred creditor status, CDB can improve the risk profile of private sector projects by mobilising additional resources of long-term private capital.

- (c) Relatively Low Appraisal and Supervision Cost: CDB has a cost advantage over other International Financial Institutions (IFIs) in preparing and supervising relatively small projects commensurate with the scale of small island states. On the basis of this cost advantage, CDB has been able to procure intermediate funding from Multilateral Development Banks (MDBs), which might not otherwise have been accessible to the Region.
- (d) Accounting and Taxation Treatment: CDB's assets, property, income and transactions are not subject to taxation. Principal and interest payments on loans are also exempt from withholding taxes in the BMCs; therefore, commercial intermediaries can benefit from the special treatment that CDB's loans receive.

1.04 The private sector can be a major partner to CDB for achieving its development objectives for the BMCs. CDB does not have the resources for financing all the investment needs of the BMCs. An important part of the strategy must therefore be directed at the mobilisation of private capital from within and outside the Region.

1.05 CDB is uniquely placed to assist in developing, sustaining and supporting private sector development in its BMCs. It will adopt a comprehensive, holistic multi-sectoral approach and focus on those areas of intervention where CDB can serve as a catalyst or facilitator in creating additionality and developing an environment that allows and supports increasing private sector investment. The key success factors for CDB will be:

- (a) ability to make significant additional resources available to the private sector;
- (b) responsiveness to the private sector, both in terms of timeliness and the delivery and diversity of financial products;
- (c) flexibility of policies, procedures and processes; and
- (d) partnerships with the private sector, private-sector institutions, donors and IFIs to ensure the most effective use of resources available to the BMCs.

2. COOPERATION WITH INSTITUTIONS ASSISTING THE PRIVATE SECTOR

2.01 The major justification for CDB's involvement with the private sector continues to be market failure, that is, instances of serious mal-distribution of resources such that economic efficiency has not been achieved through imperfections in the market mechanism. The micro, small and medium-scale

enterprises will be extremely vulnerable and will require technical assistance (TA) and funding to be able to survive the transition to global competitiveness. Special attention should also be given to those BMCs, where, because of their size and the inability of many of their industries to achieve scale economies, catalysing private sector development will be critical for the development of their economies.

2.02 In partnership with the public and private sectors, CDB will seek to complement the activities and initiatives of all the players in the overall private sector development effort for CDB's BMCs, particularly in areas where there is demonstrable market failure. Appendix 1 presents a matrix summary of the institutions assisting the private sector in the Region. An assessment of the matrix indicates that the donors are focusing on TA for creation of enabling environments, governance, and improving competitiveness with an emphasis on the micro, small and medium-scale private sector. The IFIs provide funding and TA. Historically IFIs have focused on financing infrastructure, manufacturing and capital market development in Latin America. The commercial banks and merchant banks of the BMCs emphasise collateral requirements, which may limit their ability to service existing enterprises, especially the small and medium-size enterprises, that may be highly leveraged and require additional financing to make the transition to global competitiveness. The credit union movement is a growing sector and assists in financing many of the small and medium-scale operations. At present many of the Non-Governmental Organisations (NGOs) in the BMCs are grappling with the issue of sustainability, but have been targeting the micro and small-scale enterprises.

3. STRATEGY

Introduction

3.01 CDB's strategic objective for private sector development in the BMCs is to improve the global competitiveness of the Region's productive sector on a sustainable basis and reposition Caribbean economies into the mainstream of the world economy. CDB's emphasis will be on building enterprise and institutional capacity and increasing the flow of investment capital to business enterprises. In achieving this objective, CDB will pursue a three-pronged strategy aimed at supporting effort by governments and the private sector, as a partner, client and resource to:

- (a) support business and product development by providing financing and TA for development of new businesses and products, expansion of existing enterprises and building institutional and enterprise capacity. This includes the provisions of finance for public/private sector investment to maintain and improve economic and social infrastructure.

- (b) catalyse larger investment flows by mobilising resources and promoting the further development of the financial sector, including an integrated capital market; and
- (c) create an enabling and supportive policy environment which fosters/encourages domestic savings and foreign and domestic investment.

