

CARIBBEAN DEVELOPMENT BANK



SPECIAL DEVELOPMENT FUND (UNIFIED)

**UNIFIED SPECIAL DEVELOPMENT FUND REVISED LEVEL
OF REPLENISHMENT AND COMMITMENT AUTHORITY**

November 2008

ABBREVIATIONS

BMCs	-	Borrowing Member Countries
BNTF	-	Basic Needs Trust Fund
CCA	-	Climate Change Adaptation
CDB	-	Caribbean Development Bank
MDGs	-	Millennium Development Goals
MfDR	-	Managing for Development Results
mn	-	million
OCR	-	Ordinary Capital Resources
SDF	-	Special Development Fund
SME	-	Small and Medium Enterprises

**UNIFIED SPECIAL DEVELOPMENT FUND REVISED LEVEL OF REPLENISHMENT AND
COMMITMENT AUTHORITY**

1. INTRODUCTION

1.01 At the Third Negotiation Meeting held in July 2008, Contributors considered Paper SDF 7/3-NM-8 entitled “Discussion Paper on Resource Requirement for SDF 7.” The discussion paper presented four alternative scenarios on programming and the corresponding levels of the resource requirements for SDF 7. These scenarios provided the basis for an initial consideration of issues and factors that could influence the decision on the level of replenishment. During the Fourth Negotiation Meeting held in October 2008, Contributors considered a further paper [SDF 7/4-NM-7] entitled Unified Special Development Fund Resource Requirement and Level of Replenishment (Seventh Cycle) and recommended that certain changes be made to the programme levels as well as the case being outlined in support of the various scenarios.

1.02 This paper responds to the comments and recommendations made by Contributors and sets out the expected outcomes for each of the four alternative programme levels (Appendix 1), the alternative levels of replenishment and related commitment authority (Appendix 2), and the relative share and amount of the total contribution to be pledged by each proposed Contributor (Schedule 1).

1.03 The principal factors which underpin the case for substantial support for the replenishment of the Special Development Fund (SDF) are the need to:

- (a) increase support for Borrowing Member Countries (BMCs) to accelerate progress towards achieving the Millennium Development Goals (MDGs);
- (b) enhance the Bank’s capacity to assist BMCs to mitigate the impact of the current global economic crisis and to meet the challenges of social and economic adjustment;
- (c) strengthen the focus on reducing unacceptably high levels of poverty, inequality and vulnerability to poverty resulting from economic shocks and man-made disasters;
- (d) strengthen the SDF’s role in assisting the Caribbean Development Bank’s (CDB) newest BMC to resolve its social and economic challenges;
- (e) respond to the increasing demand from BMCs for concessionary resources in the face of high fiscal stress and an increasingly difficult international credit environment;
- (f) increase support for regional solutions to development issues, including international competitiveness, building of the Caribbean Single Market and Economy, and issues of environmental degradation and climate change;
- (g) capitalise on the Bank’s improved programme delivery capacity resulting from the reform measures adopted for institutional strengthening, including their positive impact on staff capacity and operational efficiency; and
- (h) improve the results orientation of the Bank, as it increases its focus on development effectiveness and Managing for Development Results, and on implementing the principles of the Paris Declaration and the Accra Agenda for Action.

1.04 Consistent with the agreed themes¹ for SDF 7, the priority areas for expenditure in these scenarios will be:

- (a) continued **promotion of inclusive social development and economic growth** in eligible BMCs, especially in the areas of education and training, agriculture and rural development, social and economic infrastructure, and private sector development;
- (b) support for **environmental sustainability and disaster management**, including water and sanitation, renewable energy, disaster risk reduction and climate change mitigation and adaptation;
- (c) promotion of **regional cooperation and integration** through support for regional public goods; and
- (d) promotion of good governance through **the application of development effectiveness principles** and managing for results principles.

1.05 Commitment authority for financing the SDF 7 programme will be comprised of new contributions, projected net income for the period, loan repayments, and carry-over amounts from SDF 6. Four alternative replenishment scenarios are being presented for the consideration of Contributors. In each alternative scenario, it is proposed to transfer \$15 mn from the from Ordinary Capital Resources (OCR) net income as a contribution to financing the SDF 7 programme. Refer to Appendix 2 for the revised Alternative Levels of Replenishment and Programming Scenarios.

2. CONTRIBUTION OF OCR NET INCOME TO SDF 7

2.01 Unlike other MDBs, CDB has never made a contribution to the SDF replenishment by transferring resources from its OCR. This has not been done because of the Bank's small capital base, its vulnerability to the vagaries of a loan portfolio which is highly concentrated in a circumscribed geographical zone and in countries which are themselves extremely vulnerable to external economic shocks and natural disasters, and whose risk is highly correlated. Notwithstanding these factors the debt service performance history has been exemplary over time and management feels compelled to reexamine the implications of a contribution from the OCR to the SDF.

2.02 Current projections of CDB's OCR balance sheet over the period 2008 to 2013, incorporating aggressive assumptions of portfolio growth² and the contribution of \$15 mn to SDF 7, indicate that loans outstanding will reach 100 percent of the Charter Limit³ by 2011 or one year earlier than if the transfer was not made. Additionally, by 2012, another key prudential ratio for the OCR, the Borrowing Limit, is projected to reach 92 percent. A demand for CDB's OCR resources between 2009 and 2012 above that assumed in the projections would mean that extraordinary efforts would have to be made to replenish the Bank's capital in a relatively short period of time. These two ratios will, therefore, have to be monitored very closely over the next few years.

