

**CARIBBEAN DEVELOPMENT BANK**



**SPECIAL DEVELOPMENT FUND (UNIFIED)**

**A STRATEGIC FRAMEWORK FOR SDF 7  
Discussion Outline**

May 2008

## **ABBREVIATIONS**

BMCs	-	Borrowing Member Countries
CARICOM	-	Caribbean Community
CDB	-	Caribbean Development Bank
MBDs	-	Multilateral Development Banks
MDGs	-	Millennium Development Goals
MfDR	-	Managing for Development Results
RPGs	-	Regional Public Goods
PRS	-	Poverty Reduction Strategy
SDF (U)	-	Special Development Fund (Unified)

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## **EXECUTIVE SUMMARY**

The economic and social environment and the challenges facing Caribbean economies define the context within which a Strategic Framework for SDF 7 must be crafted. Poverty, inequality and social exclusion remain defining features of the economic and social reality of the Region and constitute important targets for development intervention. Increasing the rate of economic growth and reducing the volatility of that growth, are major macroeconomic objectives. Underlying growth performance is the issue of competitiveness. Fiscal and debt performance are also important determinants of growth performance and must be addressed if sustainable growth is to be achieved. All of these issues need to be approached in the context of the threat of a global recession and the reality of sharply rising commodity and food prices, with their implications for growth, employment and poverty reduction in the Caribbean. The lessons learned when implementing SDF 6 and earlier cycles of SDF also influence the nature of the SDF 7 strategy. The Caribbean Millennium Development Goals (MDGs) will remain as the basis for monitoring progress.

Four core themes and one cross-cutting theme have been proposed for the next replenishment cycle of SDF:

### **Core Themes**

- ***Strengthening the poverty reduction focus and addressing the MDGs in the Caribbean***, including the Bank's strategic response to the challenge of providing effective and meaningful assistance to Haiti;
- ***Supporting environmental sustainability, disaster risk reduction and management of the climate change response agenda***, including addressing the vulnerability of the Bank's Borrowing Member Countries (BMCs) to natural and man-made hazards and strengthening capacity in the BMCs for climate change mitigation and adaptation;
- ***Supporting regional cooperation and regional integration***, including an appropriate operational framework to support priority needs of the Caribbean Community (CARICOM) and its members and to assist in the provision of regional public goods (RPGs); and
- ***Further enhancing development effectiveness***, guided by the *Paris Declaration on Aid Effectiveness* targets and indicators; including *Managing for Development Results (MfDR)* and strengthening of the Bank's human resources and institutional capacity.

### **Cross-Cutting Theme**

- ***Gender Equality***

These themes are derived from the strategic objectives and cross-cutting themes in the broader Strategic Plan 2005-2009. Their significance stems from the fact that economic competitiveness, growth rate, poverty, inequality, environmental sustainability and social exclusion remain relevant considerations for sustainable Caribbean development.

The SDF 7 strategy must, therefore, be a sub-set of the Bank's overall strategy and must be built around these themes. In a real sense, the strategy for SDF 7 would be a continuation of SDF 6, but with changing emphases and adjustments to the intervention modalities. The SDF 7 themes are consistent with

those set for the current Strategic Plan period 2005-2009 and reinforce the linkages between the Bank’s mission statement, the Strategic Plan, and other guiding documents such as the Resolution and Report of Contributors to the Special Development Fund (Unified) [SDF (U)], the Poverty Reduction Strategy (PRS), and other thematic and sector policies and strategies. It should be noted that 2008 is the mid-point of the period set for the achievement of MDGs and that the seventh cycle (2009 – 2012) of the SDF (U) is the last full cycle before the MDG target date of 2015. This cycle and its action plans and programmes should provide the momentum for BMCs to achieve these goals.

