



**CARIBBEAN DEVELOPMENT BANK**

**SPECIAL DEVELOPMENT FUND**

**SDF 7 PROCESS: THEMES, ISSUES AND ROAD MAP**

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**ABBREVIATIONS**

BMCs	Borrowing Member Countries
BNTF	Basic Needs Trust Fund
BOD	Board of Directors
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CPAs	Country Poverty Assessments
CSP	Country Strategy Paper
MDGs	Millennium Development Goals
MfDR	Managing for Development Results
NRPSs	National Poverty Reduction Strategies
RBM	Results Based Management
RPGs	regional public goods
SDF	Special Development Fund (Unified)
TA	Technical Assistance

## 1. INTRODUCTION

1.01 The purpose of this paper is to provide a framework to assist in planning the work and setting a timetable for the SDF 7 replenishment discussions. The paper also proposes some key themes and issues, which can provide a focus for replenishment discussions and the preparation of documentation, as well as the policy context, for subsequent SDF operations.

1.02 The current cycle of the Special Development Fund<sup>1/</sup> 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 process and a necessary basis for effective results management.

1.03 Given the many issues, which currently impact on BMCs' development prospects, and the limited resources that 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. Contributors are invited to comment on the suggested themes and issues as well as the proposed timetable set out in Table 1.

## 2. THEMES FOR THE REPLENISHMENT

2.01 The proposed special themes for SDF 7 are:

- (a) ***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.
- (b) ***Development effectiveness***, including *Managing for Development Results (MfDR)* and application of the *Paris Declaration on Aid Effectiveness*.
- (c) ***Supporting regional cooperation and regional integration***, including an appropriate operational framework to support priority needs of the Caribbean Community (CARICOM) and its members and the provision of regional public goods (RPGs), as well as address the special vulnerabilities of the Bank's BMCs and issues related to climate change.

## 3. KEY ISSUES

3.01 An initial overview and issues document will be prepared for the next meeting of Contributors. This will review the availability and use of SDF 6 resources, the Bank's assessment of the need for a Replenishment, and issues for consideration during the SDF 7 process (including some that will need to be developed further in separate papers), as well as provide a proposed strategic focus for SDF 7 operations. It is not intended that the paper address the issue of resource requirements or the level of the Replenishment. Separate papers will be provided on these subjects, after initial discussion on the scope and priorities for SDF 7.

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

3.02 A separate paper is being circulated for the Preparatory Meeting of Contributors on the Management's response to some of the issues raised in the Mid-Term Review of SDF 6, some of which will be addressed further in other documentation.

3.03 The key issues that Contributors may wish to consider can be grouped into a number of clusters, and these are briefly discussed below.

### **Implementation of SDF 6**

3.04 A Mid-Term Review of SDF 6 has been prepared, as requested by Contributors.<sup>2/</sup> This was undertaken as an independent evaluation, and covered, among other issues, the particular topics specified by Contributors:<sup>3/</sup>

- (a) overall progress on the SDF 6 operational programme, including operational priorities set out in the SDF 6 Agreement;
- (b) the status of funding, and availability and use of commitment authority;
- (c) progress with respect to the time-bound milestones in the *SDF 6 Action Plan* and other aspects of the Results Agenda;
- (d) progress with respect to the development of a monitoring and evaluation framework based on Caribbean-specific MDGs and MDG targets and indicators;
- (e) progress on other aspects of the SDF 6 programme; and
- (f) planning for SDF 7.

3.05 An initial draft of the Mid-Term Review report was considered at a Special Meeting of Contributors in October 2007, and the revised report of the consultants is being circulated for the Preparatory Meeting on the SDF 7 Replenishment<sup>4/</sup> together with the Management's Response, which includes steps the Bank proposes to take in a number of areas covered by the Mid-Term Review Report.

3.06 In some cases, the measures and programme directions covered by the SDF 6 Action Plan are ongoing or require further work, and these will need to be part of the programme for SDF 7. Such areas include the continuing operationalisation and implementation of the poverty reduction strategy and the governance strategy, and further development of the operational strategy for Haiti. In most areas, however, considerable progress has been made, as outlined in the Mid-Term Review report.

