

CARIBBEAN DEVELOPMENT BANK

SPECIAL DEVELOPMENT FUND FIFTH REPLENISHMENT

SDF MID-TERM REVIEW

MARCH 2004

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Contributors to SDF 5 agreed as an outcome of the Replenishment negotiations in July 2001 that they would meet for a mid-term review of SDF 5 to review SDF 5 operations to date, the position of Haiti and Suriname, and the status of funding for SDF 5. They requested that, for this purpose, the Bank should report on a number of issues prior to a special meeting to undertake the Mid-Term Review. The attached report has been prepared to address the various issues as requested, and is supplemented by a separate report on the *Action Plan on the Recommendations of the SDF 4 Performance Review* and by the *SDF Annual Report for 2002*, which has also been separately circulated. The current document has been revised to reflect comments by Contributors at the Annual Meeting of SDF Contributors in St. Kitts in May 2003 and in writing subsequently. It also takes into account actions to December 2003.

SDF 5 MID-TERM REVIEW

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EXECUTIVE SUMMARY

0.01 Contributors to SDF 5 agreed, in the decision document on the Replenishment, to hold a Mid-Term Review of the SDF 5 cycle to review SDF 5 operations to date, the position of Haiti and Suriname, and the status of funding for SDF 5.^a They also requested the Bank to report on a number of specific issues prior to the Review. The present report has been commissioned in response to that request and as an agenda document to facilitate the Review.

0.02 The agreed framework for the Replenishment included: endorsement of the innovative concept of a *poverty prism* to guide the operations of SDF 5 (and of the CDB as a whole); the core priorities of *capability enhancement*, *reduction of vulnerability*, and *good governance* in support of broad-based sustainable development; a higher target for programmes directly targeted at the poor; and a new *resource allocation* strategy to strengthen the effectiveness with which SDF resources are used in support of poverty reduction. Other measures to increase SDF effectiveness were also agreed, within the framework of strengthened partnerships and the objectives set out in the *Millennium Development Goals*.

0.03 Contributors strongly endorsed the prospective *widening of the Bank's mandate* to the broader Caribbean, including Haiti and Suriname, and recognized the increased responsibilities this would place on the CDB, SDF and the Contributor governments. They also urged that the widening of the Bank's membership, both within the Caribbean and outside the region, should be a major and urgent objective.

0.04 These priorities and related operational issues are considered in the progress report that follows, and in the *Special Development Fund Annual Report 2002*, separately circulated as a document for the Review.

Action Plan on Results of the SDF IV Performance Review

0.05 The findings and recommendations of the independent *Performance Review* of SDF IV provided an important input to the policy and operational framework for the SDF 5 Replenishment. The Bank's *Action Plan* on the 26 principal recommendations was endorsed by Contributors, and an updated progress report was requested for the Mid-Term Review.

0.06 In some cases, action on the recommendations was underway during the Replenishment negotiations, and in other cases implementation has been undertaken in the period since, or is currently planned. In many cases, important new initiatives have been undertaken with encouraging results. In a few key instances, implementation was delayed because of competing demands on CDB Management and staff and the reorganization of the Bank's operational departments. In these cases, steps or decisions have since been taken, including the preparation and submission to the Board of the planned policy papers on poverty reduction and on governance and institutional strengthening. The position with respect to individual recommendations is reviewed in the report and detailed in the attached *Status Report*.

^a *A Partnership for Poverty Reduction in the Caribbean: Report of Contributors to SDF 5*, para. 162.

SDF 5 Operational Programme for Action

0.07 An *Operational Strategy* for SDF 5 was approved by Contributors, and a number of important steps in the implementation of the Strategy were endorsed as an *Operational Programme for Action*.

0.08 The three “strategic levers” or priority areas of *capability enhancement*, *reduction of vulnerability*, and *good governance* have increasingly provided a guide to SDF operations since approval of the new policy framework in late 2001, as experience has been gained in their application and as opportunities to adapt the design of programmes and projects have become available. The adjustment of operational procedures across the full range of the project cycle, concurrent with the reorganization of the structure and focus of the Bank’s project operations and a review of project processes, has been a continuing task during this period, and will be addressed further during the rest of the SDF 5 cycle.

0.09 The *poverty prism* in particular represents a change in the Bank’s operations, reflected in a number of ways in the period since 2001, and is being supported by the improved information base from country poverty assessments and by strengthened capacity for social policy development and poverty reduction programming. The strategy paper on poverty reduction being submitted to the Board in March 2004 should also provide a stronger framework,...

0.10 Programmes *directly targeted at the poor* were a principal element of SDF IV, with a substantial increase in their share, in part as a result of innovative programming. A further increase in such programming was also set as a goal for SDF 5, and this has been achieved to date, although in part as a result of special circumstances. The appropriate target level for this important objective is assessed in the report.

0.11 The key elements in the *Operational Programme for Action* are discussed further in the text and in the *SDF Annual Report 2002*.

Project Performance Evaluation

0.12 A new *Project Performance Evaluation System* was designed as an important element in the Bank’s preparations for the SDF 5 Replenishment, and was strongly endorsed by Contributors. The new system improves substantially CDB’s ability to monitor and evaluate the outcomes and impacts of its projects.

0.13 The new PPES uses two strategic criteria (*strategic relevance* and *poverty relevance*), three impact criteria (*efficacy*, *institutional development impact* and *sustainability*), and one efficiency criterion (*cost efficiency*). It builds on the experience of CDB and the other multilateral development banks, and responds to the need for greater assurance that the use of SDF resources is adequately focused on poverty reduction, and for improved information on the outcomes and impact of SDF projects. The system draws on the harmonized evaluation criteria adopted by the major MDBs, but also makes significant improvements, including the stronger and more explicit weighting of the criteria towards poverty reduction, and the use of the same consistent criteria at every stage of the project cycle from appraisal through supervision to project completion and evaluation.

0.14 Implementation of the new system began in 2001, and increasing experience has been gained in its use, including for the annual cycles of project and portfolio assessment for 2000 to 2002. Experience to date is reviewed in the text, as well as in a separate report on the PPES prepared as an input for the present report. Some recommendations for further strengthening of the use of the system are included. Results in terms of a portfolio analysis for projects receiving SDF funding are also provided in a later section of the report.

Allocation of SDF 5 Resources

0.15 An important element in the framework for the use of SDF 5 resources is a new strategy for allocating the limited funds available under the Replenishment. After certain fixed allocations are set aside for particular purposes such as disaster response and BNTF, the largest share of available resources is allocated, on an indicative planning basis, among individual active borrowing countries according to a formula that reflects both needs and the likely effectiveness with which the resources may be used. Flexibility, however, is provided to adjust the indicative allocations subsequently during the country programming process to reflect other country-specific factors.

0.16 The new system introduces for the first time a *country performance* factor. The intention is to provide an incentive for good policy/institutional performance, and to recognize that countries that have a better policy/institutional framework are more likely to make effective use of concessional resources, especially in regard to poverty reduction and broad-based sustainable growth. The country performance rating has two components, a *CDB country loan portfolio score* and a *country policy/institutions score*.^b

0.17 The system is innovative in other ways as well. It uses a CDB-developed measure of *vulnerability* as one indicator of country needs, in addition to *per capita income* and *population*, and it has a stronger weighting for *smaller countries*. The Bank has also been open with the borrowing member countries about the performance scores and their influence on resource allocation, reflecting the close and frank relationship between the Bank and its BMCs.

0.18 Experience with the new strategy is reviewed in the text, Para 5.09 to 5.23, as well as in a separate report on the new resource allocation system (Section C). The new approach was used for setting initial indicative allocations in December 2001, and has been applied in 2003 for a mid-term reallocation of planning figures for the use of currently available resources, based on the formula and using more recent data, with subsequent adjustments to reflect programming experience and other country-specific factors. The same strategy has also been used for the allocation of BNTF V resources among participating BMCs, and the new strategy has been generally well-received.

0.19 The report proposes some adjustments in the fixed allocations for approval by Contributors as follows:-

- (a) Reallocating \$5 million from the new members set-aside, of which \$3 million will be allocated for response to natural disasters and HIV AIDS, and \$2 million for technical assistance grants.

^b The latter is referred to as a country's *Poverty Reduction Effectiveness Situation* or *PRES*.

- (b) Converting the allocation for Regional Projects from loans to grants of which \$1 million would be reallocated to technical assistance.

Membership and Support for the Bank and SDF

0.20 Contributors gave particular attention to the prospective widening of the role and mandate of the Bank and to the need for strong support for SDF and the Bank from outside as well as within the region. They welcomed the prospect of membership of Suriname, Haiti and possibly other countries within the region such as the Dominican Republic. This widening of the role of the Bank was an important factor in the approach of some governments to the replenishment and the continuing need for an adequate level of resources for SDF, as well as to the work of the Bank more generally. Contributors also underlined the importance, as had a number of Governors, of the Bank's efforts to broaden the support for its work from outside the region, in terms both of CDB membership and of direct contributions to the SDF.

0.21 The report notes that the Bank has undertaken continued efforts to maintain and deepen its relations with existing members, including those from outside the region, and to strengthen and accelerate the prospects for a widening of the membership base and support for SDF. The report also reviews the current status with respect to these various discussions and possibilities, and notes that the active support of existing members, both regional and non-regional, will be critically important to the success of these efforts.

0.22 Of particular importance is Haiti's membership in the Bank, which was formally approved by the Governors at the 2003 Annual Meeting in May. However, given the political events in Haiti it is unlikely that Haiti's membership can be effective in the near future. Suriname's membership has also been approved by Governors, but fiscal difficulties have so far prevented that country's membership from becoming effective.

0.23 The Bank has been undertaking preparations for working with both prospective new members, in developing an approach to initial programming that would reflect the special needs and constraints in these two countries and the Bank's comparative advantage in contributing to the reduction of poverty, as well as the need to commence operations in an incremental and experience-based way. With respect to Haiti, initial assistance may appropriately emphasize SDF-funded technical assistance in the area of governance and institutional strengthening, including possibly the strengthening of one or more financial intermediary institutions, and BNTF-type programmes at the community level.

0.24 CDB staff is preparing an initial document on Haiti's economy utilising the work of other donor agencies and examining possible programming responses by CDB, including the broader implications for the Bank and its internal resources. The Bank's intention is to invite a small number of donors with experience and interest in Haiti to review current activities and perspectives on assistance to that country.

0.25 The SDF 5 allocation approved by Contributors for new members will provide a basis for initial programming discussions in the current cycle. The development of any significant programme, however, will require additional resources.

0.26 Some Governments, both presently contributing to SDF 5 and some not in a position to do so at the negotiations in 2001, indicated they might be prepared to consider providing additional resources for SDF in the light of resource requirements at the time of the Mid-Term Review and in particular the requirements for programming in Haiti and Suriname, and it is hoped that Governments, including prospective new Contributors, will be able to address this issue.

0.27 Outside the region, discussions have continued actively with Spain, and Caribbean governments have indicated their strong support for Spain's interest in strengthening its relations with the Caribbean Community to be expressed through membership in the CDB and support for SDF. Spain has in turn indicated its interest in the Bank and its plans to send a familiarization mission to CDB headquarters.

0.28 The Bank has followed up on earlier discussions on the possibility of a strategic dialogue on the longer term interests and relationship between Europe and the Caribbean in the context of the CDB and SDF partnership, including the relationship with the common European institutions. The report notes that the joint European programmes providing assistance to the Caribbean remain interested in a close relationship with CDB, in which the Bank could provide assistance in the utilization of EU funds available for the Caribbean. The nature of that relationship, however, is likely to be dependent on the availability of EU funds, the views expressed by Cariforum members as the EU's dialogue partners, and the views of European members of CDB. The CDB intends to continue this important dialogue and would welcome the interest and support of Cariforum countries and EU members of the Bank.

0.29 At the time of the Replenishment negotiations, USAID officials indicated that USAID was very interested in a stronger relationship with CDB, including the possibility of a substantial contribution to SDF 5, and this was factored into the agreed target level of the Replenishment. Subsequently, the USAID indicated that circumstances had changed and that resources expected to be available were no longer in place. The Bank, however, is maintaining an active dialogue with USAID on the resource requirements of SDF, the work of BNTF and the prospective need for funds for a BNTF-type programme in Haiti.

0.30 Japan had also indicated during the SDF 5 negotiations that it had been given clearance to consider the possibility of a contribution to SDF 5. Subsequent events, and resource constraints, however, made it difficult for Japan to make a contribution as envisaged. The Bank is, however, continuing discussions on this possibility.

0.31 The report notes that the Bank continues to need the active assistance of all member governments, both within and outside the region, in the effort to broaden the base of support for the BMCs and the work of CDB and the SDF. This is particularly so with a prospective doubling of the Bank's client population and a fourfold increase in the number of poor people whom SDF is expected to assist.

SDF 5 Resources and Programme Levels

0.32 In the Replenishment negotiations, Contributors agreed on a level of \$125 million for their contributions to SDF 5. This was intended to provide for a minimum programme level of \$185 million, including commitment authority from repayments, net income and other internal

resources. Contributors also agreed on a higher target programme level of \$210 million, taking into account the needs of both traditional BMCs and prospective new members. The timing of accession by the new members, however, was uncertain, and Contributors agreed that the resource levels for SDF 5, and progress in terms of additional contributions, should be reassessed at the Mid-Term Review.

0.33 Some of the expected contributions have not emerged, and pledged contributions under the Replenishment total \$92.5 million. The overall programme level for SDF 5 has, as a result, had to be reduced to \$165.7 million. Presently available resources are some \$20 million short of this figure. Additional contributions in 2004 would be necessary to allow a more adequate response to the expectations and goals set for the Replenishment

0.34 Currently available resources represent a significantly greater constraint on the SDF 5 operational programme than was envisaged when Contributors agreed on the framework and minimum programme levels for the current SDF cycle. Resource limitations will necessitate suspension of further SDF lending to some BMCs at the mid-point in the SDF 5 cycle. Decisions will need to be made with respect to funding of a number of otherwise attractive projects currently in the pipeline, as for example in Guyana, and CDB's ability to develop and support poverty-focused projects and broad-based growth will be limited for the balance of the SDF 5 period in several BMCs. There is also very little room remaining to develop new approaches under the SDF 5 policy priorities.

0.35 The resource constraint also limits the extent to which SDF can be used in terms of disaster response. Special consideration may need to be given to this in 2004, depending upon circumstances, as the reserve is far too small to accommodate a response to any kind of major disaster.

0.36 The admission of Haiti, as well as the likely admission of Suriname, raises a critically important factor in considering the future for both the Bank and SDF. In welcoming and endorsing the expansion of CDB's role to the wider Caribbean, Contributors recognized that "this new and wider role ... poses special challenges, not only for the Bank, but for the Contributors themselves" and stated that "The prospective benefits are large. *Contributors agreed that meeting the challenges would require strong support from the existing membership, both regional and non-regional, both from within and outside the Americas. They accepted that this poses a major new dimension for SDF 5, which should be funded at an appropriate level to allow the Bank to undertake its new mandate.*"

0.37 Appropriate CDB response to Haiti's membership that would be consistent both with the SDF 5 policy framework and CDB's strongest comparative advantages would involve at least two complementary initiatives. Funding support, however, would be necessary before programming discussions could reasonably be undertaken or commitments entered into. The Bank's current thinking is centred around a BNTF-type programme and a programme for micro and small enterprises, in the latter case using CDB's experience to strengthen or establish an appropriate institutional intermediary. Both would need to be multi-year programmes.

0.38 The Mid-Term Review was intended to consider the response of the Bank and Contributors to the special circumstances of the new members, in particular Haiti. Many

members, including non-regional members, have long urged the Bank to move quickly in bringing Haiti within the BMC membership, and this was a principal focus of the Replenishment. The Bank will need the help of SDF Contributors, including potentially new Contributors, some of whom had indicated they might be prepared to consider the needs of Haiti and Suriname in addition to the existing BMCs at the time of the Mid-Term Review.

SDF 5 Operations to Date and the SDF Portfolio

0.39 SDF 5 operations to date are reviewed in the *SDF Annual Report* and in Section 8 of the report. Among other results, there has been a relatively strong performance in the first two years of the cycle in terms of new commitments and the SDF 5 programming priorities, and disbursements are on a strongly rising curve. Projected disbursements for SDF 5 as a whole are somewhat higher than the current level of authority for new commitments during the same period.

0.40 As requested by Contributors, an analysis is also presented of the SDF Portfolio using the new PPES (Section 9 of the report). Results are shown for 2002 for project performance, country portfolio performance, and performance by sector. Considerable detail is provided, and performance appears to be broadly satisfactory. Suggestions are also provided for further improvement in the use of the system.

Conclusions and Recommendations

0.41 A number of conclusions and recommendations that emerge from the report's analysis and assessment are set out in Section 10. Contributors are invited to consider these and provide guidance to the Bank as they consider appropriate.

SDF 5 MID-TERM REVIEW

1. INTRODUCTION

1.01 Negotiations on the replenishment of the resources of the Special Development Fund^c for the fifth SDF cycle for 2001 to 2004 (SDF 5) were concluded in July 2001, and a Resolution providing for their use in accordance with the decisions contained in the *Report of Contributors to SDF 5: A Partnership for Poverty Reduction in the Caribbean* was adopted by Contributors and these arrangements were agreed to by the CDB's Board of Directors in December 2001.¹ The *Report of Contributors* set out the results of the replenishment negotiations as an agreed document between the Bank and Contributor governments. It provided the basis on which Contributors agreed to make funds available, with an agreed policy and operational framework, including programme objectives and milestones, targeted at the objective of reducing poverty in the Caribbean.

1.02 Among the more significant elements of the SDF 5 framework were: endorsement of the *poverty prism* as an operational concept to guide the operations of SDF as well as the CDB as a whole; three core priorities or "strategic levers" of *capability enhancement*, *reduction of vulnerability*, and *good governance* in support of broad-based sustainable development; an ambitious target for programmes directly targeted at the poor; and a *new resource allocation* strategy to strengthen the effectiveness with which SDF resources are used in support of poverty reduction. Other measures to increase SDF effectiveness were also agreed, within the framework of strengthened partnerships as well as the objectives set out in the *Millennium Development Goals*.

1.03 Contributors endorsed the prospective *widening of the Bank's mandate* to the broader Caribbean, including Haiti and Suriname, and recognized the implications and responsibilities this would place on the CDB, SDF and the Contributor governments. They also urged that the widening of the Bank's membership, both within the Caribbean and outside the region, should be a major and urgent objective.

1.04 Contributors agreed they should meet for a *mid-term review* of SDF 5 in late 2002 or early 2003 to review SDF 5 operations to date, the position of Haiti and Suriname and the status of funding for SDF 5. They requested that, for this purpose, the Bank should report on a number of issues prior to the meeting to undertake the Mid-Term Review:²

- ? progress under the *Action Plan for Implementation of Recommendations from the Performance Review of SDF IV*;
- ? progress under the *Operational Programme for Action* submitted to Contributors as part of the SDF 5 Operational Strategy and the introduction of the new *policy framework for poverty reduction and for governance, institutional strengthening and regional action*;

^c All references are to the Unified Special Development Fund, which has provided the principal concessional fund resources for CDB operations since 1984, with separate replenishments for the periods 1984-1987, 1988-1991, 1992-1995, 1996-2000 and 2001-2004.

- ? implementation of the new *Project Performance Monitoring and Evaluation System (PPES)*, and the extent to which the new system is able to provide greater information on project-specific outcomes and impacts of SDF operations;
- ? experience to date with the new *SDF resource allocation strategy*;
- ? progress on *widening the Bank's membership*, and on *the level of funding achieved for SDF 5*;
- ? *SDF 5 operations to date*, as well as *overall portfolio quality*, using the new system for monitoring and assessing the Bank's portfolio.

1.05 A number of documents have accordingly been prepared for the Mid-Term Review (the MTR), including a more extensive *SDF Annual Report*, being submitted to both the 2003 Annual Meeting of Contributors and the MTR and which covers a number of the issues to be addressed by Contributors, and a report on progress under the *Action Plan on the Recommendations of the Performance Review*, as well as this overview assessment of progress to date under the Replenishment and the SDF 5 cycle. Separate reports were also prepared on experience to date with the *Project Performance Monitoring and Evaluation System (PPES)* and the *Resource Allocation Strategy*, which have provided important inputs for this assessment.

2. ACTION PLAN ON RESULTS OF THE PERFORMANCE REVIEW

2.1 CONTEXT

2.01 The *Performance Review* of SDF IV was a principal input into consideration of the SDF 5 Replenishment, both by the Bank in its preparations for the Replenishment and by the Contributors in their assessment of SDF performance, the case for a Replenishment, the focus and priorities for SDF 5, measures to improve effectiveness and targeting, and the Bank's reporting to Contributors.³ The findings and recommendations of the *Performance Review* were taken into account in the design of the policy and operational framework for SDF 5 and in the development of appropriate steps to operationalise the SDF 5 strategy and improve performance and accountability.

2.02 The Bank submitted to Contributors an *Action Plan* on the *Performance Review's* principal recommendations and this was updated during the course of the negotiations. The *Action Plan* was incorporated as an integral part of the decision document on the Replenishment, the *Report of Contributors to SDF 5: A Partnership for Poverty Reduction in the Caribbean*. It set out the Bank's response and proposed actions, with a timetable for implementation of the steps that the Bank proposed to take in response to the 26 principal recommendations, as well as identification of responsibility centres within the Bank and the means of meeting the resource requirements in each case. As several Contributors noted, the agenda was an ambitious one, but it provided a strong basis for the Replenishment.

2.03 Contributors requested a report on progress to date under the Action Plan for the Mid-Term Review, and this has been separately circulated, as an update in the original format considered by Contributors (see Section A attached).

2.2 PROGRESS TO DATE

2.04 Action has been taken or is currently in progress on almost all of the recommendations of the *Performance Review*. In some cases, action was already underway during the Replenishment negotiations, and in other cases implementation has been put in hand in the period since. In some cases, planned implementation has been delayed from the original timetable because of competing requirements resulting from the Operations Audit, the change management process that has been underway within the Bank, and the restructuring of the Bank's project operations to shift limited staff resources to a more sustained focus on project preparation and on project supervision and implementation. In these latter cases, appropriate steps are now being taken, and in some important cases, the results have already been or are being submitted to the Board of Directors.

2.05 A primary recommendation was for ***a continuation and strengthening of the focus on poverty reduction***, including both targeted poverty reduction programming and the use of a *poverty prism* and a closely related *vulnerability prism*, through which all projects would be viewed during selection, appraisal and implementation [*Recommendations 1 and 4 and several related recommendations*]. This was reflected in the Bank's proposed policy and operational framework for SDF 5 and was endorsed by Contributors. SDF 5 operations to date have accordingly been guided by this framework, including its articulation in the *SDF 5 Operational Strategy*. A working paper on poverty reduction was reviewed and endorsed by Contributors, and a strategy paper was planned for detailed consideration by the Board of Directors. The planned strategy paper was delayed pending Projects Department's reorganization and the gathering of some experience in the initial application of the Operational Strategy and the poverty prism. A draft strategy paper, however, has now been prepared, and will be submitted for detailed consideration by the Board in March 2004.

2.06 The operational concept of the *poverty prism* has been used in the SDF 5 programme and project development process, including in adapting the design of some programmes. It became clear, however, that there was a need to review and revise operational procedures over a wider range of activities, and that this would need to be based on the new structure of the Projects Department and a consolidation of the new operational structure. Initial Operational Guidelines, however, have been developed as a part of the strategy paper on poverty reduction.

2.07 An important related recommendation related to ***adjusting and tailoring access to SDF resources*** to better reflect both evidence of poverty and differences in vulnerability [*Recommendation 2*]. The Bank undertook the development of a new ***resource allocation strategy***, which includes both needs-based and performance-based criteria, and this was reviewed and refined during the course of the Replenishment negotiations. The new strategy which has been used to develop an initial indicative allocation of SDF 5 resources and more recently as the basis for a mid-term review and adjustment of planning allocations (see Section 5 below), and has been used as well for the allocation of BNTF funds among beneficiary BMCs is described extensively in Paras 5.01-5.07.

2.08 A high priority was recommended for ***country poverty assessments***, and for ensuring that these were completed for those BMCs for which assessments were not yet available, as well as for an updating of earlier poverty assessments on a 3 to 5-year cycle [*Recommendation 3*]. As indicated in Sections 3.22 to 3.24, several further poverty assessments have been undertaken in

2002 and 2003, including three with DFID and CDB assistance, and updated poverty assessments have also begun to be prepared.

2.09 Action taken with respect to other related recommendations [*Recommendations 5, 6, 7, 9 and 24*] is outlined in the Action Plan update. This includes a substantial increase in SDF funding for the Bank's longstanding and highly regarded Basic Needs Trust Fund, for which substantial additional resources are also being provided by Canada.

2.10 A key recommendation was for an *integrated, modern and effective system of performance rating and evaluation* to support the Bank's efforts at poverty reduction [*Recommendations 8 and 22*]. A new Project Performance Evaluation System (PPES), based on harmonized criteria to be used at each stage of the project cycle and with greater visibility and weight to poverty reduction than in similar systems in other MDBs, was developed, and implementation began in 2001. This is an important improvement in CDB's procedures and is reported on further in Section 4 below.

2.11 Recommendations dealing with the *priority for human resource development* in the context of poverty reduction [*Recommendations 10, 11 and 12*] have been fully reflected in the Bank's work, as have the recommendations for a *continued priority for the environment, including waste management and disaster mitigation* [*Recommendations 14, 15 and 16*]. A working paper on the Bank's Human Resource Development Policy was presented to the Board of Directors in December 2003. The proposed review and evaluation of the effectiveness and performance of CDB's *Environmental Impact Assessment requirements and procedures* is also to be commissioned shortly, and terms of reference are currently being prepared. The CDB's EIA guidelines and requirements are highly regarded and have generally been viewed as effective, but a periodic re-evaluation to assess performance, identify lessons learned and propose adjustments that may improve effectiveness is clearly desirable.

2.12 The *student loan programme*, which was addressed in the *Performance Review* and in *Recommendation 13*, has been redesigned to provide improved access for poor students, and a full evaluation of the programme is to be commissioned shortly.

2.13 The Bank's important SDF-funded *technical assistance programmes* were dealt with in *Recommendations 17, 18, 19 and 20*. A working paper on *governance and institutional development* was submitted to and endorsed by Contributors as one of the priority themes for SDF 5, and a strategy paper was approved by the Board of Directors in December 2003.

