

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**REGIONAL**

**CDB GLOBAL LOAN PROGRAM FOR THE IDA-ELIGIBLE OECS MEMBER  
COUNTRIES**

**(RG-L1018)**

**LOAN PROPOSAL**

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## **ABBREVIATIONS**

|       |  |
|-------|--|
| CDB   | Caribbean Development Bank   |
| GCI-9 | Ninth General Increase in the Resources of the Inter-American Development Bank |
| GDP   | Gross Domestic Product   |
| FSO   | Fund for Special Operations  |
| IMA   | Independent Macroeconomic Assessment   |
| IMF   | International Monetary Fund  |
| MDG   | Millennium Development Goals   |
| IDA   | International Development Association  |
| OECS  | Organization of Eastern Caribbean States                                       |
| OC    | Ordinary Capital   |
| OCR   | Ordinary Capital Resources   |
| PBA   | Performance-Based Allocation   |
| PBL   | Policy-Based Loan  |
| PCR   | Project Completion Report  |
| PSR   | Project Supervision Report   |
| SFR   | Special Financial Resources  |
| US\$  | United States Dollars  |

**PROJECT SUMMARY**  
**REGIONAL**  
**CDB GLOBAL LOAN PROGRAM FOR THE IDA-ELIGIBLE OECS MEMBER COUNTRIES**  
**(RG-L1018)**

| <b>Financial Terms and Conditions</b>  |                              |                   |  |             |            |
|--|------------------------------|-------------------|--|-------------|------------|
| <b>Borrower:</b> Caribbean Development Bank (CDB)  |                              |                   | <b>Financing source</b>                | <b>OC</b>   | <b>FSO</b> |
| <b>Executing Agency:</b> Caribbean Development Bank (CDB)  |                              |                   | <b>Amortization period:</b>            | 30 years    | 40 years   |
|  |                              |                   | <b>Grace period:</b>                   | 6 years     | 40 years   |
| <b>Source</b>  | <b>Amount (US\$ million)</b> | <b>Percentage</b> | <b>Disbursement period:</b>            | 6 years     | 6 years    |
|  |                              |                   | <b>Interest rate:</b>                  | LIBOR-based | 0.25%      |
| OC   | 14.0                         | 70%               | <b>Credit fee:</b>                     | *           | n/a        |
| FSO  | 6.0                          | 30%               | <b>Inspection and supervision fee:</b> | *           | n/a        |
| Total  | <b>20.0</b>                  | <b>100%</b>       | <b>Currency:</b>                       | USD         | USD        |
| <b>Project at a Glance</b>   |                              |                   |  |             |            |
| <p><b>Project objective and description:</b> The objective of the program is to contribute to accelerate the social and economic development of the four IDA-eligible OECS member countries (see ¶1.18). This would be achieved via the financing of a Global Loan to the CDB, which would on-lend the funds for the financing of public sector projects in said eligible countries. Resources would be allocated to specific projects by the CDB based on its country strategy and programming processes. In addition, the CDB will give priority to projects that are consistent with IDB GCI-9 priority lending targets.</p>                      |                              |                   |  |             |            |
| <p><b>Conditions prior to first disbursement of the financing:</b> The CDB shall have adopted the Credit Regulations (CR) of the program, in terms previously agreed with the Bank (see ¶3.7).</p>   |                              |                   |  |             |            |
| <p><b>Other Special Conditions:</b> In accordance with the Operational Policies and Strategies Manual (OP-601) “Relationship with Subregional Financial Institutions”, having determined that the CDB’s policies are consistent with those of the IDB, the CDB will apply its own policies and procedures for granting sub-loans (including environmental and social safeguards, fiduciary, procurement, Policy Based Loans (PBLs) and macroeconomic assessment). To assure consistency with IDB’s Environment and Safeguards Compliance Policy (OP-703), the CDB will be required to implement additional measures as described in (see ¶2.10).</p> |                              |                   |  |             |            |
| <p><b>Exceptions to Bank policies:</b> An exception to Bank’s current procurement policies set forth in documents GN-2349-9 and GN-2350-9 is requested for approval by the Board of Executive Directors so that goods and services providers from CDB member countries, which are not members of the IDB, may participate in the procurement processes for activities to be financed with resources of the loan (see ¶2.11).</p>   |                              |                   |  |             |            |
| <p><b>The project is in line with the country strategy:</b> Yes [ ] No [ ]</p>   |                              |                   |  |             |            |
| <p><b>The project qualifies for:</b> SEQ[ ] PTI [ ] Sector [ ] Geographic[ ] Headcount [ ]</p>   |                              |                   |  |             |            |

(\*) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank’s lending charges, in accordance with the applicable provision of the Bank’s policy on lending rate methodology for ordinary capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background and justification

