



CARIBBEAN DEVELOPMENT BANK

**REPLENISHMENT OF THE RESOURCES OF
THE SPECIAL DEVELOPMENT FUND (SDF V)**

**A PARTNERSHIP
FOR
POVERTY REDUCTION IN THE CARIBBEAN**

REPORT OF CONTRIBUTORS ON SDF V

FINAL TEXT OF THE SDF V AGREEMENT

Approved by Contributors and the Board of Directors December 13, 2001

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SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The SDF partnership is targeted to poverty reduction in the Caribbean, recognizing that capability enhancement, reduction of vulnerability, and good governance, together with broad-based, sustainable growth, are critical priorities to which the use of SDF resources needs to be addressed. The International Development Goals for the 21st century, in particular the goal of halving world poverty by 2015, provide the broad context for SDF operations and for monitoring progress on poverty reduction.

Unacceptable levels of poverty exist in the Caribbean, with high risks posed by extreme vulnerabilities, and a difficult economic transition facing many of the borrowing member countries. The role and mandate of SDF will now extend to a wider Caribbean, with a commitment to respond to the needs and expectations of a borrowing country membership that is twice as large in human terms and more than twice as large again in terms of poverty.

Contributors have agreed to a replenishment of the resources of the SDF for the period 2001 to 2004. They have also agreed to a set of specific conclusions and recommendations to guide the replenishment and strengthen SDF effectiveness. These are presented in the Report of Contributors on SDF V and summarized below.

Vision and Strategy

1. Contributors endorsed the use of the international Development Goals (IDGs) as an integral part of the policy framework for SDF V and recommended that the goals, including Caribbean-specific IDGs that can be developed with CDB assistance, should be used as strategic benchmarks against which SDF operations are planned and performance judged.
2. Contributors endorsed the CDB's new mission statement, with its primary focus on poverty reduction through social and economic development, and the objectives set out in the Bank's *Strategic Plan 2000-2004*, as the strategic framework for SDF V. They recommended that the articulation of the strategy should be based squarely on comparative advantage and likely effectiveness.
3. Contributors endorsed three priorities for SDF V:
 - ? *Enhancement of the capabilities of people who are poor or vulnerable to poverty.*
 - ? *Reduction of the vulnerability of deprived groups to economic volatility, natural disasters and other risks such as HIV/AIDS.*
 - ? *Good governance, to support and facilitate poverty reduction and broad-based economic growth that is environmentally sustainable.*
4. Contributors endorsed the operational policy framework set out in the working papers on a *Strategy for Poverty Reduction* and on *Governance and Institutional Development*, and recommended that policy papers and a formal statement of policy in each case be submitted to the Board of Directors for consideration before the end of 2001.
5. Contributors recommended the use of a *poverty and vulnerability prism*, through which SDF operations would be viewed. They welcomed the Bank's intention to apply such a prism in all of its project operations, not only those directly targeted at poverty reduction. They endorsed the Bank's intention that the poverty prism be operationalised through a set of focused *Operational Guidelines*, and recommended that the preparation of the Guidelines be completed as an immediate priority.

6. Contributors endorsed the target of 60 per cent of SDF V resources to be targeted directly to the poor and the poorest communities, with the poverty prism applied both to these and to all other SDF programmes and projects. They also endorsed an increase in resources for community-level programming of the type funded by the Basic Needs Trust Fund.
7. Contributors similarly endorsed the other elements of the SDF V *Operational Programme for Action*.

SDF Performance

8. Contributors considered a *Performance Review of SDF IV* and concluded that performance under the last replenishment had been broadly satisfactory, with resources and effort directed to the targets set by Contributors, and in particular the goal of poverty reduction, and with outcomes and results that were better documented and likely to meet or exceed expectations. They also concluded that the evidence confirmed the relative efficiency of CDB stewardship and its comparative advantage in dealing with small projects in the small countries of the Caribbean. They reaffirmed, however, the need for increased evidence on outcomes and impacts from SDF programmes.
9. Significant progress had been made in deepening the knowledge base and experience in addressing poverty in the BMCs, and this provided a sound basis for a stronger and more effective role in SDF V. Contributors recommended that priority should be given to working with BMCs to ensure the early completion of the remaining country poverty assessments for active SDF borrowers and the undertaking of country poverty reduction strategies.
10. Contributors welcomed the Bank's *Action Plan* on implementation of the various recommendations arising from the *Performance Review*, and recommended that a high priority be placed on meeting the timetable set by the *Action Plan*.

Resource Allocation

11. Contributors recommended that SDF V resources be allocated to individual countries according to a strategy designed to increase the likely effectiveness with which such resources were used. Three principles should guide the allocation of SDF V resources:
 - ? The greater the extent to which a country was disadvantaged, the larger should be its initial indicative allocation.
 - ? At a given level of need, better policies and institutions are likely to mean more effective use of resources.
 - ? Constraints on absorptive capacity may limit the resources that can be used effectively.
12. Contributors recommended that this strategy should have two stages. *Indicative country allocations* would be developed for all current BMCs which were expected to be active SDF borrowers. This would be done using a formula giving strong emphasis to *needs*, based on per capita income, population and vulnerability, with a pro-poor and pro-small country emphasis, but with the introduction of an assessment of *performance*, as a measure of readiness to use funds effectively. Performance/readiness would be judged according to the country's CDB portfolio performance and its "Poverty Reduction Effectiveness Situation", in which a range of policy and institutional readiness would be taken into account, similar to the methods used by other multilateral concessional funds, but simplified and adjusted to suit the Caribbean situation.
13. Contributors recommended that indicative allocations should not constitute an entitlement, and that these allocations should be adjusted during the country programming process in the light of particular circumstances such as policy and institutional change, the availability of a poverty reduction strategy, absorptive capacity, alternative sources of financing, and the likely impact of SDF operations during the programming period.

14. Contributors recommended that, while the largest part of SDF V should be allocated according to the country allocation strategy, there should also be some directed allocations to provide for:
 - ? Support for regional projects of a technical assistance nature.
 - ? An initial budget for the commencement of operations in new members.
 - ? An emergency reserve, available to respond to natural disasters, to major transitions in economic structure and /or to other emergencies such as HIV/AIDS.
15. The use of Country Groups should be continued, but for the more limited purposes of setting the terms and conditions for SDF lending and providing a basis for the blending of SDF and OCR funding at the country level. Individual allocations would be determined under the country allocation strategy for countries in Groups 2, 3 and 4, other than for new members, for which a directed allocation would be provided. In addition, while no BMC would be ineligible under SDF V, there were particular circumstances related to Group 1 countries, for which an appropriate approach was required. Further details on the applicable terms are set out in the Report.
16. Contributors agreed to an adjustment of the country groups, using an updated measure of basic need.

Development Partnerships

17. Contributors reaffirmed the key importance of development partnerships, both with the borrowing countries and civil society, and with other development agencies working in the Caribbean. They recommended a strong commitment to the strategy of forging and strengthening such partnerships, based on the principles of the *Comprehensive Development Framework (CDF Principles)*.
18. The Bank's country strategies (CSPs) and the development of national poverty reduction strategies (PRSPs) should be firmly based on CDF principles, which are critical to the value and effectiveness of these strategies.
19. *Contributors welcomed* the important role that the CDB would be undertaking within the region in a number of economic and social policy areas, in particular in supporting the implementation of the Caribbean Single Market and Economy (CSME), the proposed new "fiscal architecture" for OECS member countries, the Regional Plan of Action on HIV/AIDS and access by BMCs to the proposed global fund for combating HIV/AIDS, and the implementation of a regional transformation plan for agriculture.

Strategic Direction and Internal Governance

20. Contributors welcomed the introduction of a structured process of corporate-wide strategic planning as a key instrument in strengthening the Bank's strategic direction, and the closer involvement of the Board of Directors and other stakeholders in formulating objectives and strategies.
21. The working papers and proposed policy papers on a strategy for poverty reduction and on governance and institutional development were a further key element in providing the strategic direction needed for SDF V, and Contributors underlined the critical importance of operationalizing this policy framework through an effective poverty prism and adequate operational guidelines.
22. Country strategies are an integral part of an effective strategy for SDF and overall CDB operations. The country strategy process should be viewed as an improved basis to undertake assessments of performance at the country level and as a vehicle for dialogue on the policy and other requirements for effective implementation of the strategy, securing ownership by the national authorities and key stakeholders, and developing partnerships with other agencies. Contributors welcomed the Bank's intention to mainstream good governance issues in the CSP process and in project development and appraisal.

23. Contributors recommended that CSPs be completed for the remaining BMCs as a matter of priority, and that these be developed in such a way as to reflect fully the application of the poverty prism and the mainstreaming of good governance issues.
24. Contributors considered it important that the multilateral character of the Bank be maintained through consultative exchanges of views between Management and the representatives of governments. They welcomed proposals for a strengthening of the dialogue among Governors, Directors and Management, and increased informal interaction between Board members and Management and staff.

Project and Portfolio Quality

25. Contributors noted the improved quality of the portfolio, rated according to the Bank's Portfolio Implementation Index, during the course of SDF IV. The introduction of new, harmonized evaluation criteria into the PPI assessment should strengthen CDB's ability to monitor portfolio as well as project quality, and Contributors requested a further report on portfolio quality at the time of the proposed SDF V Mid-Term Review, using the new system.
26. Contributors endorsed the steps outlined in the SDF IV *Performance Review* to strengthen project quality, including project implementation. They noted weaknesses in project implementation, as well as in programme and project planning, in the Bank's one current Group 4 BMC, and recommended that a practical proposal for addressing this issue, along the lines recommended in the *Performance Review*, be brought forward to the Board of Directors before the end of 2001.

Assessing Project Performance

27. Contributors had stressed on various occasions the need for a strengthening of project evaluation as a key input into consideration of resource replenishment and as an important means of strengthening the effectiveness of SDF operations. They welcomed and endorsed the development of a new *Project Performance Evaluation System (PPES)*, with project evaluation criteria that are harmonized with best practice at other MDBs, and with the application of these criteria consistently at all stages of the project cycle. They noted that CDB was the only MDB to achieve this consistency to date, and that CDB would also now be leading in the establishment of criteria weights.
28. The adoption of two relevance criteria, not one – *poverty relevance* and *strategic relevance* – was also an important innovation that should serve to emphasize the Bank's mission of poverty reduction.

Strengthening and Broadening the Partnership

29. The extension of the CDB's mandate – and that of SDF – to a wider Caribbean was a welcome development. Governors had also made clear they viewed a broadening of the partnership between regional and non-regional countries as essential to the Bank's ability to meet its mandate and serve the peoples of the Caribbean. Contributors welcomed the efforts that the Bank had made to widen the dialogue on the needs of the region, of SDF and the Bank, and in seeking the broader support that Governors viewed as essential. They recommended that these efforts be continued as an important part of the mandate of the President and Management of the Bank in the months ahead.
30. *Contributors commended* the widening of the CDB and SDF partnership to include Asia, and *welcomed* the People's Republic of China to their discussions on the role and financing of SDF for the first time. *Contributors also welcomed* the interest of Japan in the work of the Special Development Fund and *expressed the hope* that Japan would find it possible to contribute to SDF V.
31. *Contributors welcomed and supported* the opening 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. The relationship between Europe and the Caribbean was a longstanding and diverse relationship. It needed to be more strongly reflected in a development partnership that directly

supports 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 the possibility of a more direct relationship with the CDB and SDF partnership and the planned early resumption of discussions between the Bank and that country.

32. *Contributors stressed* the importance of strengthening the support of the common European institutions and joint European programmes. *Contributors expressed their support* for the possibility of a contribution to the resources of SDF V from the resources available for the Caribbean from the European Union and the European Commission, *and recommended* that discussions on such a contribution be undertaken between the Bank, Cariforum and the European Commission as an urgent priority. *Contributors also noted with interest* the discussions between the Bank and the European Investment Bank on the possibilities for strengthening the relationship between the two institutions, although this might not directly support the work of SDF.
33. A very close and important partner of the Caribbean was the United States. *Contributors expressed appreciation for* the interest of the United States in the work of SDF, *and welcomed* the intention of that government to make a substantial contribution to SDF V.
34. *Contributors believed* that the major steps that the Bank had taken to strengthen its operations and renew its commitment to poverty reduction and broad-based sustainable economic growth, including the measures and steps set out in this Report, provided a strong basis for the dialogue with non-regional partners and prospective partners. *Contributors suggested* that additional donor countries might be invited to join with the Bank in its work in preparing itself for and undertaking poverty reduction programming in Haiti and Suriname.
35. *Contributors welcomed* the discussions now planned between the Bank and the Dominican Republic on the possibility of membership by that country. *Contributors also 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.
36. A strengthening of the relationship between the Bank and its more distant members was viewed by Contributors as an important priority. *Contributors welcomed* the steps that the Bank had taken in this direction, *and urged* that these efforts be continued and deepened. The Bank's positive response to many of the views and concerns of its broader membership provided a good basis for strengthening the relationship. *Contributors noted with approval* the Bank's intention to establish a focal point within the Bank to develop and maintain information of particular interest to individual members.

Mid-Term Review

37. Contributors agreed that they should meet for a mid-term review of SDF V in late 2002 or early in 2003 to review SDF V operations to date, the position of Haiti and Suriname and the status of funding for SDF V. They requested that a number of specific reports be made available for their consideration at least one month before the meeting. The list of reports is set out in Section 9 of this Report.

Resources for SDF V

38. Contributors agreed on new contributions of \$125 million for SDF V. This would support a minimum programme level of SDF operations during the period 2001 to 2004 of \$185 million, including commitment authority generated from repayments, net income and other internal resources.
39. Contributors also agreed on a 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 level of commitments would be \$150 million.

Contributors agreed that additional contributions from prospective new Contributors would be needed to reach this objective and recommended that further discussions be undertaken with prospective additional Contributors for this purpose.

40. The minimum SDF V programme should include:
 - ? \$5 million for regional projects,
 - ? \$10 million for the commencement of operations in two new BMCs, Haiti and Suriname,
 - ? \$25 million as a reserve for natural disasters, major transitions in economic structure, and HIV/AIDS, and
 - ? \$145 million to be allocated among BMCs in Groups 2, 3 and 4 on the basis of a resource allocation strategy that takes into account both needs, including vulnerability, and performance/readiness, including portfolio performance and an assessment of a country's *Poverty Reduction Effectiveness Situation*.
41. The terms for SDF V lending should vary according to Country Group and these should be the same as used for SDF IV.
42. Contributors also agreed on some adjustments in commitment authority, including for the initial part of the replenishment period to permit continuation of project commitments while new contributions for SDF V were being put in place.
43. Contributors noted that the *Rules* for the Special Development Fund^a provided for procurement of goods and services for projects financed from the resources of a particular replenishment to be open to Member Countries and Substantial Contributors. They welcomed the prospect of additional Contributors meeting this criterion, and also recommended that the practice be continued of inviting a Substantial Contributor to participate in discussion of the use of SDF resources as an Observer at Meetings of the Board of Directors and other meetings dealing with these matters.

^a *Rules for the Unified Special Development Fund*, May 1983.

1. INTRODUCTION

1. The concessional resources provided by the Special Development Fund are an essential part of the international effort to address the complex and deep-seated problems of poverty and vulnerability in the Caribbean.¹ SDF is a partnership between the regional and non-regional members of the Caribbean Development Bank, to which even the most disadvantaged of its borrowing member countries contribute, working together with and supported by other agencies interested in Caribbean development. SDF resources are an invaluable complement to the ordinary capital resources of the Bank, and permit a range of activities within the region that could not otherwise be undertaken. They allow the CDB, as the joint development instrument of the Caribbean Community and its partners from within and outside the region, to address critical development needs and the core objectives of poverty reduction, broad-based, environmentally sustainable economic growth, reducing vulnerability, and good governance. SDF contributes directly to the Bank's ability to help to meet the *International Development Goals* set by the world community and its overall mission of the systematic reduction of poverty.

2. Three factors make a continuation of SDF operations critical for the period 2001-2004:

- ✍ Unacceptably large percentages of the population of the region remain in deep poverty, accentuated by the extreme vulnerability of many BMCs to natural disasters and economic change.
- ✍ The Bank is about to expand its membership and take on major new development responsibilities. With the admission of Haiti alone, the client base of the CDB will more than double, and the number of persons in extreme poverty in the BMCs will quadruple. This dramatic widening of the CDB's mandate has been recommended and endorsed by both regional and non-regional members, and the Bank must now be equipped to deal with its new responsibilities.
- ✍ All BMCs are facing major economic changes and difficult transitions, with changing trade and economic patterns, and, in a number of cases, a serious loss of preferential access to major export markets. Some BMCs are in an economic crisis, with serious structural problems to be addressed and the risk of a widening of poverty unless effective action is taken quickly.

3. *Contributors recognized* that these challenges cannot be addressed by the use of ordinary capital resources alone. Without additional concessional resources, the Bank would be unable to operate in some of its BMCs, or to help others address the serious problem of poverty and achieve broad based growth and economic transition. The Special Development Fund remains key to the development work of the Bank and its ability to undertake its core mission of poverty reduction.

4. *Contributors have reviewed* the operations and policy framework of the SDF and the Bank.^b *They commend* the substantial progress that the Bank has made, together with the BMCs and its partner agencies, in deepening the understanding of the nature of poverty in the Caribbean, in adapting and applying more than 20 years of experience with community-based programmes of benefit to the poor, and in sharpening the focus of its programme instruments and its own internal operational capabilities. This progress has been documented by the recent *Performance Review* of the fourth cycle of the Special Development Fund (SDF IV).

^b Contributors met formally to consider a replenishment of SDF resources in Barbados in March 2001 under the chairmanship of Sir Neville Nicholls, then President of the CDB, in May in St. Lucia under the chairmanship of Prime Minister Kenny Anthony, Chairman of CDB's Board of Governors, and in Barbados in July under the chairmanship of CDB President Compton Bourne. The documents they have reviewed are shown in Appendix 1.

5. *Contributors welcomed* the Bank's new mission statement with its pre-eminent emphasis on the systematic reduction of poverty through social and economic development, as well as the articulation of an SDF operational strategy focused on poverty, vulnerability and governance. There remains, however, much to be done in applying this strategy and in strengthening further the work of the Bank in addressing the critical issues of poverty and vulnerability and achieving the International Development Goals for the Caribbean. Development of the Bank's approach in a number of key areas was *requested by Contributors and reviewed in the course of their discussions*.

6. *The Representatives of Contributors have agreed* to recommend a replenishment of the resources of the Special Development Fund for the period 2001 to 2004, based on a new operational strategy for SDF and the Bank, and on the needs of both the existing BMCs and the new members who will shortly join their ranks, Haiti and Suriname. This report addresses the issues of particular concern to Contributors and the action that the Bank proposes to take in these areas; it provides policy guidance and direction, as well as a funding framework, for SDF V.

2. POVERTY AND VULNERABILITY IN THE CARIBBEAN

7. Poor people share a common dilemma – they lack the essential assets and opportunities to improve their living conditions and to achieve a quality of life that can be considered even minimally acceptable. Poverty in the Caribbean, however, is not simply a “have” or “have not” situation. Broad segments of society are vulnerable to deprivation. The most vulnerable and deprived households live in chronic poverty, while others move into and out of poverty with varying degrees of regularity. Extreme vulnerability of many of the economies in the Caribbean to frequent natural disasters and economic shocks disproportionately affect the poor and the risk of deprivation for the near poor.

8. Living standards measurement surveys and country poverty assessments (CPAs) have begun to document the nature and extent of poverty in the Caribbean. Table 1 shows the extent of poverty, judged in terms of *income poverty* (inability to afford minimum sustainable living standards) and in terms of *indigence* (inability to afford even minimum food costs alone), for 10 of the CDB's Borrowing Member Countries (BMCs) for which CPAs are available, as well as Haiti and Suriname. The methodology is the same as that used by the World Bank and other multilateral and bilateral donors in the region. The data, in some cases, needs to be updated, but, on the whole, appears to be reasonably reliable and current. The data shows a stark picture of high levels of true poverty, somewhat masked statistically by a prosperous group of people at the top of the income scale. The Gini ratios show levels of income disparity among the worst in the world, and attest to this bifurcation of the population. The poorest third of the population is very poor indeed. Not just relatively poor, by North American standards, but desperately poor. Their condition is more like that of the poor in Africa or in the poorest Asian countries.

