

CARIBBEAN DEVELOPMENT BANK



SPECIAL DEVELOPMENT FUND

**DISCUSSION PAPER:
SDF 9 REPLENISHMENT NEGOTIATIONS:
THEMES, ISSUES AND TIMELINE**

NOVEMBER 2015

ABBREVIATIONS

BMCs	-	Borrowing Member Countries
BNTF	-	Basic Needs Trust Fund
CARICOM	-	Caribbean Community
CC	-	Climate Change
CDB	-	Caribbean Development Bank
CGF	-	Caribbean Growth Forum
DP	-	Development Partner
EE	-	Energy Efficiency
GDP	-	Gross Domestic Product
GE	-	Gender Equality
GEPOS	-	Gender Equality Policy and Operational Strategy
MDGs	-	Millennium Development Goals
MfDR	-	Managing for Development Results
mn	-	million
MSMEs	-	Micro, Small and Medium Enterprises
MTR	-	Mid-Term Review
OECD	-	Organisation of Economic Cooperation Development
OECS	-	Organisation of Eastern Caribbean States
OCR	-	Ordinary Capital Resources
RCI	-	Regional Cooperation and Integration
RE	-	Renewable Energy
RPGs	-	Regional Public Goods
SDF (U)	-	Special Development Fund (Unified)
SDF 6	-	Special Development Fund (Sixth Cycle)
SDF 7	-	Special Development Fund (Seventh Cycle)
SDF 8	-	Special Development Fund (Eighth Cycle)
SDGs	-	Sustainable Development Goals
WB	-	World Bank

TABLE OF CONTENTS

1. INTRODUCTION
2. SDF'S ROLE AND RELEVANCE
3. DEVELOPMENT CHALLENGES FOR BMCs
4. OTHER KEY ISSUES
5. PROPOSED THEMES FOR THE REPLENISHMENT
6. OPERATIONAL FRAMEWORK
7. PROPOSED TIMELINE
8. REQUEST

1. INTRODUCTION

1.01 The Eighth Cycle of the Special Development Fund (SDF 8) covers the period January 2013 to December 2016. The resources available for SDF 8 are expected to be committed by the end of 2016 and discussions are required for a replenishment of the fund for another cycle. The Caribbean Development Bank's (CDB) continued role and relevance as a development partner (DP) to its Borrowing Member Countries (BMCs), as well as the capacity to meet its approved strategic objectives, will require the mobilisation of adequate amounts of SDF funding. This paper is therefore designed to form the basis of discussion among Contributors, Management and staff on the proposed themes, issues and directions for the SDF 9 negotiation process. In response to requests from some Contributors, the proposed timeline for the negotiations will be March to July 2016 with the adoption of the Resolution and Report of Contributors in October 2016.

1.02 SDF 9 will overlap with the period of the current Strategic Plan 2015–2019 and will contribute to the Plan's primary goals of assisting BMCs to reduce inequality and halve the incidence of extreme poverty¹ by the end of 2025 through supporting inclusive and sustainable growth²; and promoting good governance. In order to facilitate strategic coherence, the proposed themes are consistent with the Plan's strategic objectives of *supporting inclusive and sustainable growth and development*, and *promoting good governance*; the cross-cutting areas of *gender equality (GE)*, *regional cooperation and integration (RCI)*, and *energy security*; and the institutional objective of *enhancing organisational efficiency and effectiveness*.

1.03 Discussions for the replenishment of the Special Development Fund (Unified) will also be held within the context of three important international development agendas:

- (a) the United Nations-adopted Sustainable Development Goals (SDGs) - See Annex 1, officially known as *Transforming Our World: The 2030 Agenda for Sustainable Development*, which replace the Millennium Development Goals (MDGs)³;
- (b) the new global action agenda for financing sustainable development which addresses all sources of finance, and covers cooperation on a range of issues including technology, science, innovation, trade and capacity building; and
- (c) the development agenda proposed for the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 21) being held in Paris in December 2015. A strong outcome from the global negotiations, COP 21 would be an increase in the level of resources committed for coping with the impacts of climate change. CDB will continue to scale up its work programme in this area and in particular, increase resources to facilitate preparation of investment projects as well as increase its infrastructural lending that explicitly integrate climate vulnerability assessments.