¹ The agreed themes for SDF 7 are strengthening poverty reduction and addressing the MDGs in the Caribbean; supporting environmental sustainability and advancing the climate change agenda; supporting regional cooperation and integration and enhancing development effectiveness including MfDR.

² Assumptions on portfolio growth made for these projection show loans outstanding of \$798 mn, \$952.6 mn, \$1,072 mn, \$1,164 mn, \$1,263.2 mn, and \$1,373 mn in 2008, 2009, 2010, 2011, 2012, and 2013, respectively.

³ The Charter limit states that "...the total amount of loans, equity investments and guarantees made by the Bank in its ordinary operations shall not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surplus and any other funds included in its ordinary capital resources..." Article 14 of CDB's Charter.

3. REVISION OF ALTERNATIVE SCENARIOS

Revised Base Scenario

3.01 Under the SDF 7 **Base Case Scenario**, contributions are calculated on the basis of SDF 6 contributions in US dollars adjusted for inflation⁴. Total contributions should amount to \$184.3 million (mn) or 18% higher than for SDF 6. Under this revised base scenario and for all other scenarios, the carry-over amount has been revised downwards from \$48.9 mn to \$16.9 mn⁵. Together with other internally generated resources of \$99.4 mn, the total commitment authority amounts to \$283.7 mn or 23.2% more than the original commitment authority for SDF 6 of \$230.2 mn.

3.02 The proposed programme size of \$310.1 mn is 20.4% larger in nominal US dollar terms than the programme approved for SDF 6 of \$257.5 mn. The difference between the commitment authority and the programme level results in a financing gap of \$11.4 mn (the financing gap for SDF 6 was \$27.3 mn) after the transfer of \$15 mn from the OCR reserves.

3.03 The SDF 7 base scenario builds on the work initiated in SDF 6 and proposes a reprioritising in order to facilitate the mainstreaming of gender equality into the work of the Bank, and a strengthening of the support for environmental sustainability and climate change through the use of grant resources. The **Theme 1** loan-funded interventions will be further supported through an allocation to the interest subsidy fund of \$10 mn which will facilitate the leveraging of additional OCR loan resources for education and training, social and economic infrastructure, agriculture and rural development, as well as, to support initiatives designed to mitigate fiscal distress in some BMCs. Resources for the Theme 1 modalities of the Basic Needs Trust Fund (BNTF) and private sector development and for Haiti programming are increased under this scenario, though at less than the inflation rate for the SDF 6 period. [Details of expected outcomes under all scenarios are set out in Appendix 1].

3.04 Resources allocated to **Theme 2** will be focused on improving water and sanitation (mainly through loan financing, although this sector may benefit from capacity-building grant resources), climate change and renewable energy, disaster response and disaster risk management and rehabilitation. The additional resource commitment to these areas accords with proposals for strengthening the Bank's policy research and formulation capabilities to support its proposed thrust in the areas of renewable energy and the environment and climate change (Refer to Paper SDF 7/4-NM-5 discussed at the October meeting).

3.05 Strengthening support for regional competitiveness, regional public goods, and regional solutions to issues of regional trade, infrastructure needs for regional transport and economic policy harmonisation will form the main thrust of **Theme 3** initiatives. Modest outcome targets set for the base scenario are in line with the available resources, and most interventions will be planned and executed in collaboration with other development partners operating in the region.

3.06 **Theme 4** carries through on the Bank's efforts to improve on its development effectiveness and to promote management for development results in all of its BMCs. The significant increase in the allocation for capacity development recognises the need to aggressively address central weaknesses in the capacity of BMCs to plan and manage public sector investment programmes and projects, to efficiently deliver public services to their citizens, to improve macro-economic policy development, strengthen financial management, improve social and economic statistics and to strengthen public sector reform and national governance.

⁴ US CPI rates applied were 3.375%, 3.226%, 2.858%, and 4.224% (projected) for 2005, 2006, 2007 and 2008.

⁵ The recalculation of the estimated carry-over amount shown in the Level of Replenishment paper (SDF 7/4-NM-7) is detailed in Appendix 3.

Revised Scenario 1

3.07 The calculation of **Scenario 1** contributions assumes that SDF 7 base scenario contributions are increased by 20% for a total new contribution level of \$220.8 mn. Total commitment authority amounts to \$320 mn, with the inclusion of internally generated resources of \$99.2 mn. The proposed programme size is projected at \$360.6 mn with a projected structural gap of \$25.6 mn after the transfer of \$15 mn from OCR.

3.08 Under this scenario, SDF scales up its response to some of the major challenges faced by BMCs including the need for improvements to education and training, management of debt and fiscal issues, disaster risk management and rehabilitation, regional public goods and development effectiveness. Modalities used to advance **Theme 1** such as education and training, social and economic infrastructure, initiatives to relieve fiscal distress and enhance capacity development will all be significantly strengthened.

3.09 Additional resources available to BNTF allow for the expansion of the programme to at least one additional BMC in which significant numbers of the poor of the region resides and which can benefit from the community-based interventions in water and sanitation, disaster risk management, gender equality and environmental sustainability. Strengthening of educational and training outcomes will remain the central plank for alleviating poverty within the region. Even with the additional resources made available under this scenario, there will be a shortfall in the effort required to achieve the Caribbean-specific targets in this area.