9. Eight of the eleven countries have more than 10% of their population with less income than it takes to eat the simplest cheapest diet that can sustain health. All of the countries have more than 20% of the population below the poverty line, and eight countries have more than 30% of their population in poverty, and in one of the present BMCs the percentage is as high as 43%. Not only are these levels of poverty unacceptable, but poverty in the potential new member countries, at well above 60%, is much worse, by a considerable degree.^c

^c In international terms, one of the indicators used to measure progress towards the International Development Goal of reducing the proportion of people living in extreme poverty by at least one-half by the year 2015 is the proportion of the population whose income/consumption level falls below \$1 and \$2 per day, adjusted for purchasing power parity. This is a headcount measure of poverty and reflects the purchasing power that households have over goods and services needed to escape poverty. This

TABLE 1: POVERTY INDICATORS (10 BMCs plus Haiti and Suriname)

	Population ('000)	Year	Population Below Poverty Line %	Population Below Indigence Line %	Gini Ratio
Belize	222.0	1996	33.0	13.4	0.51
Grenada	100.1	1998	32.1	18.0	0.45
Guyana	734.8	1996	43.2	27.7	n.a.
Haiti	8,880.0	1997	65.0	n.a.	n.a.
Jamaica	2,448.1	1996	26.1 ²	n.a.	0.36
St. Kitts & Nevis	35.5	2000	30.5	11.0	0.39
– St. Kitts					
– Nevis	8.0	2000	32.0	17.0	0.37
St. Lucia	145.3	1996	25.1	7.1	0.50
St. Vincent & the Grenadines	111.2	1996	37.5	25.7	0.56
Suriname	440.0	2000	63.1	20.0	n.a.
Trinidad & Tobago	1,246.9	1999	21.2	11.2	0.42
Turks & Caicos Islands	16.4	1999	25.9 ^d	3.2	0.39

10. These are conservative estimates of the experience of poverty. The poor in the existing BMCs, in particular, live largely in the cash economy, without the informal safety nets of those in many other countries, and face the need to purchase food and other necessities at relatively high prices set by imports and tourist enclaves. The estimates also do not capture many of the transient poor, who may spend much of their lives living with poverty, although not always in poverty. Similarly, they do not adequately capture the frequently severe impact of the high vulnerability of many BMCs to frequent natural disasters and severe economic shocks.

11. A characteristic of many countries in the Caribbean is their high vulnerability, which can severely impact on the poor and the near poor. Considerable study has been undertaken of this issue, as reflected in the *Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States*.³ Separate studies of vulnerability undertaken by the Commonwealth Secretariat and CDB, although using different methodology, show similar results.⁴ Both concluded that small states were highly vulnerable to external economic forces and environmental hazards, and both ranked Caribbean states as among the most vulnerable in the world.

12. In the Commonwealth Vulnerability Index (CVI), 111 countries were ranked in terms of their overall vulnerability.⁵ Some 28 countries were ranked as *highly vulnerable*. Of these, 10 were CDB BMCs or prospective BMCs (Antigua & Barbuda, Bahamas, Belize, Dominica, Grenada, Guyana, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines and Suriname), including all six of the OECS member countries covered in the analysis.

13. In a recent study by the CDB, an index of vulnerability was constructed for 95 countries based on six

comparison does not replace the calculation of national poverty lines for policy purposes, but is intended to provide one measure of change over time for given countries and groups of countries in terms of meeting the IDGs. CDB is currently calculating this indicator for its BMCs. In the case of St. Lucia, the proportion of persons falling below \$2 per day in 1995 (the year for which a base survey is available) was 41% and below \$1 per day was 17%. For St. Kitts & Nevis, some 49% fell below the \$2 a day benchmark in 1999, and 17% below \$1 per day. For Grenada, the figures were 28% below \$2 per day in 1995, and 24% below \$1 per day. These benchmarks will need to be calculated for other BMCs, and then subsequently at regular intervals as part of the country poverty assessment process.

^d Percentages for individual islands are as high as 60 per cent. Of the five islands, only one had a poverty level below 30 per cent

variables causing or leading to vulnerability.⁶ The BMCs and prospective BMCs are among the most highly vulnerable countries in the group. As shown in Table 3, *10 of the BMCs were ranked in the 20 most vulnerable countries*, a group that also included Haiti. Another four are included in the top 30.

14. Economic vulnerability assumes increasing importance in the wake of rapid changes in the economic environment, including globalisation and trade liberalization. While such changes offer new opportunities for trade expansion, increasing competitiveness poses major uncertainties as the BMCs become more exposed to the vagaries of international markets.

TABLE 2: CDB ECONOMIC VULNERABILITY INDEX⁷

Country	EVI Score	Rank (out of 95 countries)					
		Overall Rank	Energy/ F&I	Export Concentration	Export Destination	Finance	Natural Disasters
Current BMCs							
Anguilla	0.85	1	9	1	2	9	18
St. Lucia	0.76	3	9	11	18	18	20
Montserrat	0.76	4	9	18	43	11	3
Antigua and Barbuda	0.74	5	9	8	11	51	9
British Virgin Islands	0.73	6	30	7	3	23	56
St. Kitts & Nevis	0.73	7	9	10	9	29	37
Guyana	0.71	8	30	26	13	3	42
Jamaica	0.70	9	8	22	7	40	30
Belize	0.69	12	19	36	20	33	11
Dominica	0.67	17	24	29	48	20	13
St Vincent & the Grenadines	0.63	22	23	34	58	15	27
Cayman Islands	0.63	23	9	10	1	49	91
Grenada	0.61	27	9	17	45	27	72
Bahamas	0.60	28	29	5	5	87	
Barbados	0.55	36	43	14	34	83	76
Trinidad and Tobago	0.46	59	73	41	27	43	71
New BMCs							
Haiti	0.68	13	3	81	8	10	21
Suriname	0.40	68	68	3	47	94	80

15. Of particular concern over the next five years is the transition to a liberalized global trade regime. Post-Lomé arrangements require the 71 ACP countries to give up their traditional preferences in the EU market, with key dates for implementation being 2005 and 2007. Of particular concern to Caribbean countries, the new trading environment has produced changes in the regulation of the market for bananas, because the former regulation was incompatible with WTO rules. The cost of the loss of these preferences is high for a number of small states in the Caribbean, with a potential loss of up to 8.7% of merchandise exports and 1.8% of GDP.⁸ The erosion of preferences will have a particularly pervasive effect on Dominica, St. Vincent and St. Lucia, disproportionately affecting the poor. The solution now proposed by the EU to bring their assistance to ACP countries into conformity with WTO rules may hasten the decline in the benefits of those preferences to the Caribbean.

16. A critical aspect of vulnerability in the Caribbean is that of hurricanes and other natural disasters. Eleven of the 17 BMCs have suffered from serious natural disasters since 1988, in several cases on more than one occasion. The most typical disaster has been tropical hurricanes, and the most critical consequence of these repeated hurricane strikes is their effect on raising infrastructure investment costs and capital/output ratios.

TABLE 3: NATURAL HAZARDS IMPACTING BMCS 1988-1999⁹

Hazard	Year	Magnitude	Estimated Cost	Countries Affected
Hurricane Gilbert	1988	Category 4	Estimated losses US \$4,000 million. Widespread devastation.	Jamaica
Hurricane Hugo	1989	Category 4/5	US \$290 million	Antigua & Barbuda British Virgin Islands Dominica, Montserrat
Tropical Storm Debby	1994	Less than 74 mph		St. Lucia
Iris/Marilyn/Luis	1995	Iris - Category 3/4 Marilyn - Category 1 Luis - Category 3	US \$700 million	Anguilla Antigua & Barbuda Dominica, Montserrat St. Kitts-Nevis
Hurricane Georges	1998	Category 3	US \$ 450 million (not including Dominica) ^e	Antigua & Barbuda Dominica, St. Kitts-Nevis
Hurricane Floyd	1999	Category 4		Bahamas
Hurricane Lenny	1999	Category 4/5	US \$ 274 million	Anguilla Antigua & Barbuda Dominica, Grenada St. Kitts-Nevis, St. Lucia St. Vincent & the Grenadines
Volcano	1995 to present		1995 GDP loss -7.61% 1996 GDP loss -20.15%	Montserrat

17. The most recent of these disasters was Hurricane Lenny in 1999. This approached the ferocity of a Category 5 storm and impacted on five BMCs. Estimates of the cost range up to 8.4% of GDP for Antigua & Barbuda and for Dominica, and to over 28% of GDP for Grenada and 80% for Anguilla. .

18. Vulnerability to natural disasters is random, if frequent, but vulnerability in other forms is rising, in terms of the HIV/AIDS pandemic and loss of trade preferences for traditional export commodities. The erosion of trade preferences for bananas and sugar is already resulting in increases in the level and severity of poverty in some BMCs, especially in rural areas, where two-thirds of the region's poor are located.

19. *Contributors agreed* that available evidence confirms the existence of unacceptable levels of poverty in the Caribbean and that this is accentuated by the high vulnerability of many Caribbean countries to economic shocks and natural disasters. *They also agreed* that there were risks of a widening of poverty in some countries unless immediate steps were taken to address the issues of poverty reduction and achieving broad-based, sustainable growth.

3. VISION AND ROLE

3.1 The International Development Goals

20. *Contributors agreed* that the *International Development Goals*, which have been adopted by many international organizations and major donors,^f and endorsed by the *Millennium Declaration* of the United Nations in September 2000, should set the broad vision for their joint efforts to relieve the scourge of

^e Not including Haiti, which was also severely affected, with damage estimated at \$80 million and a significant adverse effect on GDP.

^f Including *Halving World Poverty by 2015: Economic Growth, Equity and Security*, United Kingdom, September 2000; *Poverty Reduction – a Global Responsibility: Program of Action 2015*, Germany, April 2001; *Policy on Poverty Reduction*, Canada; and *Shaping the 21st Century*, Development Assistance Committee of the OECD.

poverty in the Caribbean. The International Development Goals set targets for reduction in poverty, improvements in health and education, and protection of the environment. They measure progress from 1990 and look to what can be accomplished by 2015, using a series of indicators for each of the goals. They establish an over-arching challenge for the international community.

21. *Contributors welcomed and endorsed* the use of the IDGs as an integral part of the policy framework for SDF V. *They recommended* that the goals, including Caribbean-specific IDGs that can be developed through CDB assistance, should be used as strategic benchmarks against which the CDB plans operations and views performance in the BMCs.

TABLE 4: INTERNATIONAL DEVELOPMENT GOALS

Goals	Target Year
<i>For economic well-being:</i>	
☞ Reducing by half the proportion of people living in extreme poverty	2015
<i>For social development:</i>	
☞ Achieving universal primary education	2015
☞ Eliminating gender disparities in primary and secondary education	2005
☞ Reducing by two-thirds the mortality rates for infants and children under 5 and by three-fourths the mortality rates for mothers	2015
☞ Providing access to reproductive health services through the primary health-care system for all individuals of appropriate ages and beginning to reverse the spread of HIV/AIDS	2015
<i>For environmental sustainability and regeneration:</i>	
☞ Having in process of implementation a current national strategy for sustainable development	2005
☞ Reversing the current loss of environmental resources at both global and national levels	2015

22. Most of the IDGs represent a major challenge for BMCs, in particular the goal of halving the proportion of those living in extreme poverty and reversing the spread of HIV/AIDS. Equally, if the goal of having current national strategies for sustainable development in place and under implementation by 2005 is to be achieved, there is an urgent need to promote more vigorous action to update and implement national environmental action plans, including for forestry. Few, if any, BMCs have been able to establish self-sustaining strategic environmental planning processes that allow for full integration of the environmental, macroeconomic and social planning frameworks. The goal for universal primary education has been achieved for the Bank's existing BMCs, and the goal of eliminating gender disparities in primary and secondary education enrolment has been largely achieved, although there are issues of quality and relevance, and a higher dropout rate for males is a cause for concern. More generally, there are deep concerns over the youth population in the 18 to 30 age group in many Caribbean countries. There are also concerns that some BMCs that may have made progress with respect to the targets are vulnerable to reversals. In the case of the largest of the Bank's prospective BMCs, all of the IDGs represent a very major challenge.

3.2 Mission and Strategic Objectives

23. *Contributors reaffirmed* the importance of the CDB's ***Mission Statement***, set out in the *Strategic Plan 2000-2004: The Road into the New Millennium*:

*To be the leading Caribbean development finance institution, working in an efficient, responsive and collaborative manner with our Borrowing Members, towards the systematic reduction of poverty in their countries, through social and economic development.*¹⁰

24. *They also welcomed* the process of analysis, assessment of strengths, weaknesses and opportunities, consultation with member governments and other stakeholders, and development of a broad consensus

that led to the formulation and approval of the Strategic Plan and the Mission Statement. The Plan provides a poverty-focused mission for the CDB as a whole, identifies key objectives, sets out strategies for addressing those objectives, and establishes a framework within which SDF and OCR resources can be deployed and focused on critical needs, including in the social sector, and on poverty reduction in particular.

25. *Contributors recognized* that the Plan's objectives and strategies are intended to allow the Bank to make a significant contribution to the transformation of the Caribbean into a region characterized by sustainable social and economic development and significant improvement in the quality of life and reduction of poverty in each of the BMCs.

26. *They endorsed* the **strategic objectives** for 2000-2004, which are to:

1. *Foster more rapid and broad-based growth of the economies of the BMCs;*
2. *Reduce poverty and improve the status of the most vulnerable in Caribbean society;*
3. *Promote good governance and efficiency in public policy formulation;*
4. *Ensure that environmental issues are an integral part of programme and project planning; and*
5. *Foster closer economic integration of the BMCs.*

27. *Contributors also supported* the **key strategies**, to:

- ✍ *Increase the Bank's responsiveness to the changing requirements of its BMCs;*
- ✍ *Improve the capacities and capabilities of the BMCs;*
- ✍ *Strengthen CDB's own institutional capability and efficiency; and*
- ✍ *Forge new and stronger partnerships with the BMCs and with other donor and financial agencies.*

28. **Increasing the Bank's responsiveness to its BMCs** will require:

- ✍ *Channelling increased resources to those countries;*
- ✍ *Expanding the Bank's role in addressing poverty reduction, with an emphasis on the most vulnerable social groups, such as the rural poor, women, inner-city youths and indigenous people;*
- ✍ *Bringing country programming to the forefront of CDB's planning activities, with the emphasis on establishing consistency between each BMC's development objectives and the level and type of CDB assistance, and on ensuring that the policy and institutional framework fully supports the realization of these goals;*
- ✍ *Developing new ways of strengthening private sector development, particularly for micro, small and medium sized businesses and rural communities; and*
- ✍ *Defining and developing new and improved approaches in the social sector, building on experience to date in SDF IV.*

29. **Improving BMC capabilities** will require increased attention to economic management (macroeconomic, fiscal, financial and public sector investment programme [PSIP] management), as well as to public sector management, public sector reform, and other key aspects of governance.

30. **Strengthening the Bank's institutional capacities** will require strengthening the Bank's human resources in selected areas, as well as strengthening human resource management and information technology and management, increasing the presence of Bank staff in the field, and maintaining or strengthening cost-effectiveness in the Bank's operations.

31. **Strengthening partnerships** will require working closely with institutions such as the IDB, World Bank, IFAD and EIB, as well as bilateral agencies, which can bring expertise and financing to bear in the partnership, and with agencies such as the OAS, PAHO and FAO, which have substantial and valuable

expertise. It will require the full participation and involvement of BMCs in CDB activities, including the design of country programmes, as well as strengthening partnerships at the regional level through, for example, inter-agency missions and collaborative research and training.

32. *Contributors stressed* that the clear articulation of the strategic plan into a practical operational strategy for SDF V was of fundamental importance for the effectiveness of SDF in achieving the objectives set by Contributors. *They agreed* that an important means of achieving this was the use of a *poverty and vulnerability prism* through which country programmes and project selection, design and implementation would be viewed. *Contributors also emphasized* that the articulation of the CDB's vision and its operational strategy should be based squarely on comparative advantage and the identification of the Bank's particular niches.

3.3 Comparative Advantage

33. *Contributors recognized* that a major part of CDB's comparative advantage lies in its close relationship with BMCs and its understanding of the problems and dynamics of the countries of the region, the easy access of the Bank's personnel to policymakers, administrators and institutions of civil society, the ownership and confidence that BMC governments feel in their own regional institution, the Bank's physical location in the region and proximity to many of its BMCs, and its substantially lower costs for the appraisal and supervision of projects of the size that frequently characterize the economies of the Caribbean. The Bank undertakes grant and loan technical assistance, public sector lending and private sector operations within a single organisation, and can take advantage of synergies that exist. Its exclusive focus on the Caribbean and closeness to its BMCs give it a special role in relation to regional cooperation in the fight against poverty and to the strengthening of governance and the institutions of civil society, as well as a high acceptability as a partner in poverty reduction at the national level.

34. The Bank has gained substantial experience over more than 20 years in the design and delivery of community-based programmes of direct relevance to the poor, which will be of benefit in SDF V for both the existing BMCs and for Haiti and Suriname, and more recently has gained experience in a range of programming instruments directed at rural development, small-scale credit, basic housing, primary education, environmental planning and sustainability, and the policy and institutional elements that are essential for strengthening pro-poor governance.

35. *Contributors recommended* that careful articulation of the Bank's comparative advantage should be a primary factor in the development of country programmes and in the selection and design of individual projects. *Contributors also stressed* that the CDB's comparative advantages will need to be complemented by increased attention to evidence-based priorities, project and portfolio quality, and strengthened performance monitoring and evaluation of the Bank's project and country portfolios.

3.4 Extending the Mandate to a Wider Caribbean

36. The mandate of the Caribbean Development Bank – and its Special Development Fund – has been based upon the development needs and membership of the Caribbean Community (CARICOM). The widening of the Community to play a broader role in the Caribbean has been welcomed by its partners. *A comparable widening of the mandate of the CDB and SDF has been supported, and indeed urged, by many of its present members, regional and non-regional, from the Americas and from Europe and Asia.*

37. The widening of that mandate will be effective early in the period of SDF V. The membership of Suriname has been approved by CDB Governors, and that of Haiti is pending final approval. Completion of the necessary formalities is likely in the immediate future. Discussions are expected soon with the

Dominican Republic. These changes will create a vastly different CDB, with greater challenges, a wider role, and different traditions of governance and language to internalize and work with.

38. Haiti alone, with 7.8 million people and an incidence of poverty of perhaps 65% will more than double the population of the Bank's BMCs and quadruple the number of people living in unacceptable poverty. The special needs of Suriname, with its own high poverty levels, are an additional dimension to the CDB's new role. The Dominican Republic may well be the next major new BMC to join the Bank.

39. *Contributors welcomed* this new and wider role for the Bank. *They recognized* that it poses special challenges, not only for the Bank, but for the Contributors themselves. 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 V, which should be funded at an appropriate level to allow the Bank to undertake its new mandate.*

40. *Contributors recognized* that the SDF operational strategy will also need to take into account the special needs of the new members, and *they welcomed* the initial thinking that the Bank had done on how it might best address these special needs. *They urged* the Bank to give priority to preparing itself to meet these challenges and to a practical and incremental approach, including the development of new partnerships, in order to make possible an early and effective start of operations in the new members.

4. SDF IV OPERATIONS AND PERFORMANCE

41. *Contributors welcomed* the *Performance Review* of SDF IV operations that had been completed as an input into their consideration of further SDF funding.¹¹ *They agreed* that, as in the case of other MDB concessional fund replenishments, evidence of needs and of capability to address those needs is not by itself a sufficient basis for planning resource requirements. Equally important is quantitative and qualitative information on the results and outcomes of operations under previous replenishments.