3.02 These strategic elements are mutually reinforcing and will be linked through a number of cross-cutting interventions. Appendix 2 summarises the components of the PSD Strategy

4. COMPONENTS OF PSD STRATEGY

Business and Product Development

4.01 Building institutional and enterprise capacity is a fundamental part of the mission of the Bank. The sustainability of any business depends on institutional/enterprises capacity to maintain and deliver the goods and services. CDB' s strategy on business and product development will focus on two main aspects:

- (a) building the capacity of existing enterprises to improve their competitiveness and facilitating the establishment of new, sustainable, productive enterprises which can compete effectively in the international market; and
- (b) building the capacity of regional and national institutions that support the private sector.

Financial Intermediation

4.02 Many enterprises that are considered large in the Caribbean are really quite small in global terms. Size, economies of scale, ready access to information and technology, the ability to create physical and intellectual capacity, continuous innovation and the ability to update existing products, will make a considerable difference in the ability of the enterprise to compete in the global market place. Exposure to global competition requires that the enterprises invest heavily in retooling, re-engineering of processes and training just to survive in their local markets and more so, in order to export. Micro, small and medium-sized enterprises will be especially vulnerable where internal and external economies of scale or scope will be difficult to achieve. Financial intermediation (indirect lending) is the most cost-effective and efficient way of channeling CDB's resources to the micro, small and medium-sized business in the BMCs. It is therefore important to support the private institutions (PIs) by building

institutional capacity, as well as developing appropriate risk management practices and good governance. Appropriate financial instruments on suitable terms and conditions are critical to the development of the Region's private sector. CDB will continue to support development thrust in the financial sector through its lending activities to PIs and the provision of TA for institutional strengthening and risk management.

Direct Support

4.03 Larger enterprises are better able to generate new products, source capital and form mergers or strategic alliances. In addition to making stand-alone loans to projects, CDB will facilitate the mobilisation of financial resources and seek to diversify the use of financial instruments such as syndicated loans, B-loan programmes with an A and B-Loan component, to leverage CDB's preferred creditor status.

Private Infrastructure

4.04 CDB's role in facilitating participation in private infrastructure (PPI) relates to the financing options and their structuring. These types of projects normally have relatively long payback periods, and therefore should not be financed by mis-matched maturity structures. In addition, small market size in most of the BMCs and its consequential implication for return on investment, could negatively influence the willingness of the private sector to invest in infrastructure. In the case of utilities, the costs of borrowing and the terms of the loan directly impact the level of tariffs necessary and charged to consumers, with consequential effects on the costs of goods and services. By minimising the level of any required tariff increase, CDB's involvement will ensure that benefits will accrue to both the domestic customers and the wider economy. It is also recognised that utilities in the Region can become owned by citizen(s) of countries outside the BMCs. CDB's policy for financing of economic infrastructure projects which directly involve the private sector, should be flexible enough to provide funds at terms afforded to the public sector and which closely match investment requirements. CDB will also assist in mobilising financing for such projects.

4.05 The Inter-American Corporation for Infrastructure Finance (CIFI) has been established to engage in the loan financing of small and medium-size infrastructure projects and related services in Latin America and the Caribbean as a way of furthering economic development in the Region and enabling additional funding to be channeled from private sources outside the Region. The Inter-American Investment Corporation (IIC), the private sector arm of the Inter-American Development Bank (IDB) and Caja Madrid of Spain are the principal sponsors of CIFI; CDB contributed equity in the amount of \$3 million (mn). In addition to financing infrastructure projects, CIFI will

provide consulting and other assistance in connection with such infrastructure projects and related services.

4.06 CIFI will finance economic infrastructure projects evaluated as feasible in any country within Latin America and the Caribbean. CIFI will specifically target small and medium-size projects of up to \$60 mn in assets. While CDB operates in this market segment, the size of its operation prevents it from meeting any significant portion of the demand. Therefore a potential market niche exists for the operation of CIFI. Furthermore, through its financing, CIFI aims to complement efforts of IDE and CDB in financing infrastructure projects. CDB's strategic emphasis on poverty reduction will also be advanced by CDB's participation in CIFI through the increased availability of funding for community projects through the feature which allows for channelling part of CIFI's earnings into community welfare initiatives. Capital market development may also be facilitated as CIFI will be mobilising most of its funding through the issue of financial instruments on the regional and international financial markets. CDB will also have the opportunity to co-finance projects funded by CIFI.