#### 1. Economic and social development challenges.

- 1.1 The four IDA<sup>1</sup>-eligible OECS<sup>2</sup> countries, Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines, are very small countries, with populations varying between 71,000 and 167,000 and GDPs from US\$490 million to US\$1,240 million in 2011.<sup>3</sup> They are middle-income countries with their Gross Domestic Product (GDP) per capita ranging from US\$6,342 to US\$7,877.
- 1.2 High rates of life expectancy at birth have been achieved and significant progress has been made toward meeting Millennium Development Goals (MDGs) in areas such as the reduction of extreme poverty and hunger, universal primary education, greater gender equality and improved maternal health. However, poverty is still a problem with rates varying from 29% to 39% and considerable investment is still required to achieve remaining MDGs.
- 1.3 In spite of these considerable economic and social achievements, the countries' small size, geography, the openness of the economies (the current account deficits range from 17% to 28% of GDP) and narrow economic base leave them extremely vulnerable to external economic shocks and natural disasters, as well as facing challenges of diseconomies of scale, especially in infrastructure and markets. This vulnerability was demonstrated by the impact of the world economic crisis as these countries were amongst the most negatively affected in the Latin America and Caribbean (LAC) region, as well as by a series of natural disasters in 2010 and 2011. Since 2009, the cumulative growth rate of these countries has been significantly less than for the LAC region (see Table 1).

**Table 1. Macro-Economic Performance**

|                                  | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 (f) |
|----------------------------------|------|------|------|------|------|----------|
| <b>Real GDP Growth (%)</b>       |      |      |      |      |      |          |
| 4 IDA Eligible                   | 3.7  | -2.5 | 0.2  | 0.4  | 1.7  | 2.0      |
| LAC                              | 4.2  | -1.6 | 6.2  | 4.7  | 3.7  | 4.1      |
| <b>Fiscal Balance (% of GDP)</b> |      |      |      |      |      |          |
| 4 IDA Eligible                   | -1.4 | -3.0 | -4.3 | -4.6 | -4.4 | -3.5     |
| LAC                              | -0.9 | -3.9 | -3.0 | -2.6 | -2.3 | -2.2     |

Source: World Economic Outlook, IMF, April 2012

- 1.4 Their economies are all largely dependent on the tourism sector, both in terms of export earnings and complementary investments, except for Dominica which has a relatively large agricultural sector. Given a reliance on United Kingdom (UK) and United States (US) markets and a higher income focus of their products, the

<sup>1</sup> International Development Association.

<sup>2</sup> Organization of Eastern Caribbean States.

<sup>3</sup> International Monetary Fund (IMF).

tourism industry is rebounding slowly; a reverse of the trend in previous economic downturns. The weak overall economy has widened fiscal imbalances, compounding already high public debt levels and limiting the ability of governments to implement further measures to support growth and to fund priority social and productive infrastructure. The general government gross debt of these countries was on average 70% of GDP in 2011, excluding Grenada which was 86% of GDP.<sup>4</sup>

- 1.5 The countries are addressing their weak economic and fiscal situation, as reflected in discussions with the IMF on how to proceed with fiscal consolidation and generating the primary surpluses necessary to put their debt on a sustained downward trajectory.<sup>5</sup>
- 1.6 Over the medium-term, it is critical for the countries to enhance their competitiveness, not only in tourism but also in other sectors. In this regard, efforts are needed to improve the overall business environment, as indicated by their rankings in the World Bank Doing Business Survey, ranging from 53rd to 92nd out of 183 countries. The indicator measures how conducive the regulatory framework is to the starting and operation of local firms. Given the structural weaknesses of the countries due to their geography and population size, companies must have an especially supportive enabling environment to compete internationally and to diversify away from traditional sectors. In addition, investments are needed to protect the countries from the impact of natural disasters, and human capital needs to be enhanced to allow for a more productive and competitive labor force. The World Bank (WB) has established a Regional Partnership Strategy for 2010-2014 to support the development of their specific programs and to secure financing for them.

## **2. IDB lending to the Caribbean Development Bank (CDB)**

- 1.7 On January 27, 1977, the Bank Charter was amended to allow the Bank to provide financial resources to the CDB to support the development of its member countries. On September 28, 1977, the Bank and the CDB entered into an agreement setting forth the general standards applicable to operating relations between both institutions. Since then, the Bank has financed four global loan programs to the CDB totaling US\$104 million, where resources were on-lent by the CDB to projects in its member countries.<sup>6</sup> The IDB has also provided 28 technical cooperation operations to the CDB totaling US\$11.7 million, of which 4 are in execution.

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<sup>4</sup> IMF.

<sup>5</sup> Please see electronic links above for the most recent Article IV Consultations or statements by the missions for their preparation, for an overview of current macroeconomic conditions.

<sup>6</sup> The Bank has also financed a US\$10 million (FSO) loan (RG-L1066) to the CDB for disaster reconstruction and recovery in Grenada. The loan was approved in 2005 and has been fully disbursed.