2.14 One of the specific recommendations was to establish clear objectives and a more selective focus for regional TA interventions, i.e. a *regional strategy* [*Recommendation 18*], and this is also envisaged in the SDF 5 Operational Strategy.⁴ This step remains to be undertaken, in the framework set by the strategy paper on Governance and Institutional Strengthening. TA for regional purposes in the first two years of SDF 5 has, in fact, been relatively much higher than envisaged⁵. Country-level technical assistance will now receive greater attention with the designation of *country focus* responsibilities [*Recommendation 24*].

2.15 The general recommendation was for the *designation of a country focus* within the Bank's organisational structure and staff assignments for each BMC [*included in*

Recommendation 24]. This has become particularly timely with the new organisational structure of the Projects Department. The re-establishment of country committees within the Operations area (i.e. Projects and Economics Departments) is the major mechanism for ensuring country focus. The relevant country economist serves as coordinator of the country committee. The country committee assignments are within the Bank's existing organisational structure, involving different divisions. They serve as the focus for country-level issues, including the development of country-level technical assistance under the new governance and institutional development strategy.

2.16 Another of the specific recommendations [*Recommendation 19*] was for increased emphasis on the highly regarded SDF "flagship" programme for small and micro enterprises, the **CTCS (Caribbean Technological Consultancy Services Network)**, as well as on the Bank's **project cycle training**. Funding for CTCS has been increased, and will be administered with the private sector programme under the new private sector strategy, with continued focus on small and micro enterprises. Project cycle training is also being strengthened with a new, more focused investment appraisal and risk analysis course and redesigned regional and national level courses in project management.

2.17 The *Performance Review* gave particular attention to **programme and project performance in Country Group 4**, which covers Guyana, the major SDF beneficiary country to date. The Report concluded that "Performance issues for Group 4 require the introduction of a well-defined and appropriately mandated resident presence of the Bank, using permanent CDB personnel with sufficient seniority to assist in programme development, facilitate the continuing interaction with the Government and the resident donor community that is necessary to develop agreed approaches to the provision of assistance and accelerate project implementation" [*Recommendation 23*].

2.18 There are clearly particular circumstances that apply in a Group 4 country, and the Bank's experience does suggest the need for special measures to ensure effective performance. Various options have been reviewed with the Government, and CDB has tried two types of resident presence on an experimental basis, in one case using a former senior CDB staff member, as a consultant, and in the other case a TA-funded officer attached to the Government. Neither arrangement has proved entirely effective. At the time of the SDF 5 negotiations, the recommendation of the *Performance Review* was accepted in principle, and Contributors were advised that the issue would be considered further.

2.19 *Recommendation 25* dealt with the **strengthening of the Bank's reporting on SDF operations**, in both the CDB Annual Report and the SDF Annual Report, with specific suggestions in this regard. The 2002 SDF Annual Report has been substantially restructured to more effectively reflect the development efforts of SDF. Many of the contributors commended the Bank on this new format. A new format for the CDB Annual Report has been developed which will highlight the Bank's development efforts more effectively. This new design will be implemented in the FY2003 Annual Report.

2.20 *Recommendation 26* addressed the need for **a focal point within the Bank to develop and maintain a record of cooperation and joint financing with other agencies**. The Office of the Vice President Operations has now been identified as the focal point for assembling and

maintaining a complete record of cooperation with other agencies and, together with Corporate Policy Division, for coordinating interaction with such agencies. The objective is to strengthen the Bank's partnerships with other agencies and its ability to communicate such activities to SDF Contributors and other stakeholders.

3. SDF 5 OPERATIONAL PROGRAMME FOR ACTION

3.1 CONTEXT

3.01 SDF 5 Contributors agreed on a policy and operational "Framework for Poverty Reduction and Broad-Based Sustainable Growth"⁶ that included an *SDF 5 Operational Strategy*⁷ and the innovative concept of the *poverty prism*, through which all country programmes and projects would be viewed.⁸ The poverty prism was to be applied not only to targeted poverty reduction programmes, but also to all other SDF projects and activities, and Contributors welcomed the Bank's intention that the *prism* would be applied to the Bank's ordinary capital operations as well.

3.02 Contributors supported the targeting of three core priorities or "strategic levers" for SDF 5, which reflected the reality and causes of poverty in the Caribbean. These are:

- ✍ *Enhancement of capabilities of people who are poor or vulnerable to poverty.*
- ✍ *Reduction of the vulnerability of deprived social/population groups to economic volatility, natural and man-made hazards and other risks that impact on income and well-being.*
- ✍ *Good governance, to support and facilitate poverty reduction and broad-based economic growth.*

3.03 Within these key priorities, the Bank was to intervene in a limited number of specific areas, selected according to the criteria of *comparative advantage, potential for serving as a catalyst for additional resources from other sources, complementarity or synergy between interventions, and partnership with other agencies.*

3.04 In addition, Contributors endorsed the Bank's intention that, within the three priority areas, an effort should be made to increase further the share of SDF programming targeted directly to the poor and the poorest communities. This target

had been set at 40% for SDF IV and was achieved, with the actual share of such programmes in SDF IV reaching between 49% and 55%, depending on whether exceptional circumstances resulting from Hurricane Lenny are included.⁹ Taking into account the intention to increase the funding level for BNTF and the expectation that Haiti and Suriname would soon become SDF beneficiaries, the target for SDF 5 was set at the ambitious level of 60% of total programming.

THE POVERTY PRISM

"Contributors endorsed the use of the poverty prism as a 'lens' through which country programmes and projects will be viewed at the various stages of programme development and the project cycle. This will apply not only to targeted poverty reduction programmes, but also to all other projects and activities.

Contributors welcomed the Bank's intention that the poverty prism would be applied to the Bank's ordinary capital operations as well as those of SDF.

-- Report of the Contributors to SDF 5

3.05 These and several other objectives and milestones were set out in an *Operational Programme for Action*, as shown in the Box below. These draw on the recommendations of the *Performance Review* and reflect the key elements of the SDF 5 strategy. Contributors requested the Bank to report on progress under this programme for action at the time of the Mid-Term Review, together with any recommendations for changes in the policy framework agreed by

AN OPERATIONAL PROGRAMME FOR ACTION	
?	SDF 5 resources will be targeted to highly selective areas in the three priorities of <i>capacity enhancement, reduction of vulnerability and good governance</i> .
?	Within these three priorities, at least 60% of SDF 5 resources will be targeted directly to the poor and the poorest communities. Other programmes will be developed with the use of the <i>poverty prism</i> in project selection, design and implementation, and other stages of the project cycle.
?	Working papers to be prepared on a Strategy for Poverty Reduction and on Governance and Institutional Strengthening, to be followed by a policy paper and action plan in each case.
?	Operational Guidelines for the application of the poverty prism will be developed. This will be complemented by the mainstreaming of good governance considerations in the Bank's operations. Sector guidelines will be reviewed and adjusted where necessary.
?	SDF 5 resources will be allocated in a way that is most likely to increase effectiveness and impact in pursuing the priority goal of poverty reduction. A new resource allocation strategy will be introduced, based on indicative allocations for individual countries and subsequent adjustment in the light of the country programming process.
?	A major initiative will be undertaken, with the support of development partners, to strengthen the capacity for social analysis, social policy formulation and poverty reduction programming in the BMCs as well as in the Bank itself.
?	Assistance to BMCs to undertake country poverty assessments will be given a high priority, in collaboration with other donor agencies active in the region. The objective is to complete poverty assessments for the remaining BMCs early in SDF 5, and then to update earlier assessments on a 3- to 5-year cycle.
?	National Poverty Reduction Strategies will be added to the Bank's priorities, recognizing that these must be country-owned and reflect the principles of the Comprehensive Development Framework. CDB will support the preparation of PRSPs and is prepared, in appropriate cases, to take the lead in supporting BMCs in the preparation of such strategies.
?	Increased attention will be focused on project implementation and project quality and on the outcomes and impacts of the Bank's interventions. This will be supported by the Bank's new, harmonized Project Performance Evaluation System (PPES).
?	The Bank's Operational Strategy and Programme for Action will be operationalized through an Annual Work Programme and Budget submitted for review and approval by the Board of Directors. This will include specific performance measures by which implementation of the Action Programme can be assessed.

Contributors.

3.2 PROGRESS TO DATE

3.06 The Bank has reported separately on actions taken under the *Operational Programme for Action* in the *SDF Annual Report for 2002*.¹⁰ A summary, from the perspective of the MTR, is provided here. In some cases, the actions taken or in progress, or that remain to be taken, are the same as those referred to under the *Action Plan* in Section 2.

Targeting the Three Priorities

3.07 The three “strategic levers” or priority areas, together with the poverty prism, have increasingly provided a guide to SDF operations since approval of the new policy framework in

2001, as experience is gained in their application and as opportunities to adapt the design of programmes and projects have become available. The adjustment of operational procedures across the full range of the project cycle, concurrent with the reorganization of the structure and focus of the Bank's project operations and a review of project processes, has been a continuing task during this period.

3.08 A review of project commitments to date in terms of the three priority areas of *capability enhancement*, *reduction of vulnerability*, and *good governance and institutional development*, and the application of the *poverty prism*, is provided in the SDF Annual Report for 2002.¹¹ This includes the enhancement and strengthening of the BNTF programme, the adaptation of the student loan programme to improve access for students from poor and vulnerable households, projects to increase productivity and competitiveness in the agriculture sector, enhancement of basic schools, better integration of disaster mitigation in the project cycle, shelter development, basic education, continued support for best practices in reducing the vulnerability of the environment to degradation and unsustainable practices, and support for good governance and institutional development. In some cases, these interventions contribute to two or more of the three priorities. The BNTF programme, for example, in important respects contributes to all three.

3.09 What has become clear in this initial period in applying the new policy framework is that the three priorities provide a sound framework for SDF operations, but they are, as originally envisaged, *strategic levers*, rather than tight program categories, and the application of both the *poverty prism* and targeted selectivity are essential elements in an effective operational strategy for poverty reduction and broad-based sustainable growth. An assessment of effectiveness and performance at the end of the SDF 5 period will need to take these factors into account.

3.10 It should also be noted that the Bank's ability, and that of BMCs, to apply the *poverty prism* in terms of an improved information base from country poverty assessments, and strengthened capacity for social sector analysis, policy development and poverty programming, has been increasing, with the support of other donors, including the DFID-supported programme discussed in paras. 3.21 and 3.22 below.

Targeted Poverty Reduction Programming

3.11 Programmes directly targeted at the poor are an important part of SDF, and substantial progress was made during SDF IV in developing and strengthening such programmes, as documented in the *Performance Review* evaluation.¹² There was also a substantial increase in the level of such programmes, from \$35.8 million in SDF III to \$85.1 million in SDF IV.¹³ The *Performance Review* also commented favourably on the increasing effectiveness of such programmes, in some cases their innovativeness, and the Bank's substantial experience with community-based programmes through the BNTF, and provided examples of strongly positive impacts.

3.12 The increase in the target level of such programmes from 40% in SDF IV to 60% for SDF 5 was recognized as ambitious, and based on certain assumptions with respect to BNTF levels and programming for Haiti and Suriname, as well as the starting base of SDF IV, with its large element of post-disaster "safety net" support for the poor. As indicated in the SDF Annual Report, the target has been met in the first two years of SDF 5, using the SDF IV *Performance*

Review methodology and the inclusion of post-emergency rehabilitation of direct benefit to poor areas. Without this latter factor the level would be 54%, inclusive of the full commitment of BNTF V in the first year of the SDF 5 cycle.

3.13 Whether the 60% target can be met for the whole of SDF 5 depends on the final levels for BNTF V and SDF 5 itself (i.e. whether there can be further increases in resources), and whether new Social Investment Fund loans are made, as well as on whether a significant poverty-reduction programme for Haiti and Suriname can be put in place before the end of the SDF 5 cycle. It also depends on the level of post-disaster emergency rehabilitation for poor areas that may be necessary, as well as possible within current limits on SDF funding. The achievement of all of these problematic factors seems unlikely, and the need for a high level of disaster-response to meet the target seems in retrospect to be unsuitable as a basis for measuring programme achievements. It should also be recognized that other loans and grants, which might not be directly targeted to the poor alone, are being assessed by the Bank in terms of their poverty relevance, as envisaged by the *poverty prism*, and that this major strengthening of the poverty reduction focus of SDF operations should be of *substantial benefit to the poor and to the goal of broad-based sustainable growth*.

Policy Development

3.14 An integral part of the agreed framework for SDF 5 was the process of policy development, drawing on CDB's experience in earlier cycles of SDF, including in particular SDF IV with its substantially increased poverty reduction focus, the in-depth assessment of the *Performance Review* and its analysis of lessons learned, and the Bank's analysis of the nature and causes of poverty in the Caribbean. Two major working papers were prepared for the Contributors, discussed and revised, and these provided the central operational policy framework. These were the working papers on a *Strategy for Poverty Reduction and Governance and Institutional Development*.

3.15 As already noted, several factors, including the restructuring of the operational divisions and the reassignment of staff, and the need for some initial experience with the new policy framework, delayed submission of the follow-on policy papers. The new policy framework, however, has been in operation, and experience has begun to be gained in their application. The Strategy on Governance and Institutional Development was approved by the Board of Directors in December 2003. A Strategy Paper on Poverty Reduction is being prepared for consideration by the Board of Directors in March 2004.

Operationalizing the Poverty Prism

3.16 The preparation of *Operational Guidelines* is an important part of fully operationalizing the *poverty prism*. As indicated in Section 2, it has become clear that there is a need to review and revise the Bank's manual of operational procedures over a fairly wide range of activities, and this substantial task has needed to be based on the new organisational structure of the Projects Dept. and a period of consolidation and experience with that structure. It is planned that this be undertaken under the FY 2004 Work Programme and Administrative Budget.

3.17 The immediate need for a framework of Operational Guidelines, however, is being addressed together with the strategy paper on poverty reduction, following a model used

previously for the urban policy framework and to be used for the private sector strategy. This has been supplemented by a major revision of the Bank's guidelines for the social analysis of development projects, which was completed in 2002 and formally approved this year, together with training for staff in the use of these guidelines.

Allocation of SDF Resources

3.18 The new strategy for allocating SDF Resources was applied for an initial indicative allocation for active SDF beneficiary BMCs in 2001, as well as for the allocation of available BNTF funds, and has been used in 2003 for a mid-term reallocation of the remaining resources available for the final two years of SDF 5. This is reviewed further in Section 5 below, based on a separate report on experience with the new system.

Strengthening Capacity for Social Policy Development

3.19 An important objective has been to strengthen further the policy and institutional capacity of the CDB and its BMCs to address the social and poverty dimensions of development. This has been undertaken with the support of DFID, and the second phase of this Social Development Assistance programme, which was included in the *Operational Programme for Action*, began in July 2001.

3.20 The programme provides support for the development of policies and strategies for social development, the definition of methods and procedures for social analysis, development of a capacity for assembling policy-oriented social data for use by the Bank and its BMCs, and the training of CDB and BMC personnel in the formulation of social policy and poverty reduction programmes. Progress to date includes new and strengthened guidelines for social impact assessment, seminars and workshops on social analysis of projects and the key aspects of social development, assistance to several BMCs to undertake country poverty assessments, and strengthening CDB's capacity for effective social research.

Country Poverty Assessments and Poverty Reduction Strategies

3.21 Both the *Performance Review* and the *Operational Programme for Action* placed a high priority on ensuring that country poverty assessments were completed for those BMCs for which such assessments were not yet in place, as well as on the development of poverty reduction strategies.

3.22 *Country poverty assessments* had been completed by 2001 for Belize, St. Lucia, St. Vincent & the Grenadines, Grenada, St. Kitts-Nevis and Turks & Caicos Islands with assistance from several donors, including CDB, DFID, CIDA and UNDP. Further CPAs were undertaken in 2002 for Anguilla, BVI and Dominica with CDB and DFID support, and these have been completed in early 2003. Assistance has also been offered to Antigua and Cayman Islands.

3.23 In the case of Jamaica, the first CPA was done with World Bank assistance, and this has been updated annually by Jamaica. Barbados has been assisted with its CPA by the IDB, and the World Bank has helped Guyana and Trinidad & Tobago. Bahamas has completed a CPA with IDB help, but the report has not yet been published.

3.24 A second CPA has been completed for Guyana, helped by the IDB, and Belize has completed and published a CPA update with DFID support. DFID has also included additional funding for CDB to update other CPAs.

3.25 *Poverty reduction Action plans.* The strategy for BNTF V requires that the BNTF programme in each recipient country should be based on an overall framework for poverty reduction. The preparation of poverty reduction strategies (PRSs), however, requires considerable time and resources, and up to the end of 2001 only Belize and Guyana among BNTF recipients had developed such a framework. It was agreed, therefore, that a shorter, more focused *Poverty Reduction Action Plan (PRAP)*, would be required to guide interventions by BNTF, and that CDB would assist BMCs to complete their PRAPs. The BNTF V Agreements require that each BMC prepare a PRAP for allocating resources and designing poverty reduction initiatives under BNTF V.

3.26 Three BMCs (Guyana, Belize and Turks & Caicos Islands) completed their PRAPs in the first year of BNTF V, with coordination and assistance from CDB, DFID and the OECS Secretariat. The remaining six BMC's (Montserrat, St. Lucia and Grenada St. Vincent & the Grenadines, Dominica and St. Kitts-Nevis) had all completed their PRAPs by the end of 2003. Project launches are targeted to commence early in 2004.

3.27 CDB staff have held discussions with St. Kitts-Nevis on assistance with the preparation of a full *Poverty Reduction Strategy*, and PRSs for Grenada and St. Vincent & the Grenadines are in progress, and Turks & Caicos Islands is working on a PRS after completing a BNTF PRAP. Dominica is also currently preparing a PRS with help from the World Bank.

3.28 More generally, CDB is collaborating with other donors in the *Development Partners Poverty Reduction Working Group (DPPWG)* to coordinate efforts on poverty reduction, poverty assessments and the development of poverty reduction strategies. DPPWG has developed a project to strengthen the capacity of countries in the region to conduct poverty assessments, develop and evaluate poverty reduction policies and monitor the incidence of poverty. Consideration is being given to the proposal that this *Support for Poverty Assessment and Reduction in the Caribbean (SPARC)* project would be supported by the World Bank, IDB, CIDA, the EU, DFID, and CDB, and be managed by a project support team based in CDB.

Project Quality and Performance Monitoring and Evaluation

3.29 An important strengthening of CDB's capacity to ensure project quality and to monitor and evaluate projects effectively is the new, integrated Project Performance Evaluation System (PPES) introduced in 2001. This also gives greater visibility and weight to poverty reduction than in the comparable systems in other MDBs. The PPES is reviewed further in Section 4 below.

3.30 Increased and specialized attention both to project preparation and to project supervision and implementation is a consequence of the reorganisation of the Projects Dept., with a new divisional structure focused on project identification and preparation, and on project supervision and implementation. This is being complemented by the assignment of individual officers with *country focus* responsibilities for each BMC, and by the establishment of "networks" linking officers across all relevant areas of the Bank, with the first of these focusing on the Bank's

poverty reduction efforts, and two others to be organized on *governance and institutional development* and *the environment and sustainability*. A study of project formulation and appraisal processes has also been completed, with a view to further improving CDB's responsiveness to the borrowers' needs and strengthening project preparation.

Introduction of Performance Management

3.31 The primary instrument to date for operationalising the Strategic Plan and critical priorities such as those set for SDF 5 has been the Annual Work Programme and Budget, and it has been the intention that this key annual document would incorporate not only discrete tasks and objectives such as have been included in the 2002 and 2003 Work Programme and Budget, but also specific performance measures by which implementation of key priorities and programme objectives can be assessed. The Work Programme and Budget for 2004 has been formulated in line with the Results Based Management Approach. This includes specific statements of expected outcomes by each work unit and agreed Performance Indicators by which performance towards attainment of these expected outcomes could be measured.

3.32 The Change Management process which the Bank has been undertaking, and the Results-Based Management system now being put in place, are intended to support the Bank's strategic objectives and corporate priorities. The Bank's *corporate priorities* will be reassessed and redefined, in the light of experience so far with the Strategic Plan 2000-2004 and the changing environment faced by the Bank and its BMCs to establish a strong basis for both SDF and OCR beginning in 2005. This will be followed by the development of *programme objectives and performance measures* that are based on CDB's new organisational structure and performance goals.

4. PROJECT PERFORMANCE EVALUATION SYSTEM

4.1 CONTEXT

4.01 In the past two years the Bank has implemented a new *Project Performance Evaluation System (PPES)* that greatly improves the CDB's ability to monitor and evaluate the outcomes and impacts of its projects. The new system uses two strategic criteria (*strategic relevance*, and *poverty relevance*), three impact criteria (*efficacy*, *institutional development impact*, and *sustainability*), and one efficiency criterion (*cost efficiency*). The new system builds on the experience of CDB and the other multilateral development banks, and responds to the desire of SDF Contributors for greater assurance that the use of SDF resources is adequately focused on poverty reduction, and the need for improved and more consistent information on the outcomes and impact of SDF projects.

4.02 The system draws on and makes use of the harmonized evaluation criteria adopted by the Evaluation Cooperation Group of the major MDBs,¹⁴ but also makes some significant improvements: *First*, the criteria are more heavily and explicitly weighted towards *poverty reduction*. *Second*, the same consistent criteria are used for decision making and monitoring *at every stage of the project cycle* from appraisal through supervision to completion and evaluation. *Third*, the use of carefully selected criteria weights improves the usefulness of the system.¹⁵

4.03 The decision to embark on development and harmonization of a new project evaluation system was announced at the Annual Meeting of the Board of Governors in 2000, and working papers on the new system were submitted during the SDF 5 negotiations in 2001 and reviewed by SDF Contributors, who viewed the new system as a major step forward that could make a significant contribution to:

- identifying key factors to be taken into account in project selection, design and implementation,
- identifying projects currently at risk,
- facilitating learning about different types of projects and different areas of intervention,
- guiding portfolio management, and
- project and programme evaluation.¹⁶

4.04 SDF Contributors welcomed the development of the new system and the use of project evaluation criteria that were harmonized with best practice at other MDBs, and the application of the criteria consistently through all stages of the project cycle. They noted that CDB was the only MDB to date to achieve this consistency throughout the project cycle, and that CDB would also now be leading in the establishment of criteria weights. They also welcomed the adoption of two ‘relevance’ criteria rather than one – *poverty relevance* and *strategic relevance*, as an important innovation that would serve to emphasize the Bank’s mission of poverty reduction.¹⁷

4.2 PROGRESS TO DATE

4.05 Implementation of the new project performance evaluation system began in 2001 and will take more than two years to implement fully. Considerable progress has, however, been made. The forms and procedures in the computerized data base are substantially in place, together with guidelines for CDB staff, and three full annual cycles of project evaluations have been completed, for 2000 to 2002, with the cycle, for 2003, currently underway. Progress has been made in the monitoring of projects under implementation, in terms of impact, continued relevance, and cost efficiency. The appraisal phase and project completion reports need further development.

4.06 In each cycle, the performance scores have been entered into the computerized management information system, and those scores have been used to calculate an average *Portfolio Performance Index (PPI)* for the year.¹⁸ In 2000 the PPI was 6.1 and in 2001, 6.2 (on a 1-10 scale).¹⁹ Project performance indices are also calculated for each of the performance criteria, and for thematic groups of projects, both of which are important to learning what is effective and what is not.

4.07 CDB has developed working and training materials to support the PPES for four types of projects: financial intermediaries, economic infrastructure, the social sector, and the industry sector.

TABLE 1: PPES - PERFORMANCE CRITERIA, SCORES AND WEIGHTS

PERFORMANCE CRITERIA AND WEIGHTS	FACTORS TO BE TAKEN INTO ACCOUNT	WHEN?	SCORE
RATIONALE:			
Strategic Relevance ²⁰ [Weight 0.1]	Fit with country strategy & CDB statutes, strategy, comparative advantage and policy priorities.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
Poverty Relevance [Weight 0.2]	Fit with BMC and CDB poverty reduction strategies.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
OUTCOMES:			
Efficacy ²¹ [Weight 0.3]	Extent to which project achieved objectives – policy, production, physical, financial, social and environmental objectives. Sub-loan performance.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
Cost Efficiency ²² [Weight 0.1]	Extent to which benefits exceed costs. Timeliness. [Financial FRR,ERR. Return on rate base, cash flow break even, financial ratios, least cost, repayment rates.]	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
Institutional Development Impact [Weight 0.2]	Extent to which better norms and practices enable better use of human, financial & natural resources.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
Sustainability ²³ [Weight 0.1]	Likelihood of achieving full expected life in the light of all known internal and external factors.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
SUMMARY OF PROJECT PERFORMANCE:			
Overall project performance	PPI	Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
INSTITUTIONAL PERFORMANCE:			
Borrower and executing agency performance	Adequacy of assumption of ownership and responsibility for success and sustainability. For example: counterpart \$, project management, compliance with loan conditions, procurement management, organisation/administration	Supervision Completion	Excellent Highly satisfactory Satisfactory Marginally unsatisfactory Unsatisfactory
CDB performance	Quality of services, especially quality at entry and viability of implementation and operations arrangements. [For example, project identification and design, disbursement management, project scheduling, and consultant performance.]	Supervision Completion	Excellent Highly satisfactory Satisfactory Marginally unsatisfactory Unsatisfactory

4.08 PPES performance scores are meant to be updated at least once each year, preferably at a major supervision milestone. However, at present, computer input of performance data from the project supervision reports (PSRs) is bunched at the time of the annual review of portfolio performance. Arrangements are now in place to ensure a more regular completion of these tasks.

Performance Criteria

4.09 At the introduction of the performance evaluation system in 2000, CDB formed a Project Performance Evaluation Committee to facilitate the implementation of the new system of performance evaluation. Of the evaluation criteria, the Committee found ‘efficacy’ the most difficult to apply. The ‘poverty reduction’ criterion was clear, but difficult to apply when the effects on poverty were indirect. The ‘poverty relevance’ criterion was easier to apply to focused poverty-reduction projects than to symbiotic poverty reduction/growth projects, although the latter may have more important effects on poverty rates. In all project designs the need for institutional strengthening was examined. It was found that where CDB, or other financing or donor agencies, had a prior ongoing relationship with the borrowing entity, there was no need for further institutional strengthening at the time. Consequently in those instances this criterion was not scored.

