

CARIBBEAN DEVELOPMENT BANK



SPECIAL DEVELOPMENT FUND (UNIFIED)

SDF 7 PROCESS: THEMES, ISSUES AND ROAD MAP

The attached paper has been revised to reflect discussion
at the Preparatory Meeting of Contributors on SDF 7 on
December 14, 2007

February 2008

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ABBREVIATIONS

AsDB	Asian Development Bank
BMCs	Borrowing Member Countries
BNTF	Basic Needs Trust Fund
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CPA	Country Poverty Assessment
CSP	Country Strategy Paper
IDA	International Development Association
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MfDR	Managing for Development Results
NPRS	National Poverty Reduction Strategy
OCR	Ordinary Capital Operations
RAS	Resource Allocation Strategy
RBM	Results Based Management
RPGs	Regional Public Goods
SDF (U)	Special Development Fund (Unified)
TA	Technical Assistance

1. INTRODUCTION

1.01 The current cycle of the Special Development Fund^{1/} covers the period 2005-2008, and the resources available for SDF 6 are expected to be largely committed in that time period. Additional commitment authority will be needed to permit orderly planning and the continuation of SDF operations to meet priority needs of the traditional Borrowing Member Countries (BMCs) and to provide a reasonable capacity to assist the Bank's newest member, Haiti, beyond 2008. The establishment of a carefully targeted framework for SDF 7 operations will be an essential element of the SDF 7 negotiation process and a necessary basis for effective results management.

1.02 Given the many issues that impact on BMCs' development prospects, and the limited resources that the Caribbean Development Bank (CDB) has available for policy and programme analysis, it is important to target the Bank's efforts in a phased work programme that meets the requirements of Contributors and that will provide the necessary structure and focus for SDF 7 operations.

1.03 This paper is a revised version of the document entitled: SDF 7 Process: Themes, Issues and Roadmap which was discussed at the Preparatory Meeting of Contributors on SDF 7 on December 14, 2007. Revisions have been made to the original document based on the comments and suggestions made by Contributors during those discussions. The purpose of the revised paper is to provide a framework for planning the work and setting a timetable for the replenishment negotiations. The paper also proposes some key themes and issues that are intended to provide a focus for replenishment discussions and the preparation of documentation, as well as the policy context for subsequent SDF operations. The themes have been revised and include one on the environment and climate in accordance with the suggestions by Contributors.

2. THEMES FOR THE REPLENISHMENT

2.01 The proposed special themes for SDF 7 are:

- ***Strengthening poverty reduction and addressing the Millennium Development Goals (MDGs) in the Caribbean***, including the Bank's strategic response to the challenge of providing effective and meaningful assistance to Haiti, and supporting the Caribbean MDGs and related MDG targets in the Bank's BMCs.
- ***Further enhancing development effectiveness***, including *Managing for Development Results (MfDR)* and application of the *Paris Declaration on Aid Effectiveness*, and including strengthening of the Bank's human resources and institutional capacity.
- ***Supporting regional cooperation and regional integration***, including an appropriate operational framework to support priority needs of the Caribbean Community and its members and the provision of regional public goods.
- ***Supporting environmental sustainability and advancing the climate change agenda***, including addressing the vulnerability of the Bank's BMCs to environmental risks and climate change mitigation and adaptation.

¹ All references to SDF in this paper are to the Unified Special Development Fund unless otherwise indicated.

3. KEY ISSUES

3.01 It is now proposed, in light of discussion at the Preparatory Meeting and the need to allow more time for discussion of SDF issues and milestones that the April meeting focus on SDF 6 papers, and that an additional negotiation meeting be held together with the Annual Meeting of SDF Contributors in May 2007 (see Table 1). This will allow for the scheduling of the discussions on some of the key SDF documents during the April 2007 meeting.

3.02 The key issues that Contributors may wish to consider, adjusted to reflect some of the discussion at the Preparatory Meeting in December, can be grouped into a number of clusters, and these are discussed briefly below.