1.04 Consistent with the approach followed in previous SDF negotiations, the paper builds on the issues and themes identified during discussions on the SDF 8 Mid-Term Review (MTR) held in May 2015 as well as the outcome of subsequent informal discussions with Contributors during the period

¹ Extreme poverty or indigence refers to a level of poverty where a household's ability to consume basic nutritional requirements is wholly lacking and as a consequence, experiences severe hardship and deprivation.

² Including the strengthening of their resilience to external shocks and natural hazard events.

³ The MDGs provided an overall framework for targeting SDF operations and programmes since SDF 5, particularly in terms of the Caribbean-specific MDG (CMDG) targets. SDF and CDB played a significant role in the development of the CMDG targets as part of its support for regional cooperation.

August to October 2015. The proposals are also drawn up against the background of the principal challenges faced by BMCs, and an assessment of the regional aid architecture and CDB and SDF's role in the development process taking place in BMCs.

1.05 The next section of this paper describes the role and relevance of SDF; section three sets out the urgent development issues/challenges currently faced by BMCs; section four identifies some other key issues to be addressed through SDF; section five proposes the key themes for SDF during its ninth cycle; section six sets out the operational framework for enhancing the Bank's and SDF's development effectiveness including managing for development results (MfDR); and the final section sets out the proposed timeline and tentative agenda for the Special Development Fund (Ninth Cycle) (SDF 9) replenishment discussions.

2. SDF's ROLE AND RELEVANCE

2.01 Since its inception in 1984, SDF has provided 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 are an important complement to CDB's market resources, representing approximately 30% of the Bank's total lending. This funding makes it possible for BMCs to tackle persistent development challenges of poverty and vulnerability. SDF also provides a significant portion of the Bank's grant funding enabling support to important existing and emerging development issues.

2.02 SDF's leadership role in the development of BMCs remains critical for:

- (a) supporting initiatives to address the objectives of the SDGs, including developing and promoting Caribbean-specific targets for these new goals;
- (b) continuing programmes for reducing poverty in BMCs;
- (c) supporting a special programme in Haiti;
- (d) addressing pressing development challenges including climate change, citizen security, youth unemployment, and private sector development, especially for micro, small and medium enterprises (MSMEs);
- (e) strengthening support for regional cooperation and regional public goods (RPGs); and
- (f) promoting and supporting a results-based culture within CDB and in BMCs.

2.03 SDF must be able to provide an adequate level of financial and technical assistance to BMCs in order to remain relevant. The Bank will continue to promote SDF as an efficient aid delivery mechanism and further strengthen its development effectiveness. It will have to continue its ongoing internal reforms, and its focus on results and value for money. The ongoing SDF 8 programming and the proposed programming for SDF 9 will continue to focus on these issues.

3. DEVELOPMENT CHALLENGES FOR BMCs

3.01 The SDF 9 replenishment discussions will be held at a time that some of CDB's BMCs are showing signs of recovery from the deep recession of the five-year period to 2013. Nevertheless, BMCs will need to continue to address the complex development challenges facing them including: issues

relating to the unacceptably high⁴ levels of poverty; slow and variable economic growth and lack of competitiveness and the steep cost of doing business, particularly high energy cost. Added to these pressures are fiscal and debt sustainability and elements of financial sector fragility; and growing levels of crime which manifest in citizen insecurity; as well as slow progress towards RCI. In addition, climate change and variability will exacerbate the vulnerability of BMCs, already challenged to effectively address increasing degradation of natural resources and their inherent vulnerabilities to seismic, volcanic and hydrometeorologic hazards⁵.

3.02 Some of the recently agreed SDGs are also of direct relevance to the challenges faced by BMCs and will continue to be addressed in the next SDF cycle. These include poverty and inequality (Goal 1); education and skills development (Goal 4); gender equality (Goal 5); sustainable energy (Goal 7); promoting growth, diversification and jobs (Goal 8); infrastructure development (Goal 9); climate change and environmental sustainability (Goals 11 and 13) and effective, transparent institutions and safe, peaceful societies (Goal 16).

Poverty and Inequality

3.03 Poverty rates in CDB's BMCs continue to be unacceptably high with youth and females being disproportionately affected. The proportion of the population living below the poverty line was estimated at 44%, at end 2014, and the proportion living below the indigence line at 22.4%. BMC's progress towards achievement of the poverty targets has been negatively affected by low economic growth and performance arising from the impact of the 'Great Recession'. There will need to be significantly higher economic growth rates in BMCs in order to achieve a sustained impact on poverty reduction. In support of this, CDB will be undertaking a study of the changing nature of poverty in the Region to recommend practical solutions which can accelerate the pace of poverty reduction and expand opportunities to promote inclusive prosperity.

