

CARIBBEAN DEVELOPMENT BANK

**SECOND FORMAL NEGOTIATION MEETING OF CONTRIBUTORS
ON A REPLENISHMENT OF RESOURCES OF
THE UNIFIED SPECIAL DEVELOPMENT FUND
FOR THE NINTH CONTRIBUTION CYCLE**

TO BE HELD IN JAMAICA

MAY 17, 2016

**MANAGEMENT'S RESPONSE TO THE CONCLUSIONS AND RECOMMENDATIONS
OF THE EVALUATION OF THE SIXTH AND SEVENTH CYCLES
OF THE SPECIAL DEVELOPMENT FUND (UNIFIED) OF THE CARIBBEAN
DEVELOPMENT BANK**

At the First Formal Negotiation Meeting of the Contributors on a replenishment of the resources of the Special Development Fund (Unified) [SDF (U)] for the Ninth Contribution Cycle, held on March 10, 2016 in St. Vincent and the Grenadines, the Consultants engaged by the Caribbean Development Bank (the Bank) to undertake the evaluation of the Sixth and Seventh Cycles of the Special Development Fund presented their report to Contributors.

The report presented the findings, conclusions and recommendations of the evaluation of the Sixth and Seventh Cycles of SDF (U) of the Caribbean Development Bank (CDB), covering the period from January 2005 through to December 2012. The primary objectives of the evaluation were to:

- (a) assess the Relevance, Efficiency, Effectiveness, Sustainability and Responsiveness of SDF as a mechanism to meet the challenges facing Borrowing Member Countries over the two cycle periods, between 2005 to 2012; and
- (b) propose actionable recommendations and lessons to improve design and delivery of SDF programmes, including operations under SDF 8, which began in 2013, and inform future negotiations for a Ninth Cycle under SDF 9.

Management notes the corporate considerations presented in the Final Report of the Evaluation of the Sixth and Seventh Cycles of the SDF (U) – SDF 6 and SDF 7 and submits the attached management response to the recommendations contained therein for the consideration of SDF Contributors. The Final Report of the Evaluation of SDF 6 and SDF 7 is presented in the Annex to the paper.

**MANAGEMENT’S RESPONSE TO THE CONCLUSIONS AND RECOMMENDATIONS
OF THE EVALUATION OF THE SIXTH AND SEVENTH CYCLES OF
THE SPECIAL DEVELOPMENT FUND (UNIFIED) OF THE CARIBBEAN DEVELOPMENT BANK**

Note: highlighted areas denote changes in recommendations based on comments from Directors/Contributors

Ref	Recommendations	Management Response
8.1	Operational and Organisational Effectiveness	
1.	<p>Quality Assurance (QA): The Bank should consolidate gains made in this area by accelerating implementation of the QA process at each stage of the project cycle, including additional training in Results-Based Management and Risk Management to build on the foundations of the current capacity of staff and enable them both to make better use of existing applications’ systems and to ensure the quality and timeliness of implementation and results on completion. Specifically, it is recommended that:</p> <ol style="list-style-type: none"> 1. CDB and the Office of Independent Evaluation employ a 6- or 4-point balanced rating scale to assess project performance; 2. CDB Operations ensure that all Project Completion Reports (PCRs) are completed on time, report against expected results, and are done in accordance with the Operations Policy and Procedures Manual; and 3. CDB review the Annual Review of Portfolio Performance methodology with a view to ensuring a more realistic assessment of project performance, including the need to clearly reference evidence of achievements to substantiate the ratings. 	<p>The Bank conducts training programmes for both risk management and results management on an annual basis. Further, the roll-out of the Project Cycle Management programme will strengthen the QA process.</p> <ol style="list-style-type: none"> 1. Given the size of its portfolio, management is not convinced of the merits of changing its 4-point scale to a 6-point scale. However, the existing scale will be revisited towards making it more “balanced”. 2. Accepted: Steps are being taken to resolve the backlog of PCRs. In the immediate future, this will include the use of short-term consultancy services as well as more systematic and focused attention on this aspect of the project cycle. Ultimately, the new Project Performance Management System will facilitate a shortened time frame with less complexity in the approach to undertaking this task. 3. Steps have also been taken to develop and implement criteria for assessing project performance which is transparent and uniformly applied. This includes criteria in relation to at-risk projects.
2.	<p>Update of Delegated Authorities: The Bank should prepare and submit a request to the Board of Directors for approval of a revised Delegation of Authorities that would better enable the President and key Management and Operational staff across the spectrum of the Bank’s operations to exercise Leadership and take the necessary corrective action required in their areas of responsibility within a framework of Accountability, Delegation and Exercise of Responsibilities. More specifically, it is recommended that:</p>	<p>The Bank is currently undertaking a comprehensive review of a number of its processes in order to promote greater operational efficiency. Included is an examination of the limits of, and other aspects relating to, the President’s delegated authority. A paper in relation to this matter will be brought to the Board in 2016.</p>