42. *Contributors underlined* that a Contributors Report is an agreement between the Contributors and the institution that sets out conclusions, recommendations and policy guidance for specific action within an agreed timeframe, on the basis of which Contributors pledge new contributions to the Fund. They were, therefore, especially appreciative of the work undertaken by the external consultants in preparing the *Performance Review*, which addressed specifically the performance of SDF in relation to the broad policy directions and agreements that had formed the basis for the SDF IV replenishment.

43. *Contributors expressed their strong satisfaction* that the *Performance Review* had been able to document that SDF IV had met programme objectives in terms of the resources allocated to the agreed priority areas and the development of new programme instruments, particularly for targeted poverty reduction programmes, and that programme outcomes are likely to be broadly satisfactory, with in some cases positive results already in evidence. *They recognized* that the reorientation of the Bank's work that Contributors had agreed in the context of SDF IV represented a considerable achievement in its accomplishment.

44. *Contributors also noted* the many recommendations of the *Performance Review* for further strengthening of SDF operations, including the need to build on experience in improved targeting for poverty reduction, strengthening the operational policy framework for poverty reduction and improved governance, and addressing the difficulties in programme development and project implementation in the Bank's one Group IV BMC. *Contributors were in agreement* with the broad thrust of these recommendations, and *underlined* that *they attached importance* to early action on them. *Contributors*

welcomed CDB's *Action Plan* on the recommendations (see Appendix 2) and the progress that had already been made in implementing several of the most critical recommendations.

45. *Contributors stressed* that the *Action Plan* formed an essential element in the agreement of Contributors to an SDF V replenishment, and they looked forward to a further report on implementation in the context of a Mid-Term Review, which *Contributors agreed* should be undertaken early in 2003. They also anticipated that the Bank would have brought forward for Board approval before the end of 2001 both the policy statements on poverty reduction and on governance, institutional strengthening and regional action, and specific proposals to strengthen programme development and implementation in the Bank's present Group IV country, whose needs represent a significant element in the case for the replenishment.

46. *Contributors underscored* the importance they continued to attach to strengthening the evaluation work of the Bank. The *Performance Review* and the new *Project Performance Evaluation System (PPES)* now under implementation (discussed further in a later section below) are a good beginning. *Contributors reaffirmed*, however, the need for increased evidence on outcomes and impact from SDF programmes. *Contributors requested* an interim report in the context of the Mid-Term Review on the extent to which the new PPES would be able to provide such information.

47. *Contributors noted with approval* the outcomes with respect to overall project approvals (loans and grants) for SDF IV (shown in Table 5). The programme themes are those established by Contributors in the Contributors Report for SDF IV. As of December 31st, 2000, amounts committed to approved projects, both loans and grants, totaled \$184.4 million, with \$93.2 million in the category of targeted poverty reduction (as defined in the *Performance Review*, including the use of SDF to support disaster response, classified by the *Review* as a major safety net in the circumstances of the Bank's BMCs).

TABLE 5: SDF IV – PROJECT APPROVALS BY PROGRAMME THEME^g

\$ million

	1996	1997	1998	1999	2000	Totals
Poverty Reduction	31.3	4.5	17.8	10.6	29.0	93.2
Human Resource Development	1.1	8.7	2.8	7.8	7.7	28.1
Environment, Water Supply & Waste Management	0.1	7.7	2.9	9.3	2.6	22.6
Governance & Institutional Strengthening	3.3	3.4	3.6	3.2	16.7	30.2
Other Infrastructure		0.1	5.6	0.1	4.5	10.3
Totals	35.8	24.4	32.7	31.0	60.5	184.4¹²

Source: *Performance Review* August 2000.

Totals may not add due to rounding.

48. As shown in Figures 1 and 2, SDF IV operations reflected the policy direction and planning allocations set by Contributors, resulting in major shifts in emphasis from SDF III to SDF IV.

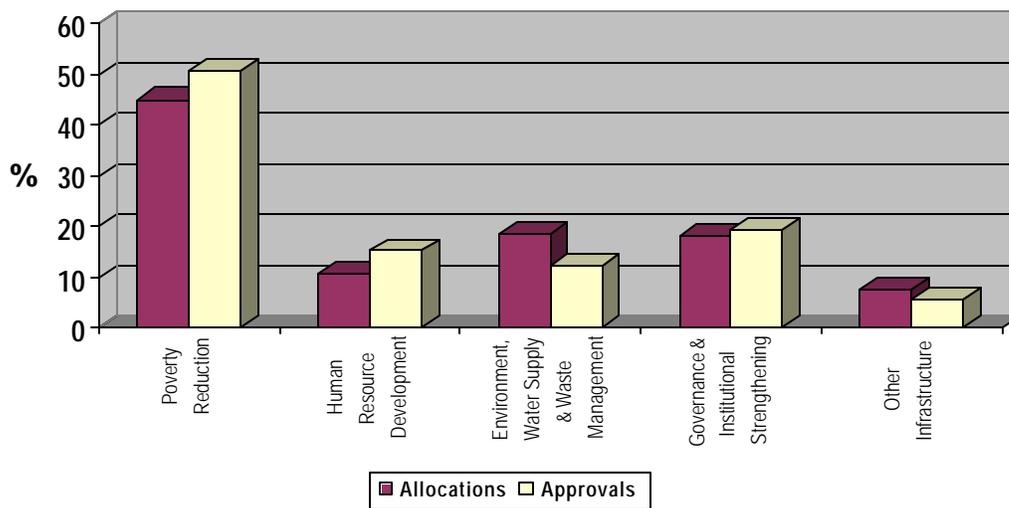
49. Targeted *poverty reduction* programmes became the most important element in SDF operations,¹³ and exceeded the planning target agreed by Contributors. This reflects a considerable effort by CDB to develop a stronger programme capability in this critical area, the undertaking of country-level assessments of poverty, and the introduction of new programme instruments. A support group of other donors has provided valuable assistance in this effort, and *Contributors agreed* that the Bank is now well positioned to build on this experience in its operational strategy for SDF V.

^g Excluding debt relief.

50. *Human resource development and governance and institutional strengthening* were also important areas of increased emphasis in SDF IV, reflecting priority needs in SDF-eligible BMCs. A fourth priority area was *environment, water supply and waste management*.

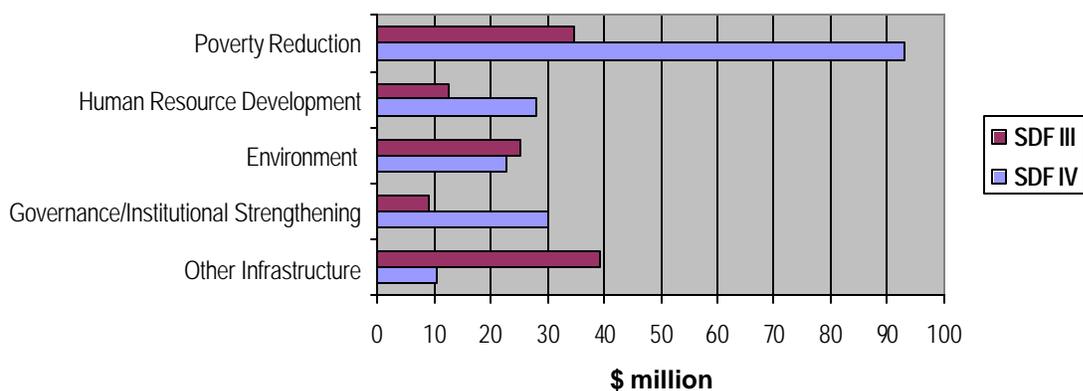
51. In the technical assistance field of governance and institutional strengthening, although there was a small shortfall in the level of project approvals from the ambitious SDF IV planning allocation, there was a significant increase in the level of activity from SDF III. Significant increases occurred in the range and number of interventions, including in newer areas, and in areas of increased emphasis, such as economic management, public sector reform, and support for some of the institutions of civil society, as well as in the continuing area of strengthening the direct delivery of public services.

Figure 1: SDF IV Planning Allocations and Actual Approvals by Theme



52. The *Performance Review* examined project-specific results in several BMCs for a selected sample of SDF-financed projects in each of the programme areas. *Contributors noted* that, even though many SDF IV projects were still under implementation, it was possible in many cases to identify positive outcomes, or probable outcomes, for projects funded by SDF IV or similar projects under previous SDF cycles, and that in some cases outcomes and impacts were outstanding.

Figure 2: Project Approvals by Theme - SDF III and SDF IV



53. *Contributors cautioned*, however, that more in-depth project-specific evidence was needed, and *they recommended* that the *Performance Review* be followed by selected studies of outcomes and impacts on a project or sector basis, and that this should be completed well before the end of the SDF V period.

54. The *Performance Review* had examined a number of *corporate performance measures*, both for the CDB and for selected comparator institutions. Although recognizing the qualifications that are needed in making comparisons across different institutions with differing policies and differing “product lines”, *Contributors noted* that the report had been able to conclude that “at the corporate performance level, the CDB appears to be operating with reasonable efficiency, and with a comparative advantage in developing and implementing smaller-sized projects, especially in smaller countries in the Caribbean.”¹⁴ *They expressed satisfaction* that performance indicators such as number of loan projects approved for a given level of administrative expenses, administrative expenses per project approved, and expenses per project under administration were all substantially more favourable for the CDB, as was the ratio of professional staff to projects approved.

55. *Contributors also noted* that CDB’s disbursement ratio was similar to that of the comparator institutions and had been improving over time, with a strong upward trend, so that it was higher at the end of the period (1999) than in the case of the comparators. This held true also for the SDF disbursement ratio, and for the period as a whole (1996-1999) the ratio was very close to that of the comparators.

56. *Contributors agreed* that performance during SDF IV had been broadly satisfactory, and in some respects better than anticipated. Results also supported the conclusion that CDB operations were broadly cost-effective. *Contributors stressed*, however, that further improvements in performance were expected, and that the Mid-Term Review would be an opportunity to assess the Bank’s continuing effectiveness in the use of SDF resources.

5. A FRAMEWORK FOR POVERTY REDUCTION AND BROAD-BASED SUSTAINABLE GROWTH

57. As part of their consideration of the policy framework for SDF V,^h *Contributors reviewed* working papers on a *Strategy for Poverty Reduction* and on *Governance and Institutional Development*. These documents, together with the Operational Strategy set out in the Bank’s replenishment proposal¹⁵ provide the broad framework for SDF V operations. Key elements of that framework, as *endorsed by Contributors*, are set out below.

58. *Contributors supported* the innovative concept of a *poverty prism*, through which all of the Bank’s operations would be viewed, and the targeting of three core priorities for SDF V, which reflect the reality and causes of poverty in the Caribbean. These priorities 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.*

5.1 Capability, Vulnerability and Governance

59. Poverty is a multi-dimensional, multi-sectoral and dynamic phenomenon with multiple causes that depend on the social, economic and political circumstances of a country. The World Development Report

^h Set out initially in the Bank’s original replenishment proposal, *A Partnership for Poverty Reduction in the Caribbean: Replenishment of the Resources of the Special Development Fund (SDF V)*, October 2000.

(2000/2001) argues that “attacking poverty requires actions in three areas: opportunity, empowerment and security – at the local, national and international levels”. Identification of *capability enhancement, vulnerability reduction and good governance* as strategic levers for poverty reduction in the CDB’s BMCs is consistent with this view. It emphasizes the dimensions of poverty that are critical in the Caribbean context. In small Caribbean states, enhancement of capabilities is essential to expanding opportunity, reduction of vulnerability is essential to achieving adequate security, and greater commitment of the power of the State to addressing issues that are the major concerns of poor people is vital, if they are to have adequate influence on the development process.

60. **Capability:** Employment, and terms of employment, that enable poor people to take advantage of their most abundant asset, their labour, are central to reducing income poverty. The high proportion of employed poor in BMCs (in some countries the unemployment rate is lower for poor people), however, points to the critical importance to poverty reduction of strengthening the skills base of the labour force and raising productivity in combination with more broad-based economic growth.

61. In the Caribbean, where 60-70% of the workforce in BMCs have only elementary education, the lack of capability is a binding constraint and, in many respects, it is capability that determines real opportunity for expansion of employment and broad-based growth. Access to basic social services and essential economic infrastructure is a basic requirement for developing and sustaining the capabilities of individuals and households. Such services include basic education (primary and secondary), skills training, health care, transportation and shelter. Poor people are particularly vulnerable to inadequacies of access and quality in the provision of such services by government. For them, deficiencies in such services are disabling, because they cannot afford private alternatives. Similarly, disparities between communities in different areas within the same country, associated with geographic isolation, cultural preferences and natural resource endowments, can be disabling and result in marginalisation of groups such as indigenous people from the mainstream of economic activity. Such groups require special attention to building institutional and individual capabilities.

62. **Vulnerability:** Inadequate protection from hazards is an important factor that impacts on both the income and assets of households in the Caribbean. As a group, CDB’s BMCs are more vulnerable than most other low and middle-income developing countries to hazards such as hurricanes, earthquakes and landslides. Natural disasters come all too regularly, and can throw large segments of the population permanently or temporarily into poverty, unless people are provided with safety nets that enable them to overcome catastrophe and manage catastrophic risks. Such safety nets include assistance for disaster preparedness/management, emergency assistance during a disaster, assistance in the restoration of basic services and disaster rehabilitation.

63. HIV/AIDS has become a major health hazard. Its prevalence in the Caribbean is comparable to other most severely affected regions of the world. Nine of the 12 countries with the highest prevalence of HIV/AIDS in the Americas are in the Caribbean. Economic volatility/instability of markets is another major source of vulnerability. Terms of trade are also of particular concern over the next several years because of the changing preferential tariff regime and globalisation of markets.

64. **Governance:** Weaknesses in macro and micro social and economic frameworks, social and economic planning, legal and regulatory systems and public administration, and institutionalized social and economic inequities, can restrict people’s ability to earn a livelihood and lead fulfilling lives. A framework of good governance and sound social and economic policy is vital for sustained, systematic reduction of poverty. This includes strengthening of NGOs and other civil society groups that give voice to the concerns of poor and vulnerable people. National consensus needs to be forged on measures to resolve a range of social issues that are critical concerns of poor people. One such concern is greater public support for provisioning by the state for the economically inactive, indigent and disabled who have very limited or no income-earning capability.

5.2 The Poverty Prism

65. *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. The application of the poverty prism at the operational level will be guided by a set of *Operational Guidelines*.

66. *Contributors stressed* the importance of these guidelines, and *welcomed* the start the Bank had made on their preparation. The Bank indicated its intention that the operational guidelines for applying the poverty prism would be developed and in place before the end of FY2001.

5.3 The Framework for Targeting SDF V

67. The Bank’s broad strategy will be to assist BMCs in creating and maintaining conditions conducive to systematic, sustainable reduction of poverty, within the framework of national poverty reduction strategies. It will do so by pursuing its corporate strategic objectives through interventions directed to the priorities of *capability enhancement, reduction of vulnerability* and *good governance*. Taken together, the Bank’s strategic objectives and the three priorities provide a framework for SDF V operations. Enabling conditions at the country level for promoting sustained, systematic reduction of poverty in the BMCs in this framework are shown in Table 6.

68. Within the key priorities, the Bank will intervene in a limited number of specific areas, selected according to the following criteria:

- ? Areas of high priority, where CDB interventions can be based on comparative advantage and be cost-effective.
- ? Under-served areas of critical importance where CDB interventions can serve as a catalyst for increased resource flows and greater action by others.
- ? The potential for complementarity/synergistic interaction between areas.

69. *Contributors endorsed this broad approach and emphasized* that, in selecting specific interventions, the concepts of comparative advantage, selectivity, and partnership with other agencies should be rigorously applied.

70. On the basis of these criteria, the following were identified as the primary areas for SDF V interventions to reduce poverty in the BMCs:

Capability enhancement:

- ✍ Making resources for enterprise development more widely accessible,
- ✍ Linking training to production and market opportunities,
- ✍ Equitable public investment in essential infrastructure,
- ✍ Sustainable management of the natural resource base.

Reduction of vulnerability:

- ✍ Expanding opportunities for accumulation of essential assets and production diversification.
- ✍ Universal provision of basic social services to groups with special needs.
- ✍ Improving disaster management at all levels.

Good governance, institutional development and regional action:

- ✍ Public sector modernization.
- ✍ Strategic policy and programme management.
- ✍ Social partnerships and participation.
- ✍ Law, justice and security.
- ✍ Regional cooperation and governance.

TABLE 6: KEY CONDITIONS FOR PROMOTING SYSTEMATIC REDUCTION OF POVERTY IN CDB's BMCs

CDB Strategic Objective	Capability Enhancement	Vulnerability Reduction	Good Governance
More Rapid (sustainable) Broad-based Growth	Adequate access by producers/ enterprises of all sizes to resource needs, credit, land, information markets, training, technology, etc.	Expansion of opportunities for accumulation of essential assets and diversification of production by lower income households.	A modern effective, and accountable public sector that promotes equity in sharing benefits from development activities, through pro-poor growth strategies, and effective and efficient delivery of public services.
Improved Conditions for the Poor and Vulnerable	Training and production by poor people more effectively linked to market opportunities.	Universal provision of basic social services and services to groups with special needs.	Significant participation of poor and vulnerable people in social partnerships, national consensus building and in local development planning, resource allocation and functioning of local public services that benefit poor people
Good Governance and Efficient Public Policy Formulation	Equitable public investment in essential infrastructure to facilitate all levels of investment and production.	Adequate support for sustained effectiveness of NGOs & Government agencies that protect poor and vulnerable people from a major loss of income and assets.	Local, national and regional institutions develop new capabilities and re-orient their capacities to meet needs of adjusting to globalization and integrating market-oriented economic policies and poverty reduction.
Environment Management	People in poor communities adequately trained and motivated to protect natural resources on which livelihoods depend.	Disaster management is adequately organized and resourced in poor communities.	Adequate regulatory frameworks for setting and enforcing sound environmental and social standards.
Closer Economic Integration	Sharing of information on 'good practices' for integrating poor people in mainstream of economic and social development.	Regional cooperation and joint action to address common concerns that make people vulnerable to poverty, such as terms of trade, epidemics, natural hazards.	Meaningful regional cooperation in development of frameworks, tools and human resources for legal, judicial and public sector reform.

71. The Operational Strategy for SDF V, reflecting these priority areas in programme terms, is set out in Appendix 4. *Contributors supported* a strong emphasis on those programmes where the Bank's continuing evaluation work shows a strong relationship with poverty reduction and the three priorities for SDF V. In this respect, *Contributors commended* the work of the Basic Needs Trust Fund and endorsed the Bank's intention to increase this programme significantly, recognizing that this was in part dependent on the level of the replenishment and the overall level of support that Contributors were able to provide.

72. *Contributors also endorsed* the Bank's intention that, within the three priorities, at least 60% of SDF V resources would be targeted directly to the poor and the poorest communities. All other programmes would be developed with the use of the *poverty prism*.

BOX 1: AN OPERATIONAL PROGRAMME FOR ACTION

- ? SDF V resources will be targeted to highly selective areas in the three priorities of *capacity enhancement, reduction of vulnerability and good governance*.
- ? Within these three priorities, at least 60% of SDF V resources will be targeted directly to the poor and the poorest communities. Other programmes will be developed with the use of the *poverty prism* 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. [*Working Papers completed as of July 2001.*] These will be followed by a policy paper and action plan in each case, to be submitted for consideration and approval by the Board of Directors before the end of FY2001.
- ? Operational Guidelines for the application of the poverty prism will be developed before the end of FY2001. 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 V 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. [*Resource allocation formula developed, and approved by Contributors.*]
- ? 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 V, and then to update earlier assessments on a 3- to 5-year cycle.
- ? National Poverty Reduction Strategies will now be added to the Bank's priorities, recognizing that these must be country-owned and reflect fully 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) [*PPES designed and introduced in early FY2001. Currently under implementation.*]
- ? 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.

73. *Contributors agreed* that broad-based, sustainable economic growth was an essential element in poverty reduction, and that all three of the SDF V priorities should be expected to contribute to such growth. The nature of growth, and the way resources are allocated, was extremely important. For effective poverty reduction, economic growth needed to be broad-based, employment-generating, environmentally sustainable, and conducive to broader sharing of economic gains within the economy.