Youth Unemployment

3.04 At least one in every four youth of working age in the Caribbean is unemployed. Data indicate that the average youth unemployment rate for BMCs was nearly 25% in 2013, compared with the world average of 10%. Not only is youth unemployment high with respect to global levels, it is also significantly higher than the average adult unemployment rate which is around 8%. In addition, there are gender differences in youth unemployment, with female youth experiencing rates over 30% as opposed to 20% for young males. A 2015 CDB-commissioned study⁶ proposed a number of recommendations to address the youth unemployment challenge which can be categorised under the following four rubrics: *innovation; investment; insurance; and institutions - "the Four I's Approach"*.

3.05 The consequences of high youth unemployment for economic development over the long term cannot be over emphasised, especially in the context where governments in the Caribbean seek new development paradigms, that will require the innovation, creativity and energy of young people. Therefore, reducing high youth unemployment and creating opportunities for youth empowerment are urgent development imperatives. Operationalising the recommended actions of the CDB study will require strong collective effort among governments, civil societies, DPs and the youth themselves. There

⁴ Country Poverty Assessments supported by CDB estimates poverty rates above 20% and indigence rates above 11% in some BMCs.

⁵ The substantial economic losses and fatalities associated with the weather event in Dominica, in August 2015, is a stark reminder of the Region's acute environmental vulnerabilities.

⁶ Youth are our Future: The Imperative of Youth Employment for Sustainable Development:

are several youth-development initiatives ongoing in BMCs and ideally a stakeholder-mapping exercise would be necessary to ascertain where gaps exist.

Inadequate Education and Skills Development

3.06 Despite significant investment⁷ in the sector, the quality of education in the Caribbean remains below expectations. The average pass rates for standardised tests in basic education in core subjects such as English and Mathematics are less than 50%. In certain cases, improvements in school attendance have not been accompanied by increases in achievement or cognitive skills. Further, many students lack employability competencies and basic skills in information and communication technology and other disciplines deemed critical for access to and, success in, the workplace. Indeed, certifying graduates including out-of-school youth, in demand-driven Technical and Vocational Education and Training programmes, remains an existential challenge. These issues constrain labour market access and income opportunities, as well as transition between sectors in the context of economic diversification.

3.07 Further, although it is important for improving competitiveness, productivity and economic growth, access to higher education remains low with less than 15%⁸ of the Region's secondary school graduates entering post-secondary institutions. The Caribbean Growth Forum (CGF), which has been supported by CDB and other DPs, also identified two notable challenges in the area of human capital affecting private-sector development in the Caribbean. The first was firms' difficulties in finding and hiring workers with the right skill sets for the jobs available, and the other was the struggle of highly educated workers to find appropriate employment. There is therefore an urgent strategic imperative to improve the access, quality and relevance of education in the Region.

3.08 Pursuant to the CGF finding, CDB is collaborating with the Caribbean Community (CARICOM) Commission on Human Resource Development and the CARICOM Secretariat on the preparation of a Regional Human Resource Development Strategy and Action Plan aimed at increasing alignment between the needs of the private sector and education outcomes. The Bank is also revising its Education and Training Policy and Strategy to guide its development assistance in the education and training sector in BMCs.

Low Levels of Growth and Development

3.09 While most economies are showing signs of recovery from the crisis of the five-year period to 2013, CDB's BMCs continue to face challenges spawned by global macroeconomic uncertainties. In 2014, many of the BMCs recorded growth rates which were still relatively benign with few countries exceeding 2%-3% per annum – the only exceptions being Belize (3.4%), Guyana (3.9%), St. Kitts and Nevis (5.4%), Suriname (3.1%) and TCI (4.0%). Debt levels, though still unsustainably high in many countries, have been positively impacted by active fiscal policies designed to rein in high deficits, and to put in place a stronger foundation for growth. Also, all BMCs suffer from significant infrastructure deficit which must be remedied if they are to improve the prospects for increasing growth and employment and to reduce the negative impact on citizens' daily access to goods and services and quality of life. Also, the vulnerability of BMCs to the impact of natural disaster events remains a significant challenge to economic growth in the Region. A comprehensive response to these development challenges requires

⁷ Educational expenditure as a percentage of Gross Domestic Product (GDP) range from a low of 3.9% to a high of 9.3%. This compares with the Organisation for Economic Co-operation and Development (OECD) average in 2008 of 5.2% of GDP. However, for the majority of BMCs in terms of purchasing power parity, OECD and other developed countries typically spend up to four times as much in relation to expenditure per student.