Privatisation

4.07 Privatisation is part of a process of structural adjustment and the specific reasons behind privatisation at the national level are varied. However, the primary objective is to promote economic efficiency by fostering well-functioning markets and competition. The quality of the process of designing and implementing privatisation options can determine whether or not the reform succeeds. Privatisations may attract new investment, particularly foreign investment together with new technology and management skills for enterprise growth, and mobilise domestic resources for development. It is estimated that CARICOM countries are expected to privatise over \$2 billion (bn) in assets over the medium term. CDB's funds could be used to facilitate the privatisation process, where there is significant Caribbean national participation, which in turn facilitates faster economic growth through savings achieved in operational and cost efficiencies. Since most privatisation will require upgrading and expansion, in addition to funds for acquisition and resources for restructuring, a B-Loan programme may be a useful vehicle for such purposes. The acquisition component could be separately packaged as a B-Loan with CDB funding the upgrading/expansion as an A-Loan. This approach would allow CDB to control its own exposure whilst at the same time playing a major role in the privatisation process.

Technical Assistance

4.08 Institutional strengthening, building capacity and investments in improved management information systems of microfinance institutions (MFIs) will be supported. Lessons learnt from CDB's past interventions with smaller PIs, such as credit unions, suggest that attention needs to be given to strengthening the capacity and regulatory framework within which these institutions operate.

CDB's role in the medium-term will be to broaden and strengthen relationships and capacity of these institutions to intermediate all sources of funding in an efficient, cost effective and viable manner.

4.09 CDB proposes to further strengthen the Caribbean Technological Consultancy Services (CTCS) network by developing lower-cost alternative modes of delivery, including the use of modern information and communications technology and by decentralisation of the processing, administration and delivery of TA. When the decentralisation process is completed, all BMCs should have the capacity to contract consultants through the CTCS Network to deliver TA to small and micro enterprises (SMEs) and in so doing, make such assistance more accessible to SMEs through the Region. The process has already been started in four pilot countries and will be monitored over several years before coming fully on stream.

4.10 The provision of TA to the micro and small-enterprise sector would not be limited to CTCS. TA to support institutions that deliver services (including financial services) to MSEs would also be provided where it is demonstrated that such TA would contribute to sustainability of the institutions. An example of this type of TA is the institutional strengthening of DFIs, which includes training in risk management, so that the efficiency and effectiveness of the financial services provided are enhanced.

4.11 There are instances where the provision of grant TA to the medium and large-scale private sector can be justified. This applies when the assistance is likely to benefit all enterprises in a particular sector/industry, or when the TA is designed to support overall sector development. An example is the use of TA to support the provision of advisory services to private enterprises in a newly emerging industry such as non-tourism service exports. However, the provision of TA to the private sector under this type of modality should, as far as is possible, be provided on an equity basis rather than as a grant. This has the advantage of reducing the likelihood that CDB would be accused of creating unfair advantage while at the same time facilitating some control over the use of the resources by conditioning that CDB be represented on the Board of Directors of the beneficiary company.

4.12 Policy dialogue is essential in creating an enabling environment. Unfortunately, the bodies representing the private sector are institutionally weak and unable to contribute meaningfully to the process. Indeed, this is true of all the social partner institutions which have a vital stake in the formulation and outcomes of public policy, but are weak in their capacity to comprehend the significance of the issues and participate in the policy-making process. This is not limited to national policy issues; regionally, the private sector must organise itself to contribute to the external trade negotiations which are taking place on several fronts. In view of CDB's commitment to promoting wider participation in decision-making through the use of social partnerships and encouraging its

BMCs to establish formal mechanisms for meaningful policy dialogue among the social partners, the provision of TA for strengthening of private sector institutions through TA interventions and support for consultative bodies will form an important part of CDB's PSD strategy.