Validation of Scores

4.10 Project performance scores are only useful to the extent that their objectivity can be relied upon. This can sometimes be difficult to ensure. The Project Supervisor assigns the scores and may assess project performance in a more favourable light. The World Bank approaches this particular problem by having a separate evaluation department review and validate the performance scores. The CDB, having fewer resources, has the scores validated by the Portfolio Manager and Division Chief. A validation process outside the Projects Department, by the newly organized Oversight and Evaluation Division (OED), is intended in future.

Portfolio Performance

4.11 The CDB prepares an annual review of the performance of its project portfolio, which draws upon the project performance data. In addition to discussing rating methodology, and putting the results in the context of the current economic environment, the annual review describes changes in the portfolio and in the performance indicators since the previous year and comments on portfolio management. The annual review also describes portfolio performance by country and by sector, which is an important contribution to the CDB’s ongoing country and sector strategies.

Project Completion Reports

4.12 Project Completion Reports [PCRs] can be an important instrument of learning by the Bank, particularly if they are produced consistently.²⁴ The responsibility for their completion rests with the Projects Department.²⁵ The former Post-Implementation Evaluation Unit [PIEU] has been expected to audit each PCR, and prepare periodic summaries of post-evaluation findings and lessons of experience. The product is called a *Project Performance Audit Report* [PPAR]. The CDB intends that a PCR be prepared for every project 6 to 18 months after substantial project completion. The PCR completion rate, however, has been relatively low,

because of other pressures on staff. It may be timely to assess this important requirement in terms of the new operations structure of the Bank and the new balance in work load, and whether there are staff implications that may need review in the FY2004 Administrative Budget. PCR preparation can also become one of the Bank's internal performance measures (para. 3.35 above).

Evaluation after Project Completion

4.13 The CDB's new Oversight and Evaluation Division (OED) is responsible for the independent evaluation of projects, programmes and technical assistance financed by the Bank; and strategies, policies procedures, processes and activities in support of achieving the development effectiveness of the bank.. The creation of this unit reflects the Bank's recognition of the importance of performance evaluation and oversight in the conduct of its operations.

Management Information

4.14 Since the start of SDF 5, CDB has implemented a *Project Portfolio Management System [PPMS]*. This computerized system enables the Bank to organize in one place all information for each project throughout its entire life-cycle. The data base can be accessed directly by all CDB staff. The intention is that key documents for a project are stored in a way that enables one to search and, where desirable, to combine information from various stages of the project life cycle for analysis. The recording of data pertaining to projects in the pipeline, however, has not yet been completed. This deficiency has been recognized, and steps have been taken to ensure recording in future.

Portfolio Performance as Part of a Performance-Based Resource Allocation System

4.15 CDB has adopted a system of performance-based country allocations of concessional funding, effective with SDF 5. The portfolio performance index (PPI), based on the new harmonized project evaluation criteria, is one of the factors in the allocation formula (see Section 5 below).²⁶

5. ALLOCATION OF SDF 5 RESOURCES

5.1 CONTEXT

5.01 An important issue in the SDF 5 Replenishment negotiations was the strategy for allocating the limited concessional resources that would be made available. The decision with respect to individual country allocations was to draw on the experience of other MDBs as well as that of the CDB to develop a new system based on an initial indicative allocation using a consistent formula that reflected both needs and the likely effectiveness with which the resources would be used, while at the same time retaining sufficient flexibility to take into account factors that emerge during the country programming process.

5.02 Contributors reviewed a range of options in a series of working papers and approved a structured approach based on three principles: *first*, the greater the extent to which a country was disadvantaged, the larger should be its initial indicative allocation; *second*, better policies and institutions were likely to allow for more effective use of SDF resources, and *third*, constraints on absorptive capacity, including current experience with project quality, would need to be taken into account.²⁷

5.03 The new system replaces the previous method of allocation of resources by country groups. The new allocation formula has two components: a “needs component” and a likely effectiveness (i.e. performance) component. The needs component is based on population and per Capita Gross Domestic Product, with a pro-poor and pro-small country emphasis, adjusted for vulnerability. The country performance rating has two components, a *CDB country loan portfolio score* [30% weight] and a *country policy/institutions score* [70% weight].²⁸

5.04 The new system is innovative in other ways as well. It uses a CDB-developed measure of *vulnerability* as one indicator of country needs, in addition to *per capita income* and *population*,

INDICATIVE COUNTRY ALLOCATIONS

The formula includes a *needs* component (including vulnerability) and a *performance* component. The country-needs component is based on population and per-capita-GDP, with a pro-poor and pro-small-country emphasis, adjusted for vulnerability. The performance assessment is based on the country's CDB portfolio performance (with a weight of 30%) and policy/institutional performance (*Poverty Reduction Effectiveness Situation or PRES*) (with a weight of 70%).

The PRES is based on five criteria of poverty-relevant country performance: socially-inclusive development, macroeconomic management, governance and public sector management, structural or microeconomic management, and environmental policies and management. Each criterion is given a consensus weight by CDB economists.

In algebraic terms, the allocation formula is:

(POP^a x VUL^b x [0.3 PPI + 0.7 PRES]^c) divided by (GDP/capita)^d where:

POP = Population (a logarithmic measure, to give a stronger weighting to small countries).

VUL = Vulnerability (based on CDB's vulnerability index).

PPI = Portfolio performance in respect to CDB loans.

PRES = Poverty reduction effectiveness situation (judged by CDB staff based on five criteria of policy/institutional performance). PRES is an assessment of the existing situation in regard to the poverty reduction effectiveness situation. Essentially, the question is “To what extent is the situation, at present, conducive to effective poverty reduction?”

“a” = Population exponent (given a value of “1” because no further adjustment is needed after putting the population number into a logarithmic form).

“b” = Vulnerability exponent (assigned a value of “2”, the same weight given to performance).

“c” = Country performance exponent (assigned a value of “2”, the same as that assigned by AsDB and IDA).

“d” = Exponent for GDP per capita (assigned a value of -0.9. This gives much a more negative weight to higher incomes than do other MDBs, resulting in a strong pro-poor emphasis).

The allocation formula is, therefore, based on six variables multiplied together to obtain an *allocation number*, which is in turn used to determine the proportion of available funds initially allocated on an indicative basis for each active SDF borrower, subject to appropriate adjustments in the country programming process.

and it has a stronger weighting for *smaller countries*. The Bank has also been open with the borrowing member countries about the performance scores and their influence on resource allocation, reflecting the close and frank relationship between the Bank and its BMCs.

5.05 The new approach also has two other important elements. Although all BMCs remain nominally eligible for SDF, an indicative allocation is not provided for the higher income “Group 1” borrowing member countries, and they will normally be considered only for regional projects, highly poverty focused tasks such as poverty assessments or poverty reduction strategies, technical assistance related to good governance, and humanitarian assistance in event of a natural disaster.

5.06 A further element in the resource allocation strategy is the use of fixed allocations for special purposes. These allocations are for new members expected to join the Bank during the course of SDF 5, regional projects of a technical assistance nature, and a reserve for natural disasters and HIV/AIDS. In addition, allocations have been provided for BNTF, reflecting the decision to increase resources for this important poverty-focused programme, and for technical assistance, in support of the Bank's new policy on governance and institutional development. By far the largest portion of commitment authority under SDF 5, however, has been allocated for individual countries.

5.07 The resource allocation strategy for individual countries has two stages. The *first stage* is the development of a consistent set of indicative allocations for active SDF borrowers using the needs and performance-based formula. These do not constitute an entitlement, but are initial planning figures. The *second stage* is then the adjustment of the allocations during the country programming process, in the light of country-specific factors such as policy and institutional change, absorptive capacity for new projects, the availability of a poverty reduction strategy and high impact projects consistent with the SDF strategy and CDB's comparative advantages, the availability of alternative sources of financing, and the likely impact of SDF operations during the programming period.

5.08 In addition, at mid-term in the Replenishment cycle, there was to be a full review of the allocation of the remaining commitment authority, using the resource allocation formula with updated information and judgments, including with respect to country-specific factors.

5.2 PROGRESS TO DATE

5.9 The resource allocation strategy for SDF 5 was applied initially in December 2001, following completion of the SDF Replenishment negotiations, and was based on the expected availability of commitment authority during the SDF 5 cycle, in particular the contributions to be made under the Replenishment, together with estimates of net income and repayments on past SDF lending. The initial allocations, as adjusted to reflect a lower level of new contributions than originally envisaged in the *Report of Contributors*, are shown by category in Table 2 and in more detail in Table 5 and Appendix A.²⁹

5.10 The application of the resource allocation strategy, including the indicative allocation for individual countries, was reported to the 2002 Annual Meeting of SDF Contributors³⁰. The Bank has found the approach to be useful as well in reinforcing attention to performance factors, including policy and institutional performance, and as a way of allocating resources for BNTF V as well. The formula for country allocations will also be used for the additional funding from Canada to be administered under BNTF.

5.11 It might be noted that the reporting of indicative allocations for individual countries is something other MDBs have not been able to do, and is intended both as a measure of transparency and to provide a more visible incentive for good performance. The Bank intends to maintain this transparency.

TABLE 2: SDF 5 INITIAL RESOURCE ALLOCATION BY CATEGORY
December 2001

	Allocations US \$ '000	%
Available for indicative allocations for individual BMCs	96,920	56.8
<i>Set-aside allocations:</i>		
New members	10,000	5.8
Regional projects	5,000	2.9
Reserve for disaster response and HIV/AIDS	15,000	8.8
Grant funding for BNTF ^a	32,000	18.7
Grant funding for Technical assistance	12,000	7.0
Total	170,920	100%

^a These funds have been allocated to individual BMCs with BNTF programmes using the same resource allocation formula as for the indicative country allocations.

5.12 The individual country allocations have subsequently been adjusted, as envisaged in the resource allocation strategy, to reflect additional country specific-considerations, and actual loan and grant approvals in 2001 and 2002 are reported in the *SDF Annual Report 2002* and summarized in one of the columns in Appendix A. CDB has also now completed a full mid-term reallocation exercise. When the new resource allocation strategy was approved by Contributors, it was decided that resources would not be reallocated every year, as is done at some multilateral development banks, but instead would be reallocated at mid-term and then again towards the end of the SDF 5 cycle. The experience to date suggests that some fine-tuning of the approach may be useful for subsequent replenishments, and the annual reallocation may need to be considered to provide more frequent adjustments.

Mid-Term Review

5.13 The first step in the mid-term review of country planning allocations was a reassessment of country policy/institutional performance (*Poverty Reduction Effectiveness Situation or PRES*), and this is shown in Table 3. There some significant changes in the rankings as compared with 2001, including an improvement in the rankings for Guyana and Anguilla, and a much reduced ranking for Grenada. Some countries, such as Belize and Jamaica, retained the same ranking.

TABLE 3: BORROWING MEMBER COUNTRIES RANKED BY POLICY/INSTITUTIONAL PERFORMANCE, 2001 AND 2003 (Score on 1- 5 scale)

Country	2001		2003		
	Rank	Weighted Score	Country Rank	Rank	Weighted Score
Antigua and Barbuda	17	2.10	Antigua and Barbuda	17	2.145
Guyana	16	2.50	Dominica	16	2.46
Dominica	15	2.68	Grenada	15	3.0125
Belize	14	2.82	Belize	14	3.1
St. Kitts/Nevis	13	2.89	Guyana	13	3.125
St. Vincent/Grenadines	12	2.92	St. Kitts/Nevis	12	3.1625
Turks and Caicos	11	2.93	St. Vincent/Grenadines	11	3.3125
Grenada	10	2.94	British Virgin Islands	10	3.375
Jamaica	9	3.12	Jamaica	9	3.4
St. Lucia	8	3.22	Montserrat	8	3.5
British Virgin Islands	7	3.23	Turks and Caicos	7	3.575
Montserrat	6	3.25	Trinidad and Tobago	6	3.65
Anguilla	5	3.34	Cayman Islands	5	3.6625
Trinidad and Tobago	4	3.49	St. Lucia	4	3.75
Cayman Islands	3	3.70	Barbados	3	3.9

Bahamas	2	3.84	Anguilla	2	3.975
Barbados	1	3.89	Bahamas	1	4.025

5.14 The overall results of the mid-term reallocation exercise, reflecting both the application of the base formula (see Box) and the application of country-specific factors, as envisaged in the resource allocation strategy, are shown in Table 5 and Appendix A. The revised allocations for individual countries were determined using, *first of all*, the application of the formula for indicative country allocations, with more current data for per capita income, portfolio performance and the performance/institutional scores shown in Table 2, as well as the current estimate for available commitment authority for SDF 5 of \$165.7 million (see Section 7 below) less commitments already made in 2001 to 2003. The allocations were *then adjusted* to reflect the current country programming process, judgments on the prospective impact of new lending, and the current pipeline of projects, applying the SDF 5 priorities and the poverty prism.

5.15 It should be noted that the reduction in the estimate of overall SDF 5 commitment authority to \$165.7 million (estimated on the basis of the projections discussed in Section 7), reduces the funds available for commitment to individual BMCs by somewhat more than \$5 million, and the impact of this reduction will be felt in 2004.

PROPOSED REALLOCATION OF FUNDS

5.16 The set-aside allocations shown in Table 2 have also been reviewed. It seems unlikely that either Haiti or Suriname would complete membership requirements before the end of 2004 (i.e. the end of SDFV cycle). It is thus proposed that some of the US\$10million, set aside for new members, be reallocated to other areas of assistance.

5.17 It is impossible to estimate an adequate allocation for the reserve for disaster response. During 2001 to 2003 there were a number of natural disasters in the Region which resulted in the reserve being largely exhausted. A total of \$13.55 million in commitments were made during 2001 to 2003, as against the allocation of \$15 million. It is highly probable that other events will arise that will make additional demands on the reserve. It is therefore proposed that a sum of \$3m be reallocated from the “new members” set aside. It should also be noted that it has already been agreed that in the current circumstances the reserve need not be used for HIV/AIDS -- although this remains a critical priority area in the Region -- given the availability, at least for the present, of funds from other sources, and the reduced level of the Replenishment.

5.18 The special allocation for regional technical assistance projects has not yet been taken up. These loan funds were intended to facilitate the process of regional integration. However, many of the regional institutions which are responsible for the operationalisation of regional initiatives, such as the CSME, RNM and the proposed Regional Stabilisation Fund, are not self-financing and therefore are not in a position to service loans. It is thus proposed that Contributors consider converting these funds to grants to support the regional integration efforts.

5.19 The BMC's have demonstrated an increased need for support in Institutional strengthening and capacity building to continue the rate of progress in the implementation, monitoring and performance evaluation of their programmes and projects. As a result, the allocation for technical assistance was heavily used in 2001 to 2003, with commitments of \$9.2 million (including CTCS and project management training). As a result of China's contribution

to the SDF the fourth cycle was funded for an additional year (2000). However no technical assistance grant allocation was made from these funds even though there were commitments to the BMC's. These commitments, amounting to \$4.4 million, have been absorbed under SDFV thereby effectively exhausting the Technical assistance grant allocation. It is therefore proposed that the technical assistance grant allocation be increased to \$15million - \$2million being reallocated from the new members set aside, and \$1 million being reallocated from the proposed regional technical assistance grant- so that this important aspect of the Bank's work can be continued in 2004.

TABLE 4: PROPOSED RESOURCE REALLOCATION BY CATEGORY
December 2003

	Revised Allocations US \$ '000	%
Available for indicative allocations for individual BMCs	91,700 ^a	55.3
<i>Set-aside allocations:</i>		
New members (Haiti and Suriname- <i>Reduced from \$10m</i>)	5,000	3.0
Regional projects (<i>reduced from \$5 million</i>)	4,000	2.4
Reserve for disaster response (<i>increased from \$15 million</i>)	18,000	10.9
Grant funding for BNTF	32,000	19.3
Grant funding for Technical assistance (<i>incr. from \$12m</i>)	15,000	9.1
Total	165,700^b	100%

^a Of which \$71.99 million was committed in the years 2001 to 2003.

^b Of which \$131.18 million was committed in 2001 to 2003.

5.20 Contributors are invited to consider and approve the proposed reallocations as follows:

- (a) Reallocating \$5 million from the new members set-aside, of which \$3 million will be allocated for response to natural disasters and HIV AIDS, and \$2 million for technical assistance grants.
- (b) Converting the allocation for Regional Projects from loans to grants of which \$1 million would be reallocated to technical assistance.

5.21 The status of commitments to individual countries will be reviewed again early in 2004, as well as the set-aside allocations for regional projects, new members, technical assistance and the reserve for response to natural disasters, in the light of available commitment authority as then projected. The objective will be to maximize the effective use of available funds and achieve at least the current minimum programme targets.

5.22 Natural disasters, of course, cannot be predicted, but to provide any larger reserve for this purpose would represent too great a constraint at this stage of the cycle on individual country programmes, for which in many cases project preparation is well-advanced. If necessary, the Board of Directors can consider any appropriate adjustments during the course of 2004, including possibly a modest use of advance commitment authority, the principle of which SDF Contributors have already approved in the SDF 5 *Report of Contributors*.³¹ This would be similar to the advance commitment authority used by IDA and the AsDF. It is, however, premature to consider such a contingency at this time.

5.23 The overall resource constraint on the SDF programme, given the shortfall in commitment authority from the minimum programme level of \$185 million endorsed by Contributors, is discussed further in Section 7 below.

Individual Country Allocations at Mid-Term

5.24 Individual country allocations or planning figures after the mid-term reallocation are shown in Table 5. As noted in paras. 5.13 and 5.14, these have been developed using the two steps envisaged in the resource allocation strategy. The first step is the application of the formula for indicative allocations using more current data, within the constraint set by the available commitment authority and commitments already made in 2001 and 2002. The second step consists of adjustments to reflect the current country programming process, judgments on the prospective impact of new lending, and the current pipeline of projects, applying the SDF 5 priorities and the poverty prism.

5.25 In the case of four countries, the constraint on available resources has made it necessary to suspend further direct SDF commitment at the mid-point in the SDF 5 cycle. In one of these cases (Jamaica), a factor that has been taken into account is the substantial assistance extended for emergency rehabilitation under the separate allocation for the Reserve. In one other case (St. Kitts-Nevis) the constraint will be applied after one additional loan already submitted for Board approval. In the case of Guyana, projects to be funded required longer preparation time but the full amount of the revised allocation was utilised. In two cases (Guyana and St. Lucia), the revised allocation is consistent with an improvement in the performance ranking shown in Table 3. In the case of Grenada, some \$7 million of the amount shown as already committed was approved in 2001 and had been largely processed prior to the application of the new resource allocation strategy. This also reflects the “lumpiness” of particular types of priority investments. No further SDF 5 funding is planned beyond the small amount approved in 2002.

5.26 A further factor in the case of the OECS countries (Dominica, Grenada, St Vincent & the Grenadines) is the availability of resources from the credit facility provided by the Inter-American Development Bank from its Fund for Special Operations to allow CDB to help these countries to address key development priorities.

TABLE 5: MID-TERM REALLOCATION AFTER ADJUSTMENTS December 2003
US \$ '000

	Initial Indicative Allocations Dec. 2001	Projects Approved in 2001 to 2003	Adjusted Planning Figures for 2004	Revised Planning Allocations for SDF 5
	<i>Indicative country allocations</i>	<i>Actuals</i>	<i>Planning figures</i>	
Anguilla	5,010	-	2,742	2,742
Antigua & Barbuda	2,480	395	1,365	1,760
Barbados	3,420	-	1,000	1,000
Belize	10,810	3,615	2,485	6,100
Dominica	5,970	6,108	2,652	8,760
Grenada	5,610	7,841	0	7,841
Guyana	21,540	25,378	0	25,378

Jamaica	12,300	8,274	0	8,274
Montserrat	3,480	-	3,480	3,480
St. Kitts & Nevis	3,660	7,400	0	7,400
St. Lucia	9,130	10,035	0	10,035
St. Vincent & the Grenadines	7,300	1,943	4,557	6,500
Turks & Caicos Islands	2,440	-	1,430	1,430
Trinidad & Tobago	3,770	1,000	0	1,000
Sub-totals	96,920	71,989	19,711	91,700
	Set-aside allocations	Actuals	Planning figures	
New members (Haiti & Suriname)	10,000	-	5,000	5,000
Regional projects	5,000		4,000	4,000
Reserve for natural disasters, etc.	15,000	13,550	4,450 ^b	18,000 ^b
Grant funds for BNTF	32,000	32,000	0	32,000
Grant funds for Technical Assistance ^a	12,000	13,642	1,358	15,000 ^c
Totals	170,920	131,181	34,519	165,700

NOTE: See Appendix A for additional information on the mid-term reallocation, including factors applied.

^a Including CTCS and project management training.

^b see para 5.17

^c Includes TA Projects approved in 2000 at end of SDFIV (no grant funds allocated) Para 5.19

5.27 The allocation formula appears to be working well, but needs to be tied in more closely with individual country strategies and lending plans, and, as noted above, for subsequent replenishments may need to be adjusted more frequently in line with changes in these plans.

Cooperation among MDBs and Peer Review

5.28 The SDF country allocation system is now broadly similar to that of other multilateral concessional funds, including IDA, the Asian Development Fund and the African Development Fund, although with special characteristics to reflect important issues for the BMCs such as vulnerability and smallness. Consideration might be given to how CDB might cooperate with other MDBs in sharing information on country policy/institutional performance scores,³² thus broadening the base of knowledge and judgment brought to bear on the scoring. The first step towards such cooperation could be a conference of experts on the topic. Consideration might be given to hosting it, given CDB's successful first-phase implementation of the new SDF resource allocation system.

6. MEMBERSHIP AND SUPPORT FOR THE BANK AND SDF

6.1 CONTEXT

6.01 The Contributors gave special attention to the prospective widening of the role and mandate of the Bank and to the need for strong support for SDF and the Bank from outside as well as within the region. Contributors welcomed the prospect of membership of Suriname, Haiti and possibly other countries within the region such as the Dominican Republic. This widening of the role of the Bank was an important factor in the approach of some governments to the replenishment and the continuing need for an adequate level of resources for SDF, as well as to the work of the Bank more generally.

6.02 Contributors underlined the importance, as had a number of Governors, of the Bank's efforts to broaden the support for its work from outside the region, in terms both of CDB membership and of direct contributions to the SDF, whether from members or from non-member governments or agencies. They welcomed the broadening of the Bank's membership to Asia, with the participation in replenishment negotiations for the first time of China as a new member, and welcomed also the interest that Japan had expressed during the negotiations and expressed the hope that Japan's presence would result in a closer association with the Bank and the possibility of a contribution to SDF.

6.03 Contributors endorsed the opening of a strategic dialogue on the longer-term interests and relations between the countries of Europe and the Caribbean in the context of the CDB and SDF partnership. They saw the relationship between Europe and the Caribbean as a longstanding and diverse relationship that needed to be more strongly reflected in a development partnership that directly supported the objectives of poverty reduction and economic and social development in a major part of the Caribbean. The membership of individual European countries was critical to this effort, and Contributors welcomed the interest of Spain in strengthening its relationship with the partnership institutions of the Caribbean through possible membership in the CDB and a possible contribution to SDF 5.

6.04 Contributor governments also stressed the importance of strengthening the support of the common European institutions and joint European programmes. They expressed support for the possibility of a contribution to the resources of SDF 5 from resources available to the Caribbean from the European Union and the European Commission, and urged that discussions on such a contribution be undertaken between the Bank, Cariforum and the European Commission as an urgent priority.

6.05 Contributors noted that a very close and important partner of the Caribbean was the USAID, and they welcomed the interest of the USAID in the work of SDF and the intention that had been expressed by that agency to make a significant contribution to SDF 5.

6.06 Contributors believed that the steps the Bank was taking to strengthen its operations and renew its commitment to poverty reduction and broad-based economic growth, including in particular the measures set out in the *Report of Contributors*, provided a strong basis for dialogue with non-regional partners and prospective partners. Contributors suggested that additional donor countries, such as the Netherlands and Sweden which had expressed interest in the Bank in the

past, might be invited to join with the Bank in preparing for and undertaking poverty reduction programming in Haiti and Suriname.

6.07 Contributors noted that a valuable contribution might be made to the CDB partnership by a closer association with the Netherlands Antilles, Martinique and Guadeloupe, if a dialogue could be opened on such a possibility.

6.08 A strengthening of the relationship between the Bank and its more distant members was also viewed as an important priority. Contributors welcomed the steps the Bank had taken in this direction and urged that these efforts be continued and deepened.

6.09 Progress on the issues related to membership in CDB and support for the Special Development Fund, including the level of funding achieved for SDF 5, was to be addressed again at the Mid-Term Review

6.2 PROGRESS TO DATE

6.10 The Bank has undertaken continued efforts to maintain and deepen its contacts with existing members, including those from outside the region, and to strengthen and accelerate the prospects for a widening of the membership base and support for SDF. The President and senior staff have visited both members and prospective members and contributors, and maintained an active dialogue on the issues and possibilities raised by SDF Contributors.

6.2.1 Within the Region

Haiti

6.11 The Board of Directors had recommended Haiti's accession to membership in the Bank at the Board of Directors Meeting in *December 2000* (check date) but various considerations delayed forwarding the recommendation to the Board of Governors until the May 2003 Annual Meeting in St. Kitts-Nevis. Final Steps in relation to accession to membership are still to be completed.

6.12 The Bank has been undertaking preparations for working with Haiti in developing an appropriate approach to initial programming that would reflect both the special needs and constraints in these two countries and the Bank's comparative advantage in contributing to the reduction of poverty, as well as the need to commence operations in an incremental and experience-based way.³³

6.13 With respect to Haiti, CDB's initial assistance may appropriately emphasize SDF-funded technical assistance in the area of governance and institutional strengthening, including possibly the strengthening of one or more financial intermediary institutions with whom the Bank and other agencies could work, and BNTF-type programmes at the community level, for which both SDF funding and the support of partner institutions is likely to be required.

6.14 CDB staff is currently preparing an initial document on Haiti's economy using the work of other donor agencies and is also examining possible programming responses by CDB, including the broader implications for the Bank and its internal resources. As mentioned during the Replenishment negotiations, the Bank's intention is to invite a small number of donors with

experience and interest in Haiti to review current activities and perspectives on assistance to that country, and will take into account the views expressed by Contributors on those who might be invited, including the Netherlands and Sweden.³⁴

6.15 The US\$10 million SDF 5 allocation approved by Contributors for new members will provide a basis for initial programming discussions with the Government of Haiti (as well as, prospectively, the Government of Suriname) and the start of an SDF programme in the current cycle. The development of any significant programme, however, such as the start of BNTF operations, is likely to require additional resources. It is likely that a multi-year BNTF programme will be a sound priority consistent with SDF 5 goals and with CDB's comparative advantages, but additional funding will be needed for a BNTF Agreement with Haiti extending beyond 2004. Further given the current political situation in Haiti it seems unlikely that Haiti would complete membership requirements before 2004 (i.e. the end of SDFV). It is thus proposed to reallocate some of the US\$10million set aside of technical assistance grants and the reserve for natural disasters.

