

CARIBBEAN DEVELOPMENT BANK



SPECIAL DEVELOPMENT FUND (UNIFIED)

THE STRATEGIC FOCUS OF SDF 8: BUILDING OUR RESILIENCE

February 2012

CURRENCY EQUIVALENT

Dollars (\$) throughout refer to United States Dollars (USD) unless otherwise specified.

ABBREVIATIONS

BMCs	-	Borrowing Member Countries
BNTF	-	Basis Needs Trust Fund
CARICOM	-	Caribbean Community
CDB	-	Caribbean Development Bank
CSPs	-	Country Strategy Papers
DPs	-	Development Partners
ECCU	-	Eastern Caribbean Currency Union
GE	-	Gender Equity
ICTs	-	Information and Communication Technologies
IMF	-	International Monetary Fund
MDGs	-	Millennium Development Goals
MTE	-	Mid-Term Evaluation
MTR	-	Mid-Term Review
RCI	-	Regional Cooperation and Integration
RMF	-	Results Monitoring Framework
SDF	-	Special Development Fund
SDF 7	-	Special Development Fund (Seventh Cycle)
SDF 8	-	Special Development Fund (Eighth Cycle)
TA	-	Technical Assistance
UN	-	United Nations
UNDP	-	United Nations Development Programme
WB	-	World Bank

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EXECUTIVE SUMMARY

1. The strategic context of the Special Development Fund (Eighth Cycle) (SDF 8) is defined by the results of the Special Development Fund (Seventh Cycle) (SDF 7) Mid-Term Review (MTR), unfinished business of SDF 7 and the Region's development challenges. These challenges include slow and variable economic growth, unsustainable levels of public debt which results in limited fiscal space to implement growth-enhancing economic and social programmes, the persistence of unacceptable levels of poverty and inequality, and a high degree of vulnerability to external economic shocks and natural hazard events. To these must be added the issue of citizen security which has emerged as a major challenge in the Region. Increasing crime and violence in the Caribbean imposes high social, economic and cultural costs. These challenges have to be addressed in SDF 8 but with even greater urgency, than in SDF 7, given the impact of the global crisis on the Region and the implications of a second recession should the European fiscal crisis remain unresolved.

2. It is proposed that the SDF 8 strategy be based on two pillars: (a) inclusive economic growth; and (b) vulnerability and resilience, and a foundation – governance and public sector capacity. These pillars and foundation are consistent with the objectives outlined in the Strategic Plan 2010-2014 and also reflect the themes that Contributors have agreed should determine the strategic direction of SDF 8, namely:

- Inclusive Growth
- Environmental Sustainability and Climate Change
- Crime and Citizen Security
- Regional Cooperation and Integration (RCI)

3. Pillar 1, inclusive economic growth, will focus on strengthened and sustainable growth to create and expand economic opportunities and facilitate broad access to these opportunities to optimise the number of persons benefitting. Measures to accelerate economic adjustment and relieve fiscal and financial sector distress will also be supported. The key sectors to be addressed include: Education and Training; Agriculture and Rural Development; Economic and Social Infrastructure; Private Sector Development; Economic and Fiscal Adjustment; and Financial Sector Development.

4. Under Pillar 2, vulnerability reduction and resilience, the strategy will support mechanisms for promoting environmental sustainability and preventing or mitigating the economic, environmental and climate change risks to which the Borrowing Member Countries (BMCs) are exposed. These resilience mechanisms need to be tailored to the nature of the shock, if they are to be effective and sustainable.

5. Strengthening governance and building capacity are the foundations of the strategy. Underlying the many development challenges facing the Region is the issue of the quality of governance and the efficiency and effectiveness in the delivery of public services. The foundation will also include interventions in RCI including a focus on strengthening support for regional solutions to economic adjustment and fiscal management and financial sector restructuring. Information and Communication Technologies (ICTs) will be addressed under the foundation.

6. Gender Equality (GE) is a cross-cutting issue and stands on its own merits as a development objective. GE is also an important ingredient of inclusive growth and poverty reduction, in light of the strong link between gender inequality and poverty in the Region. Other strategic issues to be addressed in SDF 8 include CDB's role and significance in Haiti and the design of the Basic Needs Trust Fund (BNTF).

7. The Bank will implement the strategy using two instruments – finance and partnerships. Collaborating with other development partners (DPs) and BMCs will be a central component in SDF 8 implementation. An intensified approach to donor coordination will also be required. The traditional instrument of financing, using loans, grants and technical assistance (TA), will remain the core of the Bank’s interventions. The Bank will also try to find innovative solutions to BMC challenges. In this context, the Bank is in the process of reviewing its range of products and will present a separate paper to Contributors and the Board on this subject.

8. Effective implementation requires effective monitoring. The Bank will continue the use of a Results Monitoring Framework (RMF), to monitor the progress of implementation of SDF 8. The RMF is part of a broader Results Agenda, an assessment of which is currently being done by consultants. The Consultant’s report will include recommendations for strengthening the Bank’s programme on Managing for Development Results as well as enhancements to the Bank’s RMF.

9. The Bank has embarked on a process of restructuring its operations in order to strengthen its internal capacity to respond both strategically and operationally to the Region’s needs and to achieve the objectives of the Strategic Plan. It is expected that the new structure will enable the Bank to more effectively implement the SDF 8 operational programme.

THE STRATEGIC FOCUS OF SDF 8: BUILDING OUR RESILIENCE

1. INTRODUCTION

1.01 The Special Development Fund¹ (SDF) is a unique partnership between countries of the Caribbean, both borrowing and non-borrowing, and countries from outside the Region, all of which contribute to the resources of the Fund. SDF is a major component of the resources of CDB and allows for a range of operations that would not otherwise be possible, including operations in the poorest, most vulnerable and most highly indebted countries among the Bank's membership. SDF plays a critical role in the international effort to achieve poverty reduction, the Millennium Development Goals (MDGs), and major economic adjustment in the Caribbean.