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8.1	Operational and Organisational Effectiveness	
	<ol style="list-style-type: none"> <li data-bbox="233 237 1066 402">1. The delegated authority for the President be increased to USD750,000, or a higher level if deemed more appropriate by the organisation should it, for example, decide in future to reduce the frequency of Board meetings. (NB: This amount is in line with recently approved IRLs); <li data-bbox="233 440 1066 537">2. The delegated authority for the levels of Vice-President, Directors of Departments and Division Chiefs be set at USD300,000, USD150,000 and USD50,000, respectively; and <li data-bbox="233 574 1066 813">3. Authorisation be sought for the President to be able to approve through a “no-objection” procedure certain types of expenditures, such as cost increases and over-runs up to a certain amount (say 20% of the initial approval), with the condition that the approval be submitted to the Board for notification at its first convenient meeting scheduled after the approval. 	
3.	<p data-bbox="233 818 1066 878">Clear Focal Points for Member Countries and In-Country Presence:</p> <p data-bbox="233 883 1066 1317">The Bank should consider establishing clear focal points for member countries, including enhancing its country presence through country offices in several of the largest recipients of CDB funds, to improve communications between BMCs and the Bank, enhance monitoring and supervision of its projects, improve country-level coordination with other Development Partners (DPs) and increase CDB’s visibility and influence in strategic and policy decisions in BMCs. To keep costs more manageable and balanced against the need for in-country presence, for example in new BMCs like Suriname, the Bank could explore the possibilities for sharing office space with one of the Central Line Ministries (Ministry of Finance, Economics or Planning) or other DPs like the Inter-American Development Bank (IDB). Specifically, it is recommended that:</p> <ol style="list-style-type: none"> <li data-bbox="233 1321 1066 1386">1. CDB prepare a discussion paper to develop criteria and propose options (including cost estimates) for country presence. <li data-bbox="233 1424 1066 1451">2. CDB pilot country presence in two countries in 2017. 	<p data-bbox="1073 850 1944 1084">The Bank firmly recognises the need for closer engagement with its clients in order to fully understand and respond to their development needs. This is a first order priority in delivering on the Bank’s mandate and undergirds its role and relevance. The issue of country presence is one that the Bank is closely examining. That said, the Bank recognises that country presence cannot be taken to be homogeneous across its total membership but on a very selective basis.</p> <p data-bbox="1073 1122 1944 1284">While closely examining this approach, the Bank intends to utilise its existing products and services to improve communications between BMCs and the Bank. This includes greater country engagement in the country strategy preparation process and more intense portfolio review and project supervision process.</p>