6.16 It might be noted that some Governments, both presently contributing to SDF 5 and some not in a position to do so at the negotiations in 2001, had indicated during the Replenishment negotiations that they might be prepared to consider the possibility of additional resources for SDF in the light of resource requirements at the time of the Mid-Term Review and in particular the requirements for programming in Haiti and Suriname.

Suriname

6.17 Membership for *Suriname* has already been approved by the Board of Governors. Fiscal difficulties faced by the Government, however, have delayed follow-up action. CDB has maintained contact with the Government, and the President discussed the issue with President Venetiaan at the 2001 and 2002 meetings of CARICOM Heads of Government. Some of the issues related to the financial requirements of membership were clarified, and the President of Suriname indicated that the Government would be addressing the necessary financial arrangements.

6.18 Most recently, CDB's President has written to the President of Suriname indicating the advantages of accelerating Suriname's membership, in terms of CDB being able to help the Government in addressing some of the challenges it is currently facing, and suggesting a visit by the CDB to Suriname to review the technicalities and other issues related to membership. As already noted with respect to Haiti, CDB staff may be able to assist with putting the technical requirements of membership in place.

6.19 It is hoped that this latter initiative can produce early results and offer the prospect of initial programming discussions, as envisaged by SDF Contributors, within the next few months. As indicated to Contributors, account will need to be taken of the major economic transition facing Suriname, and the need to develop an appropriate framework to shift the balance between the public and private sectors and strengthen the framework for private sector development, as well as the need for BNTF-type programmes. However, as in the case with Haiti, it is unlikely that the allocation would be utilized for Suriname before the end of SDFV.

Dominican Republic

6.20 The CDB has corresponded with the Central Bank of the *Dominican Republic* and has had tentative discussions with officials of the Dominican Republic on a number of occasions about the CDB entering into a relationship, including membership, between the Bank and the Dominican Republic.

Other Regional Countries

6.21 Discussions have been held at the Annual Meetings with officials of the Government of *Cuba*, about a collaborative relationship. Sectors such as agriculture and health have been mentioned as possibilities. It was agreed that an official visit by the Bank to Cuba would be useful to review the issues more fully.

6.22 The *Netherlands Antilles* has at various times expressed interest in the CDB as a means of strengthening its relationship with neighbours in the Caribbean, and officials of the Netherlands Antilles and the Development Bank have occasionally participated in CDB training programmes and other CDB meetings on a specially funded basis. The Bank will continue to invite appropriate officials in the Netherlands Antilles to participate as Observers in CDB's Annual Meetings, and is currently planning to make further contact with officials in that country to explore the possibilities for a closer relationship with the Netherlands Antilles and the Kingdom of the Netherlands. The interest of the Netherlands Antilles was also a principal factor in the consideration given by the Kingdom of the Netherlands (of which the Netherlands Antilles is a constitutional part) to possible CDB membership and the participation by the Netherlands in SDF I to IV, which was associated with the interest of the Kingdom of the Netherlands in possible membership. Assistance from regional members with contacts in the Netherlands Antilles would undoubtedly be helpful in this regard.

6.23 *Martinique and Guadeloupe* are natural partners of other Caribbean countries and were associated with the Bank during France's membership, including France's hosting of an Annual Meeting of the Board of Governors in Guadeloupe. Whereas France's withdrawal has suspended formal relations, within recent months there has been informal communication about re-establishing a direct relationship between the bank and the two French Territories.

6.24 Private contacts have been made with the Bank on the possibility of renewing a relationship with Martinique and Guadeloupe and the central Government in Paris. The Bank remains very open to renewing contacts with the two *départements* and strengthening their relationships within the region, including contacts with members of the business and government communities.

6.25 Interest in possible CDB membership has been expressed by *Puerto Rico* from time to time, and some years ago the Government obtained clearance from the United States Government to proceed further on this issue. The then Administration, however, changed, and the matter fell into abeyance. The current Administration has expressed a renewed interest in dialogue. There have since been some discussions between the President of the CDB and the President of the Puerto Rico Development Bank but recent indications are that membership is not a high priority for them at this time.

6.26 Within the broader framework of Latin America, the Bank is exploring interest in membership with both Costa Rica and Brazil. High level contacts have already been initiated with both countries and follow up discussions are planned for the new year.

6.2.2 Outside the Region

Spain

6.27 A number of positive discussions have been held with Spain on that country's interest in strengthening its relations with the Caribbean Community and the possibility of membership in the CDB. These had their genesis in the visit of Spain's Prime Minister to the CARICOM Heads of Government Meeting in 1999 and an exploratory visit to the Bank by an official of the Ministry of Economy and Finance at about the same time. CDB's then President and a CDB team visited Madrid in November 2000 to brief officials in the Ministry of Economy and Finance and the Ministry of Foreign Affairs on the work of the Bank, the expected expansion of its mandate, and the SDF 5 Replenishment, with a follow-up CDB visit in June 2001. Throughout this period, Spain indicated not only its interest in the CDB, but also its need to understand better the Bank and its work, as well as the nature and extent of poverty in the Caribbean, and to develop closer relations with the Bank's BMCs.

6.28 The CARICOM-Spain Summit in Madrid in May 2002 provided an opportunity for the Bank to provide a working brief on the issue for Caribbean Governments and for expressing the strong interest of the Caribbean Community in having Spain as a member of the CDB. This was followed up by a further expression of the interest of CARICOM governments at the Joint Spain-CARICOM Commission in Madrid in December 2002. At these meetings, the Prime Minister of Spain confirmed Spain's interest and its desire to send an official to the Bank for a more extensive familiarization visit.

6.29 CDB's President visited Madrid in January, 2003 for what were very positive discussions with senior officials at the Ministry of the Economy and the Ministry of Foreign Affairs. The Spanish authorities indicated that, although they were presently engaged in completing arrangements for membership in CABEL, they were pleased to accept the invitation for the Director General and Deputy Director General for Multilateral Financial Institutions to visit CDB for more detailed discussions. They also indicated that Spain would continue to participate as an Observer at meetings related to the Special Development Fund.

6.30 Spain will accordingly be invited to participate at the meeting to be held for the SDF 5 Mid-Term Review. Member Governments and SDF Contributors are invited to make contact with Spanish representatives and to help in familiarizing them with the role and work of the Bank and the Special Development Fund, particularly as an effective means for undertaking Spain's objective of strengthening its relations with CARICOM member countries. Some further discussions in this regard were expected to take place during the meeting of Heads of Government of Central American countries, which the Prime Minister of Spain was expected to attend.

Discussions with the European Union

6.31 The Bank has followed up on the initial discussions on the possibility of a strategic dialogue on the longer term interests and relationship between the countries of Europe and the

Caribbean in the context of the CDB and SDF partnership, including the relationship with the common European institutions and joint European programmes. At the time of the CDB visits to Europe in late 2000, officials of the European Commission in Brussels and the European Investment Bank in Luxembourg were receptive to and interested in the possibilities for strengthening the relationship with the CDB and assisting the EU in the implementation or delivery of programmes available for the Caribbean. Various options were discussed, including the possibility of an allocation for SDF 5 from Commission-administered funds available for the Caribbean, to which Commission officials appeared receptive but indicated *would need the support of Cariforum*, which was the EU's dialogue partner for the Caribbean, in the development of a strategy for the use of such funds. It was also noted that the prospective broadening of the membership in the CDB, including possibly the Dominican Republic, could be an important factor in strengthening the case for a stronger EU relationship with CDB and the SDF. Other concepts discussed included, at the EIB, the possibility of a more formal relationship between that institution and the CDB such as the EIB has with the European Bank.

6.32 CDB's President visited Brussels and Luxembourg in January, 2002 for meetings with the European Commission, the Centre for the Development of Enterprise (CDE) and the European Investment Bank. EU officials again expressed a strong desire for closer cooperation between CDB and EU agencies, and indicated they would welcome assistance in helping the Commission to utilize STABEX and SFA funds. They suggested an annual meeting might be held between CDB and the EC, as well as a tripartite meeting among CDB, Cariforum and the EC. Among other possibilities discussed was a CDE suggestion of a possible EuropeAid-funded technical support unit in CDB for accessing funds available for development of Caribbean business enterprises, although this would require support from Cariforum countries. Discussions with the EIB were also positive, although the institution was still in the process of determining the arrangements under which it would manage the investment funds being made available under the Cotonou Agreement. They were interested in CDB's plans to strengthen its own support for the private sector. On the possibility of a more formal relationship between the two institutions, EIB officials, who it is assumed may have undertaken informal soundings, indicated that this might not, at least at the moment, receive favourable consideration.

6.33 Further discussions were held at the CDB with a senior EU Delegation in October 2002, including the Director of the relevant EC programme and two of the EC's representatives in the Caribbean. The mission was visiting the region for the presentation of the regional strategy on the 9th EDF, with the principal focus being regional economic integration and capacity building projects. Among issues discussed were the importance of a continuing role for the CGCED and the need for an effective sharing among the donor community of the work of assisting Haiti. CDB's President raised again the possibility of a contribution from EU funds for the work of SDF. EU officials, who it is assumed had had the opportunity to give further consideration to this possibility in the course of the development of a strategy for the 9th EDF, indicated that they were not sure that member states would be convinced of the need to do so, and envisaged a relationship based more on co-financing or parallel financing.

6.34 The joint European programmes providing assistance to the Caribbean clearly remain interested in a close and supportive relationship with CDB, in which the Bank can provide assistance in the utilization of EU funds available for the Caribbean. The nature of that relationship is likely to be dependent on the availability of EU funds, the views expressed by

Cariforum members as the EU's dialogue partners, and the views of European members of CDB, as well as the type of assistance that CDB can most effectively provide. The Bank intends to continue this important dialogue and would welcome the interest and support of Cariforum countries and EU members of the CDB.

United States

6.35 At the time of the SDF 5 Replenishment negotiations, in which the United States participated as an Observer, USAID officials indicated that USAID was very interested in a stronger relationship with CDB, including the possibility of membership, and expected to be in a position to make a substantial contribution to SDF 5. This was factored into the agreed target level of the Replenishment. Since that time, following the tragic and defining events of 9/11, the United States has indicated that circumstances have changed and that resources expected to be available are no longer in place.

6.36 The Bank intends to maintain an active dialogue with USAID on the resource requirements of SDF, the work of BNTF and the prospective need for funds for a BNTF-type programme in Haiti, and expects to make further contacts in the very near future. The interest and support of CDB member governments in this dialogue would be very much desirable.

Japan

6.37 Discussions between Japan and the CDB on the possibility of a more active relationship have taken place on a number of occasions, both in Tokyo and at the Bank, and Japanese officials have indicated the need to understand better the work of the Bank and the possibilities for cooperation by Japan. Japan has over the years also participated as an Observer at Annual Meetings of the Board of Governors. The Bank and Contributors were very pleased to welcome Japan as an Observer at the SDF 5 Replenishment negotiations, and at the final meeting of the negotiations Japanese officials indicated that the possibility of a contribution to SDF 5 was under active consideration in Tokyo and that the Ministry of Finance had been consulted. The expectation of the negotiations was that a contribution might be forthcoming. CDB has since been advised that resource constraints facing that Government have made it difficult for it to make a contribution as envisaged.

6.38 There have been recent discussions between the Japanese Ambassador, resident in Trinidad, and CDB's President. The Ambassador indicated that the possibility of Japan's becoming a member of CDB might be difficult at this time. The President indicated that CDB was very much hoping that Japan would still be in a position to make a contribution to SDF 5, and would like to continue discussions on this issue.

Other Countries

6.39 The *Netherlands* was a strong and welcome supporter of SDF during the SDF I to SDF IV cycles, with contributions to each replenishment, originally based on the interest of the Kingdom of the Netherlands in possible membership in the CDB, reflecting the interests of the Netherlands Antilles in particular. The level of its contribution was originally determined by a formula developed by non-regional governments to maintain an appropriate parity among non-regional members or prospective members. As part of the arrangements related to its

contribution, representatives of the Netherlands participated in meetings of both the Board of Governors and the Board of Directors through the SDF I to SDF IV periods.

6.40 At the time of the SDF 5 Replenishment, however, the Netherlands advised the Bank that for a variety of reasons, membership in the CDB was at that stage no longer in the picture, and that accordingly the Minister for Development Co-operation had decided not to continue the Netherlands' contribution to SDF, although the Netherlands would continue its development co-operation activities in the Caribbean through other channels. The hope that the Netherlands might reconsider this decision on development assistance grounds and those related to the performance of SDF, which was subsequently documented in the *Performance Review*, was expressed to Netherlands officials by key non-regional members, including at Development Cooperation Minister level, but the Government felt unable to change its decision. CDB has expressed its gratitude for support in the past, and indicated that it hoped to maintain the helpful dialogue with the Netherlands.

6.41 The Netherlands had been invited to participate as an Observer at recent Annual Meetings of the Board of Governors, but was unable to do so. The Bank intends, however, to invite the Netherlands to participate in the planned informal consultative meeting on Haiti. An effort will also be made to arrange discussions or consultations in The Hague at an appropriate opportunity. Support from non-regional members for such renewed contacts would be likely to be helpful in this regard, including support for the invitation for the Netherlands to participate in the planned meeting on assistance for Haiti.

6.42 Discussions have been held from time to time with *Sweden*, which on different occasions has indicated an interest in the work of the Bank and the possibility of membership. CDB's then President and a CDB team visited Stockholm in late 2000 to brief Swedish officials on the work of the Bank and the changing focus of SDF, and received a warm reception. Although Sweden was not able to make a contribution to the SDF 5 Replenishment, officials indicated Sweden's continuing interest in the region, its support for the increased SDF focus on poverty reduction, and an interest in the prospective broadening of the CDB's mandate to the wider Caribbean. They also indicated that they might be interested in accepting the Bank's invitation to participate in an informal meeting on assistance to Haiti. CDB intends to renew the invitation to such a meeting, and support from non-regional members for this invitation would be very helpful.

6.43 *Belgium* has, in October 2002, indicated an interest in the work of the Bank, particularly as a supporter of regional cooperation and integration. Belgium's Ambassador has also suggested that Belgium might assist Haiti in its development efforts by making a contribution to one of CDB's special funds, and requested follow-up action through the Ministries of Finance and Development Co-operation.

6.44 *Ireland* is one of the few countries that has had an expanding aid programme in the recent past, and approaches were made on CDB's behalf by the United Kingdom at the time of the SDF 5 Replenishment negotiations. At the time, Irish officials indicated that there were other immediate priorities that they need to address, but the door was not entirely closed. Consideration can be given to making renewed contact, including a possible informal briefing visit by CDB to Dublin, depending on the advice of those member governments with closest contacts with the Irish authorities.

6.45 The Bank continues to be committed to broadening the base of support for the BMCs and the work of CDB and the SDF. In this effort, it needs the advice and support of all member governments, both within and outside the region, particularly now with a prospective doubling of the Bank's client population and fourfold increase in the number of poor people whom SDF is expected to assist.

7. SDF 5 FUNDING AND PROGRAMME LEVELS

7.1 CURRENTLY AVAILABLE RESOURCES

7.01 In the Replenishment negotiations, Contributors agreed on a level of \$125 million for their contributions to SDF 5, including expected but not yet confirmed contributions.^d This was intended to provide for a minimum programme level of \$185 million, including commitment authority from repayments, net income and other internal resources.³⁵

TABLE 6: SDF 5 RESOURCES AND PROGRAMME LEVELS
(US \$ '000)

	Report of Contributors ^a		Updated as of March 31, 2003 ^b
	Target Programme Level	Minimum Programme Level	
Commitment authority as of January 2001	16,300	16,300	16,300
Expected Net Income	4,585	4,585	4,500
Projected repayments	39,575 ^c	39,575 ^c	57,300
<i>Less: Adjustments^d</i>			(12,500)
New contributions	150,000	125,000	92,500
<i>Add: Adjustments^e</i>			7,600 ^e
SDF 5 minimum programme level	210,000	185,460	165,700

Note: Details shown in Appendix C.

^a Report of Contributors to SDF 5 page 32. ^b Rounded to nearest \$100,000

^c Net of adjustments. ^d Allocation for HIPC and net exchange rate adjustments.

^e Exchange rate adjustments projected to 2004. These are projected adjustments and can be expected to change over the period.

7.02 Contributors also agreed on a higher target programme level of \$210 million, taking into account the needs of both traditional BMCs and the expected new members, Haiti and Suriname, and recognized that the level of new contributions necessary to support this programme level would be \$150 million. Contributors agreed that additional contributions from new Contributors

^d This included an expected contribution from USAID and provisionally \$2.81 million for contributions from Haiti and Suriname as expected new members. The possibility of a contribution had also been expressed by another government participating in the negotiations as an Observer. One contributing member had not yet confirmed a final figure and there was an expectation that this might be higher than ultimately proved possible. The agreed total also included a slightly higher contribution that ultimately proved possible for Venezuela. The confirmed and probable figures at the time totaled more than \$125 million, and the latter figure was the agreed total, as needed to support the approved minimum SDF 5 programme level of \$185 million. This did not include possible other contributions that might be made later in the cycle and which might contribute to the higher target level.

would be needed to reach this objective.³⁶ The timing of accession by the expected new members, however, was uncertain, and Contributors agreed that the resource levels for SDF 5, and progress in terms of additional contributions, should be reassessed at the Mid-Term Review.

7.03 Some of the expected contributions have not emerged, and currently pledged contributions under the Replenishment total \$92.5 million. Repayments from SDF loans currently outstanding are expected to be somewhat higher than projected earlier, and a projection of current exchange rates increases the commitment authority from the pledges of some members. The overall programme level for SDF 5, however, has had to be reduced for commitment purposes to \$165.7 million, as shown in Table 5 above.

7.04 Individual contributions currently available for SDF 5 are shown in Appendix B, and are summarized in Table 7 together with contributions to SDF IV, which was originally intended also to cover a 4-year period. It might be noted that the contributions of the BMCs, including the poorest of the BMCs, have increased significantly over previous replenishments, in a concerted effort to help to meet the agreed target for new contributions of \$125 million, from \$19.6 million in total in SDF IV to \$25.4 million in SDF 5. With the shortfall in the Replenishment, BMC contributions represent 27.4% of pledged contributions, an increase from 15.7% in SDF IV. The other major increases are for Canada and the United Kingdom, which increased their individual contributions by 50%, from \$16.8 million in SDF IV to \$25.2 million in SDF 5 (see Appendix B).

TABLE 7: CONTRIBUTIONS TO SDF IV AND CURRENTLY PLEDGED TO SDF 5
(US \$ '000)

	SDF IV		SDF 5	
	\$ '000	%	\$ '000	%
BMCs	19,580	15.7	25,390	27.4
Other Regional Members	9,000	7.2	9,600	10.4
Non-regional Members	89,780 ^a	72.0	57,545	62.2
Non-members	6,300	5.1	0	0
Totals	124,660^b	100.0	92,535^c	100.0

^a Including \$24 million from China as a new member after negotiation of the Replenishment.

^b Replenishment as originally negotiated totaled \$100,660,000.

^c Not including \$7,600,000 in currently projected exchange rate adjustments or \$2,810,000 in expected contributions from new regional members.

7.05 Present commitment authority and projected use of available resources for each year in the period is shown in Table 8 and Appendix C, together with comparable figures for SDF IV and a nominal projection for 2005 to show the minimal commitment authority that would result from reflows and net income in that year.³⁷

TABLE 8: COMMITMENT AUTHORITY AND USE OF RESOURCES SDF IV AND SDF 5^a
(US \$ million)

	Actual				Projected			
	SDF IV				SDF 5			
	1996-2000	Annual average	2001	2002	2003	2004	2001-2004	2005
Commitment authority at beginning of period	38.3	-	16.3	5.6	6.3	2.2	16.3	1.7
<i>Plus:</i> Net Income ^b	2.2	-	(1.7)	(1.4)	0.8	1.4	(0.9)	2.0
<i>Plus:</i> Repayments ^c	44.3	-	12.9	9.5	11.7	16.1	50.2	16.7
Commitment authority from new contributions ^d	94.7	18.9	25.0	25.0	25.0	25.1	100.1	0.0
<i>Less:</i> Approvals for SDF Loans	127.0	25.4	35.8	19.8	31.5	32.9	120.0	37.0
<i>Less:</i> Approvals for BNTF and TA	36.3	6.8	11.1	12.6	10.1	10.2	44.0	0.0
Commitment authority at end of period	16.3	-	5.6	6.3	2.2	1.7	1.7	(16.6)

^a Figures shown are drawn from a consolidated data series for SDF (U) completed for the SDF Annual report 2002.

^b Net of allocations from net income for HIPC and Microenterprise Guarantee Fund, and exchange rate adjustments.

^c Net of exchange rate adjustments.

^d Net of (including) exchange rate adjustments. These amounted to -\$30 mil for SDF IV and are projected at + \$7.6 mil for the SDF 5 period.

7.2 RESOURCE REQUIREMENTS

7.06 Currently available resources represent a significantly greater constraint on the SDF 5 operational programme - in terms of developing and focusing new programmes to address the new SDF priorities and responding to BMC needs - than was envisaged in July 2001, when Contributors and the Bank agreed on the framework and minimum programme levels for the current SDF cycle. As indicated in Section 5, resource limitations have made it necessary to suspend further SDF lending to some BMCs at the mid-point in the SDF 5 cycle. Decisions will need to be made with respect to funding of a number of otherwise attractive projects currently in the pipeline, and CDB's ability to develop and support poverty-focused projects and broad-based growth through the use of SDF funds will be limited for the balance of the SDF 5 period in several BMCs.

7.07 In the case of Guyana, for example, which Contributors had envisaged as an SDF-only country,³⁸ CDB is now basing its project planning on the 35% minimum grant element set under HIPC, and tentatively providing for a 50:50 blend of SDF and ordinary capital resources for four projects, including the recently approved Skeldon sugar modernisation project. These would require \$68 million in funding, and on this basis \$34 million would need to come from SDF, which is significantly more than can be made available from current SDF 5 commitment authority, even with the increased allocation provided for in the mid-term reallocation shown in Table 5.

7.08 In the case of the OECS countries, the availability of concessional resources from the \$20 million facility provided by the IDB is allowing some flexibility, but these resources are already fully programmed, with \$15 million tentatively allocated against projects approved by the Board during 2003, and the balance already over-committed against projects for 2004. None of this facility is available for new or additional projects.

7.09 In some other cases, a "harder" blend of OCR and SDF may be possible for particular projects, but blending is already used extensively and a "harder" blend is not a satisfactory answer in many cases.

7.10 There is accordingly very little room remaining to develop new approaches under the SDF 5 policy priorities, except to a limited extent for grant-financed projects under the new governance policy. This is not to say that the poverty prism will not be used in the process of making decisions and in the design and supervision of projects under preparation and implementation, but this falls short of what had been hoped for in terms of the new policy directions.

7.11 The resource constraint also limits the extent to which SDF can be used in terms of disaster response. Special consideration may need to be given to this in 2004, depending upon circumstances, as the Reserve is far too small to accommodate a response within the existing guidelines to any kind of major disaster, even with the small increase proposed in paras. 5.14 and 5.17 above.

7.12 Other factors include the possible need in 2004 for a programme-based response to the current financial review being undertaken by Dominica and the transition from support under an

IMF Standby to poverty reduction fund support. This would be likely to require supplementary support from CDB and the World Bank as well as one or more donor countries. SDF resources are not currently available for such an initiative.

7.13 The originally approved minimum programme of \$185 million would have provided enough commitment authority to develop the type of initiatives envisaged in the SDF 5 strategy and allow some response to major new developments affecting particular BMCs. Presently available resources are some \$20 million short of this figure, even taking into account the benefits of current exchange rates and higher reflows. Additional contributions in 2004 would be necessary to allow a more adequate response to the expectations and goals set for the Replenishment. It is, therefore, hoped that such resources can be forthcoming, as envisaged by the Replenishment agreement, whether from new or current Contributors.

New Members

7.14 The expected admission of Haiti as a major new member of the Bank and a major factor in considering SDF resource and programme levels, as well as the likely admission of Suriname as well, raise a critically important factor in considering the future for both the Bank and SDF.

7.15 In welcoming and endorsing the expansion of CDB's role to the wider Caribbean,³⁹ Contributors specifically recognized that "this new and wider role ...poses special challenges, not only for the Bank, but for the Contributors themselves" and stated that "The prospective benefits are large. *Contributors agreed that meeting the challenges would require strong support from the existing membership, both regional and non-regional, both from within and outside the Americas. They accepted that this poses a major new dimension for SDF 5, which should be funded at an appropriate level to allow the bank to undertake its new mandate.*"⁴⁰

7.16 As indicated during the Replenishment negotiations⁴¹ and outlined further in paras. 6.11 to 6.16 above, CDB has been giving consideration to an appropriate initial programming approach for both Haiti and Suriname, as reviewed with some of the Contributors during the 2000/2001 discussions. An initial document is under preparation on Haiti, for discussion both with other donors with experience in assisting Haiti, whom the Bank intends to invite to an informal meeting to gain their insights and perspectives, and with the Government.

7.17 An appropriate CDB response to Haiti's membership that would be consistent both with the SDF 5 policy framework and CDB's strongest comparative advantages, as well as with what was discussed with Contributors during the period of the Replenishment negotiations, would involve at least two complementary initiatives. Funding support, however, would be necessary before programming discussions could reasonably be undertaken or commitments entered into.

7.18 The Bank's current thinking is centred around a BNTF-type programme and a programme for micro and small enterprises, in the latter case using CDB's experience to strengthen or establish an appropriate institutional intermediary. Both would need to be multi-year programmes, and both could potentially, if resources were available, permit programme development to begin in 2004.

7.19 The Bank is considering a \$40 million 5-year BNTF programme agreement for Haiti. This could only be undertaken, however, if additional resources can be made available from

other sources. Contributors might also consider whether such contributions might later become part of an SDF 5I agreement.

7.20 Similar programming discussions will be held with Suriname.

7.21 The second element of the Bank's tentative thinking on Haiti would be a possible 5-year programme for micro and small enterprises, perhaps for \$20 million in total. Additional resources would, however, be necessary, although some grant funding could be used for institutional development in the first instance, if there were some reasonable assurance of funding for the programme becoming available on a timely basis.