**Table 2. IDB Global Loans to CDB (US\$ millions)**

| <b>Operation Number</b> | <b>Approval Date</b> | <b>Final Disbursement Date</b> | <b>Total Amount</b> | <b>OC</b> | <b>FSO</b> |
|-------------------------|----------------------|--------------------------------|---------------------|-----------|------------|
| RG0013                  | 8/1978               | 3/1987                         | 12                  | -         | 12         |
| RG0036                  | 10/1984              | 6/1992                         | 25                  | 20        | 5          |
| RG0037                  | 5/1996               | 8/2007                         | 37                  | 20        | 17         |
| RG0056                  | 6/2002               | 12/2011                        | 20                  | -         | 20         |
| <b>TOTAL</b>            |                      |                                | <b>104</b>          | <b>40</b> | <b>64</b>  |

Source: IDB

- 1.8 Since the second global loan program to the CDB, only non-IDB members were eligible for financing. During the IDB's Eighth Capital Replenishment period,<sup>7</sup> Fund for Special Operations (FSO) lending for these countries was limited to the IDA-blend eligible countries due to their status as "small vulnerable island nations", which include Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines. These countries would also be the eligible beneficiaries of this proposed OC/FSO-blend loan.
- 1.9 **Allocation of FSO resources to the CDB.** The Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9)<sup>8</sup> established that the Bank will continue its work in partnership with the CDB, particularly in order to ensure support for the IDA-eligible non-IDB member countries of the OECS and to this end, Management was directed to propose a mechanism for approval by the Board of Executive Directors to provide FSO resources to the CDB for these to be on-lent to IDA-eligible OECS states at comparable rates. On December 1<sup>st</sup>, 2010, the Board approved Management's proposal for an allocation of US\$20 million of blended resources, 30% FSO and 70% OC, during the 2011-2012 FSO allocation period.<sup>9</sup>
- 1.10 **Lessons learned.** The global loans to the CDB have all suffered from lengthy disbursement periods, due to a variety of factors, including: (i) the multi-project nature of the loans, in which one or two problem sub-projects holds up the final disbursements of the IDB loan; (ii) the relatively slow pace of the commitment of FSO loan resources because the CDB has attempted to equitably distribute loan resources to the four IDA-eligible OECS countries; and (iii) commitment of funds in some cases to loans at an early stage of preparation, where project design had not been completed.
- 1.11 The Project Completion Report (PCR) of the most recent global loan to the CDB, "Global Credit for Small Caribbean States" (1108/SF/RG), found that: (i) the

<sup>7</sup> Document AB-1704 "Report on the Eighth General Increase in the Resources of the Inter-American Development Bank", paragraph 4.8.

<sup>8</sup> Document AB-2764 "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank", paragraph 3.25.

<sup>9</sup> Document GN-2593 "IDB Lending to the Caribbean Development Bank for on-lending to IDA-Eligible OECS Countries."



design of financed projects was of a consistently high quality that clearly addressed the objectives and identified problems; (ii) projects were consistent with country strategies; and (iii) CDB supervision was of a high quality in terms of ensuring that project outputs were achieved. Even though information on the outcomes and impact of the projects were not available for the PCR, for reasons explained in footnote 10, the combination of the aforementioned three conclusions of the PCR indicate that financed projects will prove to be effective in meeting their objectives.<sup>10</sup>

- 1.12 However, the PCR also found that in some projects, there was a lack of SMART outcome indicators and the supervision reports did not systematically monitor output and outcome indicators. Moreover, the PCR found that Bank supervision was insufficient in terms of monitoring in a systematic manner the performance of sub-projects, and there was a lack of documentation of the supervision and monitoring activities. The CDB has subsequently strengthened its results management framework, allowing for a more systematic monitoring and evaluation of its projects. All projects include agreements on impact, output and outcome indicators with baselines and targets, including timelines for the achievement of outputs (see CDB's new Framework for Results-Based Management and a model Results Indicator Table). In addition, project supervision reports are being revised. They will include largely the same information required for the Bank's Program Management Reports.
- 1.13 **Eligibility of the CDB as a borrower of Bank resources.** According to Bank Policy OP-601, lending to sub-regional development financing institutions is based on meeting three fundamental principles for eligibility: compatibility, complementarity, and additionality. This operation meets all three criteria. As to compatibility, based on a review of CDB policies and operational practices, it is concluded that CDB policies are consistent with those of the IDB, predicated on consistent principles with no rules in conflict with each other. In addition, the CDB will give priority to projects that are consistent with the Bank's GCI-9 lending priorities. As to complementarity, this loan meets the criteria because the IDB cannot lend directly to the beneficiary four countries as they are not IDB member countries; thus, the CDB provides the channel for Bank assistance to support the social and economic development of these countries. Finally, as to additionality, this loan has a multiplier effect with regard to financial resource flows to the sub-region and will increase the level of resources that the CDB could provide to the eligible countries by boosting the CDB's availability of limited concessional resources as well as supplementing the funding for ordinary capital resources raised from capital markets.

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<sup>10</sup> Projects were not completed by the time of the PCR, largely because of their financing structure. The projects have been funded by both IDB loan resources, as well as separate loans financed from the CDB's own resources. IDB resources have been disbursed more rapidly. As such, when the overall IDB global loan had been disbursed most of the projects still had not yet been completed. Without the completion of the projects, final data on development effectiveness indicators were not available for the PCR. A subsequent assessment of the loan will be conducted once the sub-projects are completed and final development effectiveness data is available.