Environmental Management

4.13 Caribbean private sector experience in addressing environmental issues illustrates a dichotomy based on the size of the BMC and the level of awareness of the need to respond to international issues, particularly as they relate to international trade. Through initiatives from the World Bank and the IDB, the capacity to manage environmental risk improved in Trinidad and Tobago, Jamaica and Barbados, and is expected to improve in Guyana. All four BMCs now have institutions and legislation that require that private sector initiatives are assessed for their impacts on the natural and socio-cultural environment and their contributions to sustainable development. The national capacities of the smaller BMCs to manage environmental risk remains weak through institutional fragmentation, overlapping and outdated legislation. Invariably, procedures to assess the social and environmental impacts of proposed development initiatives are weak; a condition that is accentuated further by the scarcity of trained professionals. CDB would support initiatives to improve environmental risk management in the smaller BMCs and in support of private sector development.

4.14 Current global initiatives to achieve sustainable development are supported by an array of instruments that seek to rationalise the use of natural, human and technological resources while specifying parameters for waste production and assimilation. These initiatives include international agreements, conventions, standards, guidelines and protocols that address a suite of private sector initiatives especially in industry, resource extraction, services, and tourism, as well as national legislative, regulatory and policy instruments that have been developed to address specific needs. International trade agreements now contain "Environmental Side Agreements" that require participating countries to be guided by similar procedures, standards, guidelines, protocols, etc., for managing environmental issues. Initiatives by the Caribbean Alliance for Sustainable Tourism to develop procedures and standards for managing environmental issues in the hotel and tourism industry, are important if Caribbean nations are to maximise the benefits that could accrue from this sector. Additionally, conformance to internationally recognised standards and procedures for managing environmental risk, such as the ISO 14000 series, is becoming crucial, as its acceptance as a benchmark to demonstrate operational integrity in environmental management by major international firms could create barriers for smaller organisations for whom the costs of establishing formal systems might be prohibitive. It is essential for the private sector to demonstrate the integrity of its own approaches to managing environmental risk if it is to achieve success in the new global economy. CDB will assist private enterprises to:

- (a) progress towards full compliance with international standards;
- (b) reduce risks associated with pollution as they increase production levels; and
- (c) mitigate risks associated with natural hazards and occupational safety and health.

Guarantees

4.15 Under the Microfinance Guarantee Programme, CDB would provide a guarantee of a line of credit from a commercial lender to a specialised MFI. Given that microfinance in the BMCs is still in its infancy, CDB will consider providing a guarantee to a commercial financial institution for a portfolio of investments to the micro enterprises.

Research and Development

4.16 Support for research and development (R&D) will also form part of CDB's TA activities for business and product development. With few exceptions, R&D has not been a priority area for investment in either the public or private sectors in CDB's BMCs. Neither has the development of indigenous R&D been embraced by the donor community. BMCs must become attuned to the importance of R&D, as the development of innovative new products and technologies, as well as the penetration of new markets, will depend heavily on increasing the quantity and quality of investments in R&D. CDB is already working with the University of the West Indies to examine the feasibility of establishing a dedicated and sustainable funding agency to fund research activities. CDB will also support measures aimed at promoting product development and commercialisation, as well as to generate and disseminate vital market intelligence.

Catalysing Investment Flows

4.17 CDB is an institution enjoying an international "Aaa" credit rating. Its preferred creditor status and its due diligence capacity in certain types of projects, both at appraisal and during implementation, enable the institution to play a catalytic role in bringing additional resources to the "table" that may otherwise be costly due to the perceived risk associated with investing in the Region.

Capital Market Development

4.18 The free movement of capital is crucial to the development of the CSME as it would allow enterprises to have access to wider markets for raising capital at competitive rates. There are a number of issues relating to development of an integrated capital market in the BMCs. These include:

- (a) expansion of the procedural harmonisation or cross-border movement of capital;
- (b) expansion of the market to include greater participation of institutional investors;
- (c) facilitation of cross-border clearance and settlement;
- (d) harmonisation of the company laws across the Region;
- (e) ~~introduction of new financial products;~~
- (f) provision of credit information systems; and
- (g) education and training of both investors and issuers.

4.19 Potential areas for CDB's involvement through TA are:

- (a) facilitating the establishment of a central clearing facility;
- (b) training of market participants;
- (c) revision and harmonisation of companies' laws in each member state; and
- (d) education and sensitisation programmes for the private sector.

CDB would also get directly involved in market development by facilitating the development of new instruments (for example, asset-backed securities) and by putting some of its own paper on the market.