7.22 The Mid-Term Review was intended to consider the response of the Bank and Contributors to the special circumstances of the new members, in particular Haiti. Many members, including non-regional members, have long urged the Bank to move quickly in bringing Haiti within the BMC membership, and this was a principal focus of the discussions leading up to and surrounding the Replenishment. The Bank is now in a position to do so, but will need the help of SDF Contributors, including potentially new Contributors, some of whom had indicated they might be prepared to consider the needs of Haiti and Suriname in addition to the existing BMCs at the time of the Mid-Term Review.

8. SDF 5 OPERATIONS AT MID-TERM

8.1 CONTEXT

8.01 SDF 5 operations during the first two years of the Replenishment cycle are reviewed in the *SDF Annual Report 2002*. As indicated in that report, the application of the three "strategic levers" of *capability enhancement*, *reduction of vulnerability*, and *governance and institutional development* have been guiding factors in the development of country programmes and project operations since the new policy framework was adopted in late 2001. Until then, operations and planning had been guided by the SDF IV framework, with a continuing focus on poverty reduction and the other SDF IV themes of human resource development, the environment and institutional strengthening.

8.2 PROGRESS TO DATE

8.02 As shown in Table 9, overall commitments on a programme basis came to \$70.9 million in 2001 and \$24.2 million in 2002, a total of \$95.1 million over the two years, including the commitment of \$32 million for BNTF country agreements in 2001. On an annualized basis,⁴² the 2-year total was \$79.3 million, which is approximately 48% of current SDF 5 commitment authority of \$165.7 million. This relatively strong performance reflects a strong pipeline, the initiation of the BNTF programme in the first year of SDF 5, and the need for \$13.55 million in disaster response and emergency rehabilitation. The annual average (on an annualized basis) was \$39.6 million, which compares with an average annual commitment level of \$34.4 million over the five years of SDF IV.

TABLE 9: SDF PROJECT AND PROGRAMME COMMITMENTS^a
(US \$ million)

	SDF IV		SDF 5				
	Actual		Projected				
	1996-2000	Annual average	2001	2002	2003	2004	2001-2004
SDF loan approvals	137.1	27.4	35.8	19.8	31.5	32.9	120.0
SDF grant approvals (annualized)	34.9	7.0	11.1	12.6	10.1	10.2	44.0
SDF grant approvals (programme basis)	34.9	7.0	35.1	4.4	2.2	2.1	44.0
of which (grants): BNTF	18.0	3.6	32.0	-	-	-	32.0
Technical assistance	14.1	2.8	3.1	4.6	2.2	2.1	12.0
of which (loans and grants):							
Targeted poverty reduction	88.2	17.6	44.7 ^a	14.5 ^b	n.a	n.a	n.a
Disaster and emergency response	24.9	5.0	3.1	10.5	n.a	n.a	n.a
Other programme areas	83.8	16.8	26.2	9.7	n.a	n.a	n.a
Total commitments (annualized basis)	172.0	34.4	46.9	32.4	41.6	43.1	164.0
Total commitments (programme basis)	172.0	34.4	70.9	24.2	33.7	35.0	164.0

^a Including \$32 million committed to BNTF V.

^b Including the SDF portion of disaster response projects targeted at poor areas. This includes part of the figure shown under *Disaster and emergency response*

8.03 Projected commitments on the basis of current commitment authority are \$41.6 million in 2003 and \$43.1 million in 2004 on an annualized basis. Achievement of this level of loan and grant approvals within available commitment authority will require careful monitoring and, where appropriate, reallocation of unused balances later in the cycle. The pipeline itself is relatively strong, and could support a higher level of commitments in several countries than presently available under individual country allocations.

8.04 Disbursements reflected the overall portfolio currently under implementation, and at \$44 million in 2001 and \$37.1 million in 2002 represented an annual average over the two years of \$40.5 million, which was a significant increase over the average of \$25.3 million during SDF IV, as well as over a disbursement level of \$28.1 million in the year 2000. Disbursements are currently projected to continue to increase over the SDF 5 period, and for SDF 5 as a whole are projected at \$177.2 million. This figure is actually higher than the current level of new commitment authority for SDF 5, which is \$165.7 million.

TABLE 10: SDF PROJECT AND PROGRAMME DISBURSEMENTS
(US \$ million)

	SDF IV		SDF 5				
	Actual		Projected				
	1996-2000	Annual average	2001	2002	2003	2004	2001-2004
SDF loan disbursements	95.7	19.1	37.7	33.6	39.0	42.6	151.9
SDF grant disbursements	33.3	6.2	6.3	3.5	7.5	8.0	25.3
of which (grants): BNTF	19.7	3.9	3.6	1.6	3.5	3.8	12.5
Total disbursements	129.0	25.3	44.0	37.1	45.5	50.6	177.2

8.05 SDF disbursements under BNTF V, which covers the period 2002 to 2007, and for which commitment authority was provided in December 2001, are expected to begin to accelerate in 2004 and to continue to rise over the BNTF V period.

8.06 A fuller review of SDF 5 operations at mid-term is provided in Chapter 5 of the SDF *Annual Report 2002*. This includes a review of the programme in terms of the priority themes or

“strategic levers” of *capability enhancement, reduction of vulnerability, and governance and institutional development*. As already noted, the “strategic levers” are different from the SDF IV priorities in that they are not necessarily programme categories, and individual projects may address one or more priorities.

8.07 SDF 5 operations can also be analyzed in terms of the programme categories used in the SDF IV *Performance Review*, which were: *programmes directly targeted at the poor; environment, water and sanitation; human resource development; institutional strengthening; and other infrastructure* related to SDF priorities. As noted on para. 3.12 above, programmes *directly targeted at the poor* have accounted for between 54% and 61% of project and programme approvals during the first two years of SDF 5, depending upon whether emergency response projects for poor communities are included. The other major category during this period was *human resource development*, at 15.6%, and other emergency response for *infrastructure rehabilitation* not included in the direct poverty reduction category. Technical assistance for *institutional strengthening* was relatively strong at 4.1%, given that this category was entirely in the form of grants.

8.08 There were also projects for *environment, water and sanitation*. These included establishment of a coastal zone management system in Guyana, development of an institutional and regulatory framework for the water and sewerage sector in St. Lucia, and upgrading the power and distribution system in Nevis. In addition, a number of BNTF sub-projects are also targeted at protecting and improving the quality of the environment, and SDF support for disaster mitigation and disaster management is of direct support to the environment. Taken together, these represent a significant part of the SDF 5 programme. Further key projects in this category are in the pipeline and will be brought to the Board during 2003 and 2004.

9. THE SDF PORTFOLIO

9.01 Since the introduction of the new *project performance evaluation system* (PPES) in 2001 (see Section 4 above), CDB has completed three cycles of scoring of project performance (2000, 2001 and 2002). These performance scores have been entered into the computerized management information system and used to calculate an average Portfolio Implementation Performance Index (PPI) for the year.

Project Performance in 2002

9.02 For 2002, the performance of 97 out of 121 projects under implementation with an SDF financing component was assessed.^e In most cases, projects continuing from 2001 received composite performance scores similar to those in 2001, with some exceptions. The average composite performance score in 2002 was 5.87, compared with 5.83 in 2001.

TABLE 11: SDF PORTFOLIO - PERFORMANCE RATING BY NUMBER OF PROJECTS
Year ending December 31, 2002

Composite Score	Project Performance Rating	Number of Projects	%
8.0 - 10.0	Excellent	2	2
6.0 - 7.9	Highly Satisfactory	56	58
4.0 - 5.9	Satisfactory	29	30
2.0 - 3.9	Marginally Satisfactory	5	5
0.0 - 1.9	Unsatisfactory	5	5
Total		97	100

9.03 Two projects (2%) were rated excellent and 56 projects (58%) were rated highly satisfactory. Of the projects rated highly satisfactory, 50% were given composite scores varying from 6.0 to 6.5, and 50% had scores varying from 6.6 to 7.5. Twenty nine projects (30%) were rated satisfactory, with composite scores varying from 4.0 to 5.9. The remaining projects were equally distributed between the performance rating categories marginally satisfactory and unsatisfactory, as shown in Table 11.

9.04 The average Portfolio Implementation Performance Index (PPI) that is reported to the Board of Directors annually is based on these performance scores, with the addition of a weighting by the dollar size of each project/loan. The PPI for SDF-financed projects under implementation as of December 31, 2002 was 6.1, and does not differ significantly different from the PPI for 2001, which was 6.0.

Country Portfolio Performance

9.05 Overall country portfolio performance did not change significantly from 2001 to 2002, which is perhaps to be expected, since the composition of the portfolio changes relatively slowly. Most of the projects assessed as of December 2002 were also under implementation at the end of 2001.

TABLE 12: SDF PORTFOLIO - PERFORMANCE RATING BY COUNTRY
Year ending December 31, 2002

^e Data provided by CDB Projects Dept., May 2003.

Composite Score	Project Performance Rating	Countries
8.0 - 10.0	Excellent	None
6.0 - 7.9	Highly Satisfactory	Belize, Anguilla, Guyana, St. Lucia, Dominica, Jamaica, Barbados, Grenada
4.0 - 5.9	Satisfactory	Antigua and Barbuda, Turks & Caicos, St. Kitts & Nevis, St. Vincent & the Grenadines,
2.0 - 3.9	Marginally Unsatisfactory	British Virgin Islands
0.0 - 1.9	Unsatisfactory	Montserrat

9.06 In 2002, the average composite performance scores for the portfolios for eight countries varied from 6.01 to 6.60, indicating highly satisfactory performance. The portfolio performance of the other BMCs, with the exception of Montserrat and the British Virgin Islands (BVI), was rated satisfactory. The performance of projects in BVI (two projects) and Montserrat (three projects) was rated marginally unsatisfactory and unsatisfactory, respectively, as shown in Table 12. The average composite scores for each country are shown in Table 13 for both 2001 and 2002.

TABLE 13: SDF PORTFOLIO - AVERAGE PERFORMANCE SCORES BY COUNTRY
Years ending December 31, 2001 and 2002

Country	2001	2002	Percentage Change
Montserrat	1.5	1.5	0.0
British Virgin Islands	2.8	2.8	0.0
Antigua & Barbuda	4.5	4.9	8.9
Turks & Caicos Islands	5.3	5.3	0.0
St. Kitts & Nevis	5.5	5.6	1.8
St. Vincent & the Grenadines	5.8	5.7	-1.7
Grenada	5.8	6.0	3.4
Belize	6.0	6.1	1.7
Anguilla	6.1	6.1	0.0
Guyana	6.5	6.4	-1.5
St. Lucia	6.6	6.4	-1.6
Dominica	6.4	6.4	0.0
Jamaica	6.7	6.5	-3.0
Barbados	6.3	6.6	4.8
Overall Average	5.8	5.8	0%

Sector Portfolio Performance

9.07 The average composite performance scores by sector are shown in Table 14. The performance of most sectors was rated highly satisfactory. The exceptions were tourism and financing, which were rated satisfactory, and the manufacturing sector, where performance was rated unsatisfactory.

TABLE 14: SDF PORTFOLIO - AVERAGE PERFORMANCE SCORES BY SECTOR
Years ending December 31, 2001 and 2002

Sector	2002	2001	Percentage Change
Agriculture	6.7	6.8	-1.5
Financing	5.2	5.1	2.0
Manufacturing	1.8	1.8	-
Multi-sector and Other	6.2	6.1	1.6
Power, Energy and Water	6.1	6.1	-
Social and Personal Services	6.2	6.2	-
Tourism	5.8	5.2	10.3
Transport and Communications	6.6	6.5	1.5
Overall Average	5.8	5.8	-

Projects at Risk

9.08 The new CDB project performance evaluation system includes criteria relating to scoring and changes in scores to identify “projects at risk”. As at the end of 2002, approximately 12% of projects with an SDF financing component were classified as “at risk”. This identification system allows CDB Management to be alerted and to provide closer examination to correct the problems wherever possible.

Next Steps

9.09 Consideration should be given to strengthening further the CDB’s *Project Performance Evaluation System* (PPES) during the balance of the SDF 5 cycle. Several suggestions in this regard, including automatic entry of expected performance scores for all projects after Board approval, and, subject to the availability of staff resources, possible extension of the system to BNTF and selected technical assistance loans and grants, are set out in the separate report on experience with the PPES (see Section B attached).

10. CONCLUSIONS AND RECOMMENDATIONS

10.01 A number of conclusions and recommendations emerge from this assessment undertaken for the Mid-Term Review. Contributors are invited to consider these and provide such guidance to the Bank as they consider appropriate. These are numbered sequentially below:

1. Performance to date on the *Action Plan* on recommendations of the SDF IV-based *Performance Review* and on the *SDF 5 Operational Programme for Action* has been generally good, although action on certain key steps has been delayed as a result of major organisational changes, implementation of recommendations flowing from the Operations Audit, including the Management of Change initiative, continuing staff constraints within the Bank, the need to internalize the new directions, and other factors. The assessment of action to date and currently underway that has been undertaken for the Mid-Term Review indicates that in almost all cases the necessary steps are now in train. (*See Section 2*)
2. Two specific areas where evaluation studies recommended by the SDF IV *Performance Review* are currently being prepared are (a) an evaluation of the performance of CDB’s *Environmental Impact Assessment requirements and procedures*, to provide greater insight and awareness of the impact of CDB’s EIA guidelines and requirements and to identify lessons learned and adjustments that may improve effectiveness; and (b) an evaluation of the *student loan programme*, to determine its effectiveness as a use of SDF resources and identify lessons learned. The evaluation of the student loan programme is expected to be commissioned shortly, and the EIA evaluation is also planned for the near future. (*See Section 2.11-2.12*)
3. The new policy and operational framework for SDF 5 was agreed in mid-2001 and approved in December 2001. It has become operational over the latter part of 2001 to 2003. The framework represents significant changes in orientation and focus,

although these are in part incremental from SDF IV. In some cases, the Bank is still in the process of developing a more detailed policy framework and operational guidelines, and the room for new programme development is limited because of resource constraints (*See Section 3.07 – 3.10*).

The strategy paper on governance and institutional development approved by the Board of Directors in December 2003 and the strategy paper on poverty reduction, to be considered in March 2004, provide an opportunity to consider adjustments in the policy framework, taking into account experience to date, both for the balance of SDF 5 and, if Contributors agree, as the starting basis for consideration of policies for SDF 5I, which can be expected to begin in 2005.

4. The application of the new priorities of *capability enhancement*, *reduction of vulnerability*, and *governance and institutional development* have increasingly guided operational planning and programme development since they were approved in late 2001, with some significant innovations, such as the requirement for Poverty Reduction Action Plans as a condition of BNTF V support, targeted access for the poor under the student loan programme, and other adaptations in programme and project design. Nevertheless, the delays in preparation of the planned policy papers on poverty reduction and governance have limited the internalization of the new policies and their potential application. The Strategy Paper on poverty reduction is currently being prepared. (*See Section 3.08*)
5. A key priority in SDF 5 is the development and implementation of effective programming targeted directly at the poor and poor communities. There was a very substantial increase in such programming during SDF IV, with the development of new programme instruments and the strengthening of BNTF and other programmes. An increase in the target level for such programming from the 40% set for SDF IV is appropriate for SDF 5. A 60% target, however, although nominally achieved for the first two years of SDF 5, is seen as a “stretch” target (*see Sections 3.11 to 3.13*). This is particularly so when major demands are being made on staff to develop new programming procedures to implement the *poverty prism* across all SDF operations, a development that should itself represent a significant strengthening of CDB’s focus on poverty alleviation. The achievement of the target would be dependent on a significant element of disaster response programming of direct benefit to the poorest communities. It is also clear that the resource constraint limits significantly the scope for new targeted poverty reduction programming.
6. The SDF 5 operational programme has increasingly taken into account the new policy directions, and these are being supported by organisational and operational changes outlined in earlier sections of this assessment, including the designation of *country focus* responsibilities and the establishment of a *Poverty and social development network* to complement the new organisational structure of the operational divisions, as well as other networks on *Governance* and on the *Environment*. The new directions will be further reinforced by the results of the policy reviews on poverty reduction and governance. (*Sections 3.21 – 3.28*)

7. The introduction of specific performance indicators to guide the implementation of the SDF 5 Operational Strategy has been delayed for a number of reasons, including other initiatives related to change management and the introduction of results-based management procedures, as well as the reorganization of the departments concerned. The 2004 Work Programme and Budget include the development of programme objectives and performance measures that are based on CDB's new organisational structure and performance goals. (*See Section 3.31*)
8. CDB's new *Project Performance Evaluation System* represents a significant strengthening of the Bank's ability to evaluate projects at all stages of the project cycle in terms of their contribution to strategic objectives, in particular poverty reduction, and other indicators of project quality. It also places CDB at the forefront in the design and application of such systems. Considerable progress has been made in implementation of the new system since 2001, and the third cycle of evaluating projects and the overall portfolio using the new system is currently being completed. There are a number of steps that remain to be taken, however, to strengthen the effectiveness of the new system and its applicability across the range of CDB operations. This includes attention to the rate of completion of project completion reports, using the new system, and it may be timely to assess this important requirement in terms of the new operations structure of the Bank and the new balance in work load, and whether there are staff implications that need to be reviewed. (*See Section 4*)
9. The application of the new SDF resource allocation strategy has gone well so far. Initial indicative allocations were made for individual countries in 2001 using the new system, and a mid-term reallocation has now been completed, based on an updating of the indicative resource allocation formula, together with country-specific judgments, as discussed in *Section 5*. The new system has also provided a good basis for the allocation of BNTF V funds, and will be used for the additional resources made available by Canada for administration under BNTF. The system is serving to focus increased attention on policy and institutional performance, which is one of its objectives.
10. The situation in Haiti and Suriname suggests that it is unlikely that the countries would meet their membership requirements before the end of 2004. Accordingly it is proposed that the US\$10 million allocated to Haiti and Suriname be reallocated to grant funding for technical assistance and the reserve for disaster response (*See Sections 5.16-5.27*).

Contributors are invited to consider and approve the proposed reallocations as follows:

- (a) Reallocating \$5 million from the new members set-aside, of which \$3 million will be allocated for response to natural disasters and HIV AIDS, and \$2 million for technical assistance grants
- (b) Converting the allocation for Regional Projects from loans to grants of which \$1 million would be reallocated to technical assistance

11. Broadening of CDB's mandate to the wider Caribbean and expanding the membership and support base for SDF remain important and urgent priorities, and a number of steps are outlined in Section 6. These need to continue to receive urgent attention, and in several cases the support of member governments could be of considerable assistance. The attention of Contributors is drawn to the specific suggestions *in Section 6.2*, including those in *paras 6.22, 6.30, 6.34, 6.36, 6.39 and 6.42*. With respect to the joint European programmes providing assistance to the Caribbean, which remain interested in possible support from CDB in the utilization of EU funds available for the Caribbean, the nature of the relationship is likely to be dependent on the availability of EU funds, the views expressed by Cariforum members as the EU's dialogue partners, and the views of European members of CDB, as well as the type of assistance that CDB can most effectively provide. The interest and support of Cariforum countries, as well as of EU members of the CDB, will be essential in this regard. Support of non-borrowing regional members may also be of help in moving forward on the objective of early and productive discussions with the Dominican Republic as a prospective borrowing member of the Bank.

SDF 5 MID-TERM REALLOCATION OF RESOURCES

	Performance Ranking		Initial Indicative allocations 2001 ^a	GDP per capita 2001	Population 2001	CDB Vulnerability Index	Portfolio Performance (PPI) 2001	PRES ^b 2003	Projects Approved in 2001 & 2002	Adjusted Planning Figures for 2003 & 2004	Revised Planning Allocations for SDF 5
	2001	2003									
<i>No fixed allocations</i>											
Cayman Islands	3	5	-	44,571	41,400	3.15	4.00	3.66	-	-	-
British Virgin Islands	7	10	-	36,035	20,600	3.65	6.20	3.38	-	-	-
Bahamas	2	1	-	16,250	307,400	3.00	4.80	4.03	-	-	-
<i>Indicative country allocations</i>											
Anguilla	5	2	5,010	9,502	11,600	4.25	6.40	3.98	0	3,745	3,745
Antigua & Barbuda	17	17	2,480	9,055	75,800	3.70	4.70	2.15	395	1,364	1,760
Barbados	1	3	3,420	9,444	269,900	2.75	5.90	3.90	0	1,000	1,000
Belize	14	14	10,810	3,145	256,000	3.45	6.20	3.10	198	5,902	6,100
Dominica	15	16	5,970	3,696	71,200	3.35	6.50	2.46	4,800	3,960	7,760
Grenada	10	15	5,610	3,880	102,600	3.05	6.10	3.01	7,841	0	7,841
Guyana	16	13	21,540	920	774,800	3.55	6.70	3.13	705	24,665	25,370
Jamaica	9	9	12,300	2,977	2,609,300	3.50	6.50	3.40	8,274	0	8,274
Montserrat	6	8	3,480	8,063	4,300	3.80	1.50	3.50	0	1,180	1,180
St. Kitts & Nevis	13	12	3,660	7,487	45,900	3.65	6.00	3.16	6,900	1,000	7,900
St. Lucia	8	4	9,130	4,185	157,800	3.80	6.50	3.75	10,035	0	10,035
St. Vincent & the Grenadines	12	11	7,300	3,112	112,000	3.15	6.00	3.31	1,943	5,357	7,300
Turks & Caicos Islands	11	7	2,440	9,756	22,500	3.00	5.10	3.58	0	1,435	1,435
Trinidad & Tobago	4	6	3,770	7,069	1,266,800	2.30	6.10	3.65	1,000	0	1,000
Sub-totals			96,920	-	-	-	-	-	42,091	49,609	91,700
<i>Set-aside allocations-</i>											
Expected new members (Haiti and Suriname)			10,000	-	-	-	n.a.	n.a.	0	10,000	10,000
Regional projects			5,000	n.a.	n.a.	n.a.	n.a.	n.a.	0	2,000	0
Reserve for natural disasters, HIV/AIDS			15,000	n.a.	n.a.	n.a.	n.a.	n.a.	13,550	4,450	18,000
Grant funds for BNTF ^c			32,000	n.a.	n.a.	n.a.	n.a.	n.a.	32,000	0	32,000
Grant technical assistance			12,000	n.a.	n.a.	n.a.	n.a.	n.a.	6,729	5,271	12,000
Totals			170,920	-	-	-	-	-	94,370	71,330	165,700

^a Adjusted from figures shown in *SDF Annual Report 2001* to reflect an increase in the set-aside for BNTF to \$32 million.

^b Poverty Reduction Effectiveness Situation factor, based on an assessment of policy/institutional performance (see Table 3 in the text).

^c Allocated to BMCs concerned using the SDF 5 resource allocation formula.

APPENDIX B

CONTRIBUTIONS TO THE (UNIFIED) SPECIAL DEVELOPMENT FUND

(after transfers from earlier SDF and other adjustments) (US \$ '000)

	SDF I ^a	SDF II ^a	SDF III ^a	SDF IV ^a	SDF 5 ^b
Regional Members: BMCs					
Trinidad and Tobago	2,500	2,500	3,850	3,850	5,000
Jamaica	1,400	1,400	3,870	3,850	5,000
Guyana	1,400	1,400	2,160	2,160	2,810
Bahamas	1,400	1,400	2,160	2,160	2,810
Barbados	1,400	1,400	2,160	2,160	2,810
Antigua and Barbuda	250	250	162	250	320
Belize	250	250	650	650	840
Dominica	250	250	650	650	840
Grenada	250	250	650	650	840
St. Kitts and Nevis	250	250	650	650	840
St. Lucia	250	250	650	650	840
St. Vincent and the Grenadines	250	263	650	650	840
Cayman Islands	100	100	150	250	320
Anguilla	100	100	250	250	320
Turks and Caicos Islands	100	100	250	250	320
British Virgin Islands	100	100	250	250	320
Montserrat	100	100	250	250	320
Sub-Total	10,350	10,363	19,412	19,580	25,390
Regional Members: non-BMCs					
Colombia	5,000	3,333	5,000	3,000	3,600
Mexico	5,000	3,333	5,000	3,000	3,000
Venezuela	5,000	3,333	5,000	3,000	3,000
Sub-Total	15,000	10,000	15,000	9,000	9,600
Non-Regional Members					
Canada	60,865 ^c	15,000	20,000	16,800	25,200
United Kingdom	42,823 ^c	15,000	20,000	16,800	25,200
France ^e	21,000	10,000	14,000	11,760	^e
Italy	21,000	10,000	14,000	8,660	3,145
Germany	-	26,000	14,000	11,760	--
China	-	-	-	24,000 ^d	4,000
Sub-Total	145,689	76,000	82,000	89,780	57,545
Non-Members					
Netherlands	5,000	5,000	7,000	6,300	--
Sub-Total	5,000	5,000	7,000	6,300	--
TOTALS	176,039^c	101,362	123,412	124,660	92,535^f

^a At exchange rates as of dates of payment.

^b Amounts recorded in the SDF 5 Resolution, with applicable exchange rates where required.

^c Including contributions originally made to earlier special funds, i.e. larger than new contributions made to SDF I.

^d Joined subsequent to the Replenishment negotiations on SDF IV.

^e No longer a member.

^f Not including \$2,810,000 provided as contributions from expected new members.