⁸ This is a regional higher education

development strategies that promote climate resilient infrastructure, economic diversification, and social and economic policies that are inclusive and gender responsive.

Agriculture and Rural Development

3.10 Agriculture and related activities (forestry, fisheries, agro-processing etc.) are significant contributors to economic growth, social development and poverty reduction in many CDB BMCs. The sector's contribution to GDP, whilst on a general downward trajectory, remains higher than 20% in two⁹ BMCs and over 10% in another two¹⁰. The decline in the sector's performance has reduced incomes and living standards, particularly in rural areas, leading to an increase in rural poverty and rural to urban migration in several countries. Meanwhile, the Region's food import bill continues to increase, reflecting a growing inability of CDB's BMCs to meet their dietary needs from domestic production.

3.11 Notwithstanding, the sector remains a significant contributor to employment, income and food and nutrition security even in countries where the contribution to GDP is low¹¹. Furthermore, the contribution to family food security by subsistence producers, mostly women, is not reflected in GDP calculations. With global forecasts of higher and more volatile global food prices, and dim growth prospects in non-agricultural sectors across the Bank's BMCs, the agricultural sector is likely to remain important in the fight against poverty and hunger and addressing agriculture productivity should be a priority.

Micro, Small and Medium-sized Enterprise Development

3.12 MSMEs play a significant role in the social and economic development of CDB's BMCs, providing employment across a broad range of activities including individually operated and managed businesses, as well as employment for a large number of persons who collectively form the workforce of enterprises operating within the MSME sector. Support for business climate reform will provide a platform for the private sector to innovate, diversify, increase value added exports and improve competitiveness, critical ingredients for enhancing economic growth and job creation. Addressing MSMEs' challenges will allow CDB to focus on building in-country capacity and at the same time, contribute towards reducing poverty in the Region.

Sustainable Energy

3.13 Caribbean countries are heavily dependent on imported fossil fuels, importing about 95% of its energy needs. Since the first oil shock of the early 1970s, the Region has been extremely vulnerable to volatile oil prices, which has contributed in large part to the competitiveness challenges of Caribbean industries, especially tourism which is a major sector for many economies. Small market size and the absence of economies of scale in the generation of electricity have contributed to the cost of electricity throughout the Region being among the highest in the world. An emphasis on energy efficiency (EE) and renewable energy (RE) is deemed to be a sustainable approach to meeting the Region's growing energy demands, diversifying sources of supply, improving energy security and contributing to enhanced business competitiveness.

⁹ Guyana and Haiti.

¹⁰ Belize and Dominica, with the 2013 estimate for Suriname being 10.2%.

¹¹ An example being Jamaica - the sector's contribution to GDP in 2011 was 5.4% whilst providing employment for approximately 18% of the labour force.

3.14 Further, the current energy system is highly inequitable as poor and vulnerable communities often do not have access to a sustainable electricity supply, particularly for the larger BMCs with hinterland populations. Expanding the use of RE solutions in these communities, especially in rural areas, can present opportunities for poverty reduction and income generation and improved standards of living.

Climate Change and Environmental Sustainability

3.15 By virtue of geography, the Caribbean is one of the most disaster prone regions in the world. Six member states of the Organisation for Eastern Caribbean States (OECS) rank in the top ten most disaster-prone countries in the world [Rasmussen (2006)] and the remainder rank among the top 50 hot spots in the world. BMCs are particularly prone to hydrometeorological hazards (flooding, high winds and landslides), which increase during June to October with the passage of hurricanes and tropical storms. Droughts, volcanic activity, earthquakes hurricanes and tropical storms are some of the many hazards of the Region. In any one year, at least one BMC will experience a major hurricane or flood event and several others might experience less severe impacts. As a result of their vulnerability to frequent natural hazard events, Caribbean countries have been incurring very high economic costs to replace damaged or destroyed infrastructure. The World Bank (WB) estimates that between 2001- 2010, economic losses due to natural hazards in the OECS countries were \$870 mn in 2000 Real USD terms¹². Regional losses from Hurricane Ivan in 2004 totalled over USD6 billion for the event. In Grenada and Cayman Islands, losses were close to 200% of the national annual GDP¹³. More recently, in August 2015, Dominica suffered the effects of Tropical Storm Erika which caused severe infrastructural damage, estimated at USD483 mn, equivalent to approximately 90% of Dominica's GDP.