### **3. Description of problem and how it will be addressed by the program**

- 1.14 The primary problem that the program addresses is the range of social and economic development challenges of the beneficiary countries. As explained in the background section above, they include the particular vulnerability of the countries to external economic shocks and natural disasters, their lack of competitiveness in most sectors outside of tourism, as well as high public debt levels.
- 1.15 The ability of these countries to address their social and economic challenges is constrained by their limited access to longer term and less-than-market rate external credit resources, primarily from multilateral sources. The countries rely heavily on the CDB for this type of financing. As of June 2012, the outstanding debt of the four countries to the CDB totals US\$506 million, compared to approximately US\$190 to the WB. The lack of membership in the IDB, and the consequent inability to borrow directly from the IDB, contributes to this limited access and reliance on the CDB. It should be noted that in current circumstances the need for these types of resources is heightened, given the need to conduct fiscal reforms. Though the target countries are all active members of the WB in good standing, the WB programming for support to these four countries over the period of the IDB program is expected to be focused mainly on assisting in confronting fiscal imbalances and restoring stability to the financial sector. The CDB works in close coordination with the WB in these countries and this will extend to the IDB financed program.
- 1.16 The vehicle provided by the Bank Charter allowing for on-lending to these OECS countries via the CDB provides a mechanism to increase access to multilateral resources and offers an effective means to contribute to the social and economic development of the countries.
- 1.17 The effectiveness of a global loan in meeting this objective is due largely to CDB's institutional strength and the high quality of its policies and procedures. In this regard, the CDB uses similar programming and country strategy processes as the Bank, which helps to ensure that the projects it finances address the priority social and economic development challenges of the countries in coordination with other development institutions. Moreover, as noted above, CDB project design and supervision is of a high quality and, with a new emphasis on enhanced results management, there is even greater assurance that program resources will be used to effectively reach their development objectives.<sup>11</sup>

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<sup>11</sup> Evidence of the higher quality of its policies and procedures and their consistency with those of the Bank is demonstrated by the following reports and policy documents: [CDB's Strategic Plan 2010-2014](#), [CDB's Project Cycle policies and procedures](#), an example of a recent [program evaluation design](#), as well as the new [Framework for Results-Based Management](#) (see ¶1.12).

## **B. Objective, characteristics and components**

- 1.18 The general objective of the program is to contribute to accelerate the social and economic development of the IDA-eligible OECS member countries (currently Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines). The specific objective is to enhance these countries' access to long-term and lower-cost external finance, with which they could finance projects to address their social and economic challenges.
- 1.19 The Bank will provide a global loan to the CDB, which would on-lend the resources to finance eligible sub-loans in the four IDA-eligible OECS member countries. The CDB would determine which projects will receive funding with resources of this loan, based, among other factors, on the countries' development priorities and on the CDB's internal programming and country strategy processes.<sup>12</sup> It should be noted that for the current pipeline to be eligible, the CDB must extend procurement eligibility to IDB members not members of the CDB.<sup>13</sup>
- 1.20 Changes in the characteristics of this program relative to previous global loans have been included to ensure greater effectiveness in meeting the program's objectives and to address lessons learned from the previous global loan programs:
- a. Priority on projects that are consistent with the Bank's GCI-9 priority lending targets. These criteria help to align the results of the program with Bank strategic objectives, which was not done in previous global loan programs to the CDB.
  - b. Eligibility of loans that support policy reforms. Loan resources may be used by the CDB to finance loan operations that support policy reforms such as Policy Based Loan (PBL) operations, which will allow the program to address a broader range of the countries' economic challenges. Such loans

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<sup>12</sup> See [CDB Pipeline](#) for an indicative pipeline for the use of the IDB Loan.

<sup>13</sup> The Loan Contract provides that the procurement of goods, works and services with resources of sub-loans will be carried out in accordance with applicable CDB policies and procedures; provided, however, that unrestricted participation of firms and individuals from member countries of the Bank is permitted. If the procurement rules applicable to projects to be financed with Bank resources are not consistent with those as set forth in the Loan Contract, said projects would not be eligible for financing.

are especially needed at this time, given their effectiveness to address macroeconomic imbalances and structural policy reforms.<sup>14</sup>

- c. Eligibility of previously approved operations. Individual projects already approved by the CDB prior to the Bank's approval of the Global Loan would be eligible, as long as program eligibility criteria are met. This should facilitate a more rapid execution and disbursement of the program.
  - d. A mechanism to allocate resources based on the CDB's Performance-Based Allocation (PBA) formula (¶2.4).
- 1.21 As in previous global loan operations to the CDB, the allocation of resources among countries for the financing of specific projects will be carried out once the loan operation is approved by both the IDB and CDB.
- 1.22 Project eligibility criteria include: (i) projects/programs (either investment loan or PBLs) must be public sector operations; (ii) projects will have a results matrix that includes project impact, outcome and output indicators, with baseline data and targets; and (iii) projects will have to meet the environmental and social safeguard criteria, as noted in ¶2.10.

### C. Key results indicators

- 1.23 **General objective.** Contributing to the acceleration of social and economic development. Since the specific projects of the program are not yet defined, it is not possible to define indicators for this objective at this time as they depend on the nature of the sub-projects. However, CDB has enhanced their results-based management framework and now has policies and procedures consistent with those of the Bank.<sup>15</sup> All CDB projects require results matrices that include results indicators for overall impact, outcomes and outputs, with baselines and targets. Where possible, these indicators will be SMART, and supervision reports monitor these indicators. These indicators will be used in the Results Matrix and Project Monitoring Report of this loan for monitoring and evaluation of individual projects of the operation.