1.02 The resources available for the current cycle of SDF (SDF 7), covering the period 2009 to 2012, are expected to be largely committed by the end of 2012. Expanded commitment authority will be required for the continuation of SDF operations in current BMCs as well as in prospective new member, Suriname. The next cycle (SDF 8) covers the period 2013 to 2016 and will provide for initiatives to be undertaken during the last two-year period before the target date for the achievement of the MDGs in 2015.

1.03 The strategy for SDF 8 will be anchored in the themes and objectives of the Bank's new Strategic Plan 2010-2014 (the Strategic Plan). It is a continuation of the SDF 7 strategy but with changing emphases to reflect the dynamic environment in which the Bank's members operate and, in particular, the continuing impact of the global financial and economic crisis. The SDF 8 strategy must, therefore, take into account the major development challenges facing BMCs, the issues that have emerged during SDF 7, including the unfinished business relating to that cycle, and the role of SDF in the regional aid architecture.

1.04 This paper provides an overview of the strategy for planning and implementation of SDF 8. It proposes a strategic framework that takes into consideration the dynamic global and regional environment and is consistent with the views expressed by SDF Contributors. In effect, the Paper seeks to build a consensus on the role and priorities of SDF 8. It will be complemented by more detailed papers on specific topics including, *inter alia*, Climate Change, Water Resource Management, RCI, BNTF, GE, Citizen Security and Private Sector Development.

2. SDF's ROLE AND RELEVANCE

2.01 Over the past four decades, SDF has permitted a unique collaboration among non-regional and regional non-borrowing members and the Bank's BMCs, as well as with non-members, for contributing to the development of the Caribbean region. SDF resources have become an increasingly important (and indispensable) complement to CDB's market resources and make it possible for the Bank and BMCs to tackle persistent development challenges of poverty and vulnerability.

2.02 In order for SDF to remain relevant, it must maintain an adequate level of financial and TA to BMCs. The risks of falling short of this goal may arise from (a) changes in the international aid architecture (proliferation of multilateral and bilateral agencies causing more competition and specialisation, and making aid management more complex and costly); and (b) the need to continue internal reforms to increase the focus on results and value for money, and further strengthen CDB's development effectiveness. The ongoing programming for SDF 7 targets these issues and the SDF 8 programme will continue to address them.

¹ All references to the Special Development Fund are to the Unified Special Development Fund established in 1983.

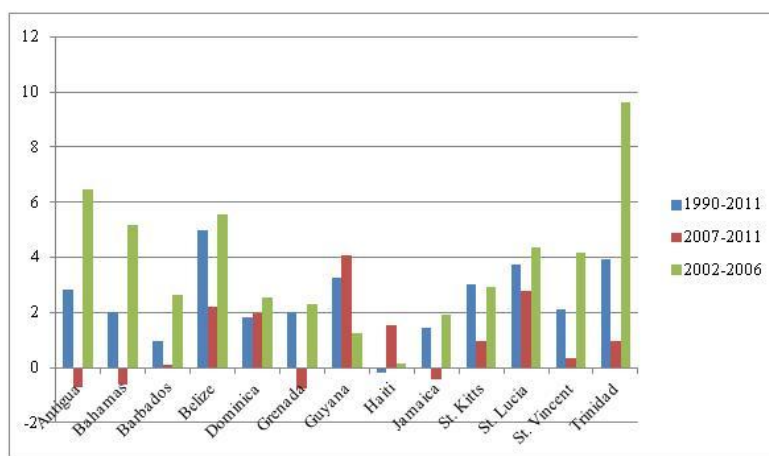
3. DEVELOPMENT CONTEXT

3.01 The development challenges facing the Bank's BMCs which have been well documented in, among others, the Strategic Plan 2010-2014, and the SDF 7 Strategic Framework include slow and variable economic growth, unsustainable levels of public debt which result in limited fiscal space to implement growth-enhancing economic and social programmes; unacceptable levels of poverty and inequality; and a high degree of vulnerability to external economic shocks and natural hazard events. The issue of citizen security has also emerged as a major challenge, with increasing crime and violence imposing high social, economic and cultural costs. These same challenges have to be addressed in SDF 8 but with even greater urgency.

Economic Growth Performance

3.02 The rate of economic growth is a major factor impacting the level of poverty and the ability of countries to achieve the MDGs. As demonstrated by the experience of some Asian economies (China, Singapore, South Korea) high, relatively stable growth over extended periods can reduce poverty levels substantially. Real income growth for CDB's BMCs averaged around 2.45% over the last two decades but with considerable volatility year to year and significant variability among the countries (Chart1). In particular, growth in the countries of the Eastern Caribbean Currency Union (ECCU) has been on a declining trend since the 1990s largely as a result of the gradual removal of trade preferences for sugar and bananas (Table 1, Appendix 1).

CHART 1: AVERAGE GROWTH RATES OF SELECT CARICOM COUNTRIES, 1990-2011



Source: CDB and International Monetary Fund (IMF)

3.03 Growth in most of the Caribbean countries is also more negatively impacted by external economic shocks and natural disasters than many other economies, as a result of small size, structural inefficiencies and geographic location. This partly explains the severe impact of the global crisis on the regional economies which are significantly challenged to achieve their pre-crisis growth levels². The recession has been protracted in most Caribbean economies, resulting from weak external demand, high public debt levels and the impact of natural disasters. Sovereign debt problems in Europe are likely to further dampen growth prospects in 2012. Indeed, there are indications that Europe is already in recession and growth forecasts have been revised downwards (See Box 1).

² Birchwood, A (2011) "Pace of Recovery of CARICOM Economies", Caribbean Centre for Money and Finance, Newsletter: Volume 4, No. 12, December 2011.

Box 1: Global Economic Prospects January 2012: Uncertainties and Vulnerabilities

The world economy has entered a very difficult phase characterised by significant downside risk and fragility. The financial turmoil generated by the intensification of the fiscal crisis in Europe has spread to both developing and high-income countries and is generating significant headwinds. Capital flows to developing countries have declined by almost half as compared with last year, Europe appears to have entered recession, and growth in several major developing countries has slowed.

- The global economy is now expected to expand 2.5% and 3.1% in 2012 and 2013.
- High-income country growth is projected at 1.4% in 2012 and 2.0% in 2013.
- Developing country growth has been revised down to 5.4% in 2012 and 6.0% in 2013.