3.10 High levels of debt and fiscal distress in many BMCs have caused the emergence of debt sustainability and fiscal management as matters of urgent concern. This scenario will focus on these issues and provides for a substantial increase to the loan resources allocated for targeting the outcomes of reduced debt burden and improved debt management capacity in BMCs.

3.11 The scaling-up of **Theme 2** activities is focused on expansion of disaster risk management initiatives with regard to development of a disaster deficit index, and the inclusion of DRM in business continuity planning and environmental impact assessments. It should be noted that much of the community level interventions of the BNTF programme are also focused on improvements to environmental sustainability and disaster risk management and mitigation at the community level.

3.12 **Theme 3** is being resourced at a substantially higher level than in the base scenario and is expanded to include interventions targeting regional solutions and outcomes for environmental sustainability, climate change, energy efficiency and clean energy and urban transportation systems. As is the case in the base scenario, all initiatives will be planned and managed in collaboration with the relevant regional partners.

3.13 In this scenario, **Theme 4** is supported through the further strengthening of capacity development and development effectiveness in BMCs. Particular attention will be focused on developing, in collaboration with the IDB, a community of practice for promoting MfDR principles and approaches in BMCs.

Revised Scenario 2

3.14 The calculation of the new contributions level under **Scenario 2** amounts to \$239 mn and is based on a 30% increase on SDF 7 base scenario contributions. Total commitment authority amounts to \$390.6 mn after the inclusion of internally generated resources of \$103.4 mn. The programme to be financed in this scenario amounts to \$390.6 mn, including a structural financing gap of \$33.3 mn after the transfer of \$15 mn from OCR.

3.15 The additional initiatives to be funded in support of **Theme 1** will comprise a significant expansion of direct poverty-focused interventions in Haiti and a further expansion of the BNTF programme. The increased resources will allow for the enlargement of the Haiti programme and further justify the additional capital and operating costs associated with the establishment of a CDB office in that country. **Themes 2 and 3** outcomes

are supported through the integration of Haiti into the regional institutions and activities, as well as through the use of BNTF resources in the areas of environmental sustainability, and disaster risk reduction. The range and scope of operations contemplated for **Theme 4** remain the same as in Scenario 1.

Revised Scenario 3

3.16 The total new contributions level under **Scenario 3** amounts to \$262.4 mn or 42% greater than the amount for SDF 7 base scenario. Total commitment authority amounts to \$366.3 mn after the inclusion of internally generated resources of \$103.9 mn. The programme level to be financed in this scenario amounts to \$421.6 mn, including a structural financing gap of \$40.3 mn after the transfer of \$15 mn from OCR.

3.17 At this level of replenishment, SDF should be able to significantly scale up the size and scope of its BNTF operations and to further leverage the improvements made to the BNTF country and in-office operational systems as well as to its business processes. These continuing improvements and future initiatives have been intensively discussed in the BNTF 5 Mid-term Review and in the Proposal for BNTF 6 operations. It would also facilitate the widening of programming efforts under BNTF and more sustained support for a comprehensive strategy, and programme for capacity-building at the national, sub-regional and regional levels. Additional opportunity is also provided for the Bank to expand BNTF into BMCs that contain persistent pockets of poverty and whose income level may not permit full national coverage by the programme.

3.18 The other **Theme 1** priority area for expansion is education and training with a deepening of the educational modalities to respond to the educational needs and objectives of BMCs as well as to enhance the opportunities for attaining the relevant Caribbean-specific MDG targets. The range and scope of activities for supporting **Themes 2 and 3** remain the same as for scenario 2.

4. RELATIVE SHARE

4.01 Schedule 1 sets out the amount of each pledge and the relative share of each contributor for supporting each of the proposed scenarios. Proposed changes to the relative share of contributors compared to SDF 6 recognise the deterioration in the fiscal circumstances of some BMCs and the likely negative impact of the current crises in the food, oil and international financial markets. However, except for Grenada, the SDF 7 relative share for each Contributor does not exceed its SDF 6 relative share with the inclusion of the structural gap and the transfer of \$15 mn from the OCR.