The Caribbean Development Bank’s (CDB) analysis of the challenges facing BMCs and the outlook for the future, indicate that there is need for considerable improvement in the competitiveness of BMCs and the acceleration of economic growth rates as a basis for reducing poverty and improving the welfare of the citizens. Over the next strategic planning period, and in the context of SDF 7, it is proposed that CDB’s role and strategic focus for assisting BMCs to improve competitiveness and to accelerate economic growth rates would be broadly directed at:

- (a) supporting the improvement of social and economic infrastructure recognising that adequate and high quality infrastructure services are essential for each country’s growth and competitiveness;
- (b) promoting inclusive social development that recognises the imperative of reducing rising disparities in income and inequities between and within BMCs, and which, if left unmitigated, can be disruptive to economic and social progress. The focus in this regard would be on facilitating inclusive growth and the participation of the less fortunate in the widening market opportunities through expanding and improving education, rural services, agriculture, and basic infrastructure services;
- (c) supporting efforts to improve governance and in particular to reduce state bureaucracy and the costs of doing business for enterprises and ordinary citizens and as a means of enhancing competitiveness;
- (d) supporting efforts to address the impacts of climate change, prioritising environmental sustainability, and improving disaster risk management. Climate change and other concerns about environmental degradation have become global issues. These concerns include energy efficiency and clean energy, water resource management and deforestation. For the borrowing members of the Bank, a strategy for economic growth must in fact be a strategy for sustainable growth which links their economic well-being and progress to the long-term preservation of the environment; and
- (e) promoting and facilitating regional integration and cooperation as a means of creating larger market space for goods and services, improving the efficiency of resource use, enhancing competitiveness and achieving higher rates of economic growth. The Bank needs to leverage its credentials, as a leading Pan-Caribbean institution, to assist the Region to address the many conceptual, technical and institutional challenges of attaining greater economic integration.

The mix of measures adopted to address these issues will depend on the availability of human and financial resources, the Bank’s own comparative advantages capacity, and on the institutional capabilities of the different BMCs. It also depends on the effectiveness of the partnerships that can be built with other development agencies operating in the Region. The Bank’s interventions need to become more finely focused so that they are consistent with its capabilities, and this underscores the importance of partnerships. Country-level interventions need to be complemented by regional public action to deal with

areas where externalities or public good characteristics at the regional level have a direct or indirect impact on poverty reduction. Examples include fiscal and financial stability issues, regional transportation systems, and environmental and climate change issues.

## **DISCUSSION OUTLINE: A STRATEGIC FRAMEWORK FOR SDF 7**

### **1. THE STRATEGIC CONTEXT**

1.01 The economic and social environment and the challenges facing Caribbean economies define the context within which a Strategic Framework for SDF 7 must be crafted. The Strategic Framework must also be consistent with the corporate strategic focus of CDB in the medium- and long-term. Poverty, inequality and social exclusion remain defining features of the economic and social reality of the Region and constitute important targets for development intervention. Increasing the rate of economic growth and reducing the volatility of that growth, are major macroeconomic objectives. Underlying growth performance is the issue of competitiveness. Fiscal and debt performance are also important determinants of growth performance and must be addressed if sustainable growth is to be achieved. All of these issues need to be approached in the context of the threat of a global recession and the reality of sharply rising commodity and food prices, with their implications for growth, employment and poverty reduction in the Caribbean. The lessons learned when implementing SDF 6 and earlier cycles of SDF also influence the nature of the SDF 7 strategy. The Caribbean MDGs will remain as the basis for monitoring progress.

1.02 This Discussion Paper outlines a Strategic Framework for the seventh cycle of SDF. It anchors this framework in CDB's Strategic Plan 2005-2009 from which the four core themes for SDF 7 are derived. It rationalises the choice of the themes and analyses their strategic implications as a basis for continuing the discussion with Contributors on the need for replenishment of SDF. After re-stating the core themes, the paper outlines a perspective of each theme and the proposed strategic response of CDB. It then concludes with suggestions as to the priorities of SDF 7. The paper should be seen as an introduction to a much more comprehensive paper on the strategic approach for SDF 7, to be presented at the third negotiation meeting in July 2008.

### **2. THE STRATEGIC PLAN 2005-2009**

2.01 CDB is currently in the fourth year of implementing its Strategic Plan 2005-2009 in which the overarching goal of poverty reduction is pursued through the following strategic objectives:

- promoting broad-based economic growth;
- fostering inclusive social development;
- promoting good governance;
- fostering regional cooperation and integration; and
- enhancing organisational efficiency and effectiveness.

2.02 Two cross-cutting themes were also included: Environmental Sustainability and Disaster Risk Management and Reduction. Since preparation of the Plan, CDB has recognised gender equality as an additional cross-cutting issue.