Implementation of SDF 6

3.03 A Mid-Term Review of SDF 6 was prepared, as requested by Contributors,² and, together with the Management Response, was discussed at the Preparatory Meeting in December.³ This was undertaken as an independent evaluation, and covered, among other issues, the particular topics specified by Contributors. As requested by Contributors in December, a further report on implementation and progress under SDF 6 will be prepared for the April meeting. This will include an updated review of progress on the SDF 6 Action Plan and an action plan or planned milestones for the balance of SDF 6.

3.04 A review and further strengthening of the SDF Resource Allocation Strategy was undertaken earlier in 2007 and endorsed at the Annual Meeting of Contributors in May 2007. This will be submitted for review as a part of the SDF 7 process, as it will be an integral part of SDF 7. Progress reports on the poverty reduction strategy and on governance, as well as papers on currently ongoing work on several other subjects, such as the environmental policy review, the Mid-Term Evaluation of BNTF 5 and an overall CDB gender strategy, will be reported on separately as the work involved is completed.

The Caribbean MDG Framework

3.05 Contributors initially established the MDGs as an integral part of the SDF policy framework during SDF 5, and subsequently welcomed the articulation of a Caribbean-specific set of MDGs and MDG targets that were developed with the BMCs on CDB initiative and supported by the United Nations Development Programme and the Caribbean Community (CARICOM). For SDF 6, Contributors placed substantial emphasis on the MDGs as a framework for planning, implementing and monitoring SDF operations and for monitoring the context within which the Bank and SDF operate. They underlined their expectation that such a framework would be internalised in SDF 6 and assist in the development of results-based country strategies, the selection and design of programmes and projects, and the monitoring and reporting of SDF 6 operations.⁴ They also underlined the importance, as a priority milestone in the SDF 6 Action Plan, of further work on a monitoring and evaluation system using the MDGs.⁵

3.06 During SDF 6, the Bank has supported the use of the Caribbean MDGs in various contexts, including support for strengthening the statistical and analytical capacity of BMCs for measuring, monitoring and evaluating progress towards the MDGs, as an essential context for country strategy papers (CSPs), country poverty assessments (CPAs) and national poverty reduction strategies (NPRSs), and as a key element in the Bank's strategic planning and results-based management (RBM) system.

² *Resolution and Report of Contributors on SDF 6, October 2005*, section 5.2 in the Report.

³ SDF 7/1-PM-2 rev. 1.

⁴ *Report of Contributors, Executive Summary*, para. 7. and paras. 2.02 – 2.05.

⁵ *Ibid.*, para. 3.08.

3.07 Further work on a monitoring and evaluation framework using the MDGs is currently underway, and progress in this respect will be reported to Contributors. The Bank's approach will draw on that developed by other MDBs, including the African Development Bank, the Asian Development Bank and the World Bank/IDA.

CDB's Role and Operational Strategy in Haiti

3.08 Haiti is the CDB's newest member, and in many ways presents the greatest challenge, in terms of the number of the extremely poor, the human and institutional strengthening needs, and the state of basic development infrastructure, as well as the differences in institutional culture and language. An important element of the SDF 6 Replenishment was the set aside of \$27 million for initial programming and operational costs for Haiti. Planning for SDF operations in Haiti began in 2004 and was developed with the assistance of a special report on a medium-term CDB Action Plan for Haiti. An initial operational programme has since taken shape since Haiti's membership was formally completed in January 2007.

3.09 A report on CDB's strategic planning for operations in Haiti over the period 2007-2012 was provided to the Board of Directors in October 2007.⁶ This set out the conditioning factors for assistance to Haiti, the proposed strategic focus, an operational strategy – in terms of both programme priorities and strengthening the Bank's capacity for operations in that country. In addition, it outlines the projected commitments up to the end of 2008 of the funds available from SDF 6, as well as a programme and funding level for the period to be covered by SDF 7, 2009-2012. This envisages an incremental, but significant and targeted level of operations, which will require considerable support from SDF Contributors.