74. *Contributors welcomed* the Bank's preparations for working with the prospective new members, Haiti and Suriname, 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.

75. The Bank has indicated that its assistance for Haiti during the SDF V period might 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 were likely to be required.

76. In the case of Suriname, account would need to be taken of the major economic transition facing that country, 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 support for BNTF-type programmes.

77. Key steps in the Bank's *Programme for Action* in support of poverty reduction are set out in Box 1. *Contributors welcomed* the Programme for Action and *commended* the steps that had already been taken since the Programme was first submitted for their consideration. *Contributors supported the overall Operational Strategy for SDF V, as set out in Appendix 4.*

6. A RESOURCE ALLOCATION STRATEGY FOR SDF V

6.1. Strategic Country Allocations

78. The allocation of scarce concessional resources needs to reflect the purpose for which the funds are made available and the likely effectiveness with which they will be used. The resource allocation strategy for SDF V resources needs to begin with a consistent formula for determining indicative allocations for BMCs, and retain sufficient flexibility to take into account factors that emerge during the country programming process.

79. *Contributors agreed* that the allocation of SDF V resources should reflect best current practice in the allocation of concessional funds by multilateral institutions to support the goal of poverty reduction. *They also agreed* that the SDF resource allocation strategy should be firmly based on the Bank's own experience and the circumstances of its borrowing member countries.

80. *Contributors reviewed* the range of experience and the options with respect to concessional resource allocation through a series of working papers. *They concluded* that three principles should guide the resource allocation process. First, the greater the extent to which a country was disadvantaged, the larger should be the initial indicative allocation. Second, at a given level of need, better policies and institutions are likely to mean more effective use of concessional resources. Third, constraints on absorptive capacity may limit the amount of resources that can be used effectively.

81. SDF resources have traditionally been allocated under a system of country groups, based upon various criteria related to needs and vulnerability. *Contributors acknowledged* that the concept of needs

had served SDF well and should continue to be the major factor in determining initial or indicative resource allocations. *Contributors agreed*, however, that the assessment of needs for SDF V should be based squarely on the Bank's mission of poverty reduction and should include the closely related issue of vulnerability.

82. *Contributors also agreed* that the allocation formula should include a measure of "readiness" (policy/institutional performance), a factor now included in the resource allocation strategies of other concessional funds. This would be based on the country's CDB portfolio performance and on an assessment of the readiness of policies and institutions for poverty reduction (the country's *poverty reduction effectiveness situation* or PRES). Considerable experience is now available on the methods of such an assessments, and the formula for SDF V draws on this experience, adapting and simplifying the approach to reflect CDB-specific considerations. *Contributors agreed* that the Bank in making an assessment would dialogue with the country.

83. Although population is an important consideration in resource allocation, *Contributors agreed* that the smaller BMCs should not be unduly disadvantaged by the resource allocation formula. This will be achieved by moderating the effect of population size through use of a logarithmic measure similar to that adopted by the EU for allocation purposes.

84. *Contributors endorsed* a formula for setting indicative resource allocations for individual BMCs based upon these elements, as presented in Appendix 3. The formula includes a "needs" component and a performance/readiness component. The **country needs component** will be based on per capita income and population, with a pro-poor and pro-small country emphasis, adjusted for vulnerability. The **performance/ readiness** component will be based on the country's CDB portfolio performance, with a weight of 30%, and policy/institutional performance or PRES, with a weight of 70%. *Contributors reviewed and agreed* on appropriate criteria and weights for the assessment of PRES, as set out in Appendix 3.

85. *Contributors agreed* that these allocations should not be regarded as an entitlement, but should provide a central scenario, which would be adjusted in the light of particular circumstances such as policy and institutional change, the availability of a poverty reduction strategy, absorptive capacity, alternative sources of financing on appropriate terms, and the likely impact of SDF operations during the programming period.

6.2. Fixed Allocations

86. *Contributors agreed* that, while the largest part of SDF V should be allocated according to the resource allocation formula, there was also a need for some fixed allocations to provide for:

- ? Support for regional projects of a technical assistance nature;
- ? An initial budget for the commencement of operations in new members, for which data required by the formula was not yet available and where SDF programming would only begin during the course of the SDF V period; and
- ? An emergency reserve, available to respond to natural disasters, to major transitions in economic structure and/or to other emergencies such as HIV/AIDS. .

6.3. Country Groups

87. *Contributors supported* the use of Country Groups for purposes of setting the terms and conditions for SDF V lending and providing a basis for the blending of SDF and OCR funding at the country level. Individual country allocations would be determined for Groups 2, 3 and 4, other than for new members, for which a directed allocation would be provided.

88. While no BMC would be ineligible for SDF V, countries in Group 1 would not receive a country allocation. They would benefit from regional projects, and would be eligible for a limited number of highly poverty-focused projects, such as undertaking a poverty assessment or poverty reduction strategy, for technical assistance in the field of good governance, for projects that have poverty implications region-wide, such as for HIV/AIDS, and for humanitarian purposes in the event of a natural disaster. The amounts would not normally be greater than their own contributions to SDF V, except in the case of humanitarian projects.

89. Group 4 countries would continue to be eligible only for SDF financing. Group 1 countries, as noted above, would be expected to rely largely on OCR funding, with a small amount of SDF financing for particular purposes. Groups 2 and 3 would be provided with a blend of both SDF and OCR financing, with a somewhat “softer” (more concessional) blend in the case of Group 3. This approach to blending reflects practice in previous SDF cycle.

90. The determination of country groups has varied from cycle to cycle and was last adjusted in 1991. Circumstances have changed considerably since then. Country groups will now be less significant than they were in previous cycles, since the strategy for resource allocation in SDF V is to be based on individual country allocations for most BMCs, not on country groups, as was previously the case. A somewhat simpler basis for grouping BMCs for a more limited set of purposes is, therefore, appropriate.

91. *Contributors considered* the Bank’s proposal that country groups could be based on per capita income as a proxy for needs, with the separation between groups chosen according to broad bands in which per capita incomes are similar. After further review of the proposal, Contributors agreed to this basis for determining country groups for SDF V, with certain adjustments to reflect particular circumstances, as shown in Table 7. .

Table 7: COUNTRY GROUPINGS FOR SDF V

<i>Group 1</i>	<i>Group 2</i>
Bahamas	Anguilla
British Virgin Islands	Antigua & Barbuda
Cayman Islands	Barbados ⁱ
	Trinidad & Tobago ^h
	Turks & Caicos Islands
<i>Group 3</i>	<i>Group 4</i>
Belize	Guyana
Dominica	Haiti
Grenada	Suriname
Jamaica	
St. Kitts & Nevis ^j	
St. Lucia	
Montserrat [†]	
St. Vincent & the Grenadines	

ⁱ Previously in Group 1. The same repayment terms as for Group 1 would continue to apply.

^j Retained in Group 3 in recognition of the impact of natural disasters.

7. INCREASING SDF EFFECTIVENESS IN MEETING OBJECTIVES

7.1 Development Partnerships and the Comprehensive Development Framework

92. *Contributors reaffirmed* the importance of development partnerships, both with the borrowing countries and civil society, and between development agencies working in the same countries. *They welcomed* the statement in the Bank's *Strategic Plan 2000-2004* that forging and strengthening of partnerships would be a key strategy. *Contributors recommended* a strong commitment to such a strategy and to working with others in developing a cooperative and participatory approach to poverty reduction, broad-based growth and economic transition based on the principles of the Comprehensive Development Framework (CDF).

Country Strategies

93. *Contributors noted* the increasingly close partnerships that had developed with some of the BMCs in the preparation of national medium-term strategic plans (MTSPs) and the Bank's country strategy papers (CSPs), and *emphasized* that these should be further strengthened and extended in SDF V. *Contributors endorsed* the CDB's vision of country strategy development as a joint process with the BMC, involving various stakeholders and other donor agencies as well as the government. The process should be designed to take a strategic and holistic approach to the country's development programme, centred on an assessment of issues, policies and capacities, on enhancement of the CDB/BMC partnership, and on strong country ownership of the operational programme.

94. *Contributors agreed* that the CSP process should be based on the four CDF principles:^k

- ✍ *A long-term vision and strategy,*
- ✍ *Enhanced country ownership of development goals and actions.*
- ✍ *More strategic partnership among stakeholders, and*
- ✍ *Accountability for development results.*

95. The CDF approach can allow participants to think more strategically about the sequencing of policies, programmes and projects, and about the nature and pacing of reforms. It can encourage a better balance between sectors and greater transparency in tradeoffs between economic and social needs. Further, with better alignment of strategies and greater selectivity for each participant in the development effort, more can be done with available resources.

96. CSPs should include an action-oriented approach to poverty reduction, informed by the evidence-based analysis of country poverty assessments, and drawing on country poverty reduction strategy papers (PRSPs). *Contributors emphasized* that PRSPs should be prepared in accordance with the CDF principles. They should:

- ✍ *be country-owned, designed in a participatory fashion,*
- ✍ *be comprehensive, and based on a medium- and long-term perspective,*
- ✍ *include appropriate monitoring indicators, and*
- ✍ *form the basis for building partnerships among multilateral and bilateral agencies.^l*

Although poverty reduction strategies are country-owned documents, they need to be supported by all relevant stakeholders and a country's development partners.

^k World Bank, *Comprehensive Development Framework: Country Experience 1999-2000*.

^l This is the same statement of how CDF principles can be applied to PRSPs as in *Fighting Poverty in Asia: ADF VIII Donors' Report*, November 2000, para. 39.

97. *Contributors welcomed* the Bank's intention to cooperate with national governments and other agencies in the development of PRSPs, and to take the lead where appropriate in supporting the development of an individual country's PRSP.

Regional Partnerships

98. At the regional level, *Contributors noted* that the borrowing member countries had recognized the importance of a more extensive role for the CDB in a number of economic and social policy areas. In particular, the Bank had been requested to play a central role in the implementation of the Caribbean Single Market and Economy (CSME), which would create a single economic space for trade among the Caribbean countries, and was a critical element in the region's response to changing economic circumstances. This would include support for a CSME Implementation Unit to be based in Barbados. The Bank had also been requested to become involved in the creation of a new "fiscal architecture" to assist the OECS countries in particular, whose customs revenues and fiscal position would be adversely affected by the introduction of the CSME, to diversify their revenue base.

99. The Bank had similarly been requested to play an important role in combating HIV/AIDS, both in supporting the Regional Plan of Action on HIV/AIDS and in helping BMCs to prepare a strategic plan and treatment care plan in order to access the global fund for HIV/AIDS. A third important new area was in assisting the implementation of a regional transformation plan for agriculture. *Contributors endorsed* this wider role for the Bank within the region.

100. *Contributors agreed* that among the other priorities for regional action should be support for the OECS member countries in addressing difficult issues of economic transition, including the Regional Negotiation Machinery, and for CARICOM members generally in public sector reform, as in support for the work of CARICAD.

101. *Contributors endorsed* the important role that CDB continued to play in the principal international coordination group for the Caribbean, the *Caribbean Group for Cooperation in Economic Development (CGCED)*, as a member of the donor group Steering Committee and as the Secretariat for the Committee of Caribbean Member Countries, as well as undertaking parts of the Group's work programme. *Contributors supported* the Bank's willingness to undertake a larger role if this is desired by the Caribbean countries.

Partnerships with Other Development Agencies

102. *Contributors stressed* the importance of strengthening further the Bank's collaboration with other development financing agencies, in particular the Inter-American Development Bank (IDB), the World Bank, IFAD, UNDP, and bilateral aid agencies working in the Caribbean, including the agencies of the European Union, and with specialized agencies that can bring to bear their expertise and experience, such as the Pan-America Health Organisation (PAHO), OAS and FAO.

103. *Contributors expressed their support* for two current initiatives in which the Bank is participating:

- ☞ The joint *IDB/CDB Task Force on Development of a Framework for the Economic Restructuring of Caribbean Societies for the 21st Century*. This is in response to a proposal of Prime Minister Arthur of Barbados at the 1999 Meeting of CDB's Board of Governors, citing deep concerns on the difficult transition faced by many Caribbean economies. The Task Force has addressed the key development issues of the macroeconomic environment, governance, competitiveness, capital mobility, poverty and vulnerability. Its mandate is to develop a transition strategy for each country, as a focus for discussion within the countries concerned and between the countries and bilateral and multilateral agencies.

- ✍ The establishment of a *Caribbean Regional Technical Assistance Centre*, patterned after the existing PFTAC in the Pacific, sponsored by the IMF and the UNDP. A joint IMF/UNPD/CDB mission undertook a needs assessment in the first half of 2000, which concluded that priority should be placed on strengthening economic management in Caribbean countries. CDB is expected to become a member of the CARTAC Steering Committee, and *Contributors supported* financial support for the work of the Centre under SDF V.

104. *Contributors reaffirmed* the importance of the close relationship that had been developed with the *Inter-American Development Bank*, commencing in 1977, when the IDB Charter was amended to allow the channelling of resources to CDB for on-lending to the BMCs, including those which are not members of the IDB. Since then, IDB had made seven loans totalling \$86.5 million to support CDB's lending programme, as well as providing \$3 million in non-reimbursable technical cooperation resources to fund preinvestment, institutional strengthening and training activities in BMCs, and \$5 million for institutional strengthening at the CDB itself. IDB and CDB have also cofinanced a substantial number of technical assistance capital projects in health, education, financial services and social investment funds.

105. *Contributors expressed their hope* that arrangements could soon be concluded for additional IDB financial support for OECS countries through the CDB as part of the Bank's overall operations in the OECS countries during the SDF V period.

106. *Contributors recognized* that CDB's collaboration with *the World Bank* had extended over 30 years and has included a range of institutional, aid coordination, economic and sector cooperation, as well as parallel and channelled lending. There had been continuing collaboration in the context of the Caribbean Group for Cooperation in Economic Development (CGCED), for which the World Bank has overall coordination responsibility. CDB staff members participated in World Bank economic missions and training programmes, and joint approaches had been and continued to be used for various sectors and projects. Between 1976 and 1998, more than \$80 million had been provided by the World Bank/IDA for on-lending by the CDB, recognizing the CDB's comparative cost advantage in the appraisal and supervision of small loans.

107. Current co-financing cooperation between CDB and the World Bank/IDA involved seven projects, including OECS solid waste management, emergency reconstruction and disaster mitigation in Grenada, St. Kitts & Nevis and St. Vincent & the Grenadines, basic education in Dominica, Grenada and St. Lucia, and water sector reform in St. Lucia. The two institutions were also coordinating with each other's projects for poverty reduction in St. Lucia.

108. *Contributors welcomed* recent discussions between the two institutions on reinforcing cooperation between them. This included co-operation in areas related to strengthening CDB's institutional capacity, improving governance in the OECS member countries, and mitigating the financial impact of disasters in the smaller BMCs. In the World Bank's preparation of Country Assessment Strategies (CASs) for OECS members, they would be working with the CDB on certain aspects such as the public expenditure reviews for each of the countries. The CASs would be made available to CDB on completion. The World Bank had also agreed to assist CDB in training. A number of places on the WB's Executive Development Programme had been reserved for CDB managers, and specialist training would be extended to staff in CDB's Human Resource Development Unit. Both institutions were also co-operating in the introduction of a catastrophic risk insurance fund, targeted at the OECS member countries and Barbados. The former were particularly vulnerable to natural disasters such as hurricanes, earthquakes and volcanoes. Barbados is particularly vulnerable because several of the insurance companies operating in OECS members are branch offices of Barbados-based entities."

109. *Contributors recommended* that close working relationships and appropriate division of labour with the two larger MDBs operating in the region should be at the core of the Bank's strategy for

strengthening its development partnerships. *They urged* that the CDB undertake the lead role in such coordination in appropriate cases.

110. *Contributors welcomed* the close collaboration over many years between CDB and IFAD, including recent discussions on the establishment, in partnership with other donors, of a Caribbean Regional Unit for Technical Assistance (CARUTA), to assist in the formulation, implementation and evaluation of rural development projects in the Caribbean. The Unit could also support the development of rural and agricultural policies at the national and regional levels and help to strengthen regional capabilities in critical areas. Such a unit had the potential to be of considerable assistance in the development of rural areas, where two-thirds of the region's poor live.

111. *Contributors noted* that IFAD had under consideration the possibility of creating with CDB an innovative mechanism for making IFAD funding available to selected common member countries. This would involve depositing with CDB, in tranches, \$20-30 million that could be used for co-financing rural development projects with CDB. The Bank would be responsible for project identification, formulation, appraisal and supervision and be paid a fee for such services from the income of the fund. CARUTA could be used to support such a facility. *Contributors believed* that this type of arrangement was an effective means of using CDB's comparative advantage and supporting the objectives of SDF.

112. *Contributors also recognized* that CDB had considerable collaboration with other agencies working in the Caribbean, including UNDP, DFID, CIDA, the EU and its agencies, and other bilateral donors, and that the Bank intended to strengthen these relationships further. *Contributors expressed the view* that increased coordination and collaboration with other development agencies working the region was essential to the CDB's ability to undertake effectively its role in support of the BMCs.

7.2 Strategic Direction and Internal Governance

Strategic Planning

113. *Contributors welcomed* the development of a structured process of *corporate-wide strategic planning* as a key instrument in strengthening the Bank's strategic direction, and noted that this has contributed to a closer involvement of the Board of Directors and other stakeholders in formulating objectives and strategies. Implementation of the Plan will be reflected in the annual Work Programme and Administrative and Capital Budget, and the development and monitoring of appropriate performance indicators.

114. An important contribution to strategic policy formulation has also been made by the preparation and submission of working papers on operational strategies for *Poverty Reduction* and for *Governance and Institutional Development*. *Contributors reviewed* these two working papers, and their conclusions are set out in earlier sections of this Report. *Contributors recommended* that the working papers be followed by the preparation of more formal policy statements, and that these be submitted to the Board of Directors for review and approval in time to become effective before the end of FY2001.

Country Strategies

115. *Contributors strongly endorsed* the introduction of a strengthened process of *country strategy development*, to which reference has been made in a previous section. *They viewed* CSPs as an integral part of an effective strategy for the Bank's operations. CSPs are intended to ensure consistency between the Strategic Plan, the Bank's assistance to each BMC, and the country's development objectives and priorities. They are based on an assessment of policy issues, including institutional and policy performance, BMC priorities, the CDB's comparative advantage, the performance of the Bank's own portfolio (including lessons learned), creditworthiness, and the role of other agencies. They are intended to provide a framework for the assistance that the Bank will provide over a 3-year period, including the

level and composition of that assistance, and are expected to include an action plan and performance measures.

116. *Contributors urged* that the country strategy development process be viewed as an improved basis for CDB staff to undertake assessments of performance at the country level, and as a vehicle for dialogue on the policy and other requirements for effective implementation of the strategy, securing ownership by the national authorities, and developing partnerships with other agencies. *Contributors welcomed* the Bank's intention to mainstream good governance issues in the CSP process and in project development and appraisal.

117. The intention is that CSPs will normally be prepared for each BMC every two to three years. CSPs have to date been prepared for seven BMCs and are under preparation for six more. *Contributors recommended* that CSPs for the remaining BMCs be completed as a matter of priority, and that these be developed in such a way as to reflect fully the application of the poverty prism.

Board of Directors

118. *Contributors recognized* that the strategic planning, annual work programme and budget, and country strategy process was intended to provide the Board of Directors with a more effective sets of tools for giving strategic direction in the Bank's operations. The Board's involvement in the CSP process also provided an improved instrument for the Board to focus on programme development objectives and implementation issues at the country level.

119. *Contributors noted* that, since the CSP provided both an operational framework for the Bank's activities in each BMC and a project pipeline, the review and approval by the Board of the CSP for a particular BMC could facilitate subsequent "fast track" approval, i.e. circulation of the decision document on individual projects for approval on a "no objection" basis where significant policy issues were not raised. The procedures for this were being reviewed by the Board and should be a means of expediting project approval in appropriate cases, allowing earlier commencement of project implementation, and giving the Board more time to focus on strategic and policy issues.