### 3. THE SDF 7 THEMES

3.01 Four core themes and one cross-cutting theme have been proposed for the next replenishment cycle of SDF:

#### Core Themes

- ***Strengthening the poverty reduction focus and addressing the MDGs in the Caribbean***, including the Bank’s strategic response to the challenge of providing effective and meaningful assistance to Haiti;
- ***Supporting environmental sustainability, disaster risk reduction and management of the climate change response agenda***, including addressing the vulnerability of the Bank’s BMCs to natural and man-made hazards and strengthening capacity in the BMCs for climate change mitigation and adaptation;
- ***Supporting regional cooperation and regional integration***, including an appropriate operational framework to support priority needs of CARICOM and its members and to assist in the provision of RPGs; and
- ***Further enhancing development effectiveness***, guided by the *Paris Declaration on Aid Effectiveness* targets and indicators; including *MfDR* and strengthening of the Bank’s human resources and institutional capacity.

#### Cross-Cutting Theme

- ***Gender Equality***

3.02 These themes are derived from the strategic objectives and cross-cutting themes in the broader Strategic Plan 2005-2009. Their significance stems from the fact that economic competitiveness, growth rate, poverty, inequality, environmental sustainability and social exclusion remain relevant considerations for sustainable Caribbean development.

### 4. A STRATEGIC FRAMEWORK FOR SDF 7

4.01 The SDF strategy is an important sub-set of the Bank’s overall strategy and must be built around these themes. In a real sense, the strategy for SDF 7 would be a continuation of SDF 6, but with changing emphases and adjustments to the intervention modalities. The SDF 7 themes are consistent with those set for the current Strategic Plan period 2005 – 2009 and reinforce the linkages between the Bank’s mission statement, the Strategic Plan, and other guiding documents such as the Resolution and Report of Contributors to SDF (U), PRS, and other thematic and sector policies and strategies. It should be noted that 2008 is the mid-point of the period set for the achievement of the MDGs and that the seventh cycle (2009 – 2012) of SDF (U) is the last full cycle before the MDG target date of 2015. This cycle and its action plans and programmes should provide the momentum for BMCs to achieve these goals.

4.02 The role of SDF has become increasingly important as poverty reduction efforts and targeting of the MDGs have become more focused and based on a deeper understanding of the poverty and vulnerability of Caribbean countries. The SDF mandate has expanded with a doubling of the number of persons in its client base and a still greater increase in the number of the poor in the Region. The social and economic challenges and potential have also become much clearer. CDB’s interventions are becoming increasingly effective, with better information, more effective instruments, learning through the



evaluation of past experience, and a focus on MfDR and on cooperative partnerships as part of the international Harmonisation and Alignment agenda.

### Poverty Reduction

4.03 The reduction of poverty remains the overarching goal pursued by the Bank in all of its BMCs. The strategic levers of PRS: *Capability Enhancement, Vulnerability Reduction and Good Governance*, provide the framework for the effective targeting of the poverty reduction efforts. Within this framework, addressing issues of poverty, at the national level, will continue to require actions as follows:

- ***Capability Enhancement:*** Providing economic opportunities for, and expanding the productive capabilities of the poor through action affecting the human, physical and natural assets and capacities of people. The range of job opportunities is enhanced by economic expansion, and the demand for particular labour skills as a result of growth stimulates the provision by the state and other non-governmental organisation agents of mechanisms and facilities to develop those skills in the population. It is in this context that overall economic growth is a critical contributor to poverty reduction. **Growth-enhancing interventions will need to be a central component of SDF modalities.**
- ***Vulnerability Reduction:*** Dealing with vulnerabilities that affect the poor – or those at risk of becoming poor – resulting from personal risks (e.g. health) or national risks (e.g. economic shocks, natural disasters) by reducing risks at the macroeconomic level and those at the micro-environmental level, providing opportunities for individuals and communities to develop their own arrangements for becoming more resilient, particularly with respect to income-generating activities, and establishing or enhancing social protection mechanisms.
- ***Good Governance:*** Ensuring that institutions are effective and responsive to all citizens and addressing issues of social exclusion by programmes and activities that enhance broad-based participation in national and community management through arrangements which emphasise transparency and accountability in the management of resources at all levels, and by improving national governance.