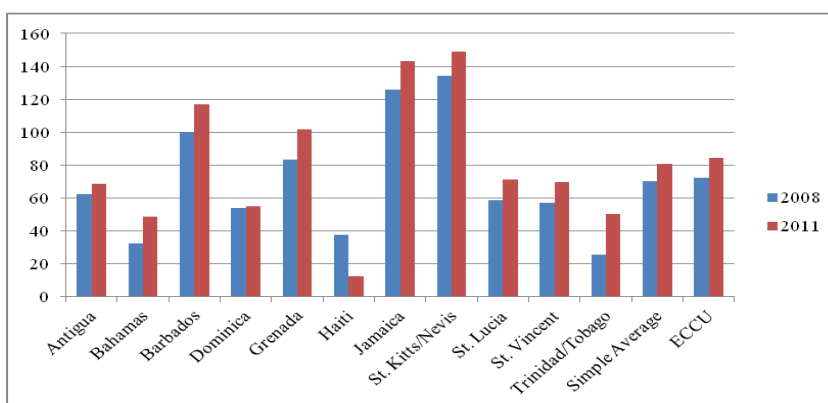
However, even achieving these much weaker outturns is very uncertain. The downturn in Europe and weaker growth in developing countries raises the risk that the two developments reinforce one another, resulting in an even weaker outcome.

Source: The World Bank (2012) “*Global Economic Prospects: Uncertainties and Vulnerabilities*”, Washington, DC

Fiscal and Debt Sustainability

3.04 In many of the BMCs, public debt has increased sharply since the crisis³, reflecting the depth and length of the recession (Appendix 1 and Chart 2). While most governments sought to reduce expenditure, primary balances still deteriorated as revenue losses offset expenditure cuts. Also, expenditure reductions were concentrated in the capital budget as governments sought to protect public sector employment, wages and social programmes. When the levels became unsustainable, some countries, for example, Antigua and Barbuda, Jamaica and St. Kitts and Nevis, undertook to restructure their debt. Greater efforts are necessary to generate fiscal savings and reduce public debt over the medium term.

CHART 2: CARIBBEAN COUNTRIES PUBLIC SECTOR GROSS DEBT – 2008 & 2011
(Percent of GDP)



3.05 The crisis has also exposed financial sector fragilities that have now begun to threaten the stability of the sector – at least in the ECCU. The contagion resulting from the collapse of the CL Financial conglomerate based in Trinidad and Tobago is a major threat to financial stability in the ECCU.

3.06 The reduced growth rate, exacerbated by the British American Insurance Company Limited and Colonial Life Insurance Company Limited International collapse, is putting increased pressure on fiscal

³ High public debt has been a feature of the economic landscape in many Caribbean countries for a long time. The crisis exacerbated the problem as governments adopted counter-fiscal policies in response.

resources and, in the context of already weak social institutions, could result in major increases in poverty.

Persistent Poverty

3.07 In spite of significant progress in the past two decades, poverty, inequality and social exclusion remain defining features of the economic and social reality of the Region. As shown at Appendix 2, the percentage of the population classified as poor averages⁴ at around 26% for the Region as a whole and there is high variability among the countries – Haiti at the high end at 76% and the Cayman Islands at the low end at 1.9%. Poverty in the Region has also taken new forms and dimensions such as the growth of urban poverty, new types of rural poverty and poverty arising from the impact of the human immunodeficiency virus/acquired immune deficiency syndrome and the ageing of the populations. As indicated in the SDF 7 MTR, while the countries are making reasonably good progress towards the MDGs, particularly the poverty-related targets, the impact of the global financial crisis has made the task much harder.

3.08 The SDF 7 strategy document noted that several complex, interrelated factors have contributed to the poverty landscape in the Caribbean and these factors are still relevant in the context of SDF 8. The critical factors include the slowing down of economic growth, the worsening terms of trade for some of the Region's major exports⁵, impact of natural disasters, and diminishing real public expenditures essential for access to vital social services such as education, health and sanitation. It is likely that the global crisis has exacerbated some of these factors such that in some countries the poverty situation has worsened. Indeed, Appendix 2 shows that four countries – Barbados, Belize, Grenada and St. Lucia – experienced increases in poverty between the first period of poverty data (Period 1) and the second (Period 2).

Vulnerability

3.09 The Strategic Plan 2010-2014 identified vulnerability⁶ as the most significant characteristic shared by all BMCs and the one which could threaten the ability of the Region to achieve sustainable growth and development. Small states such as CDB's BMCs bring to the development process inherent weaknesses that make them highly vulnerable to external shocks. These include a combination of small population and a small resource base in terms of skills and natural resources, limited institutional capacity and costly public administration and infrastructure, small domestic markets leading to diseconomies of scale, high transportation and communications costs, excessive dependence on international trade – particularly dependence on a small number of exports, a limited number of markets and heavy reliance on imports, including energy and limited access to capital markets. In the current globalised environment, new vulnerabilities have emerged, particularly the risk of financial contagion with greater integration into the global financial markets.

3.10 Vulnerability of BMCs is also evident in the physical environment. This is manifested, for example, in environmental degradation arising from the implementation of investment activities (e.g. in tourism) because of a seeming disconnect between environmental management concerns and investment objectives. There is also the inter-linkage between poverty and environmental degradation, which result in the loss of resources to the poor or the exploitation and unsustainable use by those better off. High rates of soil erosion, degradation of watersheds and loss of habitats are significant environmental and natural resource management issues.

⁴ This is a simple average. The picture changes dramatically if weighted by population.

⁵ Mainly as a result of the loss of trade preferences. This has greatly affected the Organisation of Eastern Caribbean States countries.

⁶ Vulnerability could be defined as an inherent attribute(s) that makes a country susceptible to being affected by external events. In the Caribbean, inherent attributes include small size and geographic location.

3.11 BMCs also face persistent exposure to natural hazards, such as hurricanes, flooding, earthquakes and volcanoes. The occurrence of these events in the Region is quite frequent and often devastating. They clearly exacerbate the difficulties of environmental sustainability. In addition, climate change is impacting all BMCs and there is urgent need for the implementation of mitigation and adaptation measures.