120. *Contributors also viewed* the Board of Directors, in addition to its role in the development of medium and longer-term strategy, as an integral part of the *monitoring and control* dimension of the strategic management process. The Bank was developing a series of performance indicators to monitor Plan achievements, and these should be analyzed on a quarterly basis and submitted to the Board for review.

121. The Bank's new *project performance monitoring and evaluation system*, which had become operational in FY2001 (see Section 7.4 below), will provide the Board as well as Management and staff with a more effective tool for assessing project and portfolio performance, and for drawing lessons from experience that can be applied to the ongoing operational programme. This newly harmonized and strengthened system will apply to all of the Bank's project operations, and not only SDF.

Strengthening Informal Dialogue

122. *Contributors considered it important* that the multilateral character of the Bank be maintained through consultative exchanges of views between Management and the representatives of Governments. In this respect, *Contributors welcomed* proposals for a strengthening of the dialogue among Governors, Directors and Management. *They considered* this could best be effected by informal procedures, such as an informal meeting of Directors prior to a regular Board meeting, which could provide for discussion of issues such as expanding membership of the Bank or initiation of operations in new BMCs, as well as of the programme and schedule for the Board in the months ahead. *Contributors also suggested* that the proposed *SDF mid-term review* be discussed initially in an informal context.

123. Such procedures would be similar to “coffee sessions” or “tea sessions” and “informal meetings” held by other MDBs for similar purposes (in at least one case another regional MDB uses all three of these techniques, with a distinction in the purpose for which each type of informal discussion is held).

124. *Contributors suggested* that informal interaction between Board members and Management and staff might also usefully take place in the context of the implementation of the Strategic Plan, with the use of periodic “retreats”, perhaps on a semi-annual basis. . The timing of final approval of the annual *Work Programme and Administrative and Capital Budget* may need further consideration. If this were shifted to, say, November, a retreat could be held to review both performance to date in implementation of the Plan and the proposed work of particular departments of the Bank that bear on the achievement of key objectives of the Plan.

Internal Management

125. *Contributors noted* the steps that had been taken to strengthen internal interaction and dialogue on the annual work programme, and the series of retreats that were planned to achieve greater integration and participation in the development of the work programme as part of the budget preparation process. This should assist the Bank in achieving increased coherence in its efforts to address agreed objectives.

126. *Contributors also noted* the importance of implementing recommendations from the Operations Audit to improve the efficiency and effectiveness of CDB’s internal management and for the Bank to become a more responsive organization. The primary objective of the Operations Audit was to carry out a thorough evaluation of CDB’s business processes, and determine whether their design and the associated organizational structure best enable the Bank to achieve its strategic objectives. The principal recommendations call for the redesign of some key business processes, especially in the Finance and Operations areas, in order to achieve a greater alignment of responsibility, authority and accountability, for the introduction of a new organizational structure designed around the broad functions of “planning”, “doing” and “supporting”, and for delegating decision-making down the chain of authority.

127. *Contributors were supportive* of the action plan that has been developed by Management for the phased implementation of the principal recommendations of the Audit.

7.3 Project and Portfolio Quality

Overall Portfolio Quality

128. The Bank’s system for monitoring and assessing *overall portfolio performance* is based on a *Portfolio Implementation Performance Index (PPI)*. This is a weighted rating system for loan project implementation that tracks individual projects according to several performance criteria. *Contributors expressed satisfaction* that the quality of the portfolio, as rated on this basis, had improved over the course of SDF IV, with an increase in the overall PPI from 68 to 74.

TABLE 8: PORTFOLIO PERFORMANCE RATINGS DURING SDF IV¹⁶

Weighted Performance Score	Performance Rating	% of Portfolio			
		1996	1997	1998	1999
90-100	Excellent	18.2	16.0	28.8	24.5
80-89	Very Good	17.5	12.6	13.6	14.3
70-79	Good	16.9	18.9	9.3	18.8
60-69	Fair/Satisfactory	10.4	17.2	25.5	27.4
50-59	Marginal	16.9	21.5	10.7	4.9
40-49	Unsatisfactory/Poor	6.6	6.2	8.7	6.0
0-39	Very Poor	13.5	7.6	3.4	4.1
Overall Portfolio Performance		68	68	73	74

129. *Contributors also noted* that, as discussed further below, new, harmonized evaluation criteria will be introduced into the PPI assessment in future, and this will strengthen the Bank's ability to monitor portfolio as well as project quality. The new system will generate a portfolio performance index number, based on the harmonized criteria, and introduce the concept of 'projects at risk' that other MDBs have found to be a useful monitoring device. *Contributors requested* a further report on portfolio quality at the time of the proposed SDF V Mid-Term Review, using the new system.

Quality at Entry

130. Various studies of project and portfolio quality by MDBs and their borrowing member countries have identified clusters of factors that are important for effective programming and implementation. One of the most important is *quality at entry* -- the quality of projects when they first enter the portfolio. Factors include the economic and sector policy framework, the process that has been followed for country programming, project management capacities of the implementing agency, and adequate attention to the longer-term sustainability of the project. One of the key factors is "ownership", i.e. the extent to which the beneficiaries accept responsibility for the success of the project. *Contributors observed* that this depends significantly upon the extent to which the borrower and other stakeholders have participated in project selection, project design and planning, and project implementation, and the extent to which the borrower is prepared to support the project subsequently from its own resources.

131. *Contributors noted* that CDB is well aware of these factors. The Bank monitors overall economic management as part of an ongoing process. It has provided assistance to OECS member countries for the development of capacity to prepare medium-term strategic plans (MTSPs), working closely with them in this regard. It also provides technical assistance for various aspects of economic management, and will continue to do so as part of the SDF V governance and institutional development programme.

132. The country strategy (CSP) process, as noted in a previous section, provides a focus for review and assessment of economic and sector policies, as well as institutional and implementation capacities, and – through involvement of the BMC – an opportunity for dialogue and further strengthening of the policy framework for the Bank's operational programme. The CSP process is also designed to strengthen programme and project ownership, through active participation of BMC officials. Further strengthening of the process is planned for the SDF V period.

Project Implementation

133. The *Strategic Plan 2000-2004* recognizes continuing weaknesses in project implementation and emphasizes the use of appropriate means to strengthen implementation capacity. Assessment of capacity, together with the design of appropriate assistance, is an important element in the country strategy process.

134. *Contributors noted* that further use will be made of project launch workshops to familiarize implementing agencies with the Bank's project procedures and other processes critical to effective implementation, and to ensure that those involved understand and are in agreement with project objectives and their own roles in ensuring project effectiveness and sustainability.

135. Strengthening of project management – including training in project cycle management, in which CDB has extensive experience – has been a valuable element in the Bank's technical assistance work, and will continue to be a part of the SDF V programme. *Contributors noted* that a strengthening of the focus of these activities at the national level is currently planned.

136. Project implementation units are built into project design in appropriate cases, and *Contributors supported* the Bank's willingness, as in the recent instance of Belize, to support and finance a strengthening of sector-wide project implementation capacity that would be valuable well beyond CDB's own project operations.

137. *Contributors also supported* the increasing use of a mid-term evaluation as part of the design of selected projects and noted that this is intended, *inter alia*, to ensure that stakeholders have an opportunity during project implementation to influence and adjust the project's objectives, design and schedule, if circumstances so warrant.

138. The importance of a strong field presence by CDB staff is emphasized in the *Strategic Plan*.¹⁷ Increased frequency of contact with BMC officials can accelerate the resolution of project management issues and strengthen the quality of the Bank's portfolio. It facilitates better coordination and more effective division of labour. A stronger field presence can also improve the quality of the policy dialogue and the policy and institutional framework for the country programme.

139. *Contributors noted* that increases in the travel budget to permit more frequent field visits by staff were planned, and that, as indicated in the *Strategic Plan*, the possibility of establishing a permanent field presence in one or more of the BMCs is also under consideration.

140. *Contributors observed* that the Bank's current Group 4 BMC, Guyana, was faced with particularly serious implementation difficulties, which extend also into programme and project planning. The *Performance Review* of SDF IV recommended serious consideration of the resident office option, with carefully defined objectives and responsibilities:

*"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."*¹⁸

141. *Contributors discussed* this recommendation, and *concluded* that a strong case existed for establishing a resident office in this case. *Contributors noted* that Management agreed in principle and *they urged* that a practical proposal be brought forward to the Board of Directors before the end of FY2001. *They also noted* that the experience of other MDBs with resident offices suggests that significant benefits can be achieved if such an office is provided with a clear mandate and sufficient flexibility and authority. Combined with other measures, a resident office would work more closely with both the Government and other donors in programme development and project implementation. It could, therefore, contribute to strengthening both quality at entry and quality during implementation.

142. Such a resident office might also provide additional insights on programme effectiveness and project implementation in the two new BMCs, Suriname and Haiti. Establishing a resident office in a BMC where most other principal donors are already represented in the field would be consistent with the Bank's strategy of strengthening partnerships with other development agencies and institutions.

7.4 Assessing Performance

143. *Contributors recalled* that they had stressed on various occasions the need for a strengthening of project and programme evaluation as a key input into consideration of resource replenishment and as an important means of strengthening the effectiveness of SDF operations. *Contributors, therefore, particularly welcomed* the development of the Bank's new *Project Performance Evaluation System (PPES)*, with project evaluation criteria that are harmonized with best practice at other MDBs, and with the application of these criteria consistently at all stages of the project cycle. This will provide a strong tool for the monitoring and evaluation of all of the Bank's projects. *Contributors noted* that CDB was the only MDB to achieve this consistency to date. *They also noted* that PPES had been developed in conjunction with a new computerized Project Portfolio Management System.

144. *Contributors reviewed* the new project performance evaluation system on the basis of two working papers, and *concluded* that this represented a major step forward. *They believed* that the new

system could make a significant contribution to:

- ✍ identifying key factors that need 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, and
- ✍ guiding portfolio management.

145. *Contributors endorsed* CDB's harmonization of its project evaluation system with other multilateral development banks, and the use of the new criteria consistently through all stages of the project cycle. *They also supported* the choice of performance criteria and the various factors to be taken into account, as set out in Table 9.

146. *Contributors welcomed* the adoption of two 'relevance' criteria, not one – *poverty relevance* and *strategic relevance* – to emphasize the Bank's mission of poverty reduction in conjunction with broad-based economic growth.

147. The criteria weights appeared to be appropriate, and *Contributors noted* that these had been selected to minimize the overlap between criteria and to emphasize relevance. *Contributors also noted* that the inter-MDB *Evaluation Cooperation Group* has not yet agreed on criteria weights, and this was an area in which CDB was leading. *Contributors recommended* that CDB make its work available to other MDBs.

148. The 'composite performance score' (CPS) would be a useful summary of each project's performance and the average CPS of a group of projects (all the projects in a sector, a country, or the whole portfolio) could be calculated to obtain general measures of performance. *Contributors agreed* that institutional performance for both the Bank and the borrower should be assessed, although not part of the core criteria that are weighted and scored.

149. The *Performance Rating Summary*, which will be completed at project appraisal, at each supervision milestone, and at completion, was a particularly useful tool. The PRS should improve project monitoring, as well as learning from project experience.

150. The addition of measures of initial performance expectation, trend, and risk status were also useful innovations that showed CDB leadership in advancing the state of the art of project evaluation.

TABLE 9: PPES PERFORMANCE CRITERIA, SCORES AND WEIGHTS

Performance Criteria and their Weights	Factors to be taken into account	When?	Score
Rationale:			
Strategic Relevance [Weight 0.1]	Fit with country strategy & MDB 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 unsat. [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 unsat. [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 unsat. [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 unsat. [2 to 3.5] Unsatisfactory [0 to 1.5]
ID 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 unsat. [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 unsat. [2 to 3.5] Unsatisfactory [0 to 1.5]
Summary of project performance:			
Overall project performance	The six 'core criteria' above	Appraisal Supervision Completion	Excellent [8 to 10] Highly satisfactory [6 to 7.5] Satisfactory [4 to 5.5] Marginally unsat. [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, org./admin.]	Supervision Completion	Excellent Highly satisfactory Satisfactory Marginally unsatisfactory Unsatisfactory
Bank 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

8. STRENGTHENING AND BROADENING THE PARTNERSHIP

151. The Special Development Fund is the joint instrument of the Caribbean Community and its regional and non-regional partners in addressing critical development needs and the core objective of poverty reduction. It is an essential part of the multilateral partnership represented by the Caribbean Development Bank. The role and mandate of the Bank within the region is now expanding dramatically, reflecting the strengthening of the relationship of the existing BMCs with neighbouring countries in the Caribbean and the widening of the Caribbean Community. The CDB – and the SDF – now needs, with the approval for Suriname and Haiti to become members, to address the needs and expectations of a borrowing country membership that is twice as large in human terms and more than twice as large again in terms of unacceptable levels of poverty. If current discussions with the Dominican Republic lead to a further increase in membership, that role will be wider still, in terms of people and poverty, and in language and institutional traditions.

152. The expansion of the Bank's role reflects the views of the Governors of its member countries. Governors have also made clear that a widening of the partnership between regional and non-regional countries is essential to the Bank's ability to meet its mandate and serve the peoples of the Caribbean.

153. *SDF Contributors noted* the efforts that the Bank has made in widening the dialogue on the needs of the region, of SDF and the Bank, and in seeking the broader support that Governors have viewed as essential. *Contributors stressed* that these efforts needed to be continued and formed an important part of the mandate of the President and Management of the Bank in the months ahead.

154. *Contributors commended* the widening of the CDB and SDF partnership to include Asia, and *welcomed* the People's Republic of China to their discussions on the role and financing of SDF for the first time. *Contributors also welcomed* the interest of Japan in the work of the Special Development Fund and *expressed the hope* that Japan would find it possible to contribute to SDF V.

155. *Contributors welcomed and supported* the opening 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. The relationship between Europe and the Caribbean is a longstanding and diverse relationship. It needs to be more strongly reflected in a development partnership that directly supports the objectives of poverty reduction and economic and social development in a major part of the Caribbean. The membership of individual European countries is critical to this effort, and *Contributors welcomed* the interest of Spain in the possibility of a more direct relationship with the CDB and SDF partnership and the planned early resumption of discussions between the Bank and that country, with its long and close relationship with the Caribbean.

156. *Contributors stressed* the importance of strengthening the support of the common European institutions and joint European programmes. *Contributors expressed their support* for the possibility of a contribution to the resources of SDF V from the resources available for 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. *Contributors also noted with interest* the discussions between the Bank and the European Investment Bank on the possibilities for strengthening the relationship between the two institutions, although this might not directly support the work of SDF.

157. A very close and important partner of the Caribbean was the United States. *Contributors expressed appreciation for* the interest of the United States in the work of SDF and *welcomed the intention* of that government to make a significant contribution to SDF V.

158. *Contributors believed* that the major steps that the Bank had taken to strengthen its operations and

renew its commitment to poverty reduction and broad-based sustainable economic growth, including the measures and steps set out in this Report, provided a strong basis for the dialogue with non-regional partners and prospective partners. *Contributors suggested* that additional donor countries, including those 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 its work in preparing itself for and undertaking poverty reduction programming in Haiti and Suriname.

159. *Contributors also 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.

160. A strengthening of the relationship between the Bank and its more distant members was viewed by Contributors as an important priority. *Contributors welcomed* the steps that the Bank had taken in this direction, *and urged* that these efforts be continued and deepened. The Bank's positive response to many of the views and concerns of its broader membership provided a good basis for strengthening the relationship. *Contributors noted with approval* the Bank's intention to establish a focal point within the Bank to develop and maintain information of particular interest to individual members, with the intention that this be a key input into a comprehensive communications strategy.

9. MID-TERM REVIEW

161. *Contributors agreed* that they should meet for a mid-term review of SDF V in late 2002 or early in 2003 to review SDF V operations to date, the position of Haiti and Suriname and the status of funding for SDF V. *They requested* that the following reports be made available for their consideration no later than one month before the meeting to undertake the Mid-Term Review:

1. A report on progress under the *Action Plan for Implementation of Recommendations from the Performance Review of SDF IV*, including the Operational Guidelines for applying the Poverty Prism and the recommendation for strengthening performance in the present Group IV country through establishing a resident presence of the Bank.
2. A report on progress under the *Operational Programme for Action* submitted to Contributors as part of the SDF V Operational Strategy and the introduction of the new *policy framework for poverty reduction and for governance, institutional strengthening and regional action*, with any recommendations for changes in the policy framework agreed by Contributors.
3. A report on implementation of the new *Project Performance Monitoring and Evaluation System (PMES)* introduced in FY2001, and the extent to which the new system is able to provide greater information on project-specific outcomes and impacts of SDF operations.
4. A report on experience to date with the new *SDF resource allocation strategy*.
5. A report on progress with respect to *widening the Bank's membership*, both among the borrowing member countries and among non-borrowing net contributor members, and on *the level of funding achieved for SDF V*.
6. A summary report on SDF V operations, including the level of commitments and disbursements to date and overall portfolio quality, using the new system for monitoring and assessing the Bank's portfolio.

10. FINANCING FRAMEWORK FOR SDF V

10.1 Programme Level, Allocations and Terms

Programme Level

162. *Contributors agreed* on a level of \$125 million for their contributions to SDF V.^m This would provide for a minimum programme level of \$185 million, including commitment authority generated from repayments, net income and other internal resources expected to be available during SDF V.

SDF V Minimum Programme Level	
<i>(US\$ '000)</i>	
Commitment authority as of Jan 2001	16,300
Expected Net Income	4,585
Projected repayments	39,575
New contributions	125,000
SDF V minimum programme level	185,460

163. *Contributors also agreed* on a 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 prospective new Contributors would be needed to reach this objective and *recommended* that further discussions be undertaken with prospective additional Contributors to meet this objective.

Allocation of Resources

164. *Contributors agreed* that the minimum programme level for SDF V would include:

- ? \$5 million for regional projects,
- ? \$10 for the commencement of operations in two new Borrowing Member Countries, Haiti and Suriname,
- ? \$25 million as a reserve, to be available to respond to natural disasters, major transitions in economic structure, and/or HIV/AIDS, and
- ? \$145 million to be allocated among BMCs in Groups 2, 3 and 4 on the basis of a resource allocation strategy that takes into account both *needs*, including vulnerability, and *performance/readiness*, including portfolio performance and a judgment on a country's *Poverty Reduction Effectiveness Situation*.

165. *Contributors also agreed* that the allocation for a reserve would be reassessed at the time Contributors meet for the proposed Mid-Term Review. The level of programming in new BMCs could also be revisited at that time.

Terms of Lending

166. As in previous SDF cycles, the terms on which SDF lending will be provided will vary according to country groups. *Contributors recognized* that a similar effect in terms of overall grant element might be achieved by “hardening” the blend of SDF and OCR for countries in Groups 1, 2 and 3, but *they believed* that the need to undertake significant poverty-focused projects in most of these countries, together with the objective of increasing the internal generation of funds for SDF over time, justified continuing the practice of varying terms according to country group. These terms are set out in Table 10. They are the same as used in SDF IV.

^m Figure to be adjusted if confirmed indications by Contributors exceed this amount prior to the date on which the Replenishment Resolution is adopted.

TABLE 10: TERMS OF LENDING FOR SDF V

Country Group	Interest Rate (%)	Maximum Grace Period (years)	Maximum Overall Maturity (years)	Maximum Grant Element (%)
1	5	5	10	30.8
2	4	5	25	46.6
3	2.5	10	30	66.3
4	2	10	30	70.7
Regional	2.5	7	25	61.3

10.2 Financing and Terms of the Replenishment

167. *Contributors agreed* to provide new contributions of \$125 million to support the base programme level of \$185 million. They also agreed that these contributions should be made in four equal instalments on the same terms as for SDF IV. Additional contributions should be provided, to the extent possible, on the same terms.