5. DEVELOPMENT OF THE FINANCIAL SECTOR

5.01 ~~Financial intermediation is the most cost-effective and efficient way of channelling CDB's resources to the micro, small and medium-size business in the BMCs. It is therefore important to support the financial institutions/intermediaries (FIs) with building institutional capacity, developing appropriate risk management practices and improving corporate governance. CDB will continue to support development thrusts in the financial sector through its lending activities to FIs and the provision of TA for institutional strengthening and risk management.~~

Equity. Funds and Investments

5.02 ~~Many small and medium-size businesses in the Region are constrained by limited access to financial opportunities provided to larger, more established~~

businesses. There is significant undercapitalisation, inadequate staffing, and the inability to access a pool of savings to provide a cheaper source of finance. This has serious consequences for the cost and availability of financing, as well as the long-term viability of small and medium-size businesses. Given CDB's limited experience with equity operations, and the nature of the capital markets in the Region, the Bank's equity involvement will be limited to specialist equity or venture capital funds, where it is clearly demonstrated that CDB's involvement would serve as a catalyst to attract other investors, and providing equity (or quasi-equity) resources to individual private-sector companies from resources specially designed for this purpose. In the latter case, the equity resources would be used to facilitate a more appropriate capital structure, thus ensuring enterprise viability.

Creating An Enabling Environment

Legal and Regulatory Framework

5.03 The legal and regulatory frameworks within a country support development by building confidence in the economy and society. Impediments and distortions in the business environment can inhibit enterprises from successfully competing locally and internationally. CDB will support initiatives/activities which:

- (a) modernise the legal environment for PSD, to bring relevant legislation and regulations into line with modern practices and make them more predictable and "investor friendly";
- (b) speed-up government processes and procedures which have an impact on business development and expansion, and provide equal access to enterprises of all sizes to resources necessary for achieving global competitiveness;
- (c) improve competitiveness and remove regulatory impediments to trade;
- (d) facilitate establishment of adequate regulatory frameworks to ensure orderly development and to protect the interests of citizens, consumers and governments against environmental hazards, unfair competition or monopolies;
- (e) facilitate establishment and/or strengthen capacity of supervisory and regulatory agencies, particularly regional or sub-regional agencies, in areas such as quality assurance, the environment, and offshore financial services, fair trade commissions and utilities, to monitor the activities which fall under their jurisdiction and take decisive action in cases of noncompliance; and

- (f) facilitate the development of money and capital markets in the Region.

5.04 The existence of adequate economic infrastructure facilities is key to sustainable development. In the past, such facilities have been mainly financed through national budgets. However, in recent years, governments in the BMCs have come under increasing pressure as they seek to allocate their scarce financial resources to competing projects, particularly those related to social development. As a result, both the provision and maintenance of economic infrastructure facilities have suffered.

5.05 Effective participation by the private sector in the provision and maintenance of economic infrastructure facilities would necessitate reform of the various sectors and the establishment of sustainable regulatory and legislative arrangements, which would not only provide credibility to the process, but would also be fair to investors and consumers and represent governments' interest by delivering greater efficiency to the economy as a whole. CDB recognises the efficiencies to be gained from encouraging private sector participation in the delivery of infrastructure services and its role in facilitating this participation would involve the following:

- (a) CDB will support its BMCs, which are at various stages in the process, in their efforts to create an environment which encourages private sector investment and participation in the provision of economic infrastructure, and to put in place the necessary arrangements to regulate this participation, i.e sustainable legal and regulatory frameworks.
- (b) CDB will also commit TA resources to assist the BMCs in building institutional capacity for the efficient operation of the regulatory agencies and to undertake sector reform and tariff studies.
- (c) CDB's involvement as a lender to privately-owned companies will ensure that the relevant technical, financial, economic and environmental criteria are satisfied.
- (d) CDB is considering partnering with the Public-Private Infrastructure Advisory Facility (PPIAF), a multi-donor TA facility aimed at helping developing countries to eliminate poverty and achieve sustainable development by improving the quality of their infrastructure through private sector involvement.