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<sup>14</sup> CDB PBL policies are similar to those of the IDB. Currently, CDB only makes PBLs to countries directly and is limited to 20% of its total lending. Based on CDB's current policies and guidelines applicable for PBLs, consistency with Bank PBL policy (particularly, documents AB-1378 and GN-2200-13, Recommendation 8 in ¶4.57; and CS-3633 of April 1<sup>st</sup> 2005) would require that PBLs are based on a sound macroeconomic framework, requiring a determination that the country's macroeconomic policy framework is appropriate at the moment of approval of the PBL and the maintenance of an appropriate macroeconomic policy framework for each disbursement under the PBL. For that, the CDB shall conduct an Independent Macroeconomic Assessment (IMA) in consultation with the Bank. As part of the IMA, coordination with other institutions is required; in particular, the view of the IMF shall be taken into account. This will be fulfilled by the presence of an on-track IMF program or an Article IV assessment completed within six months prior to the presentation of the loan to the CDB Board. In the absence of an on-track IMF Program or an Article IV assessment completed within this time period, a written assessment from the IMF must be requested by CDB. No more than 25% of global loan resources could be used to finance PBLs.

<sup>15</sup> The guidelines for the CDB's results management framework and enhanced quality assurance are available in hard copy in the project files.

- 1.24 **Specific objective.** Enhancing eligible countries' access to low-cost and longer term resources. In terms of outcomes, the savings resulting from access to CDB financing funded by this global loan will be measured. This outcome is based on the assumption that in absence of CDB financing, these countries would need to finance the projects with other higher cost sources of finance, specifically private sector sources, given that other sources of less-than-market rate finance are constrained. These financial savings can be viewed as a minimum measure of the economic benefits of the program. Much greater levels of benefits would come as a result of the implementation of the sub-projects financed from the loan.
- 1.25 **Evaluability Assessment Note.** Given the nature of this operation, where the projects to be financed are not yet defined, it is not possible to conduct an evaluation of the development effectiveness of the operation using a Development Effectiveness Matrix. However, since the ex-ante policies and procedures of the CDB with regard to results management, in particular evaluation and monitoring, are largely consistent with those of the Bank, the Bank will be able to adequately monitor and evaluate the individual sub-projects and the overall program by relying on the CDB's procedures and their inputs to the Bank. An Evaluability Assessment Note is provided as Annex I attesting to the adequacy of this arrangement.

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Cost and financing**

#### **1. Origin of resources and structure of on-lending**

- 2.1 US\$6 million of the US\$20 million loan will be financed with FSO resources, and the remainder will be financed with OC resources. The CDB will on-lend the IDB resources to the final borrowers at terms that are comparable to the concessionality of the IDB loan. Each sub-loan shall have the following structure as to the portion corresponding to the IDB loan:
- a. The FSO portion of the IDB blended loan (US\$6 million or 30% of the blended loan) will be on-lent by the CDB as a 38 year bullet loan with a 0.5% lending rate; and
  - b. The OC portion of the IDB blended loan (US\$14 million or 70% of the blended loan) will be on-lent by the CDB as its Ordinary Capital Resources (OCR) with the corresponding terms and conditions, namely, loans with a 20 year maturity period, 5 years of grace period, and a variable interest rate, currently set at 3.6%.

- 2.2 The IDB loan resources have been calculated to have a grant element of 41.9%, and under the agreed upon terms with the CDB, the on-lent funds will have an estimated grant element of 37.1%.<sup>16</sup>

## **2. Allocation of resources and program sizing**

- 2.3 Resources will be used for the financing of CDB loan operations in the eligible countries that meet the program's eligibility criteria, the conditions set forth in the loan contract to be entered into between the Bank and the CDB, as well as those set forth in the Credit Regulations of the program.
- 2.4 IDB loan resources will be allocated to the eligible countries by prorating the proportions received by each eligible country under the CDB's current PBA formula. Nonetheless, in order to provide flexibility to the CDB for managing country allocations and using IDB resources, the CDB would have the option of demonstrating ex post at project completion<sup>17</sup> that each eligible country received an allocation of IDB resources equal to its respective prorated proportion under the CDB's current PBA, except for as described in the following paragraph.
- 2.5 In order to manage the demand by the eligible countries, if an eligible country does not use all of its allocated resources for the approval of new projects after one year from the entry into force of the loan contract between the IDB and the CDB, the CDB will inform the Bank of such a situation and request the authorization to trigger a reallocation of the unused resources among those eligible countries that have an additional demand for resources.<sup>18</sup> The semi-annual progress reports will contribute to monitor the level of commitment of IDB loan by CDB. In such a case, the allocation of resources as per the CDB's prorated PBA formula as described in the previous paragraph must be respected for all countries except for those in which there is insufficient demand. Should the IDB authorize a reallocation of resources, the CDB would have to demonstrate that each eligible country received a total of IDB resources equal to its respective prorated proportion under the CDB's PBA, plus or minus the total amount of IDB resources reallocated, as applicable. However, at least two eligible countries must receive financing from this IDB loan. The Manager of the Country Department

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<sup>16</sup> Grant element is calculated according to the IMF methodology. The grant element is defined as the difference between the nominal value of the loan and the sum of the discounted future debt-service payments (present value of the loan), expressed as a percentage of the face value of the loan. The base discount rates used under the IMF methodology are the currency-specific Commercial Interest Reference Rates (CIRRs) published by the OECD. The base discount rate used in these figures is 4.64%. It should be noted that the grant element is subject to variation. Also, the grant element for each sub-loan may vary if it receives co-financing from CDB, as the resources of the loan may be blended with CDB resources, in proportions subject to determination by the CDB.