EXPECTED OUTCOMES FOR ALTERNATIVE SCENARIOS

Strategic Themes/ Objectives and Core Priorities	BASE SCENARIO			SCENARIO 1			SCENARIO 2			SCENARIO 3		
	Grant	Loan	Expected Outcomes	Grant	Loan	Expected Outcomes	Grant	Loan	Expected Outcomes	Grant	Loan	Expected Outcomes
	\$ million			\$ million			\$ million			\$ million		
Theme 1: Strengthening Poverty Reduction and Human Development												
BNTF	36.2		The following outcomes are targeted in nine BMCs ⁱ : <ul style="list-style-type: none"> - Improved Access to social infrastructure - Increased employment opportunities - Strengthened institutions in targeted communities 	40.0		Similar outcomes are targeted as in the base scenario but covering 10 BMCs with the inclusion of Jamaica, where the largest number of poor persons in CDB BMCs are resident with the exception of Haiti: <ul style="list-style-type: none"> - Improved access to social infrastructure - Increased employment opportunities - Strengthen institutions in targeted communities It should be noted that even at this level of programming the allocation to some BMCs is too small ⁱⁱ to deliver the desired impact on the poverty situation and to justify the minimum administrative cost of operating the program in these countries. Furthermore in the context of the current economic and fiscal challenges BMCs are also hard pressed to meet the required counter-part input.	45.0		The range and scope of operations will be similar to scenario 2, except that the allocations to beneficiary countries would be larger and provide greater opportunity for achieving the desired outcomes, especially for BMCs whose allocations tend to be small in relation to operating costs and to need.	65.0		Under this scenario, the BNTF programme will be enlarged to double the size of the SDF 6 programme and will allow for a greater coverage of the interventions to tackle the poverty challenge. The programme will target the same outcomes but will be expanded to include other BMCs and specific areas of particular BMCs where there are chronic and persistent poverty levels i.e. Antigua and Barbuda and some Family Islands in the Bahamas respectively. This approach will also leverage the enhanced capacity of the BNTF offices in BMCs to deliver a larger programme more effectively and efficiently.
Haiti¹	30.0		Programming in Haiti will be focused on: <ul style="list-style-type: none"> - assisting Haiti's integration into regional institutions and agencies; - Increased investment in human capital; - Improved access to, and satisfaction with, basic and social 	35.0		Programming in Haiti will be focused on: <ul style="list-style-type: none"> - assisting Haiti's integration into regional institutions and agencies; - Increased investment in human capital; - Improved access to, and satisfaction with, basic and social 	60.0		This scenario represents a significant enlargement of the SDF Haiti programme and is more aligned with the proposal to establish a CDB presence in Haiti during this programming period. Opportunities for closer and deeper donor collaboration and coordination will be increased as a	60.0	-	Same as for Scenario 2.

¹ Allocation for Haiti in SDF 6 amounted to \$27 mn. Ninety percent of this amount has been committed during the period 2007 and 2008.

			BASE SCENARIO	SCENARIO 1			SCENARIO 2			SCENARIO 3		
			infrastructure and services, and increased income-generating opportunities for residents of targeted urban areas. – Enhanced institutional capacities of public institutions.			infrastructure and services, and increased income-generating opportunities for residents of targeted urban areas. – Enhanced management capacity, productivity and competitiveness of SMEs, – Enhanced institutional capacities of public institutions.			result of CDB's presence on the ground. The additional resources will allow for increased support for agriculture and rural development, private sector institutional strengthening and SME development. Enhanced Management capacity, productivity and competitiveness of SMEs,			
			This programme level will be executed in collaboration with other development partners.			This programme level will support a modest enlargement to the scope of activities and be executed in collaboration with other development partners.						
Interest Subsidy Fund	10.0	-	ISF aimed at assisting targeted BMCs ⁱⁱⁱ to reduce fiscal gap and enhance debt sustainability by subsidising the cost of CDB's OCR lending.	10.0	-	Expected outcomes same as in base scenario.	10.0	-	Expected outcomes same as in base scenario.	10.0	-	Expected outcomes same as in base scenario.
Private Sector Dev. (CTCS etc)	4.5	-	Assistance to the private sector and particularly to the micro, small and medium-sized enterprises will be continued through support for CTCS programmes targeted at all BMCs. Expected outcomes include: – -Improved competitiveness of business operations particularly micro, small- and medium-sized enterprises; and – -Enhanced viability of SMEs through support for public and private sector financial intermediaries in six BMCs. – Increased support will be extended to targeted credit unions that fund SMEs and to eligible business associations which service these enterprises. – Expanded TA support in collaboration with IFC targeted at SMEs and private sector development.	4.5	-	Same as Base Scenario	4.5	-	Same as Base Scenario	4.5	-	Same as Base Scenario
Gender Equality	4.0	-	The activities in this area involve	4.0	-	Same as in Base Scenario.	4.0	-	Same as in Base Scenario.	4.0	-	Same as in Base Scenario

		BASE SCENARIO		SCENARIO 1		SCENARIO 2		SCENARIO 3				
			internal capacity for CDB and staff, the conduct of training assessments and development of training strategy for BMCs, the implementation of gender equality policy, strategy and results framework, and a comprehensive gender analysis and specific actions to address gender inequalities during the revision for all policies and strategies. Expected outcomes include: <ul style="list-style-type: none"> - Strengthened capacity for gender analysis and impact assessment - Increased consideration of gender equality dimensions in the formulation and implementation of development interventions; - Gender issues integrated into CDB's operations. 									
Country Loans:	-	131.0		-	145.0		145.0			153.0		
Education and Training		36.0	<ul style="list-style-type: none"> - Increased and equitable access to high quality Education and training - Increase in the number of places created at educational and training institutions. - Increased number of qualified persons graduating from educational and training institutions. 	-	45.0	Same as in Base Scenario plus special support for early childhood education, and a broadening of intervention modalities to respond to the educational objectives of BMCs i.e. Increased secondary and tertiary enrollments (including through the provision of additional facilities particularly at the technical/vocational level); enhanced educational quality through increases in the number of trained teachers, reduction in student/teacher ratios and programmed improvements to existing dilapidated schools and other educational facilities	-	45.0	Same as Scenario 1	-	45.0	Same as Scenario 1
Agriculture and Rural Development	-	20.0	<ul style="list-style-type: none"> - Increased contribution of the agriculture sector to Gross Domestic Product - Increase support for agriculture and rural development - Enhanced capacity of rural communities to contribute to economic development 	-	20.0	Same as in Base Scenario.	-	20.0	Same as in Base Scenario.	-	20.0	Same as in Base Scenario.