### Haiti

4.04 Haiti poses special challenges to CDB. As a *fragile state*<sup>1/</sup> Haiti has especially difficult development challenges and greater needs. Haiti accounts for almost 60% of the population of BMCs and over 70% of Haitians are living below the poverty line. The country exhibits particularly weak institutional and governance capacity such that the ability of the state to deliver basic social and infrastructure services is seriously undermined. Efforts to support Haiti must continue to involve close collaboration with development partners, increasing field presence and building on lessons learned from successful interventions. The instruments and modalities used by the Bank will need to be adapted to reflect the often changing realities of the Haitian environment.

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<sup>1/</sup> A fragile state is one with particularly weak governance, institutions and capacity and usually in conflict or in a post-conflict situation thereby exhibiting political instability.

### **Environmental Sustainability and Climate Change**

4.05 For BMCs to achieve any degree of success in addressing the issues of environmental sustainability, it is clear that:

- (a) environmental degradation cannot be tackled without addressing the issue of poverty;
- (b) mainstreaming environmental considerations in economic development policies and programmes must be addressed urgently;
- (c) more effort must be placed on capacity-building at the regional and national level to provide the knowledge base required for national economic policy-making;
- (d) regulatory and governance frameworks and public awareness must be improved;
- (e) close partnerships and alliances with other regional and international development partners are critical for more effective use of declining Overseas Development Assistance resources; and
- (f) innovative approaches are required to finance environment and sustainability initiatives.

4.06 The Fourth Assessment Report of the Inter-Governmental Panel on Climate Change suggests that for CDB’s BMCs which are all low-lying coastal states or small islands, sea level rise could exacerbate flooding and coastal hazards and their impacts on coastal infrastructure. Climate change will also increase sea temperatures, which will kill coral reefs, reduce fish resources and severely damage the major tourism attractions. Similarly, changing precipitation patterns will affect agricultural production and human health and existence in ways that are at this point entirely unpredictable. Environmental degradation and pollution are already significant concerns which will be further affected in unknown ways by climate change. BMCs must therefore not only address the short-term challenges of managing for disaster risk but also at the same time address the longer-term less-defined impacts from climate change and climate variability.

4.07 It is proposed that the Bank, in SDF 7, take a more strategic interventionist and proactive approach to address poverty reduction and environmental degradation issues directly in BMCs. In line with its PRS, CDB can assist BMCs to design and implement interventions which facilitate improved livelihoods, effective natural resource management and encourage the development of resilience to natural hazards. It is proposed that these targeted interventions be supported by “a set-aside of funds” to facilitate:

- (a) country-specific studies to determine the linkages between poverty reduction, environmental degradation and macroeconomic and sector policies;
- (b) enhancement of the policy dialogue with BMCs to help design appropriate poverty reduction policies and programmes;
- (c) support of either discrete or add-on pilot investments for initiatives which allow enhanced livelihoods through protection and management of natural resources;
- (d) cooperation and collaboration with other stakeholders to improve access and coverage of basic services, along with supporting productive initiatives with the private sector; and

- (e) direct reduction of vulnerability of the poor to natural hazards through both structural and non-structural approaches.

4.08 To contribute to successful outcomes, these initiatives, as well as CDB's traditional interventions, must be supported by more robust institutional and governance systems, and CDB should consider longer term support to regional as well as national institutions to build more modern, transparent natural resource and environmental governance frameworks appropriate to the realities of the countries. Activities could include:

- (a) long-term support for capacity and institutional building of environmental protection institutions;
- (b) assistance with the establishment of robust environmental and natural resource databases at either the regional or national levels;
- (c) improved and more robust legislative and regulatory systems; and
- (d) enforcement practices which allow for more broad-based stakeholder participation in areas such as land management, land use planning and resource protection, and conservation and climate change responses.

4.09 The level of international attention which is now placed on global environmental issues has spawned innovative financing mechanisms for developing countries, especially where it can be demonstrated that local natural resource initiatives can contribute benefits to managing larger global environmental concerns, including halting the loss of biodiversity. CDB's resources are limited, and the Bank should therefore seek to more fully exploit these opportunities by leveraging resources directly available through these conventions or through partnerships with other multilaterals and/or bilateral development institutions. For example, the Bank might wish to explore the opportunities for using carbon financing and other mechanisms for projects targeted at poverty reduction, environmental management, sustainable livelihoods and climate change adaptation, and the adoption of more environmentally friendly forms of energy.