3.10 An updated paper on the Bank's strategic and operational planning, including operations to date, will be submitted to Contributors as an input to the SDF 7 process and a key element of resource planning for SDF 7.

Managing for Development Results (MfDR)

3.11 As part of its commitment to MfDR, the Bank has adopted a comprehensive *Results Agenda*, proposed initially as a submission to SDF Contributors in May 2005⁷ and endorsed in the SDF 6 Report of Contributors.⁸ The various measures and steps are set out under three pillars: *Pillar 1: Country and Regional Level*, *Pillar 2: Institutional or Corporate Level*, and *Pillar 3: Partnerships, Harmonisation and Alignment*.

3.12 These include, among other measures: supporting BMCs in measuring, monitoring and evaluating progress towards the MDGs; a priority for CPAs and NPRSS; strengthening of CDB's own country strategy process; strategic planning and RBM; the SDF resource allocation strategy; operationalising of the Bank's poverty reduction and sector and thematic strategies; monitoring and evaluation of CDB programmes and projects; and increased emphasis on partnerships, harmonisation and alignment, as these objectives are now applied in the international development community. Many of these measures are reflected in the SDF 6 Action Plan, and some are covered by a special set of indicators, as requested by Contributors and reported on annually to the Board of Directors.

3.13 The Bank has made considerable progress in many areas, including in its strategic planning and evaluation work, and further steps are being taken during the balance of SDF 6. An update on the Results Agenda and a similar structured agenda for SDF 7 will be set out in one of the key papers to be prepared for the SDF 7 process. MfDR and the Results Agenda will be an important part of further strengthening development effectiveness for SDF 7.

⁶ BD 45/07, *Strategic Plan for Caribbean Development Bank Operations in Haiti – 2007-2012*, October 2007.

⁷ SDF 6/2-NM-3, *Managing for Development Results*, April 2005.

⁸ *Report of Contributors*, section 4, paras, 4.01- 4.54.

CDB Institutional Strengthening

3.14 Pillar 2 in the Bank's Results Agenda includes a series of ongoing measures at the corporate level, including work on longer term strategic planning, strengthened tools for RBM, continuing progress on results-based country strategies, restructuring the Projects Department to better address SDF and other CDB strategic and operational priorities, accelerated progress in staff recruitment and broadening the recruitment base, introduction of new business processes and improved technologies, and realising gains through staff retraining. It also includes a Corporate Human Resources Report, which is being developed for presentation to the Board of Directors. Given the importance of these steps, and the emphasis that some Contributors have placed on them, a separate paper will be prepared for the SDF 7 process on institutional strengthening, and the Human Resources Report will also be submitted to Contributors, in addition to the paper on MfDR.

Supporting Regional Cooperation and Integration

3.15 The Bank's proposed approach and policy framework for supporting regional cooperation and integration were presented to Contributors during the SDF 6 negotiations.⁹ Contributors endorsed the conclusion that the Bank had a critically important role to play in supporting regional integration, as well as the proposed policy framework and programme objectives. They placed particular importance on developing an operational policy and programme planning capability for regional programmes and regional public goods (RPGs), and suggested that the planned evaluation of the Bank's technical assistance (TA) operations should include examination of the focus and effectiveness of regional and sub-regional TA.¹⁰ The SDF 6 Action Plan includes both the establishment of an operational policy and programme planning capability and the identification of a carefully selected priority programme for supporting regional and sub-regional integration and RPGs.¹¹

3.16 As already reported to Contributors, however, work remains to be done during the balance of SDF 6 in meeting these Action Plan milestones. The Bank has attempted to be guided by the regional policy framework, and TA for regional projects was included in the recently completed evaluation of the Bank's TA operations, which commented on areas of both strength and weakness in regional TA work. Limitations in availability of operations staff and the restructuring of the Projects Department, however, have delayed the planned establishment of a regional policy and programming capability. The steps to be taken during the remainder of SDF 6 and the proposed strategy for SDF 7 will be set out in a separate paper to be submitted to Contributors. The Bank's approach will take into account the findings and recommendations of the TA programme evaluation as well as those of the SDF 6 Mid-Term Review, and the comments by Contributors at the December meeting on the need for selectivity and focus in terms of comparative advantage.