	BASE SCENARIO			SCENARIO 1			SCENARIO 2			SCENARIO 3		
Social and Economic Infrastructure	-	45.0	<ul style="list-style-type: none"> Increased power generation capacity Improved the efficiency of transportation infrastructure Increased availability of first class roadways. 	-	50.0	Same as in Base Scenario.	-	50.0	Same as in Base Scenario	-	50.0	Same as in Base Scenario.
Fiscal Distress	-	30.9	<p>Several of the most heavily indebted developing countries in the world are among CDB's BMCs countries. This element of the SDF 7 programme will be blended with OCR to achieve the following outcomes in at least four BMCs:</p> <ul style="list-style-type: none"> Improved the capacity of BMCs to manage their debt stock and debt service Reduced debt burden through restructuring of liabilities Improved fiscal expenditure management 	-	42.0	<p>Several of the most heavily indebted developing countries in the world are among CDB's BMCs countries. This element of the SDF 7 programme will be blended with OCR to achieve the following outcomes in at least six BMCs:</p> <ul style="list-style-type: none"> Improved the capacity of BMCs to manage their debt stock and debt service Reduced debt burden through restructuring of liabilities Improved fiscal expenditure management 	-	42.0	Same as in scenario 1	-	45.0	Same as in scenario 1
Theme 2: Environmental Sustainability and Climate Change^{iv}												
Water and Sanitation	-	17.0	<p>A number of BMCs which are heavily reliant on tourism are categorized as water-stressed countries and this situation makes it imperative that water issues be part of SDF 7 focus. The related expected outcomes are</p> <ul style="list-style-type: none"> Improved and expanded delivery of water services Increased access to potable water Improved wastewater treatment and coverage; Increased water systems efficiencies and water conservation Integrated management of water resources and systems Facilitated exchange of water sector information and experiences among BMCs and development agencies. 	-	17.0	Same as in Base scenario	-	17.0	Same as in Base scenario		17.0	Same as in Base scenario
Climate Change and	4.0	11.0	<ul style="list-style-type: none"> BMCs assisted to develop climate 	4.0	11.0	Same as in Base scenario	4.0	11.0	Same as in Base scenario	4.0	16.0	– Financial assistance made

	BASE SCENARIO			SCENARIO 1			SCENARIO 2			SCENARIO 3		
Renewable Energy			<ul style="list-style-type: none"> change adaptation (CCA) policies; Low-income communities assisted to develop CCA capacity developed in collaboration with BNTF and CTCS; CDB vulnerability index updated BMCs assisted to introduce effective land management and watershed management systems BMCs assisted with institutional strengthening and capacity building for environmental management particularly in the OECS Energy policies and regulations developed for adoption in BMCs; Assistance made available for public education on energy efficiency. 									available for feasibility studies, project preparation on a contingent basis; and for the promotion of renewable energy projects
Disaster Response	8.0	-	Improved capacity of BMCs for disaster risk reduction	9.1	-	Policy on range and scope of immediate response assistance to be reviewed and expanded.	9.1	-	Same as in Scenario 1	9.1	-	Same as in Scenario 1
Disaster Risk Management and Rehabilitation	-	20.0	<ul style="list-style-type: none"> Improved capacity of BMCs for disaster risk reduction and management DRM policies reviewed and supported DRM integrated into BMCs economic planning and financial sector DRM monitoring tools developed and applied in BMCs 	-	30.0	<p>In addition to the activities outlined for the base scenario, resources will be directed towards:</p> <ul style="list-style-type: none"> Development of a Disaster Deficit Index Inclusion of DRM in business continuity planning and environmental impact assessments; Strengthening of DRM implementation in BMCs All these additional activities will be planned and executed in collaboration with other development partners. 		30.0	Same as in Scenario 1		30.0	Same as in Scenario 1
Theme 3: Regional Cooperation and Integration												
Regional Public Goods	11.2	2.0	<ul style="list-style-type: none"> Enhanced capacity of enterprises to support regional economic integration Support to the CARICOM 	14.0	2.0	<p>In this scenario the following expected outcomes will be pursued in addition to those in the base scenario</p> <ul style="list-style-type: none"> Research on Climate Change 	14.0	2.0	Same as in scenario 1	14.0	5.0	<ul style="list-style-type: none"> Research conducted on energy efficiency, conservation and renewable sources of energy - region-wide identification and