### **Regional Cooperation and Integration**

4.10 While CDB's interventions in its BMCs will of necessity involve project implementation at the national level, the overall context of intervention will increasingly be regional in design and conceptualisation. This is in keeping with the continuing decisions of BMC governments to achieve economic and social development – and thereby improve in a sustainable fashion the living standards of their populations – through a process of intensification of economic integration and functional cooperation. This approach on the part of governments in the Region has its genesis in widespread acceptance that, individually, most, if not all of CDB's BMCs, do not have the capacity to provide for its population the range of services that are currently demanded of a modern state. Further, the small size of each country and its resource endowments limit the capacity to provide exportable output at globally competitive prices, and at the same time, be both flexible in responding to changes in product demand and provide continuous improvement in living levels.

4.11 CDB recognises that its BMCs have entered a critical phase of the integration process. The outcome of this phase will determine not only how well the objectives set out in the Preamble to the Revised Treaty of Chaguaramas are achieved, but whether the centripetal forces are strong enough to overcome the genuine fears that accompany the eventual subsuming of the individual sovereignty of small states into a large, more flexible and responsive entity, better able to cope with the demands of a new

global reality. In SDF 7, CDB will continue to focus its project interventions in developing common structures and processes in its borrowing members based on best practices; and this approach, will facilitate coordination and mutual support among officials and stakeholders in BMCs themselves, both generally, and in specific areas of activity and operations. The identification of RPGs will be an important element in the Bank’s support for regional cooperation and integration.

**Gender Equality as a Cross-Cutting Issue**

4.12 Improving gender equality stands on its own merits as a development objective. But the primary rationale for addressing gender equality in the CDB’s programming is the strong link between gender inequality and poverty in the region, in both rural and urban contexts. To effectively address poverty whilst continuing to utilise strategic entry points for integrating gender issues into its existing processes, CDB proposes to be more systematic in its efforts to mainstream gender equality. Further, in order to strengthen the performance of the Bank in its policy dialogue with BMC officials on economic management and to assist CDB in being more efficient in the use of its investment resources in a development context, a framework of actions to improve analytic and sector work needs to be introduced. This will also assist in the design of loans and grants which are more responsive to gender equality issues of BMCs and the Region.

4.13 Developing a gender policy, mainstreaming strategy and the related implementation framework are transformative and will facilitate these processes. These are consistent with CDB’s mandate, its strategic objectives and the strategic levers of the poverty reduction and governance strategies. The Policy will incorporate a results-based approach and will establish links between overall policy and programming priorities and gender equality. The Policy will be able to respond to BMCs’ priority needs related to gender and development.

4.14 The core issues that will be incorporated include:

- analysis of the economic and social dimensions of gender and the efforts to integrate them into all CDB policies, programmes and projects;
- integrating approaches to minimise undesirable gender-related outcomes in all policies, programmes and practices of BMCs. In the medium- to long-term, such integration will support sustainable development, good governance and reduce poverty and vulnerability; and
- developing approaches to gender equality through the creation of partnerships between women and men, thereby supporting both women’s empowerment and men’s inclusion.

**Development Effectiveness**

4.15 Further strengthening of the Bank’s efforts to increase the effectiveness of its contribution to development outcomes will be a basic underlying theme for SDF 7. Many of the elements of the Bank’s approach to development effectiveness are similar to those of other Multilateral Development Banks (MDBs), but adapted to its size and capacities, as well as to the particular circumstances in the Caribbean. In SDF 6, the elements of the Bank’s approach to development effectiveness were grouped under three pillars of a single *Results Agenda*:

- *The country and regional level;*
- *The institutional and corporate level; and*
- *Partnerships and harmonisation.*

4.16 This framework contained a considerable number of individual steps and initiatives, and was mirrored in the SDF 6 Action Plan. The three-tier framework remains a useful structure that the Bank has become familiar with, and it is proposed to retain it for SDF 7, with changes in content and emphasis as appropriate in the light of experience and the particular objectives of SDF 7 and the Bank's overall strategic planning framework, including the longer-range planning process that is now being formulated.