TABLE 11: PROJECTED COMMITMENT AUTHORITYⁿ (US\$ '000)

	2001	2002	2003	2004	2001-04
Commitment authority at beginning of the period	16,300	8,367	1,101	164	16,300
Plus: Net Income	965	1,078	1,157	1,385	4,585
Plus: Repayments	9,852	10,406	9,156	10,161	39,575
Commitment authority from new contributions	31,250	31,250	31,250	31,250	125,000
Less: Approvals for SDF Loans	-30,000	-30,000	-35,000	-40,460	-135,460
Less: Approvals for BNTF and Technical Assistance	-20,000	-20,000	-7,500	-2,500	-50,000
Commitment authority at end of the period	8,367	1,101	164	0	0

168. An indicative projection of the SDF V minimum programme levels is shown in Table 12. The figures reflect the assumption that programming for Haiti and Suriname will begin in FY2003. They also reflect the early commitment during the period of BNTF-type programming, as in the past.

169. *Contributors noted* that the timing of agreement on the Replenishment might make it difficult for some Contributors to deposit their Instruments of Contribution and make their first instalment payment available before the end of FY2001. *Contributors agreed*, however, that it was important that all Contributors make a special effort to provide the necessary commitment authority at as early as date as possible.

170. *Contributors also agreed*, with respect to commitments in FY2001, that the practice of committing the full amount programmed for BNTF and technical assistance in the first year of a replenishment could be reconsidered without necessarily weakening forward programming of these important programmes. *Contributors requested* the Board of Directors to consider appropriate means of

ⁿ New commitment authority derived from the Replenishment has been adjusted to show the phasing in terms of equal annual instalments. The presentation in terms of annual instalments is intended to better reflect the “flow “ nature of SDF financing and the differing budgetary practices of Contributors.

phasing commitments in a way approximating that shown in Table 12, with a view to reducing the commitments needed in FY2001.

171. *Contributors further agreed* that the principle of advance commitment authority from expected reflows, which has proven useful in the case of IDA and AsDF,¹⁹ could be used in a modest way for SDF V by permitting commitments in the first two years of the Replenishment based on 80% of the expected reflows in the third and fourth years of the Replenishment. This would provide some commitment authority for FY2001 and FY2002 that could be used to maintain the momentum of SDF operations pending the deposit of Instruments of Contribution by all Contributors. Consideration could also be given by the Board of Directors to whether the principle of advance commitment authority might, as in the case of other MDB concessional funds, be applied in respect of expected reflows over a somewhat longer period. It was critical, however, that wherever possible Instruments of Contribution be deposited as early as possible.

172. *Contributors noted* that an important strength of SDF had been the extent to which the Fund had been supported by both regional and non-regional contributors, including the most disadvantaged of its borrowing member countries. It was essential that this principle be maintained in the financing arrangements for SDF V.

173. The framework of contributions for the Replenishment, as agreed by Contributors, is shown in Table 12.

174. *Contributors noted* that the *Rules for the Special Development Fund* provided for procurement of goods and services for projects financed from the resources of a particular replenishment to be open to Member Countries and Substantial Contributors. *They welcomed* the prospect of additional Contributors meeting this criterion, and *also recommended* that the practice be continued of inviting a Substantial Contributor to participate in discussion of the use of SDF resources as an Observer at Meetings of the Board of Directors and other meetings dealing with these matters.

TABLE 12: CONTRIBUTIONS TO SDF V

	Basic Contributions ^o (US\$ '000)	Unit of Obligation	Amount in Unit of Obligation (‘000)
Trinidad & Tobago	5,000	US\$	5,000
Jamaica	5,000	US\$	5,000
Guyana	2,810	US\$	2,810
Bahamas	2,810	US\$	2,810
Barbados	2,810	US\$	2,810
Antigua & Barbuda	320	US\$	320
Belize	840	US\$	840
Dominica	840	US\$	840
Grenada	840	US\$	840
St. Kitts & Nevis	840	US\$	840
St. Lucia	840	US\$	840
St. Vincent & the Grenadines	840	US\$	840
Cayman Islands	320	US\$	320
Anguilla	320	US\$	320

APPENDIX 1:
PAPERS CONSIDERED BY REPRESENTATIVES OF CONTRIBUTORS

Preliminary Meeting, Barbados, December 8, 2000

1. Performance Review: Special Development Fund Cycle IV (report and presentation)
2. Action Plan for the Implementation of Recommendations from the Performance Review: Special Development Fund IV (report)
3. Proposed Project Performance Evaluation System (presentation and printout)
4. A Partnership for Poverty Reduction in the Caribbean: Replenishment of the Resources of the Special Development Fund (SDF V) (proposal document)

First Negotiation Meeting, Barbados, March 7-8, 2001

1. Performance Review: Special Development Fund Cycle IV (report)
2. Action Plan for the Implementation of Recommendations from the Performance Review: Special Development Fund IV (revised report)
3. A Partnership for Poverty Reduction in the Caribbean: Replenishment of the Resources of the Special Development Fund (SDF V) (proposal document + addendum on SDF Role, Mandate and Partnership)
4. Allocation of Concessional Resources: An Analysis of Options for SDF V (Working Paper)
5. Project Performance Evaluation: Implementation of a Harmonized System for Evaluation at Each Stage of the Project Cycle (Working Paper)

Second Negotiation Meeting, St. Lucia, May 22, 2001

1. Strategy for Poverty Reduction in the Borrowing Member Countries (Working Paper)
2. Governance and Institutional Development (Working Paper)
3. Allocation of SDF Resources (Second Working Paper)
4. Level of the Replenishment (Working Paper)
5. Draft Outline: A Partnership for Poverty Reduction in the Caribbean – Report of Contributors

Third Negotiation Meeting, Barbados, July 13, 2001

1. Strategy for Poverty Reduction in the Borrowing Member Countries (revised Working Paper)
2. Governance and Institutional Development (revised Working Paper)
3. Allocation of SDF Resources (revised Working Paper)
4. Draft Report of Contributors for SDF V: A Partnership for Poverty Reduction in the Caribbean
5. Level of the Replenishment (Working Paper, previously circulated)
6. Draft Resolution on SDF V

APPENDIX 2: ACTION PLAN ON RECOMMENDATIONS OF SDF IV PERFORMANCE REVIEW

RECOMMENDATION	CDB'S RESPONSE	RESPONSIBILITY	RESOURCES	TIMEFRAME/ ACTION STATUS AS OF JULY 2001
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.	<ul style="list-style-type: none"> ? Recommendation is consistent with CDB strategic objectives. ? Incorporated in proposed SDF V Operational Strategy. ? Operational Guidelines for application of a “poverty prism” and “vulnerability prism” to be developed. 	? PD	<ul style="list-style-type: none"> ? SDF V for implementation. ? Internal resources for development of Operational Guidelines. 	<ul style="list-style-type: none"> ? SDF V FY2001-2004 for programme implementation. ? Concept paper on Operational Guidelines submitted for July 2001. ? Preparation of initial Operational Guidelines targeted for October 2001.
2. Access to SDF resources should be adjusted and tailored to both the new evidence of poverty in the BMCs and differences in vulnerability.	? Recommendation accepted and methodology including both needs-based and performance-based criteria proposed for consideration by SDF Contributors.	? CPPD/ EAP	? Admin. Budget	<ul style="list-style-type: none"> ? Working Paper on SDF resource allocation reviewed by Contributors March 2001. ? Revised WP/proposed strategy considered by Contributors May 2001.
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.	<ul style="list-style-type: none"> ? Recommendation accepted. ? Incorporated in Action Programme proposed in SDF V Replenishment document. 	? SDD	? Funding will be sought from donor partners. CDB staff support from Admin Budget.	? FY2001-2004, with completion of initial round of country poverty assessments in FY2001 and FY2002.
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.	<ul style="list-style-type: none"> ? Recommendation accepted. ? Working paper to be prepared. ? Policy paper will be submitted in FY2001. 	?	? Admin. Budget.	<ul style="list-style-type: none"> ? Working Paper considered by SDF Contributors May 2001. ? Revised WP for consideration July 2001. ? Policy Paper targeted for Sept. 2001.

RECOMMENDATION	CDB'S RESPONSE	RESPONSIBILITY	RESOURCES	TIMEFRAME/ ACTION STATUS AS OF JULY 2001
5. Country strategies should be continued and strengthened as a principal means of programming for all CDB activities.	? Recommendation accepted as consistent with Strategic Plan. ? Reaffirmed in SDF V Replenishment document.	? EAP/PD	? Admin. Budget.	? On-going.
6. Basic Needs Trust Fund has proved its worth and should be continued, possibly at an increased level of funding.	? Recommendation accepted. ? Increased level of funding proposed, dependent on outcome of SDF V replenishment.	? SDD	? SDF V and additional donor financing.	? Increased funding proposed to Contributors as part of SDF V Operational Strategy. ? FY2001-2004 for implementation.
7. Basic education, low-income housing finance and micro-enterprise programmes should be reviewed to strengthen their focus on the very poor.	? Recommendation accepted. ? To be examined in context of project design.	? PD	? Admin. Budget and agreement with DFID.	? FY2001.
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 accepted. ? New project monitoring and evaluation system has been approved and is being implemented in FY2001.	? SDD/ PMPU/ PIEU/ I&TMSD	? Admin. Budget. ? Additional resources to be sought for benchmarking of example assessments.	? Implementation underway from early FY2001.
9. Poverty reduction programme development needs clear and comprehensive databases for purposes of analysis, programme design and monitoring by management.	? Recommendation accepted in principle. ? Design to be developed.	? SDD/I and TMSD	? Add'l resources to be sought for completing performance records for PMES and further database development.	? December 2001.
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 accepted. ? Incorporated in Operational Strategy proposed for SDF V.	? SDD	? SDF V	? FY2001-2004.

RECOMMENDATION	CDB'S RESPONSE	RESPONSIBILITY	RESOURCES	TIMEFRAME/ ACTION STATUS AS OF JULY 2001
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 accepted.	? SDD	? SDF V	? FY2001-2004
12. The Bank's policy framework for HRD should be revisited as part of a poverty reduction strategy paper.	? Recommendation accepted. ? Working paper under preparation to be prepared, as noted above.	? SDD	? Admin. Budget.	? Working paper on poverty reduction presented to SDF Contributors May 2001 for working paper. ? Revised WP submitted for July 2001.
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 V.	? Recommendation accepted.	? PD	? Admin. Budget.	? Evaluation to be commissioned in FY 2001.
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 accepted. ? Incorporated in proposed SDF V Operational Strategy.	? SDD	? SDF V	? FY2001-2004.
15. An environmental impact evaluation of the Bank's overall operations should be considered.	? Under consideration.	? SDD	? External resources would be required.	? To be considered.
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 accepted. ? Incorporated in proposed SDF V Operational Strategy.	? SDD/ PSD	? Admin. Budget	? FY2001-2004.
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 accepted. ? Incorporated in proposed SDF V Operational Strategy.	? SDD	? SDF V	? FY2001-2004.

RECOMMENDATION	CDB'S RESPONSE	RESPONSIBILITY	RESOURCES	TIMEFRAME/ ACTION STATUS AS OF JULY 2001
<p>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.</p>	<p>? Recommendation accepted. ? ? Working paper on governance to be prepared. ? ? Policy paper on governance, institutional development and regional action to follow.</p>	<p>? SDD</p>	<p>? Approved staff resources.</p>	<p>? Working paper reviewed by SDF Contributors May 2001. ? ? Revised WP submitted for July 2001. ? ? Policy Paper targeted for September 2001.</p>
<p>19. Two programs that have received reduced funding during SDF IV, CTCS and project cycle training, should be revisited as part of the planning process for SDF V.</p>	<p>? Recommendation accepted. ? ? Some increase in funding for CTCS proposed in SDF V Operational Strategy. ? ? Project cycle training to strengthen national level focus. Possible evaluation to assist in programme design is under consideration.</p>	<p>? SDD/ PSD</p>	<p>? Approved staff resources.</p>	<p>? FY2001.</p>
<p>20. Adequate staff supervision time needs to be available for technical assistance projects.</p>	<p>? Recommendation accepted. ? ? Increased focus for T.A. activities proposed in SDF V Operational Strategy; to be developed further in governance working paper.</p>	<p>? SDD</p>	<p>? Approved staff resources.</p>	<p>? Working paper reviewed by SDF Contributors (see above). Revised WP submitted for July 2001. ? ? Policy Paper targeted for September 2001.</p>
<p>21. Priority areas of infrastructure for the use of SDF resources can in future, for the most part, be dealt with under other SDF themes. Flexibility, however, might reasonably be retained where use of poverty and vulnerability prisms can yield an effective design likely to have high socio-economic returns and meet overall SDF objectives.</p>	<p>? Recommendation accepted. ? ? Reflected in proposed SDF V Operational Strategy.</p>	<p>? PSD</p>	<p>? SDF V</p>	<p>? FY2001-2004.</p>

RECOMMENDATION	CDB'S RESPONSE	RESPONSIBILITY	RESOURCES	TIMEFRAME/ ACTION STATUS AS OF JULY 2001
<p>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.</p>	<p>? Recommendation accepted. ? ? Design of new project monitoring and evaluation system has been completed and is being implemented.</p>	<p>? PD/ PIEU</p>	<p>? Admin. Budget</p>	<p>? Design approved Oct 2000 ? ? Implementation begun February 2001.</p>
<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 do not community that is necessary to develop agreed approaches to the provision of assistance and accelerate project implementation.</p>	<p>? Need to address Group 4 programme development and implementation issues accepted as a priority. ? ? Recommendation for establishment of resident office accepted in principle and is under active consideration, including possibility for sharing of accommodation with another mission. ? ? Country programme review mission fielded Aug 2000 examined various options.</p>	<p>? PD/ VPO</p>	<p>? To be considered. Support from external resources may be needed.</p>	<p>? Commitment made to SDF Contributors to submit detailed proposal in FY 2001.</p>
<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>	<p>? Country strategies will be a core part of CDB's operations. ? ? CSPs will include increasing attention to poverty reduction. ? ? Introduction of a single focal point within the Bank for individual BMCs is under consideration.</p>	<p>? PD/EAP</p>	<p>? Admin. Budget</p>	<p>? CSP design to be given further consideration during development of Operational Guidelines for applying the poverty prism. ? ? Proposals on country focus in CDB organizational structure to be made during FY 2001.</p>

RECOMMENDATION	CDB'S RESPONSE	RESPONSIBILITY	RESOURCES	TIMEFRAME/ ACTION STATUS AS OF JULY 2001
<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 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.</p>	<p>? Recommendation accepted in principle. ? Implementation to be phased in FY2000 and FY 2001 CDB Annual Reports, including possible SDF-focused section and special theme section on BNTF. ? Possibility of more extensive SDF Annual report is under consideration in light of available staff resources.</p>	<p>? SEC/ CPPD/ SDD</p>	<p>? Admin. Budget</p>	<p>? FY2000 CDB Annual Report for initial implementation. Further consideration to be given for FY2001 Annual Report. ? Structure of SDF annual reports to be reviewed in time for FY2001. FY2000 report to be strengthened to extent possible within existing staff constraints.</p>
<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>	<p>? Recommendation accepted. ? Implementation is under consideration.</p>	<p>? PRE/ VPO/ SEC</p>	<p>? Under consideration.</p>	<p>? FY2001 for identification of focal point. ? Initial reporting to be developed during FY2001.</p>

APPENDIX 3:
ALLOCATING SDF V RESOURCES FOR POVERTY REDUCTION EFFECTIVENESS

A4.1. Indicative allocations of SDF V resources for those countries for which country allocations are to be determined will be based on a formula that includes a *needs* component [including vulnerability] and a *performance/ readiness* component. The country-needs component is based on per-capita-GDP and population, 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 [or *Poverty Reduction Effectiveness Situation*, with weight of 70%].

A4.2. The Poverty Reduction Effectiveness Situation [PRES] is a new element of CDB's approach to allocating concessional resources, based on five criteria of poverty-relevant policy/institutional performance. It is based on the professional judgment of CDB staff, using a structured approach based on best practices among MDBs.

Criteria for Assessing PRES

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%

A4.3. Each of the criteria is related to a number of factors. The factors do not have individual weights but rather are considered together in assigning a criterion score.

A4.4. In simplified algebraic terms, the allocation formula approved by Contributors is:

$$(\text{POP}^a \times \text{VUL}^b \times [0.3 \text{ PPI} + 0.7 \text{ PRES}]^c) \text{ divided by } (\text{GDP/capita})^d$$

where:

POP = population [a logarithmic measure, so that small countries are not unduly disadvantaged, in effect a stronger weight for smaller countries]

VUL = vulnerability [based on CDB's vulnerability index]

PPI = portfolio performance in respect to CDB loans

PRES = the *poverty reduction effectiveness situation* [judged by CDB experts based on the five criteria of policy/institutional performance].

"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 on GDP/Capita [assigned a value of -0.9. This gives much more negative weight to higher incomes than do other MDBs, resulting in a strong pro-poor emphasis]

APPENDIX 4: SDF V OPERATIONAL STRATEGY

A3.1. The framework for the Operational Strategy for SDF V is set out in Section 5. of the Report of Contributors and outlined in more detail in the working papers *Strategy for Poverty Reduction in the Borrowing Member Countries of the Caribbean Development Bank* and *Governance and Institutional Strengthening*.²⁰ A primary part of that strategy relates to the use of participatory country poverty assessments, country poverty reduction strategies, and CDB Country Strategy Papers, as well as careful project selection, a re-orientation of sector and operational policies to reflect the *poverty prism*, enhancement of both the Bank's and BMCs' capacity for social analysis and planning, and a strengthened system of harmonized monitoring and evaluation through all stages of the project cycle.

A3.2. Three central priorities will receive attention in SDF V. These are:

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

A3.3. The selection and design of programmes and projects will be based on CDB comparative advantage, operational effectiveness, potential for catalyzing the efforts of others, and complementarity between interventions. The primary programme areas are identified below, in terms of the three SDF V priorities.

CAPABILITY ENHANCEMENT

Making Resources for Enterprise Development More Widely Accessible

A3.4. In the absence of public policy and investment to promote development in poorer areas, market driven development may benefit mainly the more developed areas and more educated and highly trained people in the work force. For poorer areas and less educated and skilled people, specific interventions are needed to target key services, opportunities and financial resources needed for self-employment and enterprise development.

A3.5. CDB has considerable experience and influence in financial intermediary lending and delivery of technical assistance (TA) to small and micro enterprises. No other donor agency has comparable Caribbean experience and relationships with BMC institutions. BMCs value access to CDB's advice and experience. CDB has also developed a strong strategic partnership with IFAD in rural enterprise development.

Rural Enterprise Development

A3.6. Some \$13 million was provided for rural enterprise development under SDF IV. All projects were co-financed with IFAD, the BMC governments and beneficiaries. The projects seek to enhance income-earning capabilities of poor people by providing gender-equitable support for developing social capital in rural communities, especially in relation to the organization of production, increasing the efficiency of production and marketing of crops, improving access to credit by micro-entrepreneurs, improving extension services and credit to small farmers, promoting crop and livestock development, and rehabilitation/construction of production infrastructure (drainage and irrigation systems, fish landing sites and farm access roads). A substantial proportion of beneficiary households are headed by women.

A3.7. Under SDF V, CDB will continue its strong partnership with IFAD and will be proactive in identifying and financing opportunities for development of rural areas within the framework of country poverty reduction strategies. In collaboration with IFAD and other donors, CDB will seek to establish an

inter-agency TA facility to assist BMCs in the preparation/design of complex rural development projects. Efforts will continue to be limited by absorptive capacity, but the level of demand and rate of implementation is expected to increase as BMCs gain more experience in poverty reduction programming.

Caribbean Technological Consultancy Services (CTCS) Network

A3.9. CTCS addresses priority development needs of small, micro and medium-sized enterprises, and provides technological services for their growth and expansion. This relatively modest programme – just over \$1 million in SDF IV – has become the flagship of SDF support for the transfer of technology and capacity building in the private sector.

A3.10. CTCS links people who have business and technical experience with businesses that need advice and assistance. The network draws on knowledge and skills within the Caribbean and facilitates their transfer to small and medium-size businesses. The programme achieves maximum impact at minimum costs. Efforts to achieve a degree of financial sustainability through user fees for technical assistance and participation in workshops and the sale of publications have helped to improve cost-effectiveness. Another benefit of CTCS is the institutional strengthening that occurs among local institutions that are part of the network and help in administering the programme, such as local development banks and financial corporations and associations of industry and commerce.