3.12 The vulnerability of Caribbean economies to economic shocks and natural disasters has particular implications for the poor and vulnerable. The conditions of the already poor are made worse and the large numbers of non-poor but vulnerable populations can be pushed into poverty. This is a very important characteristic of the poverty landscape in the Caribbean and needs to be considered in designing poverty reduction interventions in BMCs.

Citizen Security

3.13 Crime and violence are on the rise in many BMCs representing significant threats to economic and social development, hampering efforts to reduce poverty and the achievement of the MDGs. According to the United Nations Development Programme (UNDP), murder rates in the Caribbean – at an average rate of 30 per 100,000 of population annually – are higher than for any other region in the world. Assault rates, at least based on assaults reported to the police, are also significantly above the world average. Drug trafficking throughout the Caribbean, as a transshipment route from South to North America, is also a serious threat. High rates of youth violence and gender-based violence are also significant concerns.

3.14 The impact of crime on overall economic growth in the Region was estimated in a United Nations (UN)/World Bank (WB) report^{7/}. This suggested that Haiti and Jamaica could boost annual economic growth per capita by 5.4% if they were to bring their homicide rate down to the level of Costa Rica. Guyana and Dominican Republic would also benefit substantially with potential growth rate increases of 1.7% and 1.4%, respectively.

3.15 The impact of crime on countries' governance arrangements also constitutes a drag on the development process. It destroys confidence in society's institutions, subverts the rule of law and reduces policy effectiveness. It has been observed that in some BMCs, armed violence is concentrated amongst the poorest in society and especially among young males. In the UNDP (2012) "Caribbean Human Development report,"⁸ it is suggested that "Caribbean countries need to focus on a model of security based on the human development approach, whereby citizen security is paramount, rather than on the traditional state security model, whereby the protection of the state is the chief aim."

4. STRATEGIC CONTEXT

4.01 The Region's development challenges establish the broad context for development of the SDF 8 strategy. The growth, fiscal and debt issues facing the Region mean that for a considerable period, the regional economies will be undergoing significant adjustment, albeit with varying degrees of intensity. They will also require significant support for social protection programmes as fiscal consolidation proceeds. The logical extension of this is that most of the countries will be out of the capital markets for some time and will need to rely on multilateral and donor financing if they are to access resources at reasonable costs.

4.02 CDB's Strategic Plan indicates that the goal of the Bank is "to assist BMCs to reduce poverty through sustainable economic growth and strengthening the resilience of BMCs to external shocks." The

⁷ UN and WB (2007) "Crime, Violence, and Development: Trends, Cost and Policy Options in the Caribbean.

⁸ UNDP (2012) "Caribbean Human Development Report: Human Development and the Shift to Better Citizen Security" (UNDP, New York), v

Plan recognises the importance of a balanced approach to the growth agenda by ensuring that growth is inclusive and explicitly focused on income and gender disparities while being environmentally sustainable.

4.03 To achieve the overarching goal of poverty reduction, the Plan focusses on the following strategic objectives, with *GE* being a cross-cutting theme:

- (a) Promoting broad-based economic growth and inclusive social development;
- (b) Supporting environmental sustainability and disaster risk management;
- (c) Promoting good governance;
- (d) Fostering RCI; and
- (e) Enhancing organisational efficiency and effectiveness.

4.04 The strategic context of SDF 8 is also defined by the results of the SDF 7 MTR, including the unfinished business of SDF 7:

- (a) the need for greater focus on debt and fiscal management;
- (b) the need for more strategic coherence in the Bank's interventions in the environment and climate change agenda, governance and RCI;
- (c) the importance of a clear strategic focus for the Bank's TA interventions;
- (d) the need to establish a rational operational approach to the mainstreaming of GE issues in the Bank's programming;
- (e) the critical need to tell the BNTF story in a way that clearly establishes its importance and relevance in SDF programming;
- (f) the importance of significantly improving results monitoring and reporting so that stakeholders could clearly understand the role and significance of SDF in the Region's aid architecture; and
- (g) the need to establish the Bank's comparative advantage in Haiti and the most appropriate way to operationalise that advantage.