3.16 Vulnerability of BMCs is also evident in the physical environment. This is manifested, for example, in environmental degradation arising from tourism, agriculture and manufacturing and other investment activities because of an apparent disconnect between environmental management concerns and investment objectives. BMCs have however made progress in strengthening institutions and capacities for emergency management and efforts are ongoing to better integrate risk reduction strategies in their development agenda. Significant challenges that will continue to constrain resilience to natural hazards still remain. These include continuing degradation of critical and sensitive ecosystems; rising levels of poverty and unemployment that push populations into more physically vulnerable areas; and increased exposure to repeated small hazard events that further exacerbates their physical and social vulnerability. The Intergovernmental Panel on Climate Change Fifth Assessment Report 2015 confirms that small island developing states, many of whom are CDB's BMCs, are already feeling the impacts of climate change (CC). Further CC is inevitable in the coming decades; and BMCs will need to focus, not only on disaster risk reduction and CC adaptation but also on resilience building that strengthens socio-economic systems to improve livelihoods giving due considerations to gender equity.

3.17 It is the poor and other vulnerable groups that are most susceptible to the adverse effects of natural disasters and climate-induced events. Environmental degradation and unsustainable use of natural resources also result in the loss of resources available to the poor at community and national levels, and represent threats to their livelihoods. Ending poverty will therefore require that women and men participate in building gender-sensitive methods of resilience to climate change, natural disasters and associated events.

¹² Strengthening Public Investment in Disaster Risk Reduction and Climate Change Adaptation in Eastern Caribbean, 2014 – WB

¹³ Caribbean Catastrophic Risk Insurance Facility Strategic Plan 2015 - 2018

Governance

3.18 Good governance is a necessary condition for promoting the systematic reduction of poverty and creating effective and transparent institutions. Deficiencies in the existing governance systems are an important aspect of the Region's development challenges of low or sluggish growth, high levels of debt and deficit and low productivity and competitiveness. Limited regional integration of transportation and logistics, high costs of doing business and the vulnerability of infrastructure and agricultural production to weather events and climate change highlight the important role of effective institutions and sound resource management. Consequently, issues of public sector management and service delivery; transparency and participation; regional cooperation and public goods; and data monitoring and accountability have emerged as governance challenges. These issues provide a focus for SDF 9 and opportunities that align with the new SDGs.

3.19 As a key output under SDF 8, CDB has developed a revised Draft Governance and Institutional Development Policy and Operational Strategy outlining core governance priorities and a proposed programme of support to BMCs. In this context, and with good governance as one of three strategic objectives in the CDB Strategic Plan 2015-2019, there is need for CDB to expand and significantly increase its support to promoting good governance in its BMCs.

Citizen Insecurity

3.20 The importance of public security as a primary requirement for economic progress cannot be underestimated. In many BMCs, crime and violence has assumed major importance as obstacles to development, with far-reaching consequences for the affected countries. Crime levels are escalating to critical levels, and rural communities and vulnerable groups may be at a distinct disadvantage, with limited opportunities, poor social integration, increasing inequity in income distribution and negligible economic participation. The impact of crime on overall economic growth and development in the Region was estimated in a United Nations/WB report.^{14/} It 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.

3.21 BMCs are recognising the paradigm shift in addressing the issues of crime and violence and are aware that the response to crime in the Region must go beyond the criminal justice system's attempt to deter crime. Increasingly, they are examining the root causes of crime and violence and in response, developing social crime prevention mechanisms to address them, based on empirical evidence. The impact of the upsurge in crime on youths, especially young males, is of utmost concern and increased emphasis is being placed on programmes targeting youths-at-risk. BMCs must focus on prevention of crime and violence through, *inter alia*, activities this will strengthen social structures, enhance community cohesiveness and increase the resilience of at-risk youth. For those who have come into contact with the law, programmes need to be put in place which will smooth the transition from incarceration back into communities, provide life skills, increase employability, and promote self-employment of these young adults.