Environmental Sustainability and the Climate Change Agenda

3.17 **Environmental Sustainability.** The Bank has consolidated its separate guidelines for the social and environmental review of projects into a single set of draft environmental and social review procedures (ERSP). This integrated ESRP will be applied as part of the appraisal process for new lending instruments such as policy-based loans and policy-based guarantees and sets the framework for managing environmental and social impacts of CDB's investments more effectively. Work on the Bank's new Environmental Policy is well underway. A draft paper assessing progress, achievements and the main challenges being faced by BMCs in establishing environmental sustainability and mainstreaming environment has been prepared. The paper identified strategic directions and strategic objectives/niches for CDB's work in environmental sustainability and will inform the main elements of CDB's

⁹ *Supporting Regional Cooperation and Integration*, Revised, April 2005.

¹⁰ *Report of Contributors*, section 3.4, paras, 3.45-3.56.

¹¹ SDF 6 Action Plan, Milestones 6 and 19.

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Environmental Policy. The draft ESRP and the draft Environmental Policy will be submitted to the Board and to SDF Contributors for their meeting in May.

3.18 **Climate Change.** The vulnerability of the Caribbean to natural hazards was highlighted in SDF 6 and natural risk management has since integrated into project design and the Bank's permanent establishment. The Bank has provided support to the Caribbean Catastrophe Risk Insurance Facility and to other regional initiatives working in the field of comprehensive disaster management. Following the Gleneagles communiqué in 2005, multilateral development banks (MDBs) have revisited their climate change strategies to shift the focus from mainly mitigation to a combined approach that also addresses climate change adaptation. During SDF 6, the Bank has provided loans for alternative energy projects in the area of adaptation, support has been given to the Caribbean Community Climate Change Centre and the Bank has participated in several regional consultations. CDB staff is currently preparing a position paper on climate change that will support BMCs in addressing their climate change priorities, and will include both climate change mitigation and adaptation measures. Recognising that adaptation to climate change is based on sound development practices, which fully incorporate environmental sustainability, this position paper will draw on lessons learnt from disaster risk reduction and present an agenda for responding to climate change in both short- and long-term time scales. It is expected to be ready in time for submission to SDF Contributors for their meeting in May.

SDF Operational Priorities and Strategy

3.19 The policy and operational focus of SDF has evolved over successive replenishments in response to the needs of the Bank's BMCs and priorities set by Contributors. The SDF Performance Review in 2000 confirmed that the Bank was on track in SDF 4 in shifting the balance in SDF programming to greater emphasis on poverty reduction, human resource development, institutional strengthening, the environment and water systems, and other priority themes agreed by Contributors. The operational priorities for SDF 5 were targeted on three elements of poverty reduction – enhancement of the capabilities of the poor and those vulnerable to poverty, reduction of vulnerability to economic volatility, natural disasters and other risks, and good governance to support and facilitate poverty reduction and broad-based economic growth that was environmentally sustainable. This poverty reduction focus was also to be extended to all of CDB's operations, using the concept of a "poverty prism" for the Bank's operations. This, and other aspects of SDF 5, set an ambitious agenda, with progress being made according to the Bank's capacities.

3.20 SDF 6 reinforced the focus on poverty reduction, including good governance, but also sought to consolidate and strengthen the initiatives that had been begun or planned in the previous replenishment period, and on further developing the Bank's capabilities for this work. Emphasis was also placed on environmental sustainability and a strengthened policy and operational framework for supporting regional cooperation and integration, and on preparing for and undertaking initial operations in Haiti, and prospectively in Suriname, if that country's membership could be completed in time.