3.07 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. This will be submitted for review as a part of the SDF 7 process, as it will be an integral part of SDF 7. Similarly, a number of ongoing areas, such as the environmental policy review, the mid-term evaluation of Basic Needs Trust Fund (BNTF 5) and the development of a gender strategy, are expected to show further progress during the balance of SDF 6 and will be reported on separately.

### **The Caribbean MDG Framework**

3.08 Contributors initially established MDGs as an integral part of the policy framework for SDF during SDF 5, and subsequently welcomed the articulation of a Caribbean-specific set of MDGs and

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<sup>2/</sup> *Resolution and Report of Contributors on SDF 6, October 2005*, Section 5.2 in the Report.

<sup>3/</sup> *Ibid.*, Section 5.2.

<sup>4/</sup> *SDF 6 Mid-Term Review, Final Report, November 2007*.

MDG targets that were developed with the BMCs on the Caribbean Development Bank (CDB) initiative and supported by the United Nations Development Programme and CARICOM. For SDF 6, Contributors placed substantial emphasis on 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.<sup>5/</sup> 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 MDGs.<sup>6/</sup>

3.09 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, 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 System.

3.10 Further work on a monitoring and evaluation framework using the MDGs, however, remains to be done, and progress in this respect will be reported to Contributors during the SDF 7 process. The Bank's approach will draw on that developed by other Multilateral Development Banks, including the Asian Development Bank and the World Bank/International Development Association.

### **CDB's Role and Operational Strategy in Haiti**

3.11 Haiti is 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, the state of basic development infrastructure, as well as the differences in institutional traditions 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.

3.12 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.<sup>7/</sup> This sets 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 in 2007 and 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.

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

### **Managing for Development Results (MfDR)**

3.14 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 2005<sup>8/</sup> and endorsed in the SDF 6 Report

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<sup>5/</sup> *Report of Contributors, Executive Summary*, para. 7. and paras. 2.02 – 2.05.

<sup>6/</sup> *Ibid.*, para. 3.08.

<sup>7/</sup> BD 45/07, *Strategic Plan for Caribbean Development Bank Operations in Haiti – 2007-2012*, October 2007.

<sup>8/</sup> SDF 6/2-NM-3, *Managing for Development Results*, April 2005.

of Contributors.<sup>9/</sup> 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*.

3.15 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 Results-Based Management (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 (BOD).

3.16 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.

### **CDB Institutional Strengthening**

3.17 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. 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, in addition to the paper on MfDR.

### **Supporting Regional Cooperation and Integration**

3.18 The Bank's proposed approach and policy framework for supporting regional cooperation and integration were presented to Contributors during the SDF 6 negotiations.<sup>10/</sup> 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 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.<sup>11/</sup> 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.<sup>12</sup>

3.19 As indicated in the SDF 6 Mid-Term Review, 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

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<sup>9/</sup> *Report of Contributors*, Section 4, paras, 4.01- 4.54.

<sup>10/</sup> *Supporting Regional Cooperation and Integration*, Revised, April 2005.

<sup>11/</sup> *Report of Contributors*, Section 3.4, paras, 3.45-3.56.

<sup>12/</sup> SDF 6 Action Plan, Milestones 6 and 19.

## PREPARATORY MEETING OF CONTRIBUTORS ON SDF 7

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.

### **SDF Operational Priorities and Strategy**

3.20 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.

3.21 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.

3.22 In addition, as noted above, *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.

3.23 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 of 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 the proposed Overview and Issues paper and the SDF 6 Mid-Term Review: Final Report, 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;<sup>13/</sup> a progress report on implementation of the poverty reduction strategy; an updated paper

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<sup>13/</sup> *Report of Contributors*, paras. 2.05, 3.08, 4.43 and 5.03, and SDF 6 Action Plan, Milestones 24 (d) and 33.

on the Bank's operations in Haiti; a paper on institutional strengthening of CDB; a progress report on operationalising the governance strategy; a working paper on environmental sustainability, vulnerabilities and adjusting to climate change; 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 Contributors<sup>14/</sup> 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 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.<sup>15/</sup> This will reflect the results of the negotiations and set out the basis on which Contributors agree to provide the necessary resources. It is proposed that an outline for the Report be considered 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. Completion of the negotiation process is targeted before 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 continuation of 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.