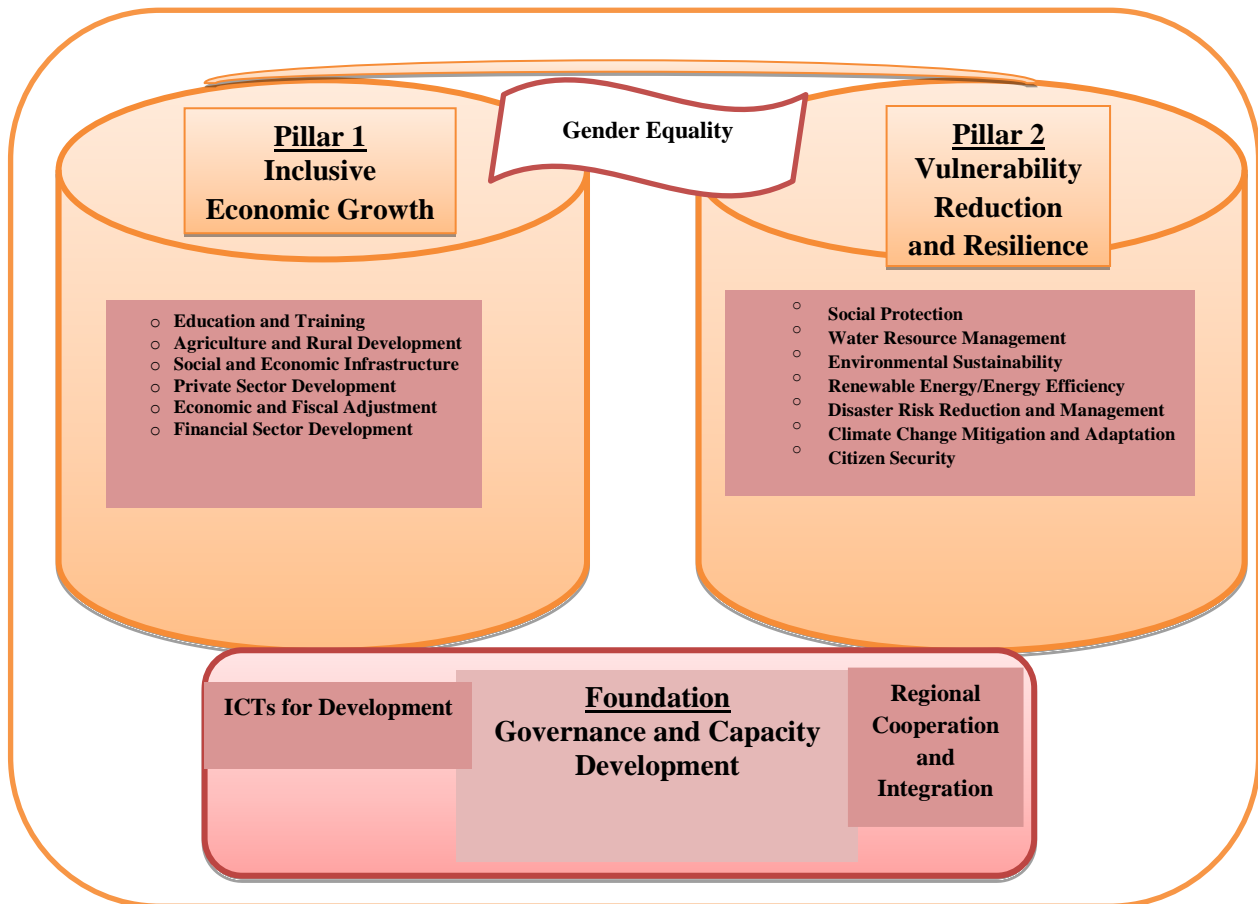
4.05 Contributors stressed that in the context of the worsened fiscal environment in the donor countries, it was imperative that SDF clearly demonstrated its comparative advantage and the value-added it brought to the aid delivery mechanism in the Region. The importance of a strong results orientation was emphasised, as was the need to effectively monitor and report on results. Contributors also indicated that it was not sufficient to outline what the Bank was going to do but, just as importantly, how it proposes to operationalise the strategy. It was also emphasised that "solid analytical work" was required to support the strategy, if Contributors are to be convinced about the effectiveness of SDF and hence on the nature of the replenishment.

5. THE SDF 8 STRATEGIC FRAMEWORK

5.01 It is proposed that the SDF 8 strategy be based on two pillars: (a) *inclusive economic growth*; and (b) *vulnerability reduction and resilience*, and a foundation – *governance and capacity development* (see Figure 1). The underlying *strategic hypothesis* is that the pillars and foundation are the most appropriate response of the Bank to the development challenges currently faced by BMCs. These pillars and foundation are consistent with the objectives outlined in the Strategic Plan 2010-2014. They also reflect the themes that Contributors have agreed should determine the strategic direction of SDF 8, namely:

- Inclusive Growth;
- Environmental Sustainability and Climate Change;
- Crime and citizen security; and
- RCI.

FIGURE 1: SDF 8 STRATEGIC PILLARS



5.02 An advantage of this approach to strategy development is the flexibility it affords in operationalisation of the programme at the individual country level. The strategy will serve as a filter against which individual country strategies can be developed. The strategy thus serves as a framework in which to develop country strategies, based on country circumstances. Critical in this regard is the need for selectivity in a manner that is consistent with resource availability.

Pillar 1: Inclusive Economic Growth

5.03 Pillar 1 will focus on strengthened and sustainable growth to create and expand economic opportunities and facilitate broad access to these opportunities in order to maximise the number of persons benefitting. Promotion of inclusive economic growth will be through support for the key thematic areas of CDB's operations, areas for which it has developed substantial experience and capacity. The key sectors are:

- Education and Training;
- Agriculture and Rural Development;
- Economic and Social Infrastructure;
- Private Sector Development;
- Economic and Fiscal Adjustment; and
- Financial Sector Development.

5.04 This identification of the key thematic areas for intervention does not mean that the Bank is unaware of or insensitive to the multidimensional nature of the development process. The Bank is fully cognizant of the fact that achieving goals in one sector, for example, the private sector, requires achievements in other sectors such as infrastructure and the financial sector, and many of the Bank's interventions will impact more than one of the identified sectors. But identification of key sectors will allow the Bank to focus on specific types of intervention while still keeping the overall objective – inclusive economic growth – in the forefront.

Pillar 2: Vulnerability Reduction and Resilience

5.05 Under Pillar 2, the strategy will support mechanisms for promoting environmental sustainability and preventing or mitigating the economic, environmental and climate change risks to which BMCs are exposed. But resilience is more than prevention and mitigation since it also involves the capacity to:

- (a) absorb stress through resistance or adaptation;
- (b) manage or maintain basic functions; and
- (c) recover after an event.

5.06 The Strategic Plan noted that the risk associated with vulnerability suggests that BMCs face the possibility of frequent reversals in their efforts to achieve sustainable economic and social development if they do not develop or gain access to mechanisms for mitigating the economic, environmental and climate change/disaster risks to which they are exposed.

5.07 Identification of the type of resilience measures available indicates that the strategic framework for SDF 8 is really about supporting BMCs to minimise the impact of economic risks by pursuing prudent

and realistic fiscal policies, and it is about promoting environmental sustainability by investing in economic and social infrastructure to support sustainable management of their natural resources and improve the living conditions of the poor. The Bank is of the view that the most appropriate way to assist BMCs in reducing vulnerability and improving resilience, in the context of its own capabilities, is by focusing on the following:

- Social Protection;
- Water Resource Management (See Box 2);
- Environmental Sustainability;
- Renewable Energy and Energy Efficiency;
- Disaster Risk Reduction and Management;
- Climate Change Mitigation and Adaptation; and
- Citizen Security.

Box 2: Managing Water Resources in a Changing Climate

In the face of more variable and turbulent weather patterns including more frequent droughts and flooding due to climate change, attention is being increasingly focused on water resource management. The WB's Intergovernmental Panel on Climate Change Fourth Assessment Report (2007) concluded that "there is abundant evidence that freshwater resources are vulnerable and have the potential to be strongly impacted by climate change, with wide-ranging consequences on human society and ecosystems. Each Bank region is likely to face a unique set of water-related climate change challenges, deriving from such impacts as accelerated glacier melt; altered precipitation, run-off and recharge patterns and rates; extreme floods and droughts; water quality changes; salt water intrusion in coastal aquifers; and changes in water uses."