3.21 In addition, as noted above, the MDGs and Targets, in particular the Caribbean-specific MDGs that had been developed with CDB support in SDF 5, received further emphasis as a policy framework and, specifically, as a framework for monitoring the work and context of SDF operations, and as an important element in structuring the Bank's focus on achieving results. Progress has, again, been made according to the Bank's developing capabilities, and further progress is expected during the balance of SDF 6.

3.22 In each of the past two replenishments, Contributors have considered an overall SDF Operational Strategy intended to give greater guidance for SDF programming and implementation. A general approach to the operational strategy for SDF 7 will be suggested in the Overview and Issues paper and in some of the other operational policy documents submitted to the initial meetings of Contributors on SDF 7. This will be followed by a consolidated SDF 7 Operational Strategy paper, discussion which will

provide an important input to preparation of the outcome document for the Replenishment process, which will be the Report of Contributors.

4. PROPOSED DOCUMENTATION

4.01 In addition to a progress report on SDF 6 and an overview and issues paper on SDF 7, a number of other documents will be prepared on particular issues for consideration during the negotiations. These include some key evaluation studies and policy papers that were requested by Contributors and that are included in the SDF 6 Action Plan.

4.02 Other proposed papers include: a paper on the monitoring framework for SDF, as requested by Contributors;¹² a Progress Report on implementation of the poverty reduction strategy; an updated paper on the Bank's operations in Haiti; a paper on institutional strengthening of CDB, the status report on human resources, a progress report on operationalising the governance strategy; a strategy on environmental sustainability and the climate change agenda; a paper on BNTF planning and strengthening; the Bank's gender strategy; an updated MfDR Action Plan; a strategy for supporting regional cooperation and integration, and the proposed overall SDF 7 Operational Strategy to provide the programming framework for SDF 7.

4.03 The report of the multi-cycle evaluation of SDF that was requested by Contributors¹³ will also be submitted for consideration as soon as it is available.

4.04 A paper on resource requirements for SDF 7 will be developed on the basis of discussion of the initial papers and of the proposed SDF 7 Operational Strategy, and as requested by Contributors, this will be accompanied by a short paper on SDF liquidity policy and use of net income. After discussion, this will be followed by submission of the Bank's proposals on funding for SDF 7.

4.05 The results of the SDF 7 negotiations will take the usual form of a *Report of Contributors*, to be agreed by Contributor governments and formally accepted by the Bank.¹⁴ An outline for the Report will be submitted at the second negotiation meeting, to be followed by preparation of a Draft Contributors' Report for detailed review and discussion. The final text will need to include the agreed level and funding of the Replenishment.

5. ROAD MAP AND TIMELINE

5.01 A tentative timetable and road map for the SDF 7 process is provided in Table 1 below. Completion of the negotiation process is targeted for the end of 2008, to allow time for funding instruments to be approved by governments and deposited with the Bank in early 2009, and to permit an orderly planning of continued SDF operations.

5.02 Contributors are requested to nominate representatives to participate in the Replenishment negotiations, and other interested governments and agencies will be invited to participate as Observers. Dates are intended to avoid conflict with other concessional fund meetings, and the objective is to encourage a high level of representation and the participation of other prospective Contributors. The assistance of existing Contributors will be needed in the latter respect.

¹² *Report of Contributors*, paras. 2.05, 3.08, 4.43 and 5.03, and SDF 6 Action Plan, Milestones 24 (d) and 33.

¹³ *Report of Contributors*, para. 4.41.

¹⁴ Contributors in the past have referred to this as a Replenishment Agreement or "contract" between the Contributors and the Bank.

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5.03 The scheduling of meetings will need to allow sufficient time for the preparation and revision of documentation - including in some cases documentation that will need to be prepared on the basis of discussion of previous papers - as well as time for consideration by governments.

5.04 The April 2008 meeting will be held in Belize, following the practice in the previous replenishment, to provide an opportunity for Contributor representatives to visit and discuss SDF-funded projects in an important SDF beneficiary country. The necessary arrangements for this have been made with the Government of Belize and agencies concerned.