Policy Dialogue

5.06 Government policies have an important role to play in creating the appropriate environment for private investment, stimulating the competitive

capabilities of indigenous enterprises and making the transition to competitive social and economic structures. Fostering a more robust private sector is high on the agendas of governments in all BMCs, therefore the policies of government ~~must reflect regular consultation with the private sector through its representative~~ associations (e.g. Chambers of Commerce, Manufacturers' Associations). CDB proposes to improve the overall economic management capacity of the BMCs by increasing its economic work in the BMCs, including TA, and by engaging in more frequent policy dialogue.

Public and Corporate Governance

5.07 Good governance can have a positive effect on economic growth prospects as it yields good policies, particularly policies which are conducive to increased levels of both domestic and foreign investment. CDB's Strategy Paper on Governance and Institutional Development (May 2001) has addressed issues and strategies for overcoming factors which may negatively impact on investment decisions. CDB's interventions will focus on:

- (a) building capacity for improved tax administration, particularly revenue collection;
- (b) developing capacity for improved policy management and coordination;
- (c) strengthening implementation capacity, particularly in relation to the delivery of services;
- (d) improving accountability in the public sector, private sector and in regional institutions; and
- (e) establishing strong legal and regulatory frameworks, especially in relation to private sector development.

6. RISK MANAGEMENT

6.01 CDB will develop risk management models for management of its private sector portfolio. The model should incorporate most of the risk that CDB faces when lending to the private sector - credit risk, interest rate risk, liquidity risk and foreign exchange risk. The introduction of a formal model would also require the establishment of an Asset/Liability Committee to oversee application of the model.

MATRIX SUMMARY OF INSTITUTIONS ASSISTING THE PRIVATE SECTOR IN THE REGION				
Institutions/Donors	Financing	TOL	Major Issues	Activities in EMCs
CDB	Direct and Indirect Leading	Suggests private sector groups Does not provide TA to individual private enterprises	Increasingly leading	Involved in all EMCs Intervention is a reflection of demand and CDB's perception of its needs
World Bank	Leading in governments through project financing and co-financing	PEO group provides TA in areas of privatization, telecommunications, industrial infrastructure and financial sector reform. TA interventions linked to capital projects	New PED strategy being prepared	Involved in privatization in most sectors in E.L. Lucia, TA for regulation of telecommunications (OCEC). No specific strategy for English-speaking Caribbean
International Finance Corporation	Loan, equity, and equity	Support to PED in developing countries	Infrastructure, finance and manufacturing in Latin America	Special advisor to the Caribbean appeared to identify opportunities in the Region. Recent interventions - Liberia (with the Royal Bank of Trinidad and Tobago) and base in Pricewaterhouse
IUB	Financing private investment in infrastructure and capital market development	Suggests initiatives to encourage development, economic development and creation of enabling environment and policies	Infrastructure and capital markets in larger Latin American countries	Limited activity in the EMCs
UNC	Leading and leveraging resources to foster development of small and medium-sized enterprises	-	-	No significant interventions in the English-speaking Caribbean
UNFPA	Predominantly TA, some grant funds	- Enabling environment - Micro-financing - Institutions building - Small livelihood - Business linkages	Micro, small and medium enterprises	Bilateral, Jamaica, Guyana, Windward Islands and Belize Regional, CARICOM members
USAID	Financing reform, small and medium-sized enterprises through CDB, governments and other FIs	Institutional strengthening, support to competitive large-scale industries, improving competitiveness of selective SMEs in OCEC with export potential	Improving competitiveness, reorganization in formal business and trading	OCEC, Jamaica and Guyana
CIDA	-	Microfinance "best practice"	Micro-enterprises	Jamaica
UNDP	-	-	-	OCEC