APPENDIX C

AVAILABILITY AND USE OF RESOURCES (Commitment basis)

(US \$ '000)

	Actual					Projected									
	SDF I	SDF II	SDF III	SDF IV period		SDF 5 period									
	1984-1987	1988-1991	1992-1995	1996	1997	1998	1999	2000	1996-2000	2001	2002	2003	2004	2001-2004	2005
Commitment authority at beginning of period	0	37,400	13,600	38,300	41,800	46,800	49,800	38,200	38,300	16,300	5,600	6,300	2,200	16,300	1,700
Plus: Net Income	4,800	13,500	9,400	4,000	2,900	2,600	1,300	2,900	13,700	1,900	400	800	1,400	4,500	2,000
Less: Allocation from accumulated net income	(1,500)	(5,000)	0	(100)	0	(100)	(6,600) ^ε	(5,000) ^b	(11,800)	(5,500) ^a	0	0	0	(5,500)	0
Exchange rate adjustments	600	1,800	500	200	100	0	(200)	200	300	1,900	(1,800)	0	0	100	0
Net increase(decrease) to reserves	3,900	10,300	9,900	4,100	3,000	2,500	(5,500)	(1,900)	2,200	(1,700)	(1,400)	800	1,400	(900)	2,000
Plus: Repayments	6,400	11,300	25,000	8,900	8,300	9,500	9,000	10,700	46,400	14,000	15,500	11,700	16,100	57,300	16,700
Exchange rate adjustments	600	600	(2,700)	600	700	(1,000)	700	(1,700)	(2,100)	(1,100)	(6,000)	0	0	(7,100)	0
Net repayments	7,000	11,900	22,300	9,500	7,600	8,500	9,700	9,000	44,300	12,900	9,500	11,700	16,100	50,200	16,700
Commitment authority from new contributions	156,000	118,500	123,400	24,900	24,900	24,900	25,000	25,000	124,800	23,100	23,100	23,100	23,200	92,500	0
Exchange rate adjustments	0	400	(17,700)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(30,000)	1,900	1,900	1,900	1,900	7,600	0
Commitments - adjusted	156,000	118,900	105,700	18,900	18,900	18,900	19,000	19,000	94,800	25,000	25,000	25,000	25,100	100.1	0
Less:															
Approvals for SDF Loans	124,400	154,200	90,100	9,900	21,700	22,800	29,100	43,500	127,000	35,800	19,800	31,500	32,900	120.0	37,000
Less:															
Approvals for BNTF & TA	5,100	10,700	23,100	19,100	2,800	4,100	5,700	4,600	36,300	11,100	12,600	10,100	10,200	44,000	0
Commitment authority at end of period	37,400	13,600	38,300	41,800	46,800	49,800	38,200	16,300	16,300	5,600	6,300	2,200	1,700	1,700	(16,600)

^a Amounts transferred to HIPC fund for Guyana.

^b Transfer to the Microenterprise Guaranteed Fund approved by the Board of Directors.

PRES SCORING FOR INDICATIVE COUNTRY ALLOCATIONS^f

CRITERIA

D.1. The criteria for assessing a country’s policy/institutional performance, or *Poverty Reduction Effectiveness Situation (PRES)*, are similar to those used by other multilateral development banks, but considerably simpler. The resulting score, or allocation number, is used in the indicative allocation formula (see Box in Section 5 of the text) to provide 70% of the overall performance factor in the formula, with portfolio performance accounting for 30%. The criteria are as follows:

TABLE D.1: CRITERIA FOR ASSESSING POLICY/INSTITUTIONAL PERFORMANCE

Criteria	Weight
Socially inclusive development (equity, inclusion, poverty reduction)	25%
Structural policies (microeconomic management)	15%
Governance and public sector management	25%
Macroeconomic management (monetary, fiscal, external accounts)	25%
Environmental sustainability	10%

D.2. Each of the criteria is related to a number of factors, as set out below. The factors are not scored separately, nor do they have individual weights. They are considered together in assigning the score for a particular criterion.

SCORING SCALE

D.3. Each of the criteria is scored on a scale of 1 to 5, as shown in Table D.2.

TABLE D.2: PERFORMANCE SCORING SCALE

Score	Meaning
1	Unsatisfactory performance
2	Below average performance
3	Average performance
4	Above average performance
5	Very strong performance

SCORING PROCEDURES

D.4. Each BMC is scored on each criterion by a group of country economists, senior CDB managers and sector-specialist economists. This is a more collegial approach to performance assessment than is possible in other MDBs because the number of BMCs is small compared to the larger multilateral development banks.

D.5. All of the BMCs are scored against one criterion at a time. Scoring against each criterion is done in the following sequence of steps:

1. Taking all factors into account (guided by, but not limited to, those listed below), the group selects a benchmark BMC for the criterion in question. The benchmark country can be different for each criterion, if appropriate, or the same. The important thing is to agree

^fThis Appendix is included at the request of some Contributor governments as background to the initial indicative country allocation process that was approved by Contributors in the SDF 5 Replenishment negotiations and applied as discussed in Section 5 of the text of this report. It can be reviewed again for SDF 5I. The Appendix is drawn from Working Papers submitted to Contributors during the negotiations in 2001.

on a score against a particular country's performance. This facilitates relative scoring for all of the other BMCs. It does not matter what the benchmark score is. It can be 2.5 on one criterion and 5.0 on another. The benchmark country is chosen not because it is likely to receive any particular score, but because its performance and the appropriate score are clear. The score should reflect the quality of the country's current policy/institutional performance – not the country's intentions, nor its outcomes, which are influenced by many factors beyond its control, but the policy/institutional performance, which is within its control. The appropriate definition of "current" will depend on circumstances, but will normally be the past two or three years.

2. Each BMC is scored by its country economist first.
3. The group then ranks all BMCs in order on this criterion, grouping them when they are performing similarly.
4. Then, on the basis of the first three steps and a discussion of the pertinent factors, the group assigns a PRES score to each BMC on the criterion.
5. When each BMC has been scored on each of the five criteria, an average overall PRES score is calculated, as the sum of the criterion scores each multiplied by its weight.

GUIDE TO SCORING

Criterion 1 Socially-inclusive Development

D.6. This question addresses the extent to which a country has policies and institutions in place that maximize the social development of its people, and minimize poverty, given the country's level of income. The question covers:

- Empowerment and participation
- Equity and social safety nets
- Developing the human capital of the poor
- Enhancing the economic capital of the poor
- Framework for poverty monitoring/policy formation

Quantitative indicators:

"Relative Social Development [SD] Ratio": defined as the UNDP Human Development Index Number divided by GDP per capita at purchasing power parity. Countries that have a relatively high SD ratio have achieved a good level of social development relative to their income.

Gini coefficient, which measures the degree of income equality or inequality in the country.

Relevant Factors and Illustrative Benchmark Considerations

[Factor 1.1] Framework for Poverty Reduction Policy

Unsatisfactory or poor performance: Data on poverty rates and characteristics is scarce, unreliable and not gender disaggregated. There is no Poverty Assessment, or it is out-of-date. A national poverty reduction strategy does not exist, or is poorly designed. Government commitment to poverty reduction is weak. There is no strategy to involve the private and NGO sector in poverty reduction efforts.

Very strong performance: A national poverty strategy identifies the key problem areas accurately, and articulates a plausible poverty reduction strategy with specific time-bound actions. Priorities are identified. The strategy is backed up by the necessary budget allocations. There is an administrative focus

for direction and coordination. A wide range of stakeholders and partner organizations are involved in a coherent way.

[Factor 1.2] Enhancing the Economic Capital of the Poor

Unsatisfactory/ poor performance: The poor have a high incidence of malnutrition, unreliable tenure in housing and land, and poor access to credit and job opportunities. The level of public investment in rural infrastructure is low. The outreach of rural financial institutions is low, and few of these are commercially viable.

Very strong performance: Asset-creating anti-poverty programs reach the poor, especially women. Public investment in infrastructure in poor areas is high, and access of the poor to good water, electricity, and roads is good. School-feeding programs for children, and nutrition programs for women and children are widely available. Labour-intensive production is encouraged. Microcredit programs are generally available.

[Factor 1.3] Developing the Human Capital of the Poor

Unsatisfactory/ poor performance: The rural and urban poor, females and indigenous peoples, do not have access to basic education, nor are there significant adult education and functional literacy programs, and the quality of what is available is poor. Primary health care and family welfare facilities are inaccessible, and the budget allocation for primary health care, family welfare and basic education is inadequate.

Very strong performance: Almost all children complete a decent quality primary education. Government and NGO programs in adult/functional literacy have been successful in creating almost universal literacy. The health care system is broad-based and decentralized, with well-functioning primary and public health care services targeted at major childhood and adult diseases. Maternal, family welfare, and immunization programs have good outreach to the poor.

[Factor 1.4] Equity and Social Safety Nets

Unsatisfactory/ poor performance: There is neither an income-equalization nor a formal social security system. Few public programs exist to protect the handicapped and aged, and other vulnerable or destitute groups. Food security is poor. Program benefits tend to be captured by vested interests rather than reach intended beneficiaries. Private and public safety nets fail to reach chronically poor or vulnerable groups. The poor remain exceptionally vulnerable to natural disasters and changes in economic conditions.

Very strong performance: Equity and socially inclusive development is a high priority of the government, is well integrated into its development strategy, and is resourced as well as possible. Distributional objectives are seriously taken into account in the design of all economic policies, including fiscal policies. The pattern of public expenditure is strongly pro-poor. Labour codes protect children from harmful labour, and from sexual or military exploitation. Government regulation of insurance promotes access by the poor. Informal or formal schemes of insurance against various risks [such as crop failure, disability, loss of life, loss of employment, or natural disasters] are widely available at affordable rates.

[Factor 1.5] Gender, Empowerment and Participation

Unsatisfactory/ poor performance: Vulnerable and disadvantaged groups, including the poor, and women, participate little in government and civil society. There are few community-based organizations. Vertical patron-client networks reinforce inequality. Laws and/or social practices prevent or inhibit women or some socioeconomic groups from inheriting equally, obtaining

credit, having an equal voice in the community, owning land, inheriting property, taking up certain occupations, and having equal access to public services.

Very strong performance: The broad community, including the poor, participate actively in local government and civil society. The framework within which NGOs operate is excellent and encourages autonomy and many linkages horizontally. Laws that protect equality are effectively implemented. Government programs and labour markets have a good record of non-discrimination on ethnic, communal, and gender grounds. The government has a workable strategy and plan to address gender inequities, and to bring disadvantaged groups fully into the life of the society.

Criterion 2 Structural policies and microeconomic management

D.7. This question addresses the quality of the country's microeconomic policies and institutions. It covers the following:

- Trade policy and foreign trade regime
- Financial sector efficiency and soundness
- Enabling environment for the private sector
- Factor and products markets and prices

Quantitative indicators:

- Average tariffs, weighted by global trade flows [IMF index of trade restrictiveness⁴³]
- Diversification/concentration and stability/volatility of the financial sector
- Degree of State ownership in the production sector
- Frequency and degree of government price interventions and subsidies

Relevant Factors and Illustrative Benchmark Considerations***[Factor 2.1] Trade Policy and Foreign Exchange Regime***

Unsatisfactory/ poor performance: The trade system is highly restrictive, with high average tariffs; formal and informal trade barriers, exacerbated by cumbersome procedures and ad hoc exemptions. Foreign exchange is rationed and different exchange rates are used for different transactions.

Very strong performance: Tariffs average about 5% or less. There are few or no quotas and formal and informal trade barriers are few and weak. Dispersion in customs duties rates is low. The interbank foreign exchange market functions well and there is a single exchange rate for all current account transactions.

[Factor 2.2] Financial sector efficiency and soundness

Unsatisfactory/ poor performance: The sector is dominated by a very small number of banks and barriers to entry are high. Non-bank financial institutions are few and insignificant. Real interest rates are negative or very high and unstable. The spread between deposit and lending rates is large. There is a large amount of directed credit. Prudential regulation is weak. Non-performing loans are high, and poor loan classification practices minimize transparency. There is no regulatory agency, or its autonomy is limited. Supervision and enforcement are poor.

Very strong performance: The financial sector is diverse and competitive, and has depth and maturity. Ownership is private and diverse. Real interest rates are stable and positive. Barriers to entry are low. Credit flows are driven by commercial evaluation. Internationally accepted norms of income recognition, provisioning and loan classification are enforced. Supervision is independent and effective. The rate of non-performing loans is known and manageable. Quality of management and internal governance are considered adequate.

[Factor 2.3] Factor and product markets and prices

Unsatisfactory/ poor performance: Prices and wages are government controlled, and interventions in the product markets are frequent and extensive. Major barriers exist to entry and exit. Property rights are weak. Monopolistic and restrictive trade practices are unregulated. Price distortions are significant.

Very strong performance: Prices and wages are market determined, and markets are competitive. Exit policies permit enterprise restructuring and liquidation. Controls and regulations on land and labour markets are few and justified on grounds of welfare, efficiency or safety.

[Factor 2.4] Enabling Environment for Private Sector Development

Unsatisfactory/ poor performance: Government policies inhibit private sector development. The state owns and operates many enterprises. Industrial licensing harms entrepreneurial activity. Cumbersome regulations and administrative practices raise the costs of doing business and stifle incentives. Access to credit is limited for private sector entities.

Very strong performance: Entry and exit are unrestricted in virtually all sectors, without licensing requirements. Laws and regulations are simple and do not unduly increase the cost of doing business. The general government policy stance is to leave business and commerce to the private sector.

Criterion 3 Governance and Public Sector Management

D.8. This addresses core areas of good governance and public sector management. Factors include:

- Property rights and rule-based governance
- Revenue mobilization and budgetary management
- Management and efficiency of public expenditures
- Accountability and transparency in the public sector
- Anti-corruption policies and practices

Quantitative indicators:

- International governance ratings
- Amnesty international rating
- Size and efficiency of the public service
- Degree of independence of the national audit institution

Relevant Factors and Illustrative Benchmark Considerations

[Factor 3.1] Property rights and rules based governance

Unsatisfactory/ poor performance: Property rights are not well defined or are subject to arbitrary actions. Laws governing business transactions and entities are weak, out-of-date or confused. Access to judicial, administrative and regulatory bodies is limited, and discretion is excessive and non-transparent. Corruption in the judicial and regulatory systems is widespread.

Very strong performance: Private property rights are well defined and well protected. Contracts are enforceable. The judiciary is strong and independent. The business framework is clear and effective. Business regulations have been simplified to facilitate ease of compliance. Access to judicial, administrative and other regulatory systems is effective and equal. People have confidence in proper business relations.

[Factor 3.2] Anticorruption and Accountability Institutions

Unsatisfactory/ poor performance: The country ranks poorly in comparison with other BMCs in international corruption perception rankings. Aid-funded projects encounter repeated delays and problems, some of which are related to corruption. Anticorruption institutions are weak and lack autonomy. The national audit body is ineffective and accountability of the executive to the

legislature is weak. Few politicians and civil servants are sanctioned for corruption, particularly those who are powerful or politically well connected.

Very strong performance: Cases of corruption are infrequent and isolated. The government is strongly committed to fighting corruption and has strong and independent vigilance institutions in place, operating within an appropriate legal framework. Laws for anticorruption cover all public officials including the head of the executive. An effective independent audit institution and a strong committee of the legislature work to enforce accountability of the executive branch of government.

[Factor 3.3] Civil Service

Unsatisfactory/ poor performance: The civil service is intrinsically weak, with a narrow skill base and patronage hires are common. Institutional capacity for policy formulation and program implementation is poor. Pay and productivity is low and absentee rates high and ‘ghost workers’ common. Rules are frequently violated and accountability is poor.

Very strong performance: A mature civil service is in place, comprising an adequate but not excessive number of honest, productive and technically competent staff. Recruitment and promotion is transparent and merit-based. Pay is adequate but not excessive. Capacity for policy formulation and program implementation is good. Appropriate procedures are in place for human development and career management, and to ensure integrity.

[Factor 3.4] Revenue mobilization and budgetary management

Unsatisfactory/ poor performance: Tax laws and administration are unclear and unreliable. Compliance, enforcement and collections are poor. Administration is frequently arbitrary or corrupt. Budget estimates tend to be unrealistic and inaccurate. Budget coverage is narrow and extra-budgetary expenditures common. Budget management is poor, and cash is released to spending agencies in unpredictable and discretionary ways. Financial controls are lax.

Very strong performance: Tax laws are clear, progressive and well administered. Exemptions are few and non-discretionary. Tax administration is reasonably competent and robust, and tax evasion is infrequent. Revenue forecasts are reliable. Fiscal probity and transparency are good. The budget is formulated in a multi-year perspective and execution tends to be close to plan. Cash is released to spending agencies on a predictable schedule and according to plan. Amendments to the Budget are limited and require formal approval of the legislature. The policy-budget link is strong, and financial control and due process are good.

[Factor 3.5] Management and efficiency of public expenditures

Unsatisfactory/ poor performance: Capital expenditures are erratic and minimal compared with current expenditures and open-ended subsidies. Expenditure programming is weak and not linked to expected program results or actual performance. Allocations are arbitrary and subject to interest group pressure. Unproductive or wasteful expenditures are often made. Public expenditure decisions are ad hoc and often unrelated to appropriations and plans. Weak linkages between line ministries and the ministry of finance results in public investment decision-making that is not effective. Auditing of public spending is weak or does not exist.

Very strong performance: The public investment program is constituted on a sound basis, with appropriate linkages between the ministries and the central agencies. Capital budgeting is mature, and investment is given appropriate weight in the overall budget. Some form of performance-based expenditure budgeting has been instituted, and allocations are linked to program benefits and devaluated past performance. There are institutional processes for

reviewing program effectiveness. Audit reports on public expenditures are done professionally and on time, and submitted to the legislature.

Criterion 4 Macroeconomic management

D.9. This question addresses whether a country has appropriate, coordinated and effective policies and institutions for managing its overall economy. The factors to be considered include:

Fiscal policy

Monetary policy

Current account and external debt management

Quantitative indicators [to be considered in the context of current economic conditions]:

Inflation rate

Budget deficit or surplus

Current account deficit/surplus

Relevant Factors and Illustrative Benchmark Considerations

[Factor 4.1] Fiscal policy

Unsatisfactory/ poor performance: The government has an unsustainable fiscal deficit. The budget stance is not pro-poor. Fiscal policy is unclear and unstable. Tax revenues are inadequate, given the levels of income in the country. Current expenditures absorb most of government revenue.

Very strong performance: The fiscal position is sustainable and the budget pro-poor. The primary operating budget is in surplus. Public savings finance most public investment. Tax and resource mobilization efforts are robust.

[Factor 4.2] Monetary policy

Unsatisfactory/ poor performance: Inflation is high and accelerating. The government does not have explicit monetary objectives or strategies to pursue them. The exchange rate policy is inconsistent with other macroeconomic policies. The central bank has little autonomy to pursue monetary policy targets. Monetary policy instruments, if any, are based on direct controls and government decree.

Very strong performance: Inflation rate is low [3-5%] or has been brought down sharply. The government has set monetary objectives, and the central bank has considerable independence in pursuing monetary goals. Instruments used to realize monetary policy goals are predominantly indirect and market-based. Direct controls are little used. Exchange rate policy is consistent with other macroeconomic policies.

[Factor 4.3] External financing policies

Unsatisfactory/ poor performance: There are large and persistent current account deficits. External debt repayments are in arrears. No agreed strategy for debt restructuring or for improving debt-servicing capacity exists. Short-term credits are relied on excessively to finance current account deficits.

Very strong performance: The current account is in surplus, or deficits are modest and sustainable. Debt service is current. Prospects for foreign exchange earnings are good. Most external debt is medium or long term, and the country has the capacity to service its debt. The government has a sound external debt management system.

Criterion 5 Environmental Sustainability

D.10. This question assesses the extent to which the country has environmental policies and institutions that contribute appropriately to the welfare of the poor by fostering the sustainable use of natural resources and managing pollution. Factors include:

Environmental laws, regulations and institutions

Environmentally damaging subsidies and other damaging practices

Quantitative indicators:

Pollution:

- ? Air pollution levels in the capital and/or major towns
- ? Rates of sewage waste water treated before discharge into waterways
- ? Levels of industrial or oil spillage pollution

Sustainable resource management:

- ? Depletion rates for natural resources
- ? Loss rates for agricultural land to other uses
- ? Implementation of sustainable energy plans

Relevant Factors and Illustrative Benchmark Considerations***[Factor 5.1] Environmental laws, regulations and institutions***

Unsatisfactory/ poor performance:

Pollution: There are inadequate laws and institutions for protecting the environment. There are few, if any, effective deterrents to activities and practices that result in serious air, water, land and noise pollution. Pollution standards are unclear and enforcement absent.

Natural resources: Laws to safeguard forest cover, coastal resources and other natural amenities are not in place. Resources are depleted without control or replacement.

Very strong performance:

Pollution: There is legislation to protect the environment, with adequate incentives and penalties that are enforced. There is a system for professional inspections of industrial facilities and general environmental testing. Waste is fully treated before emission into the natural environment.

Natural resources: Forestry, mining and fishing are regulated to ensure sustainability. A reasonable proportion of lands is set aside for nature reserves and parks.

[Factor 5.2] Environmentally damaging subsidies and other damaging practices

Unsatisfactory/ poor performance: There are subsidies that encourage overuse and misuse of resources in sectors such as power, fertilizers and pesticides, water and irrigation, mining and fisheries. Distortions and long-run environmental risks are not being addressed. Subsidies and/or ownership tenure structures promote unsustainable depletion of natural resources. Excessive use of polluting substances is encouraged by ill-targeted subsidies.

Very strong performance: The government is aware of the damage that can be caused by ill-targeted subsidies, and has acted to discontinue such practices where they existed. Polluters are charged fees and fines at least equal to the costs of adopting clean practices. Taxes, fees and tradable permits encourage efficient management of pollution emissions. Water and sanitation services are financially self-sustainable through user fees. For natural resources there are clear property rights and transparent mechanisms for the allocation of concessions and quotas.

END NOTES:

¹ *Resolution of Contributors and Report on Negotiations for SDF 5*, December 2001. These are the decision documents for the Replenishment, and represent an agreement between the Bank and the Contributor governments.

² *Report of Contributors to SDF 5*, para. 162.

³ *Performance Review: Special Development Fund Cycle IV, Final Report*, September 2000.

⁴ The SDF 5 Operational Strategy includes the objective of shifting the balance between regional and national-level TA from roughly 40%/60% in SDF IV to 25%/75% under SDF 5 (page 56, para. A3.88 in the *Report of Contributors*).

⁵ TA for regional projects in 2001 and 2002 involved commitments of \$4.5 million out of total SDF-funded TA of \$7.4 million, or somewhat more than 60%.

⁶ *Report of Contributors*, section 5 paras. 57-77.

⁷ *Report of Contributors*, Appendix 3.

⁸ As a concept, this was proposed by the Acting Governor for the United Kingdom, in his address to the 30th Annual Meeting of the Board of Governors, and developed further in the Bank's preparatory work for the Replenishment negotiations.

⁹ The *Performance Review* for SDF IV included as programmes of direct benefit to the poor: the Basic Needs Trust Fund and other social and community investment in poor communities, support for micro and small enterprises, rural enterprise development, low income housing, basic education, and the important "safety net" support provided by CDB's disaster response programmes. These programmes totaled some 55% of SDF IV commitments. The response to Hurricane Lenny, however, was a significant influence on the final level of such programmes, and without this factor the percentage was 49%.

¹⁰ *Special Development Fund: Annual Report 2002*, April 2003, section 4.

¹¹ *Annual Report 2002*, section 5.

¹² *Performance Review*, Chapter 3.

¹³ *Ibid.*, page 24, Table 3-3.

¹⁴ In January 1999, the MDB Evaluation Cooperation Group agreed on a preliminary set of evaluation criteria for public sector projects. In the following months the Group held five workshops that refined the criteria and worked to standardize terminology. This effort was financed by the Swiss Agency for Development Cooperation. On October 11, 1999, the Group agreed on a final set of eight criteria (MDB Evaluation Cooperation Group [ECG], *Harmonization of Evaluation Criteria Among the Multilateral Development Banks*, December 1999).

¹⁵ CDB, *Project Performance Evaluation*, Working Paper, SDF 5/2 NM 6 WP01/1, January 27, 2001,

¹⁶ *Report of Contributors*, paras. 143-150.

¹⁷ *Report of Contributors, ibid.*, and *Summary of Conclusions*, paras. 27 and 28.

¹⁸ This differs from the system used prior to 2001 for calculating the PPI, for which a rated weighting system was used to track projects according to several performance criteria. Contributors noted that on this basis the quality of the portfolio had improved during SDF IV, with an increase in the overall PPI in use at that time from 68 to 74.

¹⁹ CDB, *Annual Review of the Performance of the Project/Loan Portfolio Under Implementation for the Year Ended December 31, 2001*, Paper BD 66/02, September 2002.

²⁰ "Relevance" is defined as "Consistency of project with (i) Country's overall development strategy, and the MDB's assistance strategy for the country [reflected in the Country Assistance Strategy, CAS, or equivalent], and (ii) the MDB's statutory requirements, comparative advantage and policy priorities. The relevance evaluation refers to current circumstances, i.e. it is based on (i) and (ii) above as they stand at the time of evaluation, and at Board approval, if different at that time. Any changes introduced in the project since Board approval should be taken into account.

²¹ "Efficacy" is defined as the extent to which project achieved development objectives articulated at approval and specified in categories such as policy goals, physical, financial, institutional, social and environmental, recognizing any change introduced in the project since Board approval.

²² "Efficiency" is defined as the extent to which the project benefits, actual or expected at the time of evaluation, are commensurate with inputs, looking at cost and implementation time. Economic and financial rates of return should be used or, if not possible, other measures of cost effectiveness.

²³ "Sustainability" is defined as the likelihood that project results, actual or expected at the time of evaluation, will be maintained over the intended useful project life (there is a need for consistency on anticipated life with the economic rate of return calculation for efficiency where applicable). Eight factors are to be considered in establishing likely sustainability (no priority ranking intended). These are: technical soundness, government commitment including supportive legal and regulatory framework, socio-political support, economic viability,

financial viability, institutional and organizational and management effectiveness, environmental impact, and resilience to exogenous factors.

²⁴ The PCR is in effect the final supervision report of the implementation phase. It indicates the extent to which the objectives specified in the original appraisal of the project are likely to be achieved. It re-estimates, wherever applicable, the financial and economic rates of return in the light of actual experience. It also includes an assessment of the performance of the CDB, the borrower, the executing agent, and other individuals and organizations that may have had a significant role in the implementation of the project. Conclusions are drawn and lessons learned indicated. Follow-up actions by the CDB, the borrower and/or the executing agent, which are necessary for the project to operate effectively, are outlined in the PCR.

²⁵ CDB, *Guidelines for Post-Evaluation*, Volume 4, October 1992, PPM 401

²⁶ “Some BMCs have made remarkable progress while others have lagged behind. Recent studies on aid effectiveness have explained this mixed record in terms of differences in the quality of policies, institutions and governance. In settings where poor policies were pursued, or where the institutional environment was weak, aid has not worked. Not surprisingly, where policies were sound and institutions strong, aid has accelerated the process of poverty-reducing growth. It follows that to realize the overarching goal of poverty reduction, a MDB must strengthen the linkage between performance and the allocation of scarce resources among countries.” Asian Development Bank, *Performance Based Allocation of ADF Resources*, Asian Development Fund Donor's Meeting, Chiang Mai, May 2000, p.1

²⁷ *Report of Contributors to SDF 5*, Section 6, paras. 78-91 and Appendix 4.

²⁸ CDB, *Allocation of Special Development Fund Resources (Fifth Cycle)*, Working Paper, May 2001, SDF 5/3 NM-5, WP01/5.