A3.11. The continuing benefits and cost-effectiveness of the CTCS network have been confirmed by independent consultants, who undertook an impact assessment of the programme and developed a revised operational strategy for its future. SDF V will permit continued support at an expanded level for this programme with demonstrated effectiveness.

Micro and Small-scale Enterprise (MSE) Development

A3.12. Some \$6.7 million in loan funds were provided for MSE development under SDF IV. The loans were channelled through local DFIs, which lend to individuals, cooperatives, credit unions and NGOs. There were 815 MSE sub-loans in agriculture, retail and other services. Most of the MSEs were rural. About half the sub-borrowers were women. Twelve per cent of the sub-loans were to people 30 years of age or younger. In addition to lending to micro finance institutions, the CDB has helped them strengthen their organizational capabilities. This programme will be continued under SDF V at an expanded level.

Linking Training to Production and Market Opportunities

A3.13. Caribbean countries are at a critical juncture in their efforts to effect a transition to liberalized trade and global competitiveness. Inadequacies in the capabilities of the human resource base are a serious constraint. With small populations and limited resource endowments, BMCs must find ways to resolve serious financial and technical problems in human resource development and create a dynamic capability to provide state-of-the-art training in the face of technological and market changes.

A3.14. Failure to address deficiencies in public education and training is particularly severe on the poor, who must rely on local, publicly provided services for their education and training. Linking training, production and market opportunities is an iterative process that must seek to integrate three requirements:

- ✍ enhancement of productive capabilities,
- ✍ efficient utilization
- ✍ of human resources,
- ✍ enhancement of the quality of life of people through more equitable participation in the benefits from increased production.

A3.15. There is strong synergy between enhancements in HRD and expansion of production and market opportunity. Because capability defines opportunity, improving the quality of available human resources

expands market opportunity, and expansion of production in response to market opportunity can make a direct and indirect contribution to HRD by generating employment and augmenting public revenues.

A3.16. CDB, as a regional institution, is in a special position, compared to other donors, in developing links with other regional and national players that enable it to provide timely advice and assistance. Interventions of other MDBs and donors have been mainly concentrated in primary, secondary and higher education, and competency linked training is an important niche for CDB.

Human Resource Development

A3.17. *Development of National and Regional Policies and Strategies.* SDF V will assist BMCs to formulate and implement comprehensive, integrated national HRD strategies, and to incorporate these into national development planning and regional strategies and programmes. SDF V will also provide technical assistance for improving databases, review and analysis of HRD systems, and policy studies regarding the financing of education, training and networking for human resource development.

A3.18. *Enhanced BMC Capabilities.* SDF V will foster an enhanced capability in HRD policy development and planning, institutional development, and management and technical capabilities in key sectors such as information and communications technology, tourism, environment, education, agriculture and industry, and the establishment of improved manpower planning. The aim will be to focus on institutional strengthening of the organisations responsible for HRD, such as the ministries of education and training; regional institutions such as UWI, and national institutions such as community colleges, vocational institutes and technology innovation centres, and to promote cross fertilization of ideas, common standards, pooling of resources, and sharing of information.

A3.19. *Equitable Individual and Societal Development.* The objective during SDF V will be to promote equitable and continuous enhancement of knowledge and skills and the adoption of attitudes appropriate for promoting individual and societal development. The focus will be on HRD delivery systems, and support will be provided for curriculum review and reform, improved teaching methodologies, promotion of partnerships with stakeholders, and use of modern technology such as distance education and information technology. Tertiary and higher education will be supported (in addition to early childhood and basic education), including the provision of physical facilities and equipment, to help ensure adequate numbers of appropriately trained personnel are available to fill higher-level positions. SDF will support initiatives that target equity, access, quality, cost-effectiveness, and gender advancement.

A3.20. *Manpower Training through the Student Loan Programme.* CDB will continue to use a blend of SDF (concessional) and OCR (conventional) resources to provide assistance through financial intermediaries to support students in selected courses at post-secondary institutions. The objective will be to provide an important means of meeting higher-level manpower needs of the region in fields critical to the economies of the BMCs. An evaluation of the programme, as recommended by the SDF IV *Performance Review*, will be undertaken in FY2001 to assess the programme's current role and the appropriate relative priority within the Bank's overall HRD policy. The programme will be viewed through the "poverty prism", with a view to adapting it to provide greater access for the poor.

Pro-Poor Private Sector Development

A3.21. As the main generator of employment, the private sector has a major role in both economic growth and job creation. Many of the interventions supported by SDF V will directly support *pro-poor private sector development*, including human resource development to meet labour force needs, promotion of technology and skills transfer through CTCS, rural enterprise programmes, MSE development, and strengthening of public policy formulation. In addition, several other areas of CDB interventions targeted at pro-poor private sector growth will require support from SDF V.

A3.22. *Development Finance Institutions.* CDB has been a critically important source of support for development finance institutions in the region through loans, technical assistance and other support aimed at improving systems and procedures as well as management capabilities. Lending through financial intermediaries will continue to be a major channel through which CDB will reach private sector borrowers. SDF V will provide targeted technical assistance for training and other institutional strengthening of selected DFIs, particularly in support of poverty reduction programmes. SDF V will also support on-lending for micro and small-scale enterprises as well as rural enterprises and low income housing.

A3.23. *Micro-finance Guarantees.* Lack of credit is a serious constraint in the development of micro and small enterprises (MSEs). The MSE sector around the world has proved to be an important contributor of jobs and income for the poor, as well as a vehicle for the empowerment of women. CDB's strategy addresses this problem by an innovative programme called the *Micro-finance Guarantee Programme (MGP)*, approved in 1999, in which, through the use of SDF funding, CDB provides a guarantee for a line of credit from a commercial lender to a specialized micro-finance institution (MFI) that, in turn, lends the funds to MSEs on the basis of appraisal, monitoring and supervision procedures designed for such clientele. The guarantee can cover up to 80 per cent of the loan principal, and the programme has been initially allocated \$5 million from SDF IV invested in a guarantee fund, and a further \$5 million will be provided if warranted by demand. CDB requires the MFI to develop the discipline and transparency required of commercial lenders, and to improve operational efficiency and effectiveness.

A3.24. *Information and Communications Technology.* Rapid growth of the Internet and the "digital economy" throughout the world has opened new opportunities for development, particularly in regions where states are small and distances large, such as the Caribbean, although the risks are great of an increasing "digital divide" between countries with high and increasing levels of IT capabilities, and those without. The opportunities range across key elements of poverty reduction, including:

- ☞ Poverty targeted programmes to open direct export markets for micro-businesses and small businesses (disintermediation);
- ☞ Human resource development and institutional strengthening, such as distance learning initiatives and access to information initiatives providing better planning information and improving communications; and
- ☞ Broad-based, more inclusive growth through IT, by a general upgrading of business technologies in the region.

All of these require investment in technology, knowledge and networks. CDB is well placed to be a core center in the use of development assistance for promoting the use of IT and the Internet in the BMCs, in a way similar to the role Mexico has started to play for the Spanish speaking countries.

A3.25. SDF V will be used, *depending on resource availability*, to support a strengthening of information and communications technology capabilities and "digital development," building on and extending past initiatives such as support for technology training, innovation centers and CTCS. This will require new partnerships with other agencies that are taking initiatives in this new area, such as the Japan International Cooperation Agency (JICA). CDB is well placed to promote an extension to the Caribbean of the network of core centres for IT and development that JICA and other agencies are supporting in the Asia-Pacific region.

Equitable Public Investment in Essential Infrastructure

A3.26. Inadequacies in essential infrastructure, particularly roads, transportation, water, drainage, sanitation and electricity, are characteristic of poor households. Infrastructure development expands people's options in development of their capabilities, and increases their physical and social connectedness to markets and services. Supply of electricity, water and roads to rural communities and low-income settlements, and revitalization of economically depressed rural townships is a major

development challenge, especially in the larger or more geographically dispersed BMCs. It is also critical to arresting the rural/urban drift, which drives the social and economic pressures that create city slums and urban shantytowns. Improvement of living and working conditions through upgrading and rehabilitating social and economic infrastructure is necessary to resolving problems in decaying urban areas, such as rising crime rates and high unemployment.

A3.27. In 1999, the Board of Directors approved an *Urban Renewal Strategy* and associated *Operational Guidelines*. The objective is to assist BMCs in providing enabling social and economic conditions and physical infrastructure for equitable and sustainable economic development of depressed urban communities.

A3.28. Various donors are involved in financing investments in essential infrastructure. Despite this, many sectors in this area of investment are under-resourced and have weak institutional capacity. This is an area where CDB has developed strong core competencies. Its understanding of the institutional issues, breadth of experience with local technical challenges, and close relationship with technical staff and decision-makers have permitted a significant role in strengthening public utilities and promoting good practices, especially in the smaller BMCs. CDB's lower appraisal and supervision costs are also directly relevant where the size of individual investments is small.

A3.29. SDF V will strengthen the Bank's ability to support development of essential social and economic infrastructure where there are demonstrable opportunities to expand development options, improve the quality of life of poor people, support job creation in depressed areas, and strengthen transport and communications between deprived communities and the economic mainstream that facilitates access to employment and markets. Only in these cases will consideration be given to use of SDF resources or a blend of SDF and OCR to finance development of economic infrastructure. Where possible, this will draw on partnership arrangements with other funding agencies and the private sector.

Sustainable Management of the Natural Resource Base

A3.30. The complex linkages between sustainable economic development, poverty reduction and environmental protection/natural resources management are particularly critical in the fragile ecosystems of the Caribbean. Natural resources management has become an increasingly important issue as pressures on the region's fragile ecology intensify. These pressures are generated by pollution from both land and marine sources, waste disposal from population and industrial growth and changing consumption habits, the demands on the environment from nature-based industries such as tourism, and degradation/over-exploitation of the natural resource base by agriculture, fishing, forestry, and mineral extraction. The well being of poor people can be severely affected, because their livelihoods and health are often more directly dependent on exploitation of natural resources and, typically, they can afford only to occupy vulnerable locations. Training and motivating users to manage the natural resource base on which their livelihoods depend is critical to maintaining and expanding productive capability.

A3.31. The requirements for effective natural resources management strain governments' capacities in many areas, because of budgetary constraints, limited technical capabilities, the region's extreme vulnerability to natural disasters, and the complex interplay of financial, environmental and social impacts of policies and actions.

A3.32. Management of environmental resources is an area of comparative advantage and influence for CDB, and the Bank has played a leadership role within the region. Through its capital and technical assistance projects, CDB has helped to establish and reinforce environmental standards in a broad range of sectors. It has trained hundreds of people involved in investment decisions in all the BMCs in environmental screening, and the Bank insists that all CDB projects meet high environmental standards and comply with environmental regulations.

A3.33. Other agencies also provide assistance, but have tended to concentrate on selected areas such as forestry and aspects of coastal zone management. CDB is able to take advantage of its breadth of knowledge of the ecology of the region. This allows it to identify issues early and play a lead role in partnership with other MDBs and donors in mobilizing support to close critical gaps, such as in management of solid and liquid wastes or in addressing new areas of concern.

A3.34. The sector policy on the environment approved in 1993 continues to define the Bank's role and strategic objectives in this priority area, and the guidelines for environmental impact screening have steadily evolved to keep the Bank and its borrowers at the cutting edge, and plans are underway to fully integrate guidelines for environmental and social assessments.

A3.35. SDF V will allow the Bank to continue its leadership role, working closely with its development partners, and to carry forward with key elements of its *Environment Strategy*, outlined below.

A3.36. *Strengthening National Institutions and Policy Development.* In its role as a policy advisor, CDB, with support from SDF V, will continue to promote appropriate and realistic policies, principles and practices for environmental and natural resources management. SDF-funded technical assistance will be provided for these purposes. Priority will be assigned to activities that support environmental concerns in CDB-financed projects and programmes. SDF-funded TA will include training programmes in environmental assessment methodology at BMC institutions, field research and baseline studies needed for the development and enforcement of appropriate legislation and regulations, and environmental awareness activities in the public and private sectors.

A3.37. *Financing and Financial Resources Mobilization.* CDB will increase lending for projects that directly meet environmental objectives, using SDF support in appropriate cases. Projects in water supply, sanitation and coastal zone management, and the natural hazard and environmental mitigation components of capital projects will be given priority. "Best practice" pollution reduction technologies, where cost effective, will be applied. Additional concessional finance will be attracted from suitable sources to strengthen national environmental institutions, for the EIAs and mitigative components of major capital projects, and for regional projects that address common environmental problems and issues.

A3.38. *Development Community Coordination and Public Participation.* SDF V will promote coordination and collaboration on environmental matters at regional and sub-regional levels among appropriate and relevant institutions, including official authorities, multilateral agencies, NGOs, the private sector and other interest groups. Dialogue with the public, including NGOs and private voluntary organizations will be intensified. As a general condition of financing, CDB will continue to require environmental assessments to be made public.

REDUCTION OF VULNERABILITY

A3.39. One of the most pervasive characteristics of many BMCs, and of the most severely disadvantaged among their populations, is high vulnerability to loss of income and employment through rapid economic changes, including economic shocks such as the loss of preferential access for key exports, and to often-severe natural disasters and man-made hazards. One of the important roles of the CDB in supporting poverty reduction and broad-based, sustainable growth is to assist BMCs in reducing or mitigating vulnerability. This is a role that needs to be viewed broadly if it is to be effective.

A3.40. In programme terms for SDF V, this includes interventions aimed at: *expanding opportunities for households to acquire essential assets and make more beneficial use of available assets* (human settlements upgrading, shelter development, special mortgage programmes), *enabling universal provision of basic social services and services to groups with special needs* (BNTF, Social Investment Funds, basic education for all, early childhood education, protection of children at risk, basic health care health promotion and disease prevention), and *improving management and preparedness for natural disasters*

and other major risks (disaster mitigation, relief and rehabilitation, and response to HIV/AIDS). Many of these programmes can also be seen as *capability enhancement*, but in a very fundamental way they serve to reduce vulnerability in its various forms.

Expanding Opportunities to Acquire Essential Assets and Make Productive Use of Existing Assets

A3.41. Many poor households cannot accumulate the assets required to reduce their vulnerability to income risks or to capitalize on opportunities to expand or diversify their income base. For poor people, ownership of property, especially a house, is a vital step in economic enfranchisement and asset accumulation to reduce vulnerability. It can provide the basis for income-earning cottage industries and other informal sector activities to supplement household income, as well as security for loans. Such a diversification of sources of income is important for mitigating income risks of many poor households.

A3.42. CDB's sensitivity to the cultural and political environment in BMCs and its lower appraisal and supervision costs are an advantage in the design and implementation of projects that seek to deliver benefits to the poor directly through support for asset and income building activities.

Human Settlements Upgrading, Shelter Development and Special Mortgage Programmes

A3.43. The CDB Discussion Paper on *Social Development Policy and Strategy* prepared for SDF IV identified the need of low-income families for home improvement and construction loans as a high priority, and for innovative approaches to identify appropriate institutional means of reaching the small saver/borrower. Two such approaches were introduced in SDF IV, *Shelter Development* and *Special Mortgage/Low-income Housing*. Some \$9.4 million was committed under these programmes.

A3.44. Demand for financing is growing, and a significant increase in lending is envisaged under SDF V. In addition to shelter development and special mortgage programmes, resources will be provided for upgrading settlements and housing by providing access to essential services such as water, electricity and roads. In addition, BMCs will be assisted in developing more coherent policy and institutional frameworks for sustainable housing development and regularization of squatter settlements.

Enabling Universal Provision of Basic Social Services and Services to Groups with Special Needs

A3.45. Everyone should have access to basic social services, especially primary and secondary education and primary health services. Such services are essential if poor people are to develop and protect their labour as a prime asset. Groups with special needs, such as the mentally and physically challenged, the aged and the chronically ill, should be provided with special services to enable them to expand their options for achieving adequate security, well being and dignity. A more balanced approach to delivery of basic services needs to be promoted so that a greater proportion of public resources is used to address health, education and social protection issues that disproportionately affect the poor.

A3.46. CDB's regional scope, cultural sensitivity, geographic proximity and its long experience and understanding of institution building and social issues allows it to play a special role in building on good practices across the region, especially in the smaller BMCs where regional, sub-regional or multi-country approaches are often advantageous.

The Basic Needs Trust Fund and Social Investment Funds

A3.47. Perhaps the best-known SDF programme to assist countries in direct poverty reduction is the *Basic Needs Trust Fund (BNTF)*. During SDF IV, BNTF funded a large number of small sub-projects in poor communities, helping to enhance the capabilities of poor people living in deprived communities by reducing disparities in access to enabling basic social and economic infrastructure and services. In addition, implementation of sub-projects generated local employment, mobilized local communities, and imparted skills to participants. BNTF also provided financing for dedicated skills-building projects. The communities benefiting during SDF IV contain about 450,000 beneficiaries. Community participation

was substantially improved through several major innovations, including community sponsorship of projects and greater community participation in project decisions, and a set-aside of a portion of the programme to be committed only on the basis of performance.

A3.48. The total BNTF budget during SDF IV (including contributions from recipient governments and a contribution from USAID) was \$28.5 million. CDB also provided a loan of \$14 million (with \$7 million from SDF) for a similar programme in Jamaica, the *Jamaica Social Investment Fund (SIF)*.

A3.49. Under SDF V, BNTF programming will be increased substantially, and the objective, *depending on the final level of the replenishment*, is to increase BNTF to \$40 million for existing BMCs, and \$55 million including Haiti and Suriname. Support for other SIF projects will also be increased. Benefits from sub-projects will be better targeted to poor people living in socially and economically deprived communities. This will be done through intensive training of BNTF country staff and PSCs, introduction of better tools such as poverty maps and improved guidelines, greater use of community workers, and further streamlining of implementation arrangements. Efforts will be made to strengthen policy and institutional frameworks to enable interventions to be more closely integrated with other poverty reduction initiatives. Database applications will be developed further, to better monitor implementation and quickly share information and experiences among BNTF stakeholders.

Basic Education

A3.50. Country poverty assessments have repeatedly demonstrated the strong link between low educational attainment and income poverty. People with no education or only primary education are much more likely to be poor, compared to those with higher levels of education.

A3.51. ‘Basic education’ as used by the CDB covers both primary and secondary education, as well as technical and vocational education. It also covers special education and training to assist people who are especially challenged in reaching their full potential. Improving the quality and accessibility of basic education is a core element of all country strategies to reduce poverty and promote more equitable development of human capabilities. BMCs have adopted ‘Education For All’ as a major goal, with the objective of achieving universal secondary education by 2005.

A3.52. During SDF IV, the Bank financed seven basic education projects, with two of these using \$5 million in SDF resources. CDB also cooperated with member countries and other development agencies to formulate a regional as well as several national education strategies.

A3.53. During SDF V, the Bank will continue strong support for basic education, especially for efforts to improve quality and access. CDB will continue to insist on the need for comprehensive sector policies and plans as the basis for its interventions, and will support the use of modern technology as a means of achieving greater efficiencies and better outcomes.

Early Childhood Education and Protection of Children at Risk

A3.54. Children of the working and non-working poor make up the overwhelming body of children at risk – at risk of under-development physically, socially and educationally. Recent findings of a Planning Institute of Jamaica/UWI study of a large cohort of children confirm the overwhelming body of evidence that the quality of pre-school experiences has long-term effects on educational performance and emotional development. Appropriate pre-school programmes have consistently been associated with better cognitive and academic performance and ultimately better prospects for a productive social and economic life.

A3.55. Promoting early childhood development and reducing child abuse have become major concerns. These are key elements in efforts to reduce disparities between the children of the poor and non-poor, in terms of the benefits from and the outcomes of their basic education, and to reduce the proclivity to crime

and violence by people in all social groups. During SDF V, increased support will be given to interventions in this area, given its critical importance to poverty reduction and the development potential of children who live in poor or abusive households.