			BASE SCENARIO	SCENARIO 1			SCENARIO 2			SCENARIO 3		
			<ul style="list-style-type: none"> Development Fund Facilitate Economic Policy harmonization, and Legal Frameworks for doing business in a Single Economy; Strengthened Regional Trade and Economic Policy Negotiating Capacity; Infrastructure Needs Assessment (maritime transport) Regional donor coordination mechanism established Needs assessment conducted on options for implementation of regional integrated trade and production arrangements for major food imports. Selected components of OECS development strategy supported i.e. macroeconomic coordination, synergizing national plans and sectoral development; promoting cross-border investment for small and medium enterprise (SME); Support for OECS joint strategies to deal with fiscal reform, public expenditure management and pension reform. 			<ul style="list-style-type: none"> adaptation conducted to guide new development in low-lying and coastal areas taking into account physical planning, land use policies, coastal dynamics, sea defence measures and existing scientific knowledge relating to climate change. Needs assessment conducted for energy efficient urban transport systems, and renewable energy projects. 					<ul style="list-style-type: none"> support of commercially viable renewable energy sources with a view to the development of investment projects. 	
Theme 4: Development Effectiveness/Good Governance												
Development Effectiveness and MfDR	4.5	-	<ul style="list-style-type: none"> Increased aid effectiveness through harmonisation, and alignment with BMCs development objectives and programmes Strengthened country ownership of operational poverty and development strategies Application of lesson learned in capacity development and from experiences of collaborative assistance strategies 	6.0		<ul style="list-style-type: none"> Number of BMCs using CDB's harmonised procurement documents to procure goods, works and related services. Developing a community of practice for managing for results to promote MfDR practices and approaches in all BMCs. 	6.0		Same as in scenario 1	6.0		Same as in scenario 1
Capacity Development	15.3	-	<ul style="list-style-type: none"> Strengthened capacity in BMCs for PSIP planning and 	17.0		In this scenario the following expected outcomes will be pursued in addition to	17.0		Same as in scenario 1	17.0		Same as in scenario 1

		BASE SCENARIO		SCENARIO 1		SCENARIO 2		SCENARIO 3			
			implementation. – Strengthened national revenue collection systems – Improved capacity for project preparation and management – Strengthened expenditure management systems – Continued project cycle and project management training and capacity building in BMCs – Strengthened capacity for evidenced-based decision-making through further training in demographics and other statistical areas for BMC public officials and officials from other regional institutions			those in the base scenario: – Increased capability and efficiency in targeting interventions to reduce the most critical aspects of poverty in at least nine BMCs. – Increased implementation by BMCs of best practices and lessons learned from evaluations, reviews and other development partners.					
Economic management			– Improved planning and policy-making framework in 7 BMCs.			Same as in base scenario			Same as in base scenario		
	128.2	181.9		143.6	217.0		173.6	217.0		193.6	228.0

ⁱ Nine BMCs are current beneficiaries of CDB’s BNTF programme i.e. Belize, Dominica, Grenada, Guyana, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Turks and Caicos Islands.

ⁱⁱ Examples of the BNTF 6 outcome of the application of the performance-based allocation formula are Belize - \$2.8 mn; Grenada - \$1.8 mn; and St. Kitts and Nevis - \$0.9 mn to be used over four years.

ⁱⁱⁱ Belize, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

^{iv} Incremental funding for BNTF can be expected to provide significant support for this theme at the community level.