<sup>17</sup> Project completion refers to when IDB loan resources have been fully disbursed to the CDB and committed by the CDB in sub-loan approvals.

<sup>18</sup> The reallocations will be made on the basis of demand and according to the CDB's programming process since the potential amounts to be reallocated would be too small to apply the EPBA reasonably. This is also the process used by the CDB to reallocate its concessional resources during the last year of their allocation cycle.

Caribbean Group will have the authority to approve any such reallocation of resources based on the fully justified request.

- 2.6 Regarding the size of the program, the CDB has requested the full amount of the allocation approved by the Board of Executive Directors (see ¶1.9), given the current and potential pipeline of eligible operations.

**B. Environmental and social safeguard risks**

- 2.7 The potential key issues and risks associated with this program are mainly those related to projects which are not yet fully defined. These risks and impacts could be at all levels from minimal to significant. As a proxy for assessing potential ESHS<sup>19</sup> risk and impacts, the IDB conducted an analysis of the existing portfolio as well as a preliminary overview analysis of its pipeline in the four countries,<sup>20</sup> and a comparative review of CDB's environmental and social risk management policies and processes.
- 2.8 The analysis of the existing portfolio concluded that it is mainly focused on operations that are classified by CDB as Category B for their environmental and social risk and impact, or lower. The existing portfolio currently includes one Category A project. An analysis of the pipeline indicates a low probability for a Category A project.
- 2.9 To manage the ESHS risks and impacts, CDB applies its Environmental and Social Review Procedures (ESRP) to the projects it finances. The ESRP includes a set of nine environmental and social performance standards that reflect the principles, core policies, standards and best practice approaches adopted and used in the treatment of sensitive environmental and social issues by the multilateral financial and development community. A comparative policy analysis undertaken by the IDB concluded that, in general, the ESRP is consistent with the principles of the IDB Environment and Safeguard Compliance Policy (OP-703). However, there are two particular areas where there is no consistency with IDB policies, and those of other development institutions: (i) disclosure of environmental and social documentation prior to approval; and (ii) quantification of greenhouse gas emissions in those operations that produce significant quantities (understood to be emissions of 25,000 metric tons of CO<sub>2</sub>eq per year).
- 2.10 Based on the conclusions of the portfolio and pipeline analysis and review of the CDB environmental and social policies and processes, as part of the Loan Agreement with CDB, the IDB will require a number of additional measures to ensure consistency with IDBs policies. The most important of these measures are: (i) the disclosure of environmental and social documentation at least 30 days prior to CDB's Board approval; and (ii) for operations expected to generate significant quantities of GHG emissions, quantification and annual reporting (in line with

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<sup>19</sup> Environmental, Social, Health and Safety, and Labor.

<sup>20</sup> Since the analysis was conducted, the pipeline has been updated, however most of the projects remain and the two new ones are similar in nature to the rest.

IDB requirements and guidance). Also, CDB will notify and provide the IDB with copies of the documentation related to operations to be financed with IDB use of proceeds, prior to investing, for non-objection. Also, for operations that were approved by CDB prior to the Bank's approval of the program, CDB will be required to notify and provide the IDB with copies of the environmental and social documentation. For further details please refer to the Environmental and Social Management Report (ESMR).

### **C. Fiduciary risk**

- 2.11 Based on a fiduciary assessment of the CDB, fiduciary risks are considered to be low, and no mitigation measures are required. Given the harmonization of CDB procurement policies with those of other Multilateral Development Banks (MDBs), and their consistency with those of the IDB, it is recommended that the CDB uses its own procurement policies for operations receiving financing from this global loan with the following provision: eligibility for procurement using the resources of the loan should be open only to CDB and IDB member countries.<sup>21</sup> Bank policy requires that funds from the Bank loans can be used only for the payment of goods, works and services contracted with firms or individuals from Bank member countries (Documents GN-2349-9 and GN 2350 9). Therefore, as the previous global loans to the CDB, exception to this Bank policy will be required for the eligibility for procurement using the resources of the loan to be open not only to IDB members but also to all members of the CDB (see Annex III Fiduciary Arrangements). In case of financing of PBLs, the Bank's negative list for PBLs will be applied.