5.03 It is proposed that the second meeting be held in Belize, following the practice in the previous replenishment process, 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 are being made with the Government of Belize and agencies concerned.

5.04 The principal documents planned for that meeting include the Overview and Issues paper, which is intended to provide a basis for general review of the SDF resource position, the justification for concessional funding, and the identification of key issues for consideration during the replenishment process, as well as for discussion at the negotiation meeting. Other documents for the meeting will include the paper on a *Monitoring Framework for SDF 7*, the *Progress Report on the Bank's Poverty Reduction Strategy*, the *Operational Strategy for Haiti*, and the paper on CDB Institutional Strengthening. Also available will be the BNTF 5 Mid-Term Evaluation.

5.05 Subsequent meetings are planned to be held at the Bank's Headquarters in Barbados, subject to views and suggestions of Contributors. Contributors are invited to consider the proposed road map and timetable as set out in Table 1.

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<sup>14/</sup> *Report of Contributors*, para. 4.41.

<sup>15/</sup> Contributors in the past have referred to this as a Replenishment Agreement or "contract" between the Contributors and the Bank.

**TABLE 1: PROPOSED TIMETABLE FOR MEETINGS OF CONTRIBUTORS ON SDF 7**

<p><b>Preparatory Meeting, Barbados, December 14, 2007</b></p>	<ol style="list-style-type: none"> <li>1. <i>SDF 7 Process: Themes, Issues and Road Map</i></li> <li>2. <i>SDF 6 Mid-Term Review and Management Response</i></li> <li>3. <i>Evaluation of TA Operations (background document)</i></li> </ol>
<p><b>First Negotiation Meeting, Belize April 9-12, 2008</b></p>	<ol style="list-style-type: none"> <li>1. <i>Themes, Issues and Road Map (revised if/as required)</i></li> <li>2. <i>Overview and Issues for the Replenishment</i></li> <li>3. <i>Monitoring Framework for SDF for SDF 7</i></li> <li>4. <i>Poverty Reduction Strategy: Progress Report</i></li> <li>5. <i>Operational Strategy for Haiti (updated)</i></li> <li>6. <i>BNTF 5 Mid-Term Evaluation (background document)</i></li> <li>7. <i>CDB Institutional Strengthening</i></li> <li>8. <i>Review of Resource Allocation System (as previously circulated)</i></li> <li>9. <i>Environmental Impact Assessment Evaluation (background document)</i></li> </ol>
<p><b>Second Negotiation Meeting, July 25, 2008</b></p>	<ol style="list-style-type: none"> <li>1. <i>Operationalising the Governance Strategy: Progress Report</i></li> <li>2. <i>Operational Strategy on Environmental Sustainability, Vulnerabilities and Adjustment to Climate Change</i></li> <li>3. <i>Strengthening BNTF Operations</i></li> <li>4. <i>Gender Strategy</i></li> <li>5. <i>MfDR Action Plan</i></li> <li>6. <i>Multi-Cycle Evaluation of SDF</i></li> <li>7. <i>SDF 7 Operational Strategy</i></li> <li>8. <i>Resource Requirements for SDF 7</i></li> <li>9. <i>Outline of Draft Contributors Report</i></li> </ol>
<p><b>Third Negotiation Meeting, October 17, 2008</b></p>	<ol style="list-style-type: none"> <li>1. <i>Revised papers (if required) on CDB Institutional Strengthening, Gender Strategy, MfDR Action Plan, SDF 7 Operational Strategy, etc.</i></li> <li>2. <i>Operational Strategy for Supporting Regional Cooperation and Integration</i></li> <li>3. <i>Level of the Replenishment</i></li> <li>4. <i>Draft Report of Contributors</i></li> </ol>
<p><b>Final Negotiation Meeting, December 12, 2008</b></p>	<ol style="list-style-type: none"> <li>1. <i>Revision of any outstanding papers (if required)</i></li> <li>2. <i>Revised Draft Report of Contributors (final draft negotiation text)</i></li> <li>3. <i>Contributions to the Replenishment</i></li> <li>4. <i>Draft Resolution of Contributors</i></li> </ol>