3.22 CDB is providing support through interventions such as the collection of baseline data in vulnerable and volatile communities to assist in the establishment of monitoring and evaluation systems, necessary to inform decision-making for policy and programme development. In the education sector it is assisting with the development of early identification systems to determine children and youth at-risk of

^{14/} Crime, Violence, and Development: Trends, Cost and Policy Options in the Caribbean, 2007

educational and societal failure. In addition, at the community level, the Bank is strengthening approaches to rejuvenate and further develop the most vulnerable communities by supporting multi-sectoral interventions that are necessary to improve community security, strengthen social cohesion and reduce the risk factors that predispose crime and violence.

RCI

3.23 There are two aspects to RCI within the Caribbean context. The first is regional cooperation as an overall approach to development based on the creation and demonstration effect of RPGs. The second is the ongoing agenda to implement the CARICOM Single Market and Economy as established by the Revised Treaty of Chaguaramas.

3.24 The small size of Caribbean economies means that closer policy coordination and collaboration on a range of issues affecting their development offers the best opportunity for the small countries of the Region to integrate into the global economy, accelerate growth, and reduce economic disparities. The Region is making progress with the implementation of the Single Market and Economy. The signals that we are moving in the right direction include the ongoing harmonisation and computerisation of processes to facilitate implementation of the free movement regimes; progress by several member states to streamline export/import processes and install electronic single window systems, which can later be linked at the regional level; and efforts by the OECS to implement the legislative framework for the free circulation of goods within the Eastern Caribbean States.

3.25 The current crises facing the Region has, however, highlighted the need for, among other things, closer financial, fiscal and economic policy coordination and collaboration; and the need for urgent and significantly higher levels of investment in hard and soft infrastructure to spur economic growth, including making the Region more attractive to investors. Regional approaches remain appropriate for addressing the Region's most pressing problems. There is need therefore for the Bank to extend and significantly increase its support to the implementation of the Region's RCI agenda especially in relation to regional cooperation and the provision of RPGs.

4. OTHER KEY ISSUES

4.01 Other issues to be addressed during SDF 9 arise from the independent MTR which was considered by Contributors at the Annual Meeting of Contributors in May 2015 and the new international agenda agreed in 2015. During the MTR of SDF 8, the following issues and themes were identified by Contributors as requiring further work and will be addressed as part of the SDF 9 programme.

Supporting the Achievement of the SDGs

4.02 The *2030 Agenda for Sustainable Development* identifies 17 SDGs which establish development priorities that could improve global sustainable livelihoods (See Annex 1). The SDGs, with indicators and targets focused on measurable outcomes, represent a renewed commitment of the international community to sustainable development based on a coherent approach that integrates economic, social, and environmental dimensions. It is expected that the SDGs, in much the same way as the MDGs, will provide an overall framework for targeting SDF operations and programmes. SDF support will be required to assist BMCs to design and implement programmes aimed at the achievement of the SDGs. SDF can also help to define and develop targets and indicators which are specific to the Region and provide assistance to track the progress of BMCs towards the SDGs over time.

CDB's Role and Strategy in Haiti

4.03 Haiti became a member of the Bank in 2007. SDF programming in Haiti has been through special grant allocations totaling \$117mn over the last three cycles and has reflected both government priorities and the Bank's comparative advantage. CDB has had to develop its own capacity to work in a new environment under difficult operating conditions. Much of the Bank's programming in Haiti has been in collaboration with other DPs working in Haiti, i.e. WB and Inter-American Development Bank. However, the SDF 8 MTR recommends that CDB undertake more autonomous programming in that BMC.

4.04 Over the past seven years, CDB's interventions in Haiti have been focused on the areas of education and training, agriculture and rural development, community-driven development, disaster mitigation and capacity building. An evaluation of the Haiti programme is underway. The evaluation will distil lessons learned and guide the development of a new strategy that will reinforce and ramp up CDB's programming in Haiti. The strategy will take full account of CDB's strengths and explore opportunities for collaborating with existing as well as new DPs.

Basic Needs Trust Fund (BNTF)

4.05 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 economic activity. The programme provides resources for sub-projects, project management and technical services, as well as capacity building for community-based organisations in participatory approaches for planning and monitoring of sub-projects. There is also a regional component that provides programme support, coordination and administration.

4.06 SDF grant funding has been provided for BNTF, beginning in SDF 2, and over the last seven cycles, a total of \$158mn has been set aside for BNTF operations. From BNTF 5 onwards, CDB has utilised the SDF Resource Allocation Strategy for allocating BNTF resources among ten beneficiary BMCs. The implementation of BNTF 6 is currently drawing to a close, with resources now fully committed, and a Project Completion Report being prepared.