APPENDIX 2: PROJECTED SDF 6 COMMITMENT AUTHORITY AND PROGRAMME LEVEL SCENARIOS																	
	SDF 6 Basic Contributions (US\$'000)	SDF 6 Unit of Obligation	Amount in Currency of Obligation	Base Scenario Increase on SDF6 Contributions by Inflation (US\$'000)	SDF 7 Unit of Obligation	Amount in Currency of Obligation	SDF 7 Scenario 1 20% Increase on Base Scenario Contributions (US\$'000)	Unit of Obligation	Amount in Currency of Obligation	SDF 7 Scenario 2 30% Increase on Base Scenario Contributions (US\$'000)	Unit of Obligation	Amount in Currency of Obligation	SDF 7 Scenario 3 42% Increase on Base Scenario Contributions (US\$'000)	Unit of Obligation	Amount in Currency of Obligation		Amount in Currency of Obligation
Proposed Contribution Level:				(Note 3)													
Borrowing Member Countries	36,149	USD	36,149	41,353	USD	41,353	44,673	USD	44,673	45,920	USD	45,920	49,478	USD	49,478		49,478
Regional Non-Borrowing Member Countries	10,200	USD	10,200	11,668	USD	11,668	14,481	USD	14,460	15,881	USD	16,040	17,571	USD	18,103		18,103
Sub-Total	46,349	USD	46,349	53,021	USD	53,021	59,154	USD	59,133	61,801	USD	61,960	67,049	USD	67,581		67,581
Non-Regional Member Countries:																	
Canada	44,000	Canadian \$	54,340	50,334	Canadian \$	50,701	62,448	Canadian \$	62,904	68,607	Canadian \$	69,108	75,907	Canadian \$	76,461		76,461
United Kingdom	44,000	Pound Sterling	23,492	50,334	Pound Sterling	25,486	62,448	Pound Sterling	31,619	68,607	Pound Sterling	34,738	75,907	Pound Sterling	38,434		38,434
Germany	12,170	Euro	9,474	13,922	Euro	9,092	17,278	Euro	11,284	18,983	Euro	12,397	21,002	Euro	13,716		13,716
Italy	5,003	Euro	3,895	5,723	Euro	3,738	7,084	Euro	4,626	7,811	Euro	5,101	8,611	Euro	5,624		5,624
China	5,200	USD	5,200	5,949	USD	5,949	7,371	USD	7,371	8,098	USD	8,098	8,960	USD	8,960		8,960
Sub-Total	110,373			126,262			156,629			172,106			190,387				
Non-Member Countries:																	
Brazil	0			5,000	USD	5,000	5,000	USD	5,000	5,000	USD	5,000	5,000	USD	5,000		5,000
Spain	0			TBA	Euro		TBA	Euro	0	TBA	Euro	0	TBA	Euro	0		
Sub-Total	0			5,000			5,000			5,000			5,000				
Total Proposed Contribution Level	156,722			184,283			220,783			238,907			262,436				
Internally-Generated Resources:																	
Commitment Authority at beginning of cycle	5,000			16,900	(Note 2)		16,900			16,900			16,900				
Plus: Net Income	8,700			21,300			21,101			25,320			25,765				
Plus: Repayments	59,800			61,200			61,200			61,200			61,200				
Sub-Total	73,500			99,400			99,201			103,420			103,865				
Total Commitment Authority	230,222			283,683			319,984			342,327			366,301				
SDF 6 Programme Level		SDF 7 Programme Level Base		SDF 7 Programme Level Scenario 1		SDF 7 Programme Level Scenario 2		SDF 7 Programme Level Scenario 3									
PROGRAMME LEVEL																	
Set Asides for:																	
Basic Needs Trust Fund (Grant Funding)	32,000			36,200			40,000			45,000			65,000				
Technical Assistance (Grant Funding):	16,000			19,800			21,000			21,500			21,500				
Project Training	2,000			4,000			5,000			5,000			5,000				
BMC Capacity-Building TA	10,000			11,300			12,000			12,000			12,000				
CTCS	4,000			4,500			4,500			4,500			4,500				
Regional Integration and Regional Public Goods	10,000			11,200			14,000			14,000			14,000				
Development Effectiveness and MfDR	4,000			4,500			6,000			6,000			6,000				
Immediate Disaster Response (Grant Funding)	8,000			8,000			9,100			9,100			9,100				
Gender Equality	0			4,000			4,000			4,000			4,000				
Environmental Sustainability and Climate Change	0			4,000			4,000			4,000			4,000				
Sub-Total - Grants	70,000			87,700	0	0	98,100			103,600			123,600				
Loans for Natural Disaster Mitigation and Rehab.,	19,000			20,000			30,000			30,000			30,000				
Loans for BMCs in fiscal distress	26,000			30,900			42,000			42,000			45,000				
Interest Subsidization Fund	0			10,000			10,000			10,000			10,000				
Country Loans (Based on Resource Alloc. System)	115,500			131,000			145,000			145,000			153,000				
Programme Level	230,500			279,600			325,600			330,600			361,600				
Special Programming for New Members																	
Haiti Allocation	27,000			30,500			35,000			60,000			60,000				
Sub-Total - New Members	27,000			30,500			35,000			60,000			60,000				
Total Programme Level	257,500			310,100			360,600			390,600			421,600				
Structural Gap before OCR Transfer	(27,278)			(26,417)			(40,616)			(48,273)			(55,299)				
Transfer from OCR	0			15,000			15,000			15,000			15,000				
Structural Gap	(27,278)	(Note 1)		(11,417)			(25,616)			(33,273)			(40,299)				
TotalGrants/Total Commitment Authority (%)	30			31			31			30			34				
Exchange Rates Applied: US\$1=CDN\$1.0073. Average daily exchange rate for 6-month period ending June 30, 2008																	
GBP1=US\$1.975. Average daily exchange rate for 6-month period ending June 30, 2008																	
Euro1=US\$1.5312. Average daily exchange rate for 6-month period ending June 30, 2008																	
Note (1) The originally approved structural gap amounted to \$25,932mn. However, Suriname did not join the cycle as planned (\$2.16mn)and the Commonwealth of the Bahamas increased its contribution by \$0.814mn more than originally pledged.																	
Note (2) Additional funding to meet the structural gap was realised from a recalculation of the available carry-over at the beginning of SDF 6 which amounted to \$41.4 mn instead of the originally estimated \$5mn or \$36.4mn. more than originally estimated(Refer to Paper SDF 7/4-NM-6 discussed at the October meeting)																	
The carry -over at the beginning of SDF 7 of \$16.9mn is the sum of the additional SDF 6 carry-over (\$36.4mn), income in excess of original estimate of \$6.3mn, additional loan reflows of \$1.5mn, less the SDF 6 structural gap of \$27.3mn																	
Note (3) US CPI rates applied were 3.375%, 3.226%, 2.858% and 4.224% for 2005, 2006, 2007 and 2008 (projected).																	
Source: World Economic Outlook Database October 2008.																	