4.17 The content of the Results Agenda includes the concept and practice of *measuring, monitoring and managing for results*, or MfDR. For SDF 7, it will include the further development of an appropriate and structured performance reporting framework that will build on steps to date, take into account the observations and suggestions of Contributors, and be broadly similar to that developed by other MDBs. Central to this reporting framework is the identification of appropriate indicators that are measurable and objectively verifiable to support the MfDR approach.

## 5. CONCLUSIONS

5.01 The concessional resources provided by SDF are an essential part of the international effort to address the complex and deep-seated problems of poverty and vulnerability in the Caribbean. SDF resources are an invaluable complement to the ordinary resources of the Bank, and permit a range of activities within the Region that could not otherwise be undertaken. They allow CDB, and its development partners from within and outside the region, to address critical development needs and the core objectives of poverty reduction, broad-based, sustainable economic growth, reduction in vulnerability, and good governance. SDF resources solely, and more frequently blended with Ordinary Capital Resources, contribute directly to the Bank's ability to help to meet the MDGs and its Caribbean-specific targets and indicators. In this context, the policies and strategies outlined in the Bank's guiding documents are applied consistently in all its interventions regardless of the funding source used to finance the programme or project.

5.02 The economic and social environment and the challenges facing the Caribbean economies define the context within which the strategic framework for SDF 7 is crafted. The Strategic Framework must also be consistent with the corporate strategic focus of the Bank as a whole in the medium and long term. Many of these challenges are related to the issues of economic competitiveness, growth rate, poverty, inequality, environmental sustainability and social exclusion. CDB's analysis of these challenges and the outlook for the future development of BMCs indicate that there is need for considerable improvement in the competitiveness of BMCs and acceleration of our economic growth rates as a basis for reducing poverty and improving the welfare of our citizens.

5.03 Over the next strategic planning period, and in the context of SDF 7, it is proposed that CDB's role and strategic focus for assisting BMCs to improve competitiveness and accelerate economic growth rates would be broadly directed at:

- (a) supporting the improvement of social and economic infrastructure, recognising that adequate and high quality infrastructure services are essential for each country's growth and competitiveness;
- (b) promoting inclusive social development that recognises the imperative of reducing rising disparities in income and general progress between and within BMCs and which, if left unmitigated, can be disruptive to economic and social progress. The focus in this regard would be on facilitating inclusive growth and the participation of the less fortunate in the widening market opportunities through expanding and improving education, rural services, agriculture, and basic infrastructure services;

- (c) supporting efforts to improve governance and in particular to reduce state bureaucracy and the costs of doing business for enterprises and ordinary citizens and as a means of enhancing competitiveness;
- (d) supporting efforts to address the impacts of climate change, prioritising environmental sustainability, and improving disaster risk management. Climate change and other concerns about environmental degradation have become global issues. These concerns include energy efficiency and clean energy, water resource management and deforestation. For the borrowing members of the Bank, a strategy for economic growth must in fact be strategy for sustainable growth which links their economic well-being and progress to the long-term preservation of the environment; and
- (e) promoting and facilitating regional integration and cooperation as a means of creating larger market space for goods and services, improving the efficiency of resource use, enhancing competitiveness and achieving higher rates of economic growth. The Bank needs to leverage its credentials, as a leading Pan-Caribbean institution, to assist the Region to address the many conceptual, technical and institutional challenges of attaining greater economic integration.

5.04 The mix of measures adopted to address these issues will depend on the availability of human and financial resources, the Bank's own capacity, and on the institutional capabilities of the different BMCs. It also depends on the effectiveness of the partnerships that can be built with other development agencies operating in the Region. The Bank's interventions need to become more finely focused so that they are consistent with its capabilities, and this underscores the importance of partnerships. Country-level interventions need to be complemented by regional public action to deal with areas where externalities or public good characteristics at the regional level have a direct or indirect impact on poverty reduction. Examples include fiscal and financial stability issues, regional transportation systems, external affairs coordination, regionally consistent trade policies, and environmental and climate change issues.

5.05 One implication of the above analysis is that the approach to different countries may be differentiated depending on country conditions and capabilities. The modalities of CDB's intervention will need to evolve over time, as countries develop greater institutional capacity. It is envisaged that the Bank will increasingly rely on local capacity for analysis and will adapt its modalities to reflect these changes.