Basic Health Care – Health Promotion and Disease Prevention

A3.56. The majority of poor and vulnerable people live on what they earn from their daily labour, and injury or illness can leave them helpless and destitute. Effective health, nutrition and reproductive health policies that ensure adequate access to health services are essential components of strategies to reduce vulnerability of poor people to income loss and protecting their most valuable asset – good health. While BMCs have attained comparatively good health status over the last 30 years and managed to eliminate or control the incidence of many communicable diseases, there is growing evidence that this progress is faltering. In many BMCs there is deterioration in the quality of health services, a growing inability to respond to changing epidemiological patterns, and widespread concern about the efficiency, sustainability and equity of existing financing and management systems.

A3.57. CDB has long been active in the health sector, especially environmental health, through its involvement in water and sanitation, in financing community health facilities, and in health sector reform. During SDF V, the focus will be broadened to include other cost effective interventions aimed at improving the accessibility and quality of health services to the poor and vulnerable, particularly through improvements in primary health care (including nutrition and reproductive health). Assistance will be provided within the framework of *Caribbean Cooperation in Health II*, a programme of action adopted by CARICOM Heads of Government in 1999. Emphasis will be on health promotion and disease prevention, including:

- ✍ reorienting health services;
- ✍ formulating ‘healthy public policy’;
- ✍ empowering communities to achieve well-being;
- ✍ creating supportive environments for healthy live styles and disease prevention;
- ✍ developing/increasing personal health skills; and
- ✍ building multi-sectoral alliances to promote health.

A3.58. Priority will be given to health systems reform/development, with the goal of improving efficiency, effectiveness, financing and quality of services delivered. Together with IDB, CDB has already financed one such intervention.

Improving Management and Preparedness For Natural Disasters and Other Major Risks

Disaster Mitigation, Relief and Rehabilitation

A3.59. The Caribbean region is constantly threatened and frequently devastated by natural disasters such as hurricanes, floods, earthquakes, volcanic action, landslides, flooding and drought; and the tourism-based economies are extremely vulnerable to hazards such as oil spills, pollution from waste disposal and fish kills. The effective management of all potential disasters strains government capacities and resources. Without external assistance to restore services, disasters can lead to a downward spiral in which poor people will be the chief victims (as with the continuing volcanic eruption in Montserrat).

A3.60. This is an area of strong multi-donor collaboration. CDB’s comparative advantage lies in its lower delivery costs and its influence in promoting higher standards region-wide. A review of the Bank’s policies and procedures for disaster assistance was undertaken in 1998, and a strengthened *Natural Disaster Management Strategy* was approved, with the objective of reducing vulnerability of BMCs to natural disasters and integrating disaster management policies and practices into all aspects of CDB operations. The guidelines were amended in 2000 to provide further flexibility for an early response during the initial phase of emergency relief, when dislocations affecting the poor are greatest. The Bank

has also forged a partnership with USAID to accelerate development and implementation of the Disaster Management Programme.

A3.61. CDB made its first disaster rehabilitation loan 25 years ago, and since then has made 17 such loans, mostly in respect to hurricane and flood damage. In the past two years, the CDB has provided emergency response and rehabilitation loans and grants in three instances: Hurricane Georges (Antigua & Barbuda and St. Kitts & Nevis), a landslide in St. Lucia, and Hurricane Lenny (emergency loans to Anguilla, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, and St. Vincent & the Grenadines, a grant through CDERA, and disaster rehabilitation loans totalling \$25 million to Anguilla, Dominica, St Kitts & Nevis and Grenada).

A3.62. CDB also participates in an ad hoc international group on disaster insurance with the World Bank, the CARICOM Secretariat, and the OAS. The intention is to strengthen the institutional capacity of the region's insurance supervisory authorities, to augment the level of catastrophe insurance coverage through reinsurance, self-insurance pools and other options.

A3.63. SDF V will permit the Bank to continue to provide strong support for disaster mitigation, disaster relief and disaster rehabilitation efforts. Circumstances will dictate the level of financing for disaster relief and rehabilitation, but financing for disaster preparedness and hazard risk assessments will be increased, with the objective of assisting each BMC to put in place measures to minimize risk and losses.

HIV/AIDS Epidemic

A3.64. Eighteen years after the first reported case of AIDS in the Caribbean, HIV/AIDS has become a major problem that poses a serious threat to economic and social development. The epidemic in the Caribbean has become second only to that in Sub-Saharan Africa, and there was a 25 per cent increase in the reported incidence of HIV/AIDS from 1998 to 1999.

A3.65. Young women are particularly vulnerable. In women 15 to 25 years old, HIV prevalence is 2 to 4 times higher than in other age groups and 3 to 6 times higher than in males. HIV prevalence studies among pregnant women have shown increasing trends, and the Caribbean occupies first place in the Western Hemisphere in terms of HIV and AIDS among women.

A3.66. The changing profile of the epidemic has begun to impact dramatically on all sectors, in terms of reduced life expectancy and loss of economic resources, productivity and human potential. The Caribbean is being swept into a vortex in which HIV/AIDS is both cause and effect of a downward spiral in which people and, eventually, countries become more and more impoverished.

A3.67. People living with HIV/AIDS are stigmatized. Very often they lose their jobs and are turned out of their homes. This is now one of the major health issues contributing to public and private poverty – the annual cost of treating one AIDS patient is equal to that of five primary school places, and the number requiring treatment is spiralling.

A3.68. CDB has funded several health sector interventions that include responses to HIV/AIDS, and has participated in the Caribbean Task Force on HIV/AIDS, which has drawn up a *Regional Strategic Plan of Action for HIV/AIDS*. The plan addresses six priority areas of support to national efforts to prevent and control the HIV epidemic and mitigate its consequences. These are:

- ✍ Advocacy, policy development and legislation;
- ✍ Care and support for people living with HIV/AIDS;
- ✍ Prevention of HIV transmission, with focus on young people;
- ✍ Prevention among especially vulnerable groups;
- ✍ Prevention of mother to child transmission; and

- ✍ National and regional capacities for analysis, programme design, implementation, management and evaluation.

A3.69. Under SDF V, CDB will support national and regional responses to HIV/AIDS, within the framework of the *Regional Strategic Plan of Action*. This has been endorsed by CARICOM Heads of Government and by the Caribbean Conference on HIV/AIDS in September 2000. At least \$10 million of the resources available under SDF V will be allocated to HIV/AIDS, and *if the level of the replenishment permits*, a higher level can be used effectively and will be allocated for this purpose.

GOVERNANCE AND INSTITUTIONAL DEVELOPMENT

A3.70. Governance consists of the processes by which power and authority are shared and exercised in society and influence exerted over policies and decisions concerning human development and well-being. Good governance emphasizes equitable, efficient and responsible management of public and corporate resources for the benefit of all stakeholders.

A3.71. Good governance promotes stronger commitment to common goals and enhances the prospects for success in achieving national objectives such as increases in investment and incomes, decreases in crime and poverty, and improvements in social indicators such as literacy and infant mortality, the things that matter most to the poor and vulnerable. It can contribute substantially to the realisation of improved living standards and a higher quality of life.

A3.72. Good governance is a requisite for the creation of an enabling environment in which Caribbean countries can make the transition to competitive economic structures that allow the private sector to develop. Good governance plays a significant role in contributing to regional integration, which is the main regional strategy for achieving a repositioning of the Caribbean in the global economy. For small countries such as the Bank's BMCs, small size and the existence of indivisibilities mean that the per capita cost of governance and of developing and maintaining essential institutional capability is relatively high, which requires the pursuit of opportunities for economies of scale through regional action.

A3.73. Sustained reduction of poverty will depend on the extent to which root causes of poverty that promote social exclusion and inequitable outcomes can be identified and addressed effectively. These factors are embedded in values, attitudes and relationships between different groups in society, and a high level of sustained national and international commitment to addressing them is needed. Poor people cannot act alone to remove constraints on their capabilities and reduce their vulnerability. Good governance that ensures appropriate public policies, equitable allocation of resources, and effective mechanisms for delivery of services is essential for sustained poverty reduction.

A3.74. Improving the quality of governance and capacity-building at regional, national and local levels in ways that improve public policies, reduce social fragmentation, enhance social capital and change fundamental inequities in influence on public policy is a principal means by which CDB can assist BMCs in achieving a sustained commitment to poverty reduction and broad-based growth.

A3.75. CDB's comparative advantage lies in its:

- ✍ Knowledge and understanding of the cultural and political environment in its BMCs;
- ✍ Accumulated experience in and knowledge of the regional economy and socio-economic development issues facing the region;
- ✍ Considerable experience in institutional strengthening in areas such as modernizing the public sector and improving delivery of public services, economic management, strengthening civil society and strengthening regional mechanisms;
- ✍ Geographic proximity to BMCs and close relationships with policy-makers;
- ✍ Lower appraisal and supervision costs;

- ✍ Role and position as a regional institution within the CARICOM framework, which gives it significant influence within the region; and
- ✍ Well-established relationships with development partners.

A3.76. SDF-financed technical assistance is the primary means by which the Bank can pursue interventions in support of good governance. The framework for those interventions in SDF V will consist of six broad priorities:

- ✍ *Public sector modernisation*, through support for the creation of a modern, effective and accountable public sector that supports pro-poor growth strategies and is capable of the cost-effective delivery of essential public services;
- ✍ *Building capacity for strategic policy and programme management*, in order to meet the challenges of globalisation and poverty reduction;
- ✍ *Social partnerships and participation*, to encourage wider participation in national consensus-building and local development planning, and strengthening civil society and other mechanisms that foster meaningful participation;
- ✍ *Law, justice and security*, by supporting stronger regulatory systems for environmental and social protection, improved justice systems, and improved governance of the private sector;
- ✍ *Regional cooperation and governance*, to support regional cooperation, strengthening of regional governance mechanisms, and building of national capacities for implementing regional and international agreements; and
- ✍ *Mainstreaming governance in CDB's own operations*, by including good governance in country strategy development, poverty reduction strategies, and project design and appraisal.

A3.77. In selecting individual interventions, the Bank will be guided by its comparative advantages, core competencies, and areas of influence or where CDB interventions can serve as a catalyst, as well as its overall strategic objectives and the needs of individual BMCs. It will also be guided by the need to focus technical assistance efforts on key objectives and ensure adequate staff supervision time is available for such projects, as recommended in the *Performance Review*.

A3.78. CDB's *core competencies* are strongest in the area of *institutional development and capacity building*, in which the Bank has built up considerable experience, expertise and goodwill. Institutional development and capacity-building also cut across many of the other issues to be addressed in the SDF V Operational Strategy. SDF V resources will be used to play a strong and important role in four core areas:

- ✍ *Developing capacity for improved policy formulation and economic management;*
- ✍ *Strengthening implementation capacity and improving the delivery of public services;*
- ✍ *Improving accountability in the public sector and in regional institutions; and*
- ✍ *Establishing strong legal and regulatory frameworks, especially in relation to private sector development.*

A3.79. Areas of prospective influence, where relatively small SDF interventions can serve as a catalyst for greater attention or resource flows by influencing the decisions and actions of other stakeholders or development partners, are likely to be in:

- ✍ *Supporting public sector reform;*
- ✍ *Promoting transparency;*
- ✍ *Encouraging BMCs to develop national ICT strategies as the basis for improving knowledge management and institutional learning, as well as the delivery of public services;*
- ✍ *Promoting social partnerships and encouraging meaningful participation of civil society in development planning and the functioning of public services; and*
- ✍ *Developing closer regional integration and cooperation for joint action.*

Improved Policy Formulation and Economic Management

A3.80. SDF V will assist BMCs in activities such as:

- ✍ Strengthening the capacity for economic policy formulation, including socio-economic data gathering, policy analysis and assessment, as the foundation for more evidence-based decision-making;
- ✍ Developing policy units, including policy coordinating mechanisms at the centre of government to support Cabinet decision-making;
- ✍ Developing capacity for the preparation of public sector investment programmes and public expenditure reviews; and
- ✍ Building capacity for revenue and expenditure management, including improved tax administration to improve effectiveness and reduce the likelihood of corruption.

Strengthening Implementation Capacity and Improving the Delivery of Public Services

A3.81. Strengthening implementation capacity and improving the delivery of public services was the largest area of SDF-funded technical assistance under SDF IV, with over 50% of TA for governance and institutional strengthening. SDF V will continue to assist individual BMCs to increase the effectiveness and efficiency of government agencies and improve the quality of public service delivery. The focus will be on the provision of services that citizens value, especially services that benefit the poor.

A3.82. The provision of training in project planning and project management has been a highly regarded part of this programme area. Such programmes will be continued, but updated and upgraded to take account of current and future needs and new techniques, with use made of distance learning technology.

Improving Accountability in National and Regional Institutions

A3.83. SDF V will support the Bank's work with BMCs and regional institutions in areas such as developing performance indicators and strengthening quality control, improving accountability of public agencies by making them more customer-focused and participatory, strengthening formal accountability mechanisms such as internal audit Units and auditor-general departments, and strengthening systems for ensuring accountability of national and regional officials.

Establishing Adequate Legal and Regulatory Frameworks

A3.84. Small and imperfect markets in the Caribbean are characterized by a lack of market-driven competition. There are special problems in creating an appropriate legal and regulatory environment conducive to private investment which at the same time safeguards the interests of consumers and the public. SDF V will support initiatives such as modernising the legal environment for private sector development, to bring legislation and regulations into line with modern practices and make them more predictable and investor friendly; speeding up government processes and procedures which have an impact on business development; strengthening regulatory frameworks to protect the interests of citizens, consumers and governments against environmental hazards, unfair competition or monopolies; and strengthening the capacity of regulatory agencies, particularly regional or sub-regional agencies, in areas such as the environment, telecommunications and offshore financial services, to monitor activities under their jurisdiction and take action in cases of non-compliance.

Public Sector Reform

Under SDF V, the Bank will support the development of national and regional consensus on the key elements of public sector reform, including rationalization of the size and scope of the public sector. This will build on SDF supported activities under SDF IV, and support other areas of technical assistance aimed at strengthening the delivery of public services and improving transparency and accountability.

Promoting Transparency

A3.85. CDB will promote the principle of transparency generally, but particular attention will be given to transparency in two areas of government operations: government contracting and physical development planning. CDB will ensure the strictest adherence to its procurement guidelines in all CDB-financed projects, and will encourage BMCs to adopt equally transparent procedures in activities financed from their national budgets. CDB will also take an active interest in the activities of the Negotiating Group on Government Procurement under the Free Trade Area of the Americas, and will work with the CARICOM Regional Negotiating Machinery. In the area of physical development planning, CDB will encourage BMCs to maintain the highest levels of transparency to ensure fair, equitable and environmentally sound development that is free of corruption and safeguards the interests of communities.

National ICT Strategies

A3.86. Electronic government (e-government) is becoming a reality in many parts of the developed world. It is important for the transition to global competitiveness that BMCs establish national ICT strategies to lay a foundation for the introduction of systems geared to improved knowledge management, client service and community empowerment, electronic service delivery, flexible information enquiry and dissemination, and integrated network solutions. SDF V will permit CDB to partner with other development agencies to assist BMCs in developing appropriate ICT platforms which can enable them to participate fully in, and benefit from, the “knowledge economy” of the 21st. Century.

Social Partnerships and Participation

A3.87. The Bank is committed to promoting wider participation in decision-making through the use of social partnerships. SDF has under previous cycles supported the institutional strengthening of civil society organizations (CSOs) in various ways. This work will be continued and strengthened. The focus under SDF V will be on improving corporate governance, the capacity of CSOs to prepare and implement development projects, and their prospects for institutional and financial sustainability. Efforts will be made to build the capacity of CSOs in selected areas, such as special groups of the poor or vulnerable, for policy analysis and advocacy, to enable them to better articulate the views of their communities and engage in meaningful policy dialogue with government and other social partners. This will also contribute to enhanced transparency and accountability on the part of public institutions by improving the flow of information between government and citizens.

Developing Closer Regional Integration and Cooperation for Joint Action

A3.88. The development and strengthening of regional initiatives has been an important area of SDF technical assistance. This will continue to be a priority, but greater focus will be achieved, with a reduction from 40% of SDF technical assistance for governance and institutional strengthening under SDF IV to perhaps 25% under SDF V. Priorities will include support for the implementation of CSME and other regional initiatives to achieve economies of scale, particularly in areas relevant to the poor, as well as the development of regional frameworks and tools/instruments for finding common solutions to common problems, sharing of “best practices”, and promoting the rights of vulnerable groups such as youths, women, the elderly and the disabled. The focus will be on areas such as fighting HIV/AIDS, health sector reform, education, environmental protection and regulation, regulation of public utilities and other key economic sectors, and international trade.

Endnotes

¹ All references to SDF are to the (Unified) Special Development Fund (SDF) established in 1983, unless otherwise indicated. Other special funds resources (OSFR) were provided earlier on different terms and in some special cases have been provided since.

² Since 1996, surveys have indicated a further decline in poverty levels, although there has not been a significant fall in unemployment levels and overall growth has remained negative throughout the period. This apparent anomaly is not fully understood, and the Government is conducting an investigative study.

³ *Small States: Meeting Challenges in the Global Economy*, Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States, March 2000.

⁴ Atkins, Mazzi and Easter, *A Commonwealth Vulnerability Index for Developing Countries: The Position of Small States*, Commonwealth Secretariat, January 2000. Tom Crowards, *An Index of Economic Vulnerability for Developing Countries*, Caribbean Development Bank, Economics and Programming Department, February 2000.

⁵ This combines both a “vulnerability impact” index and a measure of “resilience” based on GDP. The factors included trade openness, export dependence, merchandise export concentration, merchandise export diversification, export earnings instability, capital openness, external debt, energy imports dependence, and vulnerability to natural disasters.

⁶ The six variables are:

- (a) *Peripherality/accessibility*. Freight and insurance cost for imports as a percentage of import costs is used as a proxy for accessibility.
- (b) *Dependence on imported energy*. This is represented by imports net of exports of energy as a percentage of total energy consumption.
- (c) *Export concentration*. This is measured as the proportion the value of the major and the top three exports of goods and services as a percentage of total exports.
- (d) *Convergence of export destination*. This is measured as the proportion the value of the major and the top three imports of goods and services as a percentage of total exports.
- (e) *Reliance on external finance*. This is measured as total inflows of concessionary overseas development assistance and annual foreign direct investment as a proportion of gross fixed capital formation.
- (f) *Susceptibility to natural disasters*. This is measured by the cumulative number of persons affected by natural disasters (1950-98) as a proportion of total population and the cumulative number of deaths caused by natural disaster (1950-98) as a proportion of total population.

⁷ Tom Crowards, *Index of Inherent Economic Vulnerability for Developing Countries*, CDB Staff Working Paper No. 4/00.

⁸ *Small States: Meeting Challenges in the Global Economy*, p. 30.

⁹ CDERA and (for Haiti) IDB.

¹⁰ *Strategic Plan 2000-2004: The Road into the New Millennium*, December 1999.

¹¹ International Development Management Advisory Group Inc., *Performance Review – Special Development Fund Cycle IV, Final Report, September 2000*.

¹² Excluding HIPC debt relief. Figures 1 and 2 also exclude HIPC.

¹³ Targeted poverty reduction programmes, as defined in the *Performance Review*, include basic education at the primary level and an important part of the Bank’s disaster management/disaster response programmes, which provide a safety net of particular benefit to the poor.

¹⁴ *Performance Review*, Chapter 8, p. 118-119.

¹⁵ *A Partnership for Poverty Reduction in the Caribbean: Replenishment of the Resources of the Special Development Fund (SDF V)*, October 2000.

¹⁶ *Annual Review of Performance Reports*, BD 30/00, 8 May 2000, and BD 13/97, 13 March 1997. Data for 2000 not yet available because change in reporting system is under implementation.

¹⁷ CDB, *Strategic Plan 2000-2004; The Road into the New Millennium*, December 9, 1999, paragraphs 5.51-5.55

¹⁸ *Performance Review; Special Development Fund Cycle IV*, August 2000, page 138.

¹⁹ The Asian Development Fund’s EACA (Expanded Advance Commitment Authority) and IDA’s RITO (Reflows, Investment income, Transfers and Other resources).

²⁰ This broad framework, as reviewed and endorsed by SDF Contributors, is subject to review by the Board of Directors later in FY2001.