SCHEDULE 1: CONTRIBUTIONS TO THE SPECIAL DEVELOPMENT FUND (SDF 6)											
	SDF6 Relative Share (%)	SDF 7 Relative Share (%) Base Scenario	SDF7 Relative Share (%) Scenario 1	SDF7 Relative Share (%) Scenario 2	SDF7 Relative Share (%) Scenario 3	SDF 6 Basic Contribution (US\$'000)	SDF 7 Base Scenario SDF 6 Plus Inflation	SDF 7 Contributions Scenario 1 Increase	SDF 7 Contributions Scenario 2 Increase	SDF 7 Contributions Scenario 3 Increase	Unit of Obligations
Part A											
Regional Members											
Trinidad and Tobago	4.08	4.07	3.59	3.26	3.21	7500	8,580	9375	9375	10184	USD
Jamaica	4.08	4.07	3.59	3.26	3.21	7500	8,580	9375	9375	10184	USD
Guyana	2.29	2.29	2.02	1.83	1.78	4215	4,822	5269	5269	5665	USD
Commonwealth of The Bahamas	2.29	2.29	2.02	1.83	1.78	4214	4,821	5269	5269	5665	USD
Barbados	2.29	2.29	2.02	1.83	1.78	4210	4,816	5269	5269	5665	USD
Antigua and Barbuda	0.23	0.23	0.20	0.18	0.19	420	480	525	525	605	USD
Belize	0.60	0.60	0.53	0.48	0.44	1100	1,258	1375	1375	1394	USD
Commonwealth of Dominica	0.46	0.46	0.53	0.48	0.44	840	961	1375	1375	1394	USD
Grenada	0.05	0.05	0.20	0.18	0.19	100	114	525	525	605	USD
St. Kitts and Nevis	0.60	0.60	0.05	0.48	0.44	1100	1,258	128	1375	1394	USD
St. Lucia	0.60	0.60	0.53	0.48	0.44	1100	1,258	1375	1375	1394	USD
St. Vincent and the Grenadines	0.60	0.60	0.53	0.48	0.44	1100	1,258	1375	1375	1394	USD
Cayman Islands	0.23	0.23	0.20	0.18	0.19	420	480	525	525	605	USD
Anguilla	0.23	0.23	0.20	0.18	0.19	420	480	525	525	605	USD
Turks and Caicos Islands	0.23	0.23	0.20	0.18	0.19	420	480	525	525	605	USD
British Virgin Islands	0.23	0.23	0.20	0.18	0.19	420	480	525	525	605	USD
Montserrat	0.23	0.23	0.20	0.18	0.19	420	480	525	525	605	USD
Haiti	0.35	0.35	0.31	0.28	0.29	650	744	813	813	910	USD
	19.65	19.63	17.09	15.99	15.57	36,149	41,350	44,673	45,920	49,478	
Colombia	1.96	1.95	1.95	1.95	1.95	3600	4,118	5110	5600	6196	USD
Mexico	1.63	1.63	1.63	1.63	1.63	3000	3,432	4261	4681	5179	USD
Venezuela	1.96	1.95	1.95	1.95	1.95	3600	4,118	5110	5600	6196	USD
	5.54	5.54	5.54	5.53	5.53	10,200	11,668	14,481	15,881	17,571	
Non-Regional Members											
Canada	23.91	23.89	23.89	23.89	23.89	44000	50334	62448	68607	75907	Canadian \$
United Kingdom	23.91	23.89	23.89	23.89	23.89	44000	50334	62448	68607	75907	Pound Sterling
Germany	6.61	6.61	6.61	6.61	6.61	12170	13922	17278	18983	21002	Euro
Italy	2.72	2.72	2.71	2.72	2.71	5003	5723	7084	7811	8611	Euro
People's Republic of China	2.83	2.82	2.82	2.82	2.82	5200	5949	7371	8098	8960	USD
	59.99	59.93	59.92	59.93	59.92	110,373	126,262	156,629	172,106	190,387	
Part B											
Brazil	0.00	2.37	1.91	1.74	1.57	0	5,000	5,000	5,000	5,000	USD
Spain	0.00	0.00	TBA	TBA	TBA	0	TBA	TBA	TBA	TBA	Euro
	0.00	2.37	1.91	1.74	1.57	0	5,000	5,000	5,000	5,000	
Sub-total						156,722	184,280	220,783	238,907	262,436	
Structural Gap before OCR Transfer	14.83	12.54	15.54	16.81	17.40	27,278	26,417	40,616	48,273	55,299	
Transfer from OCR	0.00	7.12	5.74	5.22	4.72	0	15,000	15,000	15,000	15,000	
Structural Gap	14.83	5.42	9.80	11.59	12.68	27,278	11,417	25,616	33,273	40,299	
Total	100.00	100.00	100.00	100.00	100.00	184,000	210,697	261,399	287,180	317,735	

**RECONCILIATION OF COMMITMENT AUTHORITY PAPERS #7/4 NM-6 and #7/5-NM-2
(USD'000)**

	SDF Paper # 7/4-NM-6	SDF Paper #7/5-NM-2	Difference	Note
<i>Commitment authority at beginning of period</i>	41,400	41,400	-	1
<i>Plus:</i>				
Net income	12,132	13,000	868	2
Exchange rate adjustments	2,000	2,000	-	
Repayments	61,280	61,280	-	
Exchange rate translation adjustments on cumulative repayments	6,510	-	(6,510)	3
Commitment authority from new contributions	156,000	156,700	700	4
Exchange rate translation adjustments on cumulative contributions	18,300	-	(18,300)	5
<i>Less:</i>			-	
Approvals for SDF Loans and grants	248,737	257,500	8,763	6
<i>Commitment authority at end of period</i>	48,885	16,880		

Notes:

1. Recalculated from \$5 mn shown in the SDF 6 Report of Contributors, explained in Paper SDF 7/4-NM-6 and discussed at the 4th Negotiation Meeting in October 2008
2. Net Income for SDF 6 at September 2008 amounted to \$12 mn thus estimates to December 2008 were revised to \$13 mn
3. Unrealised exchange translation adjustment on cumulative repayments as at December 2007 in accordance with international accounting standards
4. Actual new contributions were \$156.7 mn instead of \$156 mn
5. Unrealised exchange translation adjustment on cumulative contributions as at December 2007 in accordance with international accounting standards
6. Additional approvals include:

Disaster Loan for Dominica Sea Defences	5,000
Immediate Response Loans and Grants	1,660
Additional amount for St. Lucia Education Project	2,000
Additional TA grants	103
	<u>8,763</u>