4.07 The BNTF 7 programme for a total of \$51.7mn, including counterpart financing from beneficiary countries, was approved by the Board of Directors in October 2012 and is currently being implemented. It has a planned period for commitment of funds up to and including December 2016, and disbursement by December 31, 2018. In response to the BNTF 6 Mid-term Evaluation, the focus of BNTF 7 was narrowed to three core priority areas and process changes were made to allow for more efficient and effective execution of the programme. At the request of Contributors, BNTF 7 and BNTF 8 have been consolidated and are being implemented concurrently with SDF 8.

4.08 A Mid-term Evaluation of BNTF 7 and BNTF 8 is being undertaken with the overall objective of assessing progress on the implementation of the two programme cycles, identifying lessons learned and recommending improvements to increase effectiveness and results, as stated in the results frameworks.

4.09 The SDF 8 MTR found that, despite the process changes which were made, the BNTF programme structure and systems remain cumbersome and recommended that the Bank explore a new business model for the programme. CDB has engaged a consultant to consider new directions for BNTF and recommend a redesign for the programme to be implemented from BNTF 9 onwards.

Allocation of SDF Resources

4.10 CDB uses a country classification mechanism for determining eligibility for access to SDF loan resources as well as the terms and conditions of access. The classification system was revised, effective SDF 8, and the number of country groupings was reduced from four to three. *Group 3* BMCs (Haiti only) became eligible mainly for SDF funding, *Group 2* countries (9 BMCs) for funding from both SDF and the Bank's Ordinary Capital Resources (OCR) and *Group 1* BMCs (8 countries) mainly from OCR, but with the possibility of participating in regional integration initiatives or RPG initiatives. The terms of lending applied to the country groups were also revised and two rates of interest, instead of four, are now charged with differential tenors and grace periods among the groups.

4.11 The SDF 8 MTR recommended that a review of the experience of the revised country classification system during SDF 8 be undertaken. It also recommended that an assessment be done of the Bank's lending and granting instruments with a view to improving its competitiveness.

Gender Equality

4.12 The Bank's "Gender Equality Policy and Operational Strategy" (GEPOS) was approved in December 2008 and has been the framework within which the GE interventions have been implemented. The MTR found that CDB had made strides internally in building its GE mainstreaming practices. However, it recommended that the Bank raise its public profile on the issue and focus GE programming on a manageable number of key GE issues. In response, the Bank plans to undertake a review of the implementation of GEPOS and propose a new GE action plan going forward.

5. PROPOSED THEMES FOR THE REPLENISHMENT

5.01 Consistent with the approach followed in previous replenishment cycles, the proposed themes are aligned with the strategic directions as set out in the Strategic Plan 2015 – 2019. The themes which were approved for SDF 7 and SDF 8 are set out in Box 1.

BOX 1: APPROVED THEMES FROM SDF 7 AND 8 REPLENISHMENTS

- | | |
|---------------|--|
| SDF 7: | (a) Strengthening poverty reduction and human development; |
| | (b) Supporting environmental sustainability and advancing the climate change agenda; |
| | (c) Supporting regional cooperation and regional integration; and |
| | (d) Enhancing development effectiveness. |
| SDF 8: | (a) Inclusive and sustainable growth; |
| | (b) Environmental sustainability and climate change; |
| | (c) Citizen security; and |
| | (d) RCI. |

5.02 The overarching goal of SDF 9 will be to assist BMCs to reduce poverty and inequality through inclusive and sustainable economic growth, and to support progress towards the achievement of the SDGs. The proposed themes which will support this goal and provide direction for SDF 9 operational programming are:

- (a) **Supporting Inclusive and Sustainable Growth and Development** including a focus on the Bank's core areas of comparative advantage, such as social and economic

infrastructure, education and training including initiatives for youths at risk, agriculture and rural development, development of MSMEs, water and sanitation, and the use of RE and EE solutions;

- (b) **Building Resilience and Promoting Environmental Sustainability** including environmental management, climate adaptation and mitigation, and disaster risk management;
- (c) **Supporting the Achievement of the SDGs** including the development of Caribbean specific targets and indicators and a framework for monitoring and reporting on progress towards the attainment of the SDGs; and
- (d) **Regional Cooperation and Support for RPGs** including a focus on closer financial, fiscal and economic policy coordination and collaboration; and support for increased investment in hard and soft infrastructure in areas such as regional transport and agricultural production.