In many BMCs, freshwater resources are scarce and the high dependence of the economies on tourism and agriculture gives added importance to the provision of a safe water supply and the management of water resources. Decisions about water resource management are complicated by the lack of information about water availability, the quantity being used, and the impact of current developments on future water resources. Going forward, greater attention will be placed on identifying and determining the impact of climate change on freshwater availability and the future ability of water utility companies to provide adequate and reliable water supply (potable and agricultural). Emphasis will be placed on developing a more complete understanding of regional vulnerability and the development and promotion of adaptation strategies.

Foundation: Governance and Capacity Development

5.08 Governance and capacity development are the foundations of the Strategy. Underlying the many development challenges facing the Region is the issue of the quality of governance and the efficiency in the delivery of public services. There is a strong correlation between governance and institutional quality and economic growth. Good governance and a sound policy and institutional environment are also critical for achievement of the MDGs.

5.09 As noted in the SDF 7 MTR, the Bank was an early adopter of a strategy on good governance with its *Strategy on Governance and Institutional Development* that was approved in 2003. Since adoption of this strategy, the annual volume of approval for grant financing for good governance has been

around \$1.5 mn. This is in addition to elements of governance incorporated in the BNTF community-based approach. The SDF 7 MTR noted that the Bank's interventions which focused on good governance has tended to be responsive and random and, therefore, lacked strategic coherence.

5.10 The Bank's approach in SDF 8 will seek to ensure greater strategic coherence in its governance interventions by:

- (a) ensuring that Country Strategy Papers (CSPs) specifically identify critical capacity and governance weaknesses across all sectors. In this context, the Bank will re-institute a training programme for staff to deal with the issue of operationalisation of the Governance Strategy and application of the governance toolkits. The Bank is also reviewing its Governance Strategy to make it more consistent with the Strategic Plan;
- (b) strengthening civil society participation in BMCs by building capacity in non-governmental organisations/civil society organisations at the national and regional levels and, where feasible, expanding stakeholder participation in CDB-financed projects in all sectors; and
- (c) develop tools to measure the effectiveness of its support to good governance. In this context, the Bank will seek to utilise the range of actionable governance indicators developed by the WB.

5.11 The foundation will also include interventions in RCI and ICTs which are relevant to all the key thematic areas of the pillars.

RCI

5.12 Support for RCI is a principal strategic theme for SDF 7 and one of the objectives in the Bank's Strategic Plan. It was recognised that BMCs had entered a critical phase of the integration process and support for regional integration was seen as a key priority for the Bank. The focus of the Bank's interventions will be to identify specific aspects of RCI that it intends to support. It will develop common structures and processes in BMCs, based on best practice. Support for regional public goods, including trans-national public goods, will also be a core priority for CDB's support for RCI.

ICTs for Development

5.13 It is perhaps axiomatic to suggest that ICTs play a central role in the economic development process. As the ICT sector goes through a period of rapid transformation, in the context of converging networks and services and powerful new applications, it is intended that the Bank, in collaboration with its DPs assist at the regional and national levels in the design and implementation of ICT development policies. The Bank will continue to ensure that ICT considerations are taken into account in the design of its interventions especially in areas of e-government solutions and the application of ICTs in education and training.

Cross-Cutting Issue

GE

5.14 GE is a cross-cutting issue in the Strategic Plan and in the SDF 7 Strategic Framework. This is so as GE is critical in reducing poverty and improving living standards. Particular concerns in the Caribbean include the large number of households headed by single women, worsening education achievement rates and marginalisation of young men in some communities, and the extreme disadvantages that can arise from a confluence of factors including gender, race and ethnicity and age. An indication of the relative position of selected CARICOM countries on gender inequality is shown at Box 3. Haiti ranks the lowest at 123 and Trinidad and Tobago the highest at 53, out of 187 countries.

Box 3: Gender Inequality Index for Selected CARICOM Countries

Rank is based on 187 Countries

Country	Gender Inequality Index	
	Value 2011	Rank 2011
Bahamas	0.332	54
Barbados	0.364	65
Belize	0.493	97
Guyana	0.511	106
Jamaica	0.450	81
Haiti	0.599	123
Trinidad & Tobago	0.331	53

Source: UNDP Caribbean Human Development Report 2012: Human Development and the Shift to Better Citizen Security

5.15 CDB intends to continue emphasising GE as a fundamental element of its approach to inclusive growth. While some initiatives were accomplished in SDF 7, there is a need for continued support in SDF 8 in areas such as: strengthening the analysis and integration of gender issues in CSPs; development of a monitoring system to measure and record the extent to which gender concerns are mainstreamed in each CDB/SDF project; and relatedly, development of a GE results framework to define and track results. The Bank also proposes to effect independent evaluation of its Gender Equality Policy and Strategy at regular intervals.

6. ADDITIONAL STRATEGIC ISSUES

CDB's Role and Strategy in Haiti

6.01 Haiti has posed special challenges for CDB. It has to deal with particularly demanding development issues and has much greater needs than other BMCs. Haiti accounts for almost 60% of the population of BMCs and, since the devastating earthquake, around 76% of Haitians are living in poverty. Haiti's governance is weak and there is limited institutional capacity such that basic social and infrastructural services are very limited. Thus Haiti's needs must be addressed by using a flexible approach which must include partnering with other DPs.

6.02 Since SDF operations in Haiti commenced in 2007, programming has been supported by special grant allocations in both SDF 6 and SDF 7. Interventions have reflected both government priorities and the Bank's comparative advantage and the need to develop CDB's own capacity to apply its strengths and experience in a new environment under difficult operating conditions. Efforts have also been made to strengthen CDB's capacities and establish working relations with the Government and other institutions and DPs operating in Haiti.