### **D. Other risks**

- 2.12 **Institutional capabilities of executing agencies of sub-projects.** Given the small size of the countries and the consequent scarcity of management resources for projects, weak institutional capabilities of executing agencies could affect the effectiveness of projects. However, the CDB takes into account these capabilities in the design of projects. Moreover, in cases where the capabilities of the executing agencies are not satisfactory with regard to providing the data for robust results indicators, the CDB may include an institutional strengthening component or other assistance to ensure the provision of the necessary data.
- 2.13 **Financial risks.** Although the CDB was recently downgraded one notch from a AAA rating,<sup>22</sup> it continues to reflect a number of significant credit strengths. These include strong financial support from both borrowing and non-borrowing members, reflected in the recent general capital increase and the Bank's relatively

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<sup>21</sup> Similar provision was set forth in previous loan operations to the CDB financed by the Bank (1108/SF-RG; and 1637/SF-RG).

<sup>22</sup> CDB currently has an Aa- credit rating from Moody's and AA+ from Standard and Poor's. The downgrades that occurred in May and June of 2012 were driven by shortcomings in the Bank's risk management and financial planning capacity, as well as weaker capital adequacy ratios and the comparative credit quality of its membership versus other MDBs.



high percentage of paid-in capital, a preferred creditor status that has ensured a good repayment performance even from borrowing members that have gone through debt restructurings in recent years, capital adequacy ratios that remain strong relative to lower-rated MDBs, notwithstanding recent deterioration, and lastly, liquidity levels that remain strong.

- 2.14 **Sustainable macroeconomic framework for PBLs.** To ensure that funding for a PBL operation is provided only when there is a sound macroeconomic policy framework in the countries, the program requires that the CDB follow the same operational requirements and procedures as the Bank for assessing the adequacy of the macroeconomic policy framework. In this regard, the CDB will prepare an IMA in consultation with the Bank, and follow the same requirements as the IDB (see footnote 14 above).

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Executing agency.** The CDB will be the borrower and the executing agency of the program. It has demonstrated via past programs that it has the capabilities to effectively manage and execute a global loan program, and its policies and procedures for the complete project cycle are similar to those of the IDB. The Projects Department will serve as the Project Executing Unit.
- 3.2 **Financial structure.** The CDB has two sources of funding for its borrowing members. They include: (i) OCR, financed from equity contributions, market borrowings and income; and (ii) Special Funds Resources (SFR), similar to the Bank's FSO. The SFR comprise a number of funds, the largest of which is the Unified Special Development Fund (SDF (U)), and all others funds together are called as the Other Special Funds (OSF). The OC portion of the IDB blended loan will be treated and on-lent by CDB as its OCR resources, having its callable capital automatically available as security; the FSO portion will be managed and accounted for as a special fund within the OSF. The loan to the CDB will constitute a general obligation of the CDB.

**Table 3. CDB Financial Performance (US\$ million)**

|                                   | OCR  |      |       | SFR   |       |       |
|-----------------------------------|------|------|-------|-------|-------|-------|
|                                   | 2000 | 2005 | 2010  | 2000  | 2005  | 2010  |
| Assets                            | 546  | 945  | 1,271 | 554   | 645   | 853   |
| Loan & Guarantees                 | 379  | 687  | 993   | 282   | 376   | 452   |
| Equity                            | 344  | 452  | 606   | 536   | 609   | 787   |
| Debt to Equity Ratio              | 0.53 | 1.03 | 1.08  | N/App | N/App | N/App |
| Income                            | 15.4 | 6.8  | 41.2  | 6.4   | 0.7   | 3.4   |
| Operating Expenses as % of Assets | 1.1% | 0.7% | 0.9%  | 1.7%  | 1.7%  | 1.5%  |

\*Excludes callable capital of US\$730 million / Source: CDB.

- 3.3 **Financial performance.** The CDB follows conservative financial policies. The debt to equity ratio of the OCR fund is low. The amount of loans, equity investments, and guarantees are limited to the total amount of its unimpaired

subscribed capital, reserves, and any other funds included in its ordinary capital resources, exclusive of certain reserves. Finally, it should be noted that the CDB is a relatively efficient institution as well, given low operating expenses (less than 1% of assets on OCR funds).

- 3.4 **Execution and administration.** As operations are executed, the CDB will present disbursement requests based on the advance of funds mechanism (See Annex III, Fiduciary Arrangements).
- 3.5 The CDB will monitor and supervise operations based on their policies and procedures. The results of this monitoring and supervision will be reported to the Bank on a semi-annual basis.
- 3.6 The CDB will conduct evaluations of operations or hire third parties to conduct them within nine months of the termination of their execution period. The information in these evaluations will be presented in PCRs, and will include the progress in meeting the project results as defined in the results matrix, as well as information on the execution of the program and lessons learned. The PCRs for each individual operation should be completed and provided to the Bank within 12 months after the final disbursement of the operations. Where more rigorous impact evaluations will be conducted, which would need to take place at a later date, the results of these evaluations will be provided to the IDB once completed.
- 3.7 **Disbursements and disbursement period.** The CDB will account for the blended loan disbursements in each sub-loan, with 70% from the the OC portion, on-lent by CDB as its OCR resources, and 30% from the FSO portion, accounted for within the OSF. Efforts are to be made to have a more rapid execution of the project than previous loans. This will be accomplished through: (i) giving priority to projects that are more advanced in their preparation; (ii) the demand management mechanism described in ¶2.5; and (iii) the eligibility of previously approved investment and PBL operations (see ¶1.20c). Based on these measures, it is expected that the loan would have a six year disbursement period and a four year commitment period.<sup>23</sup> **As condition prior to first disbursement of the financing, the CDB shall have adopted the Credit Regulations of the program, in terms previously agreed with the Bank.**