5.05 It is now proposed that the meeting focus primarily on outstanding issues from SDF 6, although these are also forward-looking to SDF 7. The documents planned for the meeting include a Status Report on SDF 6, the Progress Report on the Bank's Poverty Reduction Strategy, the paper on CDB Institutional Strengthening, and a Human Resources Status Report, as well as the BNTF 5 Mid-Term Evaluation, which provides part of the basis for design of BNTF 6, and the new Environmental and Social Review Procedures, for noting by Contributors.

5.06 It is also now proposed that the opportunity be taken of the time set aside for the SDF Annual Meeting during the Board of Governors meeting in Halifax in May, a possibility that was mentioned at the Preparatory Meeting, to discuss the overview and issues paper for SDF 7, an updated Operational Strategy for Haiti, and a draft paper on the Bank's Environmental and Social Review Procedures.

5.07 Subsequent meetings are planned to be held at the Bank's headquarters in Barbados, subject to views and suggestions of Contributors.

TABLE 1: PROPOSED TIMETABLE FOR MEETINGS OF CONTRIBUTORS

Preparatory Meeting, Barbados, December 14, 2007.	<ol style="list-style-type: none"> 1. <i>SDF 6 Mid-Term Review and Management Response</i> 2. <i>SDF 7 Process: Themes, Issues and Road Map</i> 3. <i>Evaluation of TA Operations</i>
First Negotiation Meeting, Belize, April 9-12, 2008.	<ol style="list-style-type: none"> 1. <i>Themes, Issues and Road Map (revised)</i> 2. <i>Status Report on SDF 6</i> 3. <i>Poverty Reduction Strategy: Progress Report</i> 4. <i>CDB Institutional Strengthening</i> 5. <i>Corporate Human Resources Report</i> 6. <i>BNTF 5 Mid-Term Evaluation</i>
Second Negotiation Meeting, May 27, 2008 (concurrent with SDF Annual Meeting in Halifax)	<ol style="list-style-type: none"> 1. <i>Overview and Issues for SDF 7</i> 2. <i>Operational Strategy for Haiti (updated)</i> 3. <i>Environmental Sustainability and Climate Change Agenda</i> <ul style="list-style-type: none"> - Draft Environmental and Social Review Procedures - Discussion Paper on Environmental Policy - Position Paper on Climate Change
Third Negotiation Meeting, July 24-25, 2008.	<ol style="list-style-type: none"> 1. <i>Revised papers (if required)</i> 2. <i>Multi-Cycle Evaluation of SDF</i> 3. <i>Operational Strategy on Environmental Sustainability and the Climate Change Agenda</i> 4. <i>Strengthening BNTF Operations and BNTF 6</i> 5. <i>MfDR Action Plan</i> 6. <i>Gender Strategy</i> 7. <i>Monitoring Framework for SDF 6 and SDF 7</i> 8. <i>Discussion Paper on Environmental Policy</i> 9. <i>Position Paper on Climate Change</i> 10. <i>SDF 7 Operational Strategy</i> 11. <i>Resource Requirements for SDF 7</i> 12. <i>Review of Resource Allocation System (as previously circulated)</i> 13. <i>SDF Liquidity Policy and Use of Net Income</i> 14. <i>Outline of Draft Contributors Report</i>
Fourth Negotiation Meeting, October 17, 2008.	<ol style="list-style-type: none"> 1. <i>Revised papers (if required)</i> 2. <i>Operational Strategy for Supporting Regional Cooperation and Integration</i> 3. <i>Operationalising the Governance Strategy: Progress Report</i> 4. <i>Level of the Replenishment</i> 5. <i>Draft Report of Contributors</i>
Fifth Negotiation Meeting, December 12, 2008.	<ol style="list-style-type: none"> 1. <i>Revision of any outstanding papers (if required)</i> 2. <i>Revised Draft Report of Contributors (final draft negotiation text)</i> 3. <i>Contributions to the Replenishment</i> 4. <i>Draft Resolution of Contributors</i>