Ref	Recommendations	Management Response
8.2	Development Effectiveness	
4.	<p>Harmonisation: The Bank should try to harmonise its efforts with other DPs across the Caribbean to strengthen Development Effectiveness by minimising the monitoring and reporting burden and transaction costs on BMCs and undertaking more joint initiatives in key areas of common interest, including capacity building in procurement and statistics, front-end design and planning work, including preparation of Country Strategy Papers (CSPs), Country Poverty Assessments, and Country Gender Assessments.</p>	<p>Harmonisation already exists particularly in relation to areas such as procurement given the Bank’s membership and active participation in certain MDB working groups.</p> <p>Significant joint work is taking place between CDB and IDB including discussions to refresh Memorandum of Understanding to guide future collaboration.</p> <p>There is close collaboration between the CDB, World Bank (WB) and IDB in building regional capacity in the area of Public-Private Partnerships with the three institutions co-funding the interim Regional Support Mechanism physically located at CDB.</p> <p>CDB and WB are also cooperating with respect to co-funding opportunities regarding a Revitalised Cities Initiative as well as aspects of private sector operations, such as partial guarantee schemes.</p> <p>Significant cooperation also takes place with other MDBs on policy-based operations.</p>
5.	<p>Improving Communications and Understanding of CDB’s Terms and Conditions: The Bank should consider putting in place improved orientation and communication protocols for senior officials and technical staff in BMCs about the terms and conditions and specific requirements of loans to reduce the potential for cancellations and delays, especially when there has been a recent change in Government. These should be continuously refreshed and updated to reflect emerging good practice and lessons learned.</p>	<p>Agreed – Steps have been taken to accomplish this, including:</p> <ol style="list-style-type: none"> 1. An orientation programme for Board Directors held in March 2016 which provided participants with in-depth exposure to the legal aspects of the Bank’s operations and aspects of its strategic and operational framework. <p>The Bank offers an opportunity to every potential borrower to formally negotiate the terms and conditions of each loan before it is presented to the Board. Such negotiations allow the Bank to discuss all the terms of the loan and any specific requirements with the Borrower. Once the Conditions Precedent have been satisfied, a project launch is conducted at which a session is dedicated to the legal aspects of the loan. CDB’s legal counsels also undertake in-country legal supervision on a rolling basis.</p>

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		<p>2. The presentations and other material/information which are used in Project/CSP launches have been updated. These were used for the formal launching of the Suriname CSP in 2014.</p>
6.	<p>Strengthening Country Capacity to Prepare and Implement Initiatives Where project preparation and implementation capacity is known to be weak, the Bank should consider providing timely, strategic and integrated technical assistance and technical support to strengthen the capacity of BMCs for planning, preparation, design and implementation of the initiatives, including investments in country systems for procurement and reporting to allow CDB and other DPs to use a common country procurement and reporting system.</p>	<p>Agreed. Significant and ongoing steps have been taken in relation to building country capacity. This includes:</p> <ol style="list-style-type: none"> 1. A recently launched training programme in Public Policy Analysis and Management and PCM. 2. A recently launched on-line procurement training programme; and 3. Direct TA, as appropriate, for strengthening institutional capacity (e.g. Dominica after Tropical Storm Erika). <p>Additionally, the Bank conducts institutional assessments as part of its project appraisal and appropriate recommendations are made for capacity building, particularly in relation to implementation support.</p>
7.	<p>Gender Equality Mainstreaming: The Bank should strengthen its efforts to mainstream Gender Equality and Equity into its project design, implementation, monitoring and supervision and results.</p>	<p>CDB has a Gender Equality Policy and Operational Strategy (GEPOS) which informs its in-country interventions and also guides the institution's internal gender equality related sensitisation. GEPOS also has a time-sensitive Gender Equality Action Plan (GEAP) which is being rolled out over the SDF 8 cycle. The most recent progress report (December 2015) on the performance on indicators for gender mainstreaming in the GEAP and on CDB's internal reform processes suggest that the Bank has made significant strides in gender mainstreaming in most of its operations. The report notes that "CDB's performance on gender mainstreaming continued on a notable upward trend over the period under review. The percentage of approved loans with a Gender Marker rating trended upwards from 20% in 2013 to 43% in 2014, and is projected at 57% in December 2015". The report further noted that "Divisions ramped up efforts to improve the quality of gender analysis in project design and to map out a "strategy" across the project cycle to effect better results".</p>

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8.	<p>Sustainability: The Bank should consider measures to explicitly include ‘Exit Strategies’ early in the design stage of projects to promote thinking about the conditions required for sustainability, including maintenance of essential activities, local, institutional and financial capacity, the enabling environment, ownership and commitment, and other key aspects to support sustainability that may be relevant in the context.</p>	<p>The issue of sustainability has to be promoted by ensuring that our clients have a more meaningful understanding of Managing for Development Results (MfDR) which, among other things, seeks to safeguard project outcomes. The Bank will include a module addressing sustainability in PCM and MfDR training programmes aimed at specifically addressing the issue of sustainability of projects/programmes. Further, the Bank will seek to enhance Quality at Entry which fosters project sustainability. The sustainability issue will also be bolstered by our support aimed at building out country systems.</p> <p>Additionally, the Bank’s project appraisal process includes risk assessments for every intervention and indicates mitigation measures for identified risks.</p>