²⁹ Indicative country allocations were developed in December 2001. Adjustments to reflect a lower level of contributions than envisaged in the Replenishment were approved by the Board of Directors and subsequently accepted by the Annual Meeting of SDF Contributors in May 2002.

³⁰ *SDF Annual Report 2001*.

³¹ *Report of Contributors*, para. 172.

³² IDA donors have supported involving development partners more cooperatively in resource allocation deliberations. IDA 12 Final Document stated that the World Bank should “take into account lessons emerging from operational experience and advice from inside and outside the World Bank, including from IDA borrowers.” The details of the CPIA questionnaire have been posted on the World Bank’s external website and shared with most multilateral and some bilateral donors. But this has yet to develop into a two-way street by which the Bank receives outside advice. A number of pertinent recommendations, however, did emerge from the February 1999 roundtable on the topic of resource allocation, convened by DFID in London.

³³ *Report of Contributors*, paras. 74-76.

³⁴ *Ibid.*, para. 158.

³⁵ *Ibid.*, para. 163.

³⁶ *Ibid.*, para. 164 and *Summary of Conclusions*, page 6, para.39.

³⁷ Commitment authority consists of the total funding available for new commitments as of a given date, inclusive of net income, repayments and new contributions available for this purpose as of that date, less commitments already made. This authority is reduced as new loan or grant commitments are made, and is increased as net income and repayments become available. It is also adjusted to reflect the net effect of exchange rate adjustments over time. Forward projections are, therefore, subject to change, as in the case of other MDB concessional funds.

³⁸ *Report of Contributors*, para. 89.

³⁹ *Report of Contributors*, paras. 36-40.

⁴⁰ *Report of Contributors*, para. 39.

⁴¹ *Report of Contributors*, para. 40.

⁴² BNTF commitments are normally earmarked at the beginning of a new programme period, and the total allocation for BNTF V is shown as commitments on a programme basis in 2001. Funds are, however, committed to actual sub-projects over time, and the pro-rating of BNTF V on an annualized basis over the SDF 5 period, together with other grant commitments made or projected in each year, provides a better reflection of the programme’s momentum over time.

⁴³ IMF, *Trade Liberalization in IMF-Supported Programs*, Washington D.C., 1998.

SECTION A

CARIBBEAN DEVELOPMENT BANK

SDF 5 MID-TERM REVIEW

ACTION PLAN ON RECOMMENDATIONS OF SDF 4 PERFORMANCE REVIEW

STATUS AS OF DECEMBER 31, 2003

As requested by Contributors, the attached document has been prepared for consideration by the Mid-Term Review.

January 2004

ACTION PLAN ON RECOMMENDATIONS OF SDF 4 PERFORMANCE REVIEW:STATUS AS OF DECEMBER 2003

RECOMMENDATION	CDB'S RESPONSE	RESPON- SIBILITY	RESOURCES	ACTION STATUS AS OF DECEMBER 2003
<p>1. Poverty reduction should be the main focus of SDF programming. This should include both targeted poverty reduction programs and use of a <i>poverty prism</i> through which other projects are viewed during selection, appraisal and implementation, complemented by a closely related <i>vulnerability prism</i>, in which project design is consciously tailored to the objective of strengthening the ability of BMC economies to withstand the shocks of natural disasters and economic adjustments and dislocations.</p>	<p>? Recommendation was accepted as consistent with CDB strategic objectives, and incorporated in SDF 5 Operational Strategy, as endorsed by SDF Contributors.</p> <p>? Working paper and subsequent policy paper on poverty reduction would be prepared.</p> <p>? Operational Guidelines for application of a "poverty prism" and "vulnerability prism" were planned, with an original target date of October 2001.</p> <p>? Decision subsequently taken to revise CDB's detailed operational guidelines over a wider range of operational processes, following Projects Dept reorganization and an initial period of consolidation. Initial guidelines for application of the poverty prism, however, are being developed as part of the planned policy and strategy paper.</p>	<p>? PD</p>	<p>? SDF 5 for implementation.</p> <p>? External (DFID) resources have been used to support development of policy & strategy paper with initial operational guidelines.</p> <p>? FY 2004 Admin. Budget for development of detailed operational guidelines over a wider range of operational procedures.</p>	<p>? Endorsed by SDF Contributors. Working paper on poverty reduction submitted to SDF Contributors May 2001.</p> <p>? Concept paper on Operational Guidelines completed July 2001.</p> <p>? Development and application of poverty and vulnerability prism concept applied in SDF 5 programming to date.</p> <p>? CDB's guidelines for social analysis of development projects revised and updated and training provided (January-June 2002), with formal adoption in March 2003.</p> <p><i>Next steps:</i></p> <p>? Strategy paper on poverty reduction with operational guidelines to be submitted to Board in March 2004. Detailed Board consideration to be scheduled.</p> <p>? Programme concepts for Haiti under preparation for discussion with the Gov't</p> <p>? Further and more detailed operational guidelines for a range of CDB's operational processes will be developed, and this is scheduled for 2004.</p>
<p>2. Access to SDF resources should be adjusted and tailored to both the new evidence of poverty in the BMCs and differences in vulnerability.</p>	<p>? Recommendation was accepted and methodology including both needs-based and performance-based criteria was developed for review and approval by SDF Contributors and subsequently implemented (see <i>Action Status</i>).</p>	<p>? CPD/ EAP</p>	<p>? Admin. Budget</p>	<p>? Working Paper on SDF resource allocation reviewed by Contributors March 2001.</p> <p>? Revised WP/proposed strategy considered by Contributors May 2001 and agreed July 2001.</p> <p>? New approach to SDF resource allocation applied for SDF 5 December 2001. Also applied to initial BNTF V resource allocation.</p> <p>:</p> <p>? SDF 5 resource allocation reviewed and adjusted at Mid-Term as of April/May 2003. Resource allocation strategy will also be applied to Canada's special BNTF fund.</p>

RECOMMENDATION	CDB'S RESPONSE	RESPON-SIBILITY	RESOURCES	ACTION STATUS AS OF DECEMBER 2003
<p>3. Early completion of poverty assessments for the remaining BMCs should be a major priority for the first year of the new replenishment cycle, and should be followed by an updating of earlier poverty assessments on a 3 to 5-year cycle.</p>	<p>? Recommendation was accepted, and incorporated in SDF 5 Operational Programme for Action. ? Completion of initial round of country poverty assessments was envisaged for FY 2001 and FY2002 [see <i>Action Status</i>].</p>	<p>? PD</p>	<p>? Necessary funding has been provided by DFID. CDB staff support financed from Admin Budget.</p>	<p>? Six CPAs were completed up to 2001 with funding from CDB, DFID, CIDA, UNDP and others. Three further CPAs have since been completed with DFID funding. ? Three CPAs were undertaken up to 2001 with WB and IDB assistance. One further CPA is being completed with IDB help. A new CPA has been done for Guyana with UNDP support and a CPA update has begun for Belize with DFID help. ? Three draft CPAs coordinated by CDB completed and reviewed by NATs and donors in 2003. <i>Next steps:</i> ? CDB has offered assistance for 2 other CPAs, and follow-up is expected. ? DFID has included some funding to CDB to update other CPAs but the resources are required for full updates.</p>
<p>4. Priority should be given to the early completion of a poverty reduction strategy paper that covers all BMCs and all relevant aspects of the Bank's activities. This should become the basis for a poverty reduction policy paper to be presented to the Board in 2001.</p>	<p>? Recommendation was accepted. ? As noted under 1, working paper and subsequent policy paper were to be prepared on poverty reduction. Original target date for policy paper was end of FY2001.</p>	<p>?</p>	<p>? Admin. Budget.</p>	<p>? As noted in Item 1, Working Paper was considered by SDF Contributors May 2001. ? Revised WP considered by Contributors July 2001. and provided basis for approved SDF 5 strategy. <i>Next steps:</i> ? As noted in Item 1, Strategy paper is now to be submitted in March 2004, and detailed Board consideration is to be scheduled.</p>
<p>5. Country strategies should be continued and strengthened as a principal means of programming for all CDB activities.</p>	<p>? Recommendation accepted. Reaffirmed in SDF 5 Replenishment documents. Endorsed by SDF Contributors.</p>	<p>? EAP/PD</p>	<p>? Admin. Budget.</p>	<p>? Strengthening of the country strategy process has continued. Country strategy for Guyana 2002-2004 completed and those for Trinidad & Tobago, St. Kitts/Nevis and St. Vincent & Grenadines are well-advanced, together with documents under preparation for three other BMCs.</p>
<p>6. Basic Needs Trust Fund has proved its worth and should be continued, possibly at an increased level of funding.</p>	<p>? Recommendation was accepted. ? Increased level of funding in SDF 5 was proposed to Contributors as part of SDF 5 Operational Strategy and was subsequently endorsed by Contributors.</p>	<p>? PD</p>	<p>? SDF 5 and additional donor financing.</p>	<p>? Increased level of \$32 mil. approved for BNTF V. ? Additional parallel funding of Cdn\$38 mil. to be provided by Canada. ? Programme strengthening has been undertaken, <i>inter alia</i>, by use of Poverty Reduction Action Plans. ? BNTF V implementation underway.</p>

RECOMMENDATION	CDB'S RESPONSE	RESPON- SIBILITY	RESOURCES	ACTION STATUS AS OF DECEMBER 2003
7. Basic education, low-income housing finance and micro-enterprise programmes should be reviewed to strengthen their focus on the very poor.	? Recommendation was accepted, and implementation was to be examined in context of project design.	? PD	? Admin. Budget and agreement with DFID.	? Programming in these three areas have been reviewed and their poverty focus further strengthened. Basic education projects have included emphasis on poorer rural areas. Low-income housing lines of credit include special mortgage programmes for the poor. New initiative for micro enterprise finance extends to several BMCs. Policy Paper on Human Resource Development includes specific referencethese programmes.
8. The Bank's poverty reduction programmes need a modern and effective system of performance evaluation. BNTF needs to be a part of this evaluation system.	? Recommendation was accepted. ? New project monitoring and evaluation system (PPES) has been approved and implemented [see <i>Action Status</i>].	? PD/ OED/ I&TMSD	? Admin. Budget.	? A new Project Performance Evaluation System (PPES) has been implemented beginning in FY2001 and its use is being extended throughout the project cycle. The system gives greater visibility and weight to poverty reduction than do similar systems in other MDBs, and CDB is building experience with it. [See also Item 22.]
9. Poverty reduction programme development needs clear and comprehensive databases for purposes of analysis, programme design and monitoring by management.	? Recommendation was accepted in principle. ? Design was to be developed.	? PD/ I&TMSD	? Add'l resources may be needed for completing performance records and further database development.	? CDB is working with other development partners (DFID, EU, UNDP) to improve the collection and analysis of socio-economic data in the BMCs. In the meantime, the Bank's appraisal reports and the PPES, utilizing information from country poverty assessments, provide reasonably adequate information to facilitate the monitoring of CDB's poverty programme.
10. Human resource development should continue to be a high priority for use of SDF resources, with appropriate leveraging of OCR and other funds.	? Recommendation was accepted. ? Incorporated in Operational Strategy for SDF 5.	? PD	? SDF 5	? FY2001-2004 for implementation. ? HRD has remained a high priority, accounting for 15.6% of new commitments in the first 2 years of SDF 5, which is somewhat higher than for SDF 4. These commitments have involved substantial leveraging, with OCR and other CDB resources for these same projects amounting to 120% of the SDF funds. CDB's overall pipeline (SDF/OCR) is currently about 36% in HRD projects.
11. Investments in HRD should be developed, where possible, in the context of country HRD strategies, and in their design and implementation should be viewed through poverty and vulnerability prisms.	? Recommendation was accepted.	? PD	? SDF 5	? CDB support for HRD has been undertaken in the context of country strategies, including the OECS sub-regional educational development strategy for 2000-10 <i>Pillars for Partnership and Progress</i> . Poverty reduction relevance and impact is assessed for all projects, and social sector analysis has been strengthened.

RECOMMENDATION	CDB'S RESPONSE	RESPON-SIBILITY	RESOURCES	ACTION STATUS AS OF DECEMBER 2003
12. The Bank's policy framework for HRD should be revisited as part of a poverty reduction strategy paper.	? Recommendation was accepted. ? Policy and strategy papers on poverty reduction were to be prepared, as noted in Item 1. above.	? PD	? Admin. Budget.	? Working paper on poverty reduction presented to SDF Contributors May 2001. Revised WP submitted July 2001. <i>Next steps:</i> ? Poverty reduction strategy paper, including capability enhancement, to be submitted March 2004.
13. The planned evaluation of the student loan programme should be completed in time to provide a basis for programme decisions with respect to SDF 5.	? Recommendation was accepted. ? Original target date for commissioning of evaluation was FY 2001. Deferred pending PD reorganization.	? PD	? Admin. Budget	? Increased focus on the poor has been introduced in the SL programme with different criteria for the poor, pending full evaluation of the programme. <i>Next steps:</i> ? Evaluation is now to be commissioned in the 1 st Qtr 2004.
14. The Bank should continue to give attention to the environment and to waste management, disaster mitigation and, as appropriate, water supply, using its comparative advantage in terms of local knowledge and experience.	? Recommendation was accepted. ? Incorporated in SDF 5 Operational Strategy.	? PD	? SDF 5	? CDB programming has continued to give strong emphasis to these sectors. Focus on disaster mitigation will be further strengthened through joint CDB/USAID supported Disaster Mitigation Facility for the Caribbean (DMFC).
15. Consideration should be given to an evaluation of the Bank's Environmental Impact Assessment (EIA) requirements and procedures covering their effectiveness, performance and impact in project operations.	? Consideration being given to the recommendation and the proposed objectives and scope of such as evaluation.	? PD	? Admin. Budget.	<i>Next steps:</i> ? Terms of Reference are currently under preparation for an evaluation of the effectiveness and impact of the Bank's EIA requirements and procedures as set out in the recommendations of the <i>Performance Review</i> . This will assess: - The use and effectiveness of the environmental screening and categorisation process in relation to the project cycle with emphasis on CDB's internal functions and processes; - Adequacy of environmental mitigation plans in project and program design to address environmental issues; - Suitability and adequacy of environmental monitoring indicators used in the appraisal process; - Supervision performance with respect to environmental mitigation measures for projects subject to full EIA; - Borrower/executing agency compliance in the implementation of agreed environmental measures; and - CDB's experience in implementing EIA requirements and procedures, identifying opportunities for strengthening the Bank's internal processes, and highlighting good practices that can be used to increase awareness of the importance for sound environment and natural resources management

RECOMMENDATION	CDB'S RESPONSE	RESPON- SIBILITY	RESOURCES	ACTION STATUS AS OF DECEMBER 2003
				in the Region.
16. Projects in environment, water supply, waste management and disaster mitigation should be viewed through the poverty and vulnerability prisms during project design and implementation.	? Recommendation was accepted. ? Incorporated in SDF 5 Operational Strategy.	? PD	? Admin. Budget	? All projects are now expected to be considered in terms of the poverty and vulnerability prism, and social analysis has been strengthened, and new training programs have been undertaken for this purpose. The new PPES also requires and supports an assessment of the poverty relevance of every project [Item 8].
17. Governance and institutional strengthening should continue to be a high priority in the next SDF funding cycle. Areas also proposed for principal focus.	? Recommendation was accepted. ? Incorporated in SDF 5 Operational Strategy.	? PD	? SDF V	? FY2001-2004 for implementation. ? Policy framework has been developed in working paper form and subsequently as a strategy paper [see Item 18.]
18. The planned policy paper on technical assistance and institutional strengthening should be completed in time to be considered by Contributors in connection with SDF replenishment. This should set out a policy and programme framework, establish clear objectives and provide a more selective focus for regional interventions in particular, i.e. a regional strategy.	? Recommendation was accepted. ? Working paper on governance and institutional development focus for TA was to be prepared. ? Policy paper on governance, institutional development and regional action to follow. Original target date was September 2001.	? PD	? Approved staff resources.	? Working paper on governance and institutional development focus reviewed by SDF Contributors May 2001. Revised WP reviewed in July 2001. ? Strategy paper on governance and institutional development approved by Board of Directors circulated in December 2003. ?
19. Two programs that have received reduced funding during SDF 4, CTCS and project cycle training, should be revisited as part of the planning process for SDF 5.	? Recommendation was accepted. ? Some increase in funding for CTCS was proposed in SDF 5 Operational Strategy. ? Project cycle training was to strengthen national level focus. Possible evaluation to assist in programme design was under consideration.	? PD	? Approved staff resources.	? Funding for CTCS has been increased. To be administered with private sector program under new private sector strategy, with continued focus on small and micro enterprises. <i>Next steps:</i> ? Design of a more focused investment appraisal course incorporating key current issues such as stakeholder input and social/poverty reduction impact and environmental analysis is under development. ? Regional and national level courses in project cycle management are being strengthened with a view to greater focus on project implementation management, performance monitoring and performance reporting.

RECOMMENDATION	CDB'S RESPONSE	RESPON- SIBILITY	RESOURCES	ACTION STATUS AS OF DECEMBER 2003
20. Adequate staff supervision time needs to be available for technical assistance projects.	<ul style="list-style-type: none"> ? Recommendation was accepted. ? Increased focus for T.A. activities was proposed in SDF 5 Operational Strategy. This was to be developed further in governance working paper. 	? PD	? Approved staff resources.	<ul style="list-style-type: none"> ? As noted in Item 18, policy framework to provide improved focus for TA has been developed in working paper and subsequent strategy paper on governance and institutional development. ? New Projects Dept organization provides for increased attention to project supervision and this should include TA supervision. <p><i>Next steps:</i></p> <ul style="list-style-type: none"> ? T.A. monitoring should be further strengthened by new <i>country focus</i> responsibility designation (see Item 24.). ?
21. Priority areas of infrastructure can in future be largely dealt with under other SDF themes without a separate category. Flexibility might be retained where use of poverty and vulnerability prisms can yield an effective design likely to have high socio-economic returns and meet SDF objectives.	<ul style="list-style-type: none"> ? Recommendation accepted. ? Reflected in proposed SDF 5 Operational Strategy. 	? PD	? SDF 5	? Project appraisal process has been widened to increase the focus on social and environmental aspects of project design, including extensive consultations with all stakeholders [<i>see also Item 16</i>].
22. The objective of developing and introducing a more integrated and modern Bank-wide system to gather and use performance information is an important priority.	<ul style="list-style-type: none"> ? Recommendation accepted. ? Design of new project monitoring and evaluation system has been completed and implemented. 	? PD/ ? OED	? Admin. Budget	<ul style="list-style-type: none"> ? New, integrated Project Performance Evaluation System (PPES) reviewed by SDF Contributors December 2000. ? Detailed design, with a strong emphasis on poverty reduction relevance, endorsed by Contributors March 2001. ? Implementation begun 1st Quarter 2001. ? New system now in operation, covering most but not yet all appraisal reports and all supervision reports, and is incorporated into CDB's on-line Project Performance Monitoring System (PPMS). Its performance data has been used for Portfolio Performance Reports for 2000 and 2001 and is being used for 2002. So far, performance scoring is being done in batches rather than continuously through the project cycle. <p><i>Next steps:</i></p> <ul style="list-style-type: none"> ? Move from a 'batch mode' of inputting project performance scores to a continuous mode. ? Undertake further testing and benchmarking and continue to improve Scoring Guidelines. Continue training in use of new system.

RECOMMENDATION	CDB'S RESPONSE	RESPON- SIBILITY	RESOURCES	ACTION STATUS AS OF DECEMBER 2003
				<ul style="list-style-type: none"> ? Consider, subject to resource availability, extension of PPES criteria to BNTF, first in relation to 'country projects' and later to a sample of individual sub-projects. ? Consider, subject to resource availability, extension of PPES criteria to major technical assistance projects.
<p>23. Performance issues for Group 4 require the introduction of a well-defined and appropriately mandated resident presence of the Bank, using permanent CDB personnel with sufficient seniority to assist in programme development, facilitate the continuing interaction with the Government and the resident donor community that is necessary to develop agreed approaches to the provision of assistance and accelerate project implementation.</p>	<ul style="list-style-type: none"> ? Need to address Group 4 programme development and implementation issues was accepted as a priority. ? Recommendation for establishment of resident office was accepted in principle and Contributors advised that this was under consideration, including possibility of sharing accommodation with another mission. 	<ul style="list-style-type: none"> ? PD/VPO 	<ul style="list-style-type: none"> ? FY2004 Admin. Budget. ? Support from external resources may be needed. 	<ul style="list-style-type: none"> ? Commitment made to SDF Contributors to submit detailed proposal. ? Interim step of use of T.A. for a designated officer to work with the Gov't on CDB programs has been tried and assessed. <p><i>Next steps:</i></p> <ul style="list-style-type: none"> ? Options paper under preparation.
<p>24. The Bank's evolving country strategies are a strong underpinning for effective programming and beneficiary ownership. Need to develop further their focus on priorities for poverty reduction and application of poverty and vulnerability prisms. They should be accompanied by development of a <i>country focus</i> within the Bank's organisational structure and staff assignments.</p>	<ul style="list-style-type: none"> ? Country strategies will be a core part of CDB's operations. ? CSPs will include increasing attention to poverty reduction, including in the context of broad-based sustainable growth. ? Introduction of a single focal point within the Bank for individual BMCs would be considered, with proposals on country focus in CDB organizational structure. Original target date was FY 2001, but this was deferred pending reorganisation of Projects Dept. 	<ul style="list-style-type: none"> ? EAP/PD 	<ul style="list-style-type: none"> ? Admin. Budget 	<ul style="list-style-type: none"> ? See Item 5. above on country strategies. ? Increasing focus in the Bank's work, including CSPs, on operationalizing the <i>poverty/vulnerability prism</i>. ? New BNTF <i>Poverty Reduction Action Plans</i> are an additional input into the CSP process. ? CSP design will be considered further as part of more detailed operational guidelines planned for 2004. ? Results of CPA more closely linked with country programmes ?
<p>25. SDF operations should be presented more clearly and distinctively in the Bank's Annual Report, and summaries of the Bank's operations should present separate series of data on SDF as well as OCR operations and those of the Bank as a whole. SDF Annual Report should be</p>	<ul style="list-style-type: none"> ? Recommendation was accepted in principle. ? Implementation was to be phased in CDB Annual Reports, including possible SDF-focused section and special theme section on BNTF. 	<ul style="list-style-type: none"> ? SEC/ CPD 	<ul style="list-style-type: none"> ? Admin. Budget 	<ul style="list-style-type: none"> ? Special presentation on BNTF at 2001 Annual Meeting. ? Interim strengthening of SDF Annual Reports undertaken for FY 2001 and FY 2002 reports. ? Special publication on BNTF now under preparation for 2003 Annual Meeting. ? A new structure and content for the CDB Annual Report has

RECOMMENDATION	CDB'S RESPONSE	RESPON- SIBILITY	RESOURCES	ACTION STATUS AS OF DECEMBER 2003
viewed as a major opportunity to present the character and achievements of the SDF, possibly supplementing a report on the year past and appropriate longer term reporting with a theme report that would differ from year to year.	? Possibility of more extensive SDF Annual Report was under consideration in light of available staff resources.			<p>been developed, with a view to highlighting development efforts and SDF more effectively, for implementation in FY2003 Annual Report.</p> <p>? Further strengthening of SDF Annual Report being undertaken for FY 2003 report now under preparation.</p>
26. CDB should identify a focal point within the Bank, similar to that in other MDBs, to assemble an accurate record of cooperation and joint financing with other agencies and serve as a focal point with such agencies.	<p>? Recommendation accepted.</p> <p>? Implementation is under consideration.</p>	? VP(O)/ VP(F)/ PD	? Admin. Budget	? the Office of VP Operations. has been designated as the focal point for assembling and maintaining a complete record of cooperation with other agencies and, together with CPD, for coordinating interaction with such agencies. The objective is to strengthen the Bank's partnerships with other agencies and its ability to communicate such activities to SDF Contributors and other stakeholders.

SDF 5/1 SM 3

SECTION B

FEBRUARY 2004

CARIBBEAN DEVELOPMENT BANK

SDF 5 MID-TERM REVIEW

PROJECT PERFORMANCE AND PORTFOLIO PERFORMANCE

The attached document has been prepared for the Mid-Term Review and as an input for the preparation of the MTR Agenda document being circulated separately..

PROJECT PERFORMANCE AND PORTFOLIO PERFORMANCE*

1. INTRODUCTION

The raison d'être of a development bank is more than lending alone, but also encompasses providing advice to BMCs, based on lessons learned in past projects. Therefore project evaluation is a key function. Scoring and ranking are essential to identify the best potential investments, to identify projects at risk, to facilitate learning about types of projects and development themes, to guide portfolio management, and to guide the next round of resource allocation.

At the CDB's Annual Meeting in 2000, the Bank made a commitment to develop and harmonize¹ CDB's project evaluation system, and working papers were subsequently submitted to and reviewed by SDF Contributors as part of their consideration of the SDF 5 Replenishment.² The same evaluation criteria would be consistently addressed at each stage of the project cycle from appraisal, through supervision, to project completion. At the same time, CDB's evaluation criteria were harmonized with those adopted by the Evaluation Cooperation Group of the multilateral development banks (MDBs).³ The regional MDBs had been working towards this goal for several years, and a Sub-Regional Evaluation Coordinating Group [S-R ECG]⁴ was developing as a forum within which the sub-regional multilateral development banks of the Americas could consider similar matters.⁵

The criteria adopted were more heavily and explicitly weighted towards poverty reduction than the standard criteria adopted by other MDBs, but otherwise were similar (See Table 1).

2. STATUS

Since the introduction of the new *project performance evaluation system* (PPES) in 2001, the CDB has completed two cycles of scoring of project performance (2000 and 2001) and is currently completing the third. In each cycle, the performance scores have been entered into the computerized management information system, and those scores have been used to calculate an average Portfolio Performance Index (PPI) for the year. In 2000 the PPI was 6.1 and in 2001, 6.2 (on a 1-10 scale).⁶

However, it is not yet used in project completion reports. The PPES is completed for all capital projects in the appraisal and supervision stages respectively. CDB has produced guidelines⁷ for project performance scoring for each criterion, for the following four types of projects: financial intermediaries; economic infrastructure; social sector; and industry sector

The PPES performance scores are meant to be updated at least once each year, preferably at a major supervision milestone. However, at present, computer input of performance data from the project supervision reports (PSRs) is bunched at the time of the annual review of portfolio performance. As at March 25, 2003, the status of preparation of PSRs for 2002 was as follows:

PSRs completed	17
PSRs Submitted for Review	58
PSRs at the Project Evaluation Stage	15
PSRs Not Yet Started	33
Total	123

* This report was prepared by Dr. Kenneth Watson, Rideau Strategy Consultants Ltd., as a background report for the SDF 5 Mid-Term Review. Dr. Watson is a member of the Mid-Term Review assessment team.