## **B. Summary of arrangements for monitoring results**

- 3.8 **Progress reports.** The CDB will provide semi-annual progress reports within 60 days following each semester, which will include a report on each individual operation and its consistency with the Loan Credit Regulations' eligibility, environmental and social safeguard criteria and the IDB's GCI-9 lending priority

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<sup>23</sup> This disbursement period represents a shorter period than those realized in previous global loans with the CDB. It is considered feasible given design modifications that will facilitate a more rapid commitment and disbursement. These include: the eligibility of previously approved, and therefore more mature, loans, the eligibility of fast-disbursing PBLs, and an increase in the maximum loan size, which could reduce the number of sub-projects.

lending targets, as well as data for the results matrix of each individual operation, CDB financial statements of the individual operations, and summary updates on their situation, the problems encountered and measures taken to address them. The latter will be based on information in the CDB's Project Supervision Reports (PSR), copies of which will be annexed to the reports. The PSR also provide data on the outcome and outputs of the results matrix of the individual operations. With this information, the IDB will be able to prepare complete project management reports for the supervision and monitoring of the program.

- 3.9 **Audits.** Given the consistency of the CDB financial management policies and procedures with those of the IDB, in accordance with the project financial management requirements approved by the Operations Policy Committee (OPC) (Document OP-273-2), Bank audit requirements will be met through the submission of the annual Audited Financial Statements (AFS) of the CDB. OP-273-2 requires the presentation of AFS not later than 120 days after the close of the project's fiscal year. Although CDB's AFS are completed by March 31<sup>st</sup>, they are not available publicly until May 31<sup>st</sup> to allow for review by the CDB Board of Governors. Taking that into account, Management has agreed instead that the CDB's financial statements be presented to the Bank within 180 days following the close of CDB's fiscal year (December 31st). These financial statements will be audited by a firm of independent public accountants acceptable to the Bank. Ernst and Young are the current auditors of CDB. In addition, the CDB will present to the Bank semi-annual unaudited financial reports on the sub-loans 60 days after each semester (see Annex III).
- 3.10 **Midterm and end-of-project review.** Once 50% of loan resources are disbursed, or after 3½ years from the initiation of program execution, whichever is earlier, a midterm review will be jointly conducted by the CDB and the IDB. This review will consist of a detailed assessment of program execution by the CDB, which will be reviewed by the IDB, and followed by a workshop of the IDB project team and the CDB staff involved in the design and supervision of the individual CDB operations and the financial management of the program. The workshop would serve to clarify accomplishments, to identify bottlenecks, shortfalls as well as lessons learned, and to agree on any corrective measures that need to be taken to enhance execution and program effectiveness. The end-of project review will be conducted once 100% of loan funds are disbursed, within the following three months. This review will include the same activities as the midterm review.
- 3.11 **Project Completion Report (PCR).** In order to better ensure that the PCR is conducted when the individual projects financed in part from global loan resources are fully completed, it is recommended that the PCR be conducted up to two years after the final disbursement of the global loan resources to the individual projects, instead of 90 days after disbursement conclusion as mandated by Manual CO-309. As explained in footnote 10, many of the projects financed in part from the previous global loan were not completed by the time of the final disbursement.

## EVALUABILITY ASSESSMENT NOTE

### CDB GLOBAL LOAN PROGRAM FOR THE IDA-ELIGIBLE OECS MEMBER COUNTRIES

The objective of this Evaluability Assessment Note is to inform the Board of Executive Directors about the evaluability of the “CDB Global Loan Program for the IDA-eligible OECS member countries”. Given the nature of this loan proposal, a standard DEM score is not applicable. Rather, Management has ensured that ex ante evaluability, implementation metrics and ex post reporting by CDB are consistent with the standards of the Bank for its own operations.

**Background.** The Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9)<sup>1</sup> established that the Bank will continue its work in partnership with the CDB, particularly in order to ensure support for the IDA-eligible non-IDB member countries of the OECS and to this end, Management was directed to propose a mechanism for approval by the Board of Executive Directors to provide FSO resources to the CDB for these to be on-lent to IDA-eligible OECS states at comparable rates. On December 1, 2010, the Board approved Management’s proposal for an allocation of US\$20 million of blended resources, 30% FSO and 70% OC. On January 27, 1977, the Bank Charter was amended to allow the Bank to provide financial resources to the CDB to support the development of its members. On September 28, 1977, the Bank and the CDB entered into an agreement setting forth the general standards applicable to operating relations between both institutions. Since then, the Bank has financed four global loan programs to the CDB totaling US\$104 million, where resources were on-lent by the CDB to projects in its member countries.

**Strategic Alignment.** All operations financed by CDB through this loan will be mapped to both GCI-9 priorities and/or to the specific CDB’s country strategy with each of the borrowers. Thus, all