5.03 These themes will be supported by the cross-cutting areas of GE and good governance.

6. OPERATIONAL FRAMEWORK

6.01 The key elements of the SDF 9 operational framework for enhancing the Bank's and SDF's development effectiveness including MfDR are:

- (a) ongoing Institutional Reform and Capacity Development;
- (b) strengthened Governance frameworks;
- (c) use of the Results Monitoring Framework and the Development Effectiveness Review to enhance operational effectiveness; and
- (d) continued mainstreaming of MfDR in the Bank and within BMCs.

6.02 During SDF 9, it is proposed to forge partnerships with other DPs to deliver assistance especially in areas where the Bank does not possess all of the requisite in-house expertise.

7. PROPOSED TIMELINE

7.01 A tentative timetable and road map for the SDF 9 process is provided in Table 1. Completion of the negotiation process is targeted for October 2016, to allow time for funding instruments to be approved by governments and deposited with the Bank in early 2017.

7.02 Contributors are requested to nominate representatives to participate in the Replenishment negotiations, while other interested governments and agencies will be invited to participate as Observers. The meeting dates are intended to avoid conflict with other concessional fund meetings and also to encourage a high level of representation as well as participation of prospective Contributors.

7.03 The scheduling of meetings allows sufficient time for the preparation and revision of documentation - including in some cases, documentation that will need to be prepared to address specific issues and concerns.

7.04 A Preparatory Meeting, proposed for December 2015 will focus primarily on the themes and issues for SDF 9. The First Formal Negotiation Meeting will be held during the period March 10 and 11, 2016 in St. Vincent and the Grenadines. In keeping with the practice of the recent replenishments, an opportunity will be provided for Contributors to visit SDF-funded projects in the selected SDF beneficiary country.

7.05 The Second Formal Negotiation Meeting will be held in Jamaica in May 2016 and subsequent meetings are planned to be held at the Bank's headquarters in Barbados, subject to the views and suggestions of Contributors.

**TABLE 1: SDF 9 REPLENISHMENT NEGOTIATIONS
TENTATIVE SCHEDULE AND AGENDA**

Proposed Dates	Tentative Agenda
Preparatory Meeting December 11, 2015	<ol style="list-style-type: none"> 1. SDF 9 Replenishment Negotiations – Themes, Issues and Timeline 2. SDF 8 Mid-Term Review and Management Response 3. Status Report on the Implementation of SDF 8 and CDB's MfDR Action Plan 4. Status Report on Implementation of BNTF 7 and BNTF 8 5. Status Report on Implementation of GEPOS
First Meeting March 10–11, 2016	<ol style="list-style-type: none"> 1. Discussion Paper: The Focus of SDF 9 2. Supporting the Achievement of the SDGs in BMCs - the Role of SDF 3. Multi-cycle Evaluation of SDF 6 and SDF 7 4. Review of Country Classifications, Lending Terms and Instruments, and Access to Concessionary Funding for Middle-Income Countries 5. BNTF 6 Project Completion Report 6. BNTF 7 and 8 Mid-term Evaluation and Management Response 7. Directions for BNTF - Redesign of the Programme 8. Evaluation of the Implementation of the Haiti Programme 9. Haiti Programme - Continuing Support
Second Meeting May 17, 2016	<ol style="list-style-type: none"> 1. Revised Focus – Paper 2. Report on Institutional Capacity and Reform Agenda 3. Draft Outline of the Report of Contributors to SDF 9 4. Level of Replenishment and Commitment Authority
Third Meeting July 22, 2016	<ol style="list-style-type: none"> 1. Revised Level of Replenishment and Commitment Authority 2. Draft Report of Contributors to the Special Development Fund
Fourth Meeting October 12, 2016	<ol style="list-style-type: none"> 1. Finalising the Resolution and Report of Contributors to the Special Development Fund

8. REQUEST

8.01 Contributors are asked to consider and give guidance on the proposed themes and to agree to the proposed SDF 8 Replenishment Negotiations Schedule and Agenda as outlined at Table 1.

ANNEX 1

TRANSFORMING OUR WORLD: THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

SUSTAINABLE DEVELOPMENT GOALS

Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition, and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote life-long learning opportunities for all women and girls
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable, and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impact*
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalise the global partnership for sustainable development

* Acknowledging that the UNFCCC is the primary international, intergovernmental forum for negotiation the global response to climate change