TABLE 1: PERFORMANCE CRITERIA, SCORES AND WEIGHTS

PERFORMANCE CRITERIA AND WEIGHTS	FACTORS TO BE TAKEN INTO ACCOUNT	WHEN?	SCORE
RATIONALE:			
Strategic Relevance [Weight 0.1]	Fit with country strategy & CDB statutes, strategy, comparative advantage and policy priorities.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
Poverty Relevance [Weight 0.2]	Fit with BMC and CDB poverty reduction strategies.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
OUTCOMES:			
Efficacy [Weight 0.3]	Extent to which project achieved objectives – policy, production, physical, financial, social and environmental objectives. Sub-loan performance.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
Cost Efficiency [Weight 0.1]	Extent to which benefits exceed costs. Timeliness. [Financial FRR,ERR. Return on rate base, cash flow break even, financial ratios, least cost, repayment rates.]	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
Institutional Impact [Weight 0.2]	Development Extent to which better norms and practices enable better use of human, financial & natural resources.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
Sustainability [Weight 0.1]	Likelihood of achieving full expected life in the light of all known internal and external factors.	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
SUMMARY OF PROJECT PERFORMANCE:			
Overall project performance	PPI	Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsatisfactory [2 to 3.5] Unsatisfactory [0 to 1.5]
INSTITUTIONAL PERFORMANCE:			
Borrower and executing agency performance	Adequacy of assumption of ownership and responsibility for success and sustainability. For example: counterpart \$, project management, compliance with loan conditions, procurement management, organisation/administration	Supervision Completion	Excellent Highly satisfactory Satisfactory Marginally unsatisfactory Unsatisfactory
CDB performance	Quality of services, especially quality at entry and viability of implementation and operations arrangements. [For example, project identification and design, disbursement management, project scheduling, and consultant performance.]	Supervision Completion	Excellent Highly satisfactory Satisfactory Marginally unsatisfactory Unsatisfactory

The Performance Criteria

“*Relevance*” is defined as “Consistency of project with (i) Country’s overall development strategy, and the MDB’s assistance strategy for the country [reflected in the Country Assistance Strategy, CAS, or equivalent], and (ii) the MDB’s statutory requirements, comparative advantage and policy priorities. The relevance evaluation refers to current circumstances, i.e. it is based on (i) and (ii) above as they stand at the time of evaluation, and at Board approval, if different at that time. Any changes introduced in the project since Board approval should be taken into account.

“*Efficacy*” is defined as the extent to which project achieved development objectives articulated at approval and specified in categories such as policy goals, physical, financial, institutional, social and environmental, recognizing any change introduced in the project since Board approval.

“*Efficiency*” is defined as the extent to which the project benefits, actual or expected at the time of evaluation, are commensurate with inputs, looking at cost and implementation time. Economic and financial rates of return should be used or, if not possible, other measures of cost effectiveness.

“*Sustainability*” is defined as the likelihood that project results, actual or expected at the time of evaluation, will be maintained over the intended useful project life (there is a need for consistency on anticipated life with the economic rate of return calculation for efficiency where applicable). Eight factors are to be considered in establishing likely sustainability (no priority ranking intended). These are: technical soundness, government commitment including supportive legal and regulatory framework, socio-political support, economic viability, financial viability, institutional and organizational and management effectiveness, environmental impact, and resilience to exogenous factors.

Application of the Criteria

At the introduction of the performance evaluation system in 2000, CDB formed a Project Performance Evaluation Committee to facilitate the implementation of the new system of performance evaluation. Of the evaluation criteria, the Committee found ‘efficacy’ the most difficult to apply. The ‘poverty reduction’ criterion was clear but difficult to apply when the effects on poverty were indirect. The poverty relevance criterion appeared to have greater relevance to larger countries where focused poverty reduction activities could be applied within established project parameters. For most small island developing states, many of the project benefits accrue to the entire population. In all project designs the need for institutional strengthening was examined. It was found that where CDB, other financing or donor agencies had a prior ongoing relationship with the borrowing entity, there was no need for further institutional strengthening at the time. Consequently in those instances this criterion was not scored.

Validation of Scores

Project performance scores are only useful to the extent that one can rely upon their objectivity. This is difficult to ensure. The Project Supervisor assigns the scores and may assess project performance in a more favourable light. The World Bank approaches this problem by having a separate evaluation department review and validate the performance scores. The CDB, having far fewer resources, has the scores validated by the Portfolio Manager and Division Chief.

Project and Portfolio Performance

The CDB prepares an annual review of the performance of its project portfolio,⁸ which draws upon the project performance data. In addition to discussing rating methodology, and putting the results into the context of the current economic environment, the annual review describes changes in the portfolio and in

the performance indicators since the previous year and comments on portfolio management. The annual review also describes portfolio performance by country and by sector, which is an important contribution to the CDB's ongoing country and sector strategies.⁹

A composite performance score is calculated for each project under implementation, including those with an SDF component in the financing, on a scale of 1-10. For 2002, 97 out of 121 projects under implementation that had received SDF financing were assessed. In most cases, projects continuing from 2001 received composite performance scores relatively similar to those in 2001, with some individual variation. The average composite performance score in 2002 was 5.87, compared with 5.83 in 2001. The average Portfolio Implementation Performance Index (PPI) for 2002 was 6.1, and showed very little variation from the PPI for 2001, which was 6.0.

Average Composite Performance scores varying from 6.01-6.60, indicating highly satisfactory performance, were achieved by eight countries, Barbados, Jamaica, Dominica, St. Lucia, Guyana, Anguilla, Belize and Grenada. The scores for St. Vincent & the Grenadines, St. Kitts & Nevis, Turks & Caicos Islands and Antigua & Barbuda fell within the satisfactory performance range, with performance scores varying from 4.9-5.7. The performance of projects the British Virgin Islands (BVI) (two projects) and Montserrat (three projects) were rated marginally unsatisfactory and unsatisfactory, respectively.

On a sectoral basis, the performance of most sectors was rated highly satisfactory. The exceptions were the tourism and financing sectors, where performance was rated satisfactory, and the manufacturing sector, where performance was rated unsatisfactory.

The new CDB project performance evaluation system also includes criteria, relating to scoring and changes in scores, to identify "projects at risk". As at the end of 2002, approximately 12% of projects with an SDF financing component were classified as "at risk". Closer examination will be given to these projects in order to identify and correct any problems.

Project Completion Reports

Project Completion Reports [PCRs] are potentially an important instrument of the CDB. The PCR is in effect the final supervision report of the implementation phase. It indicates the extent to which the objectives specified in the original appraisal of the project are likely to be achieved. It re-estimates, wherever applicable, the financial and economic rates of return in the light of actual experience. It also includes an assessment of the performance of the CDB, the borrower, the executing agent, and other individuals and organizations that may have had a significant role in the implementation of the project. Conclusions are drawn and lessons learned indicated. Follow-up actions by the CDB, the borrower and/or the executing agent, which are necessary for the project to operate effectively, are outlined in the PCR.

The responsibility for the completion of PCRs rests with the Projects Department.¹⁰ It has then been the responsibility of the Post-Implementation Evaluation Unit [PIEU] (now the Oversight and Evaluation Division) to audit every PCR, carry out other evaluation studies, and prepare periodic summaries of post-evaluation findings and lessons of experience. The resulting product is called a *Project Performance Audit Report* [PPAR].

The CDB intends that a PCR be prepared for every project 6 to 18 months after completion. The preparation does not need to await final disbursement if there are delays in final payments. It can be undertaken after substantial project completion. However, the PCR completion rate has been very low, due to competing demands on limited staff resources.

Evaluation after Project Completion

The CDB's PIEU is responsible for the major evaluations conducted by the Bank. These evaluations are customized to a particular project. They cover all issues, including the general issues of relevance, efficacy, efficiency, institutional impact and sustainability. However, the annual budget available for these evaluations is small and therefore they are few.

Resources for Evaluation

Within the new management structure, the CDB needs to assess the use of existing staff for these evaluation tasks, whether changes in methods would be more efficient, and whether additional resources are needed.

Thematic Evaluations

Projects to be evaluated could be grouped by sector or theme and evaluated as a group. This would assist learning and help to moderate the expense of evaluations.

Management Information

The CDB has a Project Portfolio Management System [PPMS], which is a data base that allows CDB to maintain information for the entire project cycle, from initial application through implementation to project completion. This data base can be accessed by all Bank staff. Key documents for a project are stored in a way that enables one to search and, where desirable, to combine information from various stages of the project life cycle for analysis. However, the recording of data pertaining to projects in the pipeline has not been completed, in the Pipeline Module in PPMS, for many projects. This deficiency has been recognized and steps have been taken to ensure that the recording of data pertaining to project in the pipeline is done in future in a timely and orderly manner. Further, steps are being taken to have the Project Registration Number (PRN), which is required for all projects in the appraisal stage, generated on-line at the time when 'approval to appraise' is given. This should facilitate early entry of information into the computerized system and minimize off-line projects.

Portfolio Performance as Part of a Performance-Based Resource Allocation System

The CDB adopted performance-based country allocations of concessional funding in 2001. The portfolio performance index (PPI), based on the new harmonized project evaluation criteria, is one of the factors in the allocation formula.¹¹

3.0 NEXT STEPS

9.01 In 2003 and 2004, consideration should be given to strengthening further the CDB's *Project Performance Evaluation System* (PPES) in several ways:

- ? ***There can be greater utilisation of the Pipeline Module of PPMS following enhancements now being tested. The expected performance scores that are now entered into PPMS at appraisal can automatically be transferred to the Project Module after Board approval of the project.***
- ? ***The Oversight and Evaluation Division (OED) should undertake to validate a sample of project scores [say a 10% random sample] by examining the project performance directly. Periodically, the OED should compare the CDB approach and scores with the performance scores of similar projects in the Caribbean financed by the World Bank and Inter-American Development Bank.***
- ? Scoring Guidelines need further improvement, extending the number of types of projects, and giving more scoring examples for each.

- ? Some aspects of workflow relating to the review of projects in the Pipeline Module of the Project Portfolio Monitoring System (PPMS) would benefit from improvement to avoid duplication and bottlenecks.
- ? The user friendliness of the PPMS, of which the project evaluation system is part, needs improvement.
- ? CDB should examine the possibility, subject to the availability of staff resources, of extending the use of the PPES performance criteria to the Basic Needs Trust Fund, first in respect of BNTF 'country projects' and later in respect of a sample of individual sub-projects.
- ? Subject to the availability of staff resources, CDB should extend the use of the PPES criteria to include selected technical assistance loans and grants.
- ? In general, CDB should use the harmonized performance criteria in the PPES to underpin a results-based approach to management of projects.
- ? CDB should investigate ways to improve the rate of production of Project Completion Reports by the newly organized Project Supervision Division; and consider a sampling approach if staff resources are inadequate to achieve full coverage with Project Completion Reports.
- ? CDB should initiate thematic evaluations (evaluations that cover the entire CDB experience in a certain area, such as lending to financial intermediaries, for example, or lending for disaster management).

Endnotes:

¹ In January 1999, the MDB Evaluation Cooperation Group agreed on a preliminary set of evaluation criteria for public sector projects. In the following months the Group held five workshops that refined the criteria and worked to standardize terminology. This effort was financed by the Swiss Agency for Development Cooperation. On October 11, 1999, the Group agreed on a final set of eight criteria.

² CDB, *Project Performance Evaluation*, Working Paper, SDF 5/2 NM 6 WP01/1, January 27, 2001,

³ MDB Evaluation Cooperation Group [ECG], *Harmonization of Evaluation Criteria Among the Multilateral Development Banks*, December 1999

⁴ The Secretariat for the SR ECG is the headquarters of the Central American Bank for Economic Integration [CABEI] in Tegucigalpa, Honduras.

⁵ The ECG is considering inviting a member of the S-R ECG to attend its meetings for the purpose of communications and coordination.

⁶ CDB, *Annual Review of the Performance of the Project/Loan Portfolio Under Implementation for the Year Ended December 31, 2001*, Paper BD 66/02, September 2002.

⁷ See "Project Performance Evaluation System Matrix", undated draft.

⁸ See, for example, Paper BD 44/97.

⁹ Categorizing the overall performance of the project or the portfolio in this way – "excellent", for example, or "very poor", is unusual among the MDBs, but is very helpful in interpreting the performance data. The World Bank does something similar by focusing on one indicator ("outcome") and collapsing the results into SAT/UNSAT – that is, the World Bank focuses on what percentage of projects has at least a "satisfactory" result. The World Bank APPI index is broader. However this procedure is clearly inferior to CDB practice.

¹⁰ CDB, *Guidelines for Post-Evaluation*, Volume 4, October 1992, PPM 401

¹¹ "Some BMCs have made remarkable progress while others have lagged behind. Recent studies on aid effectiveness¹¹ have explained this mixed record in terms of differences in the quality of policies, institutions and governance. In settings where poor policies were pursued, or where the institutional environment was weak, aid has not worked. Not surprisingly, where policies were sound and institutions strong, aid has accelerated the process of poverty-reducing growth. It follows that to realize the overarching goal of poverty reduction, a MDB must strengthen the linkage between performance and the allocation of scarce resources among countries." Asian Development Bank, *Performance Based Allocation of ADF Resources*, Asian Development Fund Donor's Meeting, Chiang Mai, May 2000, p.1

SECTION C

FEBRUARY 2004

CARIBBEAN DEVELOPMENT BANK

SDF 5 MID-TERM REVIEW

IMPLEMENTATION OF THE SDF RESOURCE ALLOCATION STRATEGY

The attached document has been prepared for the Mid-Term Review as an input for the preparation of the MTR agenda document being circulated separately.

IMPLEMENTATION OF THE SDF RESOURCE ALLOCATION STRATEGY*

1. INTRODUCTION

In 2001 SDF Contributors adopted a new system of indicative allocations of SDF funds to eligible borrowing member countries.¹ This system replaced the previous system of allocation of resources by country group. The new allocations were not entitlements, nor absolute limits on how much SDF funds a borrowing member country could access, but were indicative planning figures, meant to vary as CDB's country strategies and lending programmes evolved. Each BMC (apart from Group 1 countries) was advised of its indicative allocation. The allocation was a single dollar amount, not, as is the case with the Asian Development Bank, for instance, a range.²

The new strategy uses a formula based on country need and country performance. It is applied systematically and transparently. 'Need' is measured by the size of the population, per-capita income and vulnerability. The country performance rating has two components, a "CDB country loans portfolio score" [30% weight] and a "country policy/institutions score" [70% weight].

Before SDF 5 funds were allocated by this formula to eligible borrowing member countries, CDB 'set aside' certain fixed allocations. Out of the total expected SDF resources for 2001-2004 of \$179.9 million,³ there were the following fixed allocations:

TABLE 1: FIXED ALLOCATIONS SDF 2001 TO 2004

New members, Haiti and Suriname	\$10 million
Regional projects	\$5 million
Reserve (Natural disasters, HIV/AIDS)	\$25 subsequently adjusted to \$15 million
Reserve (Basic Needs Trust Fund)	\$32 million
Reserve (technical assistance)	\$12 million subsequently adjusted to \$10 million
Total	\$72 million

The remaining funds (then expected to be \$96.9 million) were allocated to borrowing member countries in Groups 2, 3 and 4. Indicative allocations were not provided for higher income countries in Group 1, which would normally be considered only for regional projects, highly poverty-focused tasks such as poverty assessments or poverty reduction strategies, technical assistance related to good governance, and humanitarian assistance in event of a natural disaster. Borrowing member countries in other groups received individual allocations that varied from about 1% of the available funds to about 13%. A fixed allocation was also provided for two countries expected to become new members during SDF 5.

* This report was prepared by Dr. Kenneth Watson, Rideau Strategy Consultants Ltd., as a background report for the SDF 5 Mid-Term Review. Dr. Watson is a member of the Mid-Term Review assessment team.

2. GENERAL APPROACH TO RESOURCE ALLOCATION

In assessing country policy/institutional performance, the CDB uses criteria similar to those applied by other multilateral banks, with weights that are specific to the CDB.

TABLE 2: CRITERIA FOR ASSESSING POLICY/INSTITUTIONAL PERFORMANCE

Criteria	Weight
Social development [equity, inclusion, poverty reduction]	25%
Structural policies [microeconomic management]	15%
Governance and public sector management	25%
Macroeconomic management [monetary, fiscal, external accounts]	25%
Environmental sustainability	10%

The country performance on each of these criteria is scored on a 1 to 5 scale, where the scores mean the following:

TABLE 3: POLICY/INSTITUTIONAL SCORING SCALE

<i>Score</i>	<i>Meaning</i>
1	Very poor
2	Poor
3	Average
4	Good
5	Excellent

Each borrowing member country is scored on each criterion by a group of country economists, senior managers and sector-specialist economists of the bank. All of the borrowing member countries are scored against one criterion at a time. Scoring against each criterion is done in the following sequence of steps:

- ✍ Taking all factors into account [guided by, but not limited to, a questionnaire similar to that used by other MDBs and adapted to Caribbean conditions], the group selects a ‘benchmark’ borrowing member country for the criterion in question. The benchmark country can be different for each criterion, if appropriate, or the same. The benchmark country is chosen not because it is likely to receive any particular score, but rather because its performance and the appropriate score are clear. The score reflects the quality of the country’s current policy/institutional performance – not intentions. Outcomes (such as growth rates) are taken into account, but are influenced by many factors beyond a country’s control. The main thing is the policy/institutional performance, which is within its control.
- ✍ Each borrowing member country is scored by its country economist first.
- ✍ The group then ranks all borrowing member countries in order on this criterion, grouping them when they are performing similarly.
- ✍ Then, on the basis of the first three steps and a discussion of the pertinent factors, the group assigns a policy/institutional score to each borrowing member country on each criterion.
- ✍ When each borrowing member country has been scored on each of the five criteria, an average overall PRES score is calculated [the sum of the criterion scores each multiplied by its weight].

Flexibility

The initial indicative resource allocations were indicative only. They were meant to be modified as CDB's strategic plans and lending programs for each BMC evolved. There were no explicit 'triggers' in the system that would automatically allow a higher or lower allocation, as is the case for some other multilateral development banks, but discretion was left to the Bank, in this first cycle of the new system. Also, it was decided that resources would not be reallocated every year, but, instead, would be reallocated at mid-term and then finally towards the end of the SDF 5 cycle.

Post-Disaster, Conflict or Turn-Around Situations

In post-disaster, post-conflict or turn-around situations, CDB may need to be more involved with a particular borrower than the standard resource allocation formula would otherwise allow. CDB's *Natural Disaster Strategy and Operational Guidelines*⁴ were amended in February 2000 to provide further flexibility for an early response during the initial phase of recovery when dislocations affecting the poor are greatest. However, loans granted in an emergency situation may not be fully disbursed, and need to be returned to the fixed allocation 'pot' as promptly as possible. At some stage the residual, if any, needs to be reallocated for other purposes, if it appears that not all the allocation will be needed for disaster response.

As well, there may be a need for some flexibility in 'turn-around' situations – that is, if a country is undertaking important and difficult reforms, the Bank may need to be supportive sooner than would be possible if it waits for results to show themselves clearly. In the case of countries that have had poor policies but have reformed, increased technical cooperation may be warranted as well as, or prior to, increased lending.

New Members

New members are in a special situation because they do not have an established track record on 'CDB portfolio performance', which is an important factor in the standard allocation formula. This may not be a serious problem if early lending volume is low and the new member's allocation is determined largely by a need for technical assistance for governance and institutional strengthening, and BNTF-type projects, as will probably be the case with Haiti and Suriname. During the early phase of membership a fixed allocation for loans is appropriate until the CDB has enough experience to consider the country along with other borrowing members in the normal allocation exercise.

Blend Borrowers

The CDB blends SDF monies with ordinary capital resources in many loans. The proportions of the blend determine the overall effective interest rate of the loan. Each of the four country groups has a different set of SDF loan conditions.⁵ Accordingly the grant element in the SDF portion of a loan varies from about 30% to 70%.

Cooperation Among MDBs and Peer Review

Now that CDB, AsDF and AfDF have followed the lead of IDA in using a formal scoring and rating system to calculate indicative shares of concessional resources, consideration should be given to inter-MDB cooperation⁶ to broaden the base of knowledge and judgment brought to bear on the scoring. This could save duplication of effort, especially for borrowing members that are members of more than one MDB, and improve the accuracy and objectivity of country performance scores.⁷ The first step towards such cooperation might be a conference of experts on the topic. Such a conference would be timely. The CDB might wish to consider hosting it, given its successful implementation of its resource allocation system.

Information Disclosure

The CDB has been open with its borrowing member countries on their performance scores. Some other multilateral banks have not made individual country scores public, but have revealed only the performance quintile [fifth] in which the borrowing member country ranks.⁸

Performance or Momentum?

There is a question whether the level of policy/institutional performance should be the sole determinant of a country's score, or whether 'momentum' [improvement] should be assessed as well. It has been suggested that assessing policy/institutional level alone, as CDB does at present, may penalize countries that start at a low level of policy/institutional effectiveness, but are improving. Momentum of policy change can, however, be taken into account later in adjusting the indicative allocation in the second stage of developing a country lending program in the country strategy.

Acceptance of the Resource Allocation Approach

The first round of the new approach to SDF resource allocation was well accepted by Contributors and the borrowing member countries. The resource allocation formula has also been to apportion BNTF V funds as well, and, later, will be used to apportion the CIDA-funded extension to BNTF.

3. MID-TERM REALLOCATION

This is the first cycle of the SDF in which the new resource allocation strategy has been followed. Part of that strategy was to reallocate funds at mid-term, rather than annually as is done at the larger multilateral development banks. In March 2003, CDB re-estimated the Policy/Institutional Performance Scores for borrowing member countries. The countries that improved by more than one rank were: Guyana, Anguilla, Turks and Caicos Islands, and St. Lucia. The countries whose policy/institutional performance deteriorated relatively, by more than one rank, included Grenada, British Virgin Islands, Montserrat, Trinidad and Tobago, and Cayman Islands, and Barbados (see Table 4).

TABLE 4: BORROWING MEMBER COUNTRIES RANKED BY POLICY/INSTITUTIONAL PERFORMANCE SCORES, 2001 AND 2003 (Score on 1-5 scale)

2001			2003		
Country	Rank	Weighted Score	Country	Rank	Weighted Score
Antigua and Barbuda	17	2.10	Antigua and Barbuda	17	2.145
Guyana	16	2.50	Dominica	16	2.46
Dominica	15	2.68	Grenada	15	3.0125
Belize	14	2.82	Belize	14	3.1
St. Kitts/Nevis	13	2.89	Guyana	13	3.125
St. Vincent/Grenadines	12	2.92	St. Kitts/Nevis	12	3.1625
Turks and Caicos	11	2.93	St. Vincent/Grenadines	11	3.3125
Grenada	10	2.94	British Virgin Islands	10	3.375
Jamaica	9	3.12	Jamaica	9	3.4
St. Lucia	8	3.22	Montserrat	8	3.5
British Virgin Islands	7	3.23	Turks and Caicos	7	3.575
Montserrat	6	3.25	Trinidad and Tobago	6	3.65
Anguilla	5	3.34	Cayman Islands	5	3.6625
Trinidad and Tobago	4	3.49	St. Lucia	4	3.75
Cayman Islands	3	3.70	Barbados	3	3.9
Bahamas	2	3.84	Anguilla	2	3.975
Barbados	1	3.89	Bahamas	1	4.025
Haiti					
Suriname					

These new scores, together with updated data for other factors, will be used to apply the indicative allocation formula to the available resource remaining at the mid-point in the SDF 5 cycle. Country-specific factors will then be used to determine an adjusted planning allocation for the balance of SDF 5. It is the intention that the results of the mid-term reallocation be reported to the SDF 5 Mid-Term Review.

4. NEXT STEPS

A further review of available resources will need to be undertaken early in 2004, the final year of the SDF 5 cycle, with such further reallocation as may be appropriate, to ensure that SDF 5 targets are met as fully as possible.

In future cycles, CDB might consider the application of the resource allocation formula annually. Annual reallocation would allow funding levels to be more closely tied to evolving country strategies, and expectations might adjust better to smaller annual movements in allocations.

As well, CDB might consider expressing indicative allocations as bands rather than single figures. One possibility this opens up is the use of ‘triggers’, such as those used by the Asian Development Bank. These are performance targets or reforms, agreed by CDB and the BMC, which, if attained, ‘trigger’ the country’s allocation to move upward in its possible band or, conversely, if not attained, to move downward.

These possibilities can be considered further in time for the next SDF cycle.

Endnotes.

¹ CDB, Allocation of Special Development Fund Resources (Fifth Cycle), Working Paper, May 2001, SDF 5/3 NM-5, WP01/5.

² The Asian Development Bank announces an allocation range for each borrowing member country and also specific policy/institutional reform ‘triggers’ that later determine where the actual allocation falls within that range.

³ This amount includes a small carryover from SDF IV, repayments and net income, and new contributions of \$92.535 million.

⁴ CDB, *Natural Disaster Strategy and Operational Guidelines*, April 1998.

⁵ Conditions include interest rates that vary from 2% p.a. to 5% p.a., grace periods from 5 to 10 years, and maturities from 10 to 30 years.

⁶ IDA donors have supported involving development partners more cooperatively in resource allocation deliberations. IDA 12 Final Document stated that the World Bank should “*take into account lessons emerging from operational experience and advice from inside and outside the World Bank, including from IDA borrowers.*” The details of the CPIA questionnaire have been posted on the World Bank’s external website and shared with most multilateral and some bilateral donors. But this has yet to develop into a two-way street by which the Bank receives outside advice. A number of pertinent recommendations, however, did emerge from the February 1999 roundtable on the topic of resource allocation, convened by DFID in London.

⁷ Latin American and Caribbean countries that are currently IDA-eligible borrowers, and therefore whose performance is scored and ranked by the World Bank, include six members and potential members of CDB. These are: Guyana, Haiti, Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines. If the World Bank were to share with CDB the scores of these countries for the various criteria, and some of the underlying considerations, these might provide useful benchmarks, although the rating would need to be the responsibility of CDB itself.

⁸ Both IDA and the AsDF, for example, publish a list of countries grouped into five bands (quartiles) according to their performance scores, but do not release the individual performance scores.