6.03 The Bank is revising its CSP and developing a strategy for reinforcing and ramping up its programming in Haiti. The strategy will take full account of CDB's strengths in education and training, community-driven developments (as supported by BNTF, for example) and agriculture and rural development. It is important that the Bank sustains a long-term commitment to Haiti which involves the intensification of strategic partnerships with civil society, the private sector and DPs. As a Caribbean institution, CDB brings a special perspective to Haiti's development and can act as a catalyst to better incorporate the country into the CARICOM system. Haitian officials are invited to participate in CDB for a, including training and workshops, where critical networking is facilitated.

BNTF

6.04 BNTF is the Bank's principal programme for direct poverty reduction, targeted at poor communities to improve basic infrastructure and services and increase the potential for income-earning activities, and thereby contribute to more broad-based and sustainable development. The programme is multi-sectoral and provides resources for sub-projects, project management and technical services, as well as for capacity building for CBOs in participatory approaches for planning and monitoring of sub-projects. There is also a regional component that provides programme support, coordination and administration. BNTF addresses the three elements of the Bank's Poverty Reduction Strategy – *capability enhancement, vulnerability reduction* and *good governance*. It also makes a contribution to meeting the CMDG targets, particularly for MDG 1 (Eradicate Extreme Poverty and Hunger), but also MDG 3 (Promote Gender Equality and Empower Women) and MDG 7 (Ensure Environmental Sustainability).

6.05 Implementation of BNTF 5 is currently drawing to a close, with resources now fully committed and BNTF 6 began in 2009 with a planned period for commitment of funds for sub-project implementation up to and including 2011, and final disbursement by December 31, 2012. However, delays in the actual start of implementation will cause this date to be extended.

6.06 A Mid-term Evaluation (MTE) of BNTF 6 is being undertaken, which will consider, among other things, the continued relevance of the programme in its current design overall programme effectiveness and efficiency issues, including progress with respect to reducing implementation lags and shortening sub-project approval procedures. The findings of the BNTF 6 MTE will be used to inform the planning of BNTF 7.

7. IMPLEMENTING THE STRATEGY

7.01 A strategy is only as good as its implementation. In the implementation of SDF 7, it was recognised that the Bank's interventions needed to become more finely focused so that there was consistency between the type of intervention and the Bank's capabilities. It was also recognised that different BMCs required adjustments to the Bank's methods depending on country conditions and capabilities and that the modalities of intervention needed to evolve over time as countries develop greater institutional capacity. The Bank will continue to adopt this approach in SDF 8.

7.02 The Bank will implement the strategy using two instruments – partnerships and finance - and make adjustments to its organisational arrangements to improve implementation efficiency and effectiveness.

Partnerships

7.03 The fiscal constraints being faced by both developed and developing countries mean that there are real limits to the availability of concessional resources. Optimising the use of available resources is therefore critical and a major avenue for such optimisation is through the establishment of partnerships. The strengthening of existing and development of new partnerships – with Caribbean society,

governments, the private sector, universities, regional institutions and DPs (such as the Canadian International Development Agency, Department for International Development of the United Kingdom, European Union, Inter-American Development Bank, the WB and other donors) – must be a central component in SDF 8 implementation. An intensified approach to donor coordination will also be required.

7.04 In implementing these partnerships, there will be instances where the Bank will take the lead. This will occur when there is a clear indication that the Bank has real advantages and capabilities. In other instances, a partner will take the lead and the Bank will play a supporting role. By developing these partnerships, the Bank will more effectively facilitate Caribbean development by crowding in private and other resources. In this sense, the Bank will act as a development catalyst and, importantly, as an “honest broker” among stakeholders.

Finance

7.05 The traditional instruments of financing, loans, grants and TA, will remain the core of the Bank’s interventions. It is important to note, however, that the effectiveness of financing depends on the Bank’s success in establishing the partnerships. Investment loans and policy-based loans will continue to be the major modalities for loans. The Bank will also continue to innovate in trying to find solutions to BMC challenges. In this context, the Bank is in the process of reviewing its range of loan products and will present a separate paper to Contributors and the Board on this subject.

Organisational

7.06 The Bank has embarked on a process of restructuring its operations in order to strengthen its internal capacity to respond both strategically and operationally to the Region’s needs and to achieve the objectives of the Strategic Plan. The restructuring and realignment of the Operations Area strengthens the Office of the Vice-President (Operations), streamlines and rearranges the Projects and the Economics Departments to be to enable synergy of effort, reduction of overlapping mandates and silo approaches. The Corporate Services Area will also be restructured to fully support the revised structure of the Operations Area. Revisions to operational guidelines, procedures, processes, systems and templates will be also undertaken to support the proposed structure. It is expected that the new structure will enable the Bank to more effectively implement the SDF 8 operational programme.

8. RESULTS MONITORING

8.01 Effective implementation requires effective monitoring. The Bank has made considerable progress in the implementation of its Results Agenda since its introduction under SDF 6. It is proposed to continue the use in SDF 8 of an RMF, which covers development outcomes in the framework of the MDGs, as well as institutional and operational performance measures and progress in relation to the Paris Declaration and the Accra Agenda. Consultants have been engaged to conduct an assessment of the progress on the implementation of the Results Agenda, including the use of the RMF, which will be considered during the SDF 8 replenishment negotiations. The Consultant’s report will include recommendations for strengthening the Bank’s programme on Managing for Development Results as well as enhancements to the Bank’s RMF.