MATRIX SUMMARY OF INSTITUTIONS ASSISTING THE PRIVATE SECTOR IN THE REGION		Major Focus	ACHIEVEMENTS/ISSUES
Institutions/Divisions	Financing	Major Focus	ACHIEVEMENTS/ISSUES
EIF	Large Infrastructure projects	-	-
Caribbean Development Bank Enterprises	-	Offers a comprehensive and flexible range of support services. Targeted needs and large-scale enterprises. Sector concentrations: wood, food, construction and tourism. Market intelligence, business advisory and export facilitation services for non-traditional non-durable goods and sub-sectors services sector. Borrowers ability to service debt and collateral	Provides support to English-speaking Caribbean. Historically more successful activities undertaken in Spanish-speaking, larger island states (e.g. Dominican Republic)
Caribbean Export Development Agency	Trade information, policy services, market research and promotion, export development and marketing assistance	-	-
Commercial Banks	Loans to medium and large productive sector enterprises on short and medium terms	-	National and regional collateral
Merchant Banks	Medium to long-term loans to medium and large-scale enterprises. Leasing	Borrowers ability to service debt and collateral	National and regional collateral
Credit Unions	Short to medium-term loans to retailers	Limited technical and financial advice to Micro and small enterprises and workshops	National
NGOs	Loans to micro and small-scale	Limited technical advice and workshops	National
DFIs	Small, medium and long-term loans to small and medium-scale enterprises, with a grace period. Supervised credit	Limited technical advice	National
Overseas Private Investment Corporation (OPIC)	Investment financing through direct loans and guarantees. Equity investments. Political risk insurance. Companies must have at least 25% equity of US investors and 51% privately held shares	Now investing in developing countries. Major focus on Latin America	Limited activity to the BMCS

SUMMARY OF PRIVATE SECTOR DEVELOPMENT STRATEGY			
Modes of Intervention	Creating An Enabling Environment	Catalysing Investment Flows	Business & Product Development
<p>(a) Private Sector As Client</p> <p>Direct Loans to Private Sector</p> <p>Indirect Lending through Financial Intermediaries (FIs)</p> <p>TA to Private Sector Enterprises</p>	<p>Financing Private and Public Investment in Infrastructure Projects</p> <p>Institutional Strengthening of FIs, including Credit Unions and Micro-Finance Institutions</p> <p>Build capacity of National and sub-regional institutions to undertake more cost-effective delivery of TAs through CTCs to micro, small and medium-scale enterprises</p>	<p>Intermediation and Co-financing of lending from IFIs and other FIs</p> <p>Training (eg. in Risk Management) to enhance the range and effectiveness of financial services provided by FIs for enterprise development</p> <p>TA to provide advisory services to groups of enterprises or for overall sectoral development</p>	<p>Building capacity of existing enterprises, including Research and Development, and establishment of new competitive enterprises</p> <p>Fostering diversification by expanding exports of services</p> <p>Expanded provision of hands-on TA training and technical information to MSMEs</p>
<p>(b) Private Sector As Partner</p> <p>Equity Investments</p> <p>Strengthening of Private Sector Institutions</p> <p>Trade Negotiation Machinery</p> <p>Legal and Regulatory Framework</p>	<p>Facilitating integration of Capital Markets and development of stock exchanges in the Region</p> <p>Facilitating/encouraging formal mechanisms for meaningful dialogue among the social partners</p> <p>Strengthening capacity of legal and regulatory agencies</p>	<p>Participation in specialist equity or venture capital funds where this is likely to attract other funds</p> <p>Catalysing the development of innovative financial instruments (eg. asset-backed securities)</p> <p>Identifying and facilitating removal of barriers to capital/labour mobility</p> <p>(and, more generally) assist in the establishment of the Caribbean Single Market and Economy</p>	<p>Facilitating more appropriate capital structures for competitive enterprises</p> <p>Facilitating private sector contributions to external trade negotiations</p> <p>Facilitating further development of the off-shore financial sector by improving monitoring and oversight systems (eg. establishment of a sub-regional FIU)</p>
<p>(c) Private Sector As Resource</p> <p>Improving Economic Management Capacity - EMOCs</p> <p>Leveraging CDE's Financial Resources</p> <p>Promoting Good Public and Corporate Governance</p>	<p>Fostering regular consultations with private sector representative associations</p> <p>Facilitating the development of capital markets (eg. by placing CDE paper on Regional Markets)</p> <p>Establishing strong legal and regulatory frameworks</p>	<p>Fostering a more dynamic and robust Private Sector</p> <p>A-Loan/IS-Loan programmes and micro-finance guarantee programmes</p> <p>Improving transparency and reducing factors which may impact negatively on investment decisions (eg. transaction costs)</p>	<p>Facilitating more effective response to changes in technology and markets by MSMEs</p> <p>Encouraging public/private sector partnerships for development of strategic areas</p> <p>Strengthening implementation capacity by facilitating training of public and private sector personnel</p>