TABLE 1: CARIBBEAN COUNTRIES GDP GROWTH RATES, 1990-2011

	ANT	BAH	BAR	BZ	DOM	GRE	GUY	HAITI	JAM	SKN	SLU	SVG	T&T	
1990	2.5	1.1	-4.8	10.6	5.3	5.2	-3.0	-0.1	4.2	2.3	23.5	5	1.5	
1991	2.0	-2.7	-2.9	11.6	0.6	2.3	6.0	4.2	4.8	0.4	2.7	0.6	2.7	
1992	0.8	-2.0	-5.0	11.9	2.0	-0.3	7.8	-13.2	2.0	3.3	7.0	7.5	-1.6	
1993	5.4	1.9	1.0	6.2	1.7	-2.6	8.2	-2.4	9.4	6.7	2.6	0.2	-1.4	
1994	6.3	0.3	4.0	0.3	1.4	2.8	8.5	-8.3	1.4	5.1	1.4	-3.0	3.6	
1995	-4.2	0.3	1.5	0.3	2.0	2.5	5.0	-4.0	2.3	3.7	3.3	1.0	4.0	
1996	6.7	4.2	1.8	1.7	2.6	4.1	7.9	4.1	-0.1	6.5	1.4	1.3	3.9	
1997	4.9	3.3	6.4	3.6	1.5	4.6	6.2	2.7	-1.1	6.8	0.6	3.2	2.7	
1998	4.4	3.0	4.1	3.7	5.0	6.5	-1.7	2.2	-0.2	1.1	4.7	5.2	7.8	
1999	4.1	5.9	2.6	8.4	0.7	10.1	3.0	2.7	0.7	5.2	2.9	3.0	4.4	
2000	3.3	5.0	2.3	12.3	0.7	7.6	-1.4	0.4	0.6	2.8	5.0	2.0	6.1	
2001	0.4	0.4	-2.6	4.9	-3.8	-4.9	2.2	-1.0	1.4	2.0	-5.5	-0.1	4.1	
2002	2.5	13.5	-0.5	5.1	-4.0	1.6	1.1	-0.3	1.6	0.9	2.4	1.4	7.9	
2003	5.2	5.2	2.0	9.3	2.2	7.1	-1.0	0.4	2.7	0.8	3.0	1.5	13.5	
2004	7.2	1.2	3.7	4.6	6.4	-5.7	3.3	-3.5	1.1	8.8	5.8	9.1	6.5	
2005	5.3	2.6	4.1	3.1	3.4	11.0	-2.2	1.8	1.8	4.1	5.8	2.2	7.9	
2006	12.2	3.4	3.9	5.6	4.6	-2.4	5.1	2.3	2.5	4.0	5.6	6.7	12.2	
2007	6.0	3.1	4.3	2.0	1.6	3.1	5.4	3.3	1.4	3.5	3.0	6.9	5.5	
2008	2.2	-1.3	-0.2	3.8	7.8	2.2	2.0	0.8	-0.9	5.7	5.8	-0.6	2.4	
2009	-9.6	-5.4	-4.7	0.0	-0.7	-7.6	3.3	2.9	-3.0	-4.4	-1.3	-2.3	-3.5	
2010	-4.1	1.0	0.2	2.7	0.3	-1.4	4.4	-5.4	-1.2	-1.5	4.4	-1.8	-0.6	
2011	2.0	2.0	1.0	2.5	0.9	0.0	5.3	6.1	1.5	1.5	2.0	-0.4	1.1	
Averages														AVG.
1990-2011	2.85	2.0	0.97	4.97	1.83	1.99	3.28	-0.19	1.43	3.01	3.74	2.11	3.94	2.45
														ECCU 2.58
2007-2011	-0.7	-0.6	0.12	2.2	1.98	-0.74	4.08	1.54	-0.44	0.96	2.78	0.36	0.98	0.811
														ECCU 0.773
2002-2006	6.48	5.18	2.64	5.54	2.52	2.32	1.26	0.14	1.94	2.92	4.36	4.18	9.6	3.70
														ECCU 3.31

Source: Compiled from CDB and IMF Data

TABLE 2: CARIBBEAN COUNTRIES PUBLIC SECTOR GROSS DEBT
(Percent of GDP)

	2008	2009	2010	2011 Estimate	2012 Projected
Antigua and Barbuda	62.1	81.1	69.6	68.6	66.6
The Bahamas	32.6	37.9	45.4	48.6	49.9
Barbados	99.9	114.9	117.8	116.9	115.6
Dominica	53.7	53.7	54.3	54.9	54.8
Grenada	83.5	98.2	98.6	101.9	104.3
Haiti	37.8	27.7	17.1	12.6	19.0
Jamaica	126.1	141.4	143.4	143.3	138.0
St Kitts and Nevis	134.0	148.0	155.8	148.9	143.7
St. Lucia	58.8	63.2	65.3	71.1	77.8
St. Vincent and The Grenadines	57.0	64.9	66.8	69.5	71.2
Trinidad and Tobago	25.4	34.4	40.1	50.0	51.0
Simple Average	70.1	78.7	79.5	80.6	81.1
ECCU	72.3	84.8	83.5	84.3	84.9

Source: IMF

CARIBBEAN COUNTRIES POVERTY INDICATORS – 1996-2009

Country/Years*	Period 1			Period 2		
	% Poor Population	% Indigent Population	<i>Gini</i> Coefficient	% Poor Population	% Indigent Population	<i>Gini</i> Coefficient
Anguilla/2002;2009	23.0	2.0	0.31	5.8	0.0	0.39
Antigua and Barbuda/2006				18.0	3.7	0.48
Bahamas/2001				9.3	na	Na
Barbados/1997;2009	13.9	na	0.39	19.3	9.1	0.47
Belize/2002;2009	33.5	10.8	0.40	41.3	15.8	0.42
BVI/2002				22.0	0.5	0.23
Cayman Islands/2008				1.9	0.0	0.4
Dominica/2002;2009	39.0	15.0	0.35	28.8	3.1	0.44
Grenada/1999;2008	32.1	12.9	0.45	37.7	2.4	0.37
Guyana/1997;2006	43.0	29.0	na	36.1	18.6	na
Haiti/2001				76.0	56.0	Na
Jamaica/2002;2009	19.7	na	0.4	16.5	na	Na
Montserrat/2009				36.0	3.0	Na
St. Kitts/2000;2008	30.5	11.0	0.39	23.7	1.4	0.38
Nevis/2000;2008	32.0	17.0	0.37	15.9	0.0	0.38
St. Lucia/1996;2005	25.1	7.1	0.50	29.0	1.6	0.42
St. Vincent/1996;2009	37.5	25.7	0.56	30.2	2.9	0.40
Trinidad and Tobago/1997;2007	24.0	8.3	0.39	17.0	na	Na
Turks and Caicos Islands/1999				26.0	3.2	0.37

*The first year mention relates to Period 1 and the second Period 2. When only one year's data is available, it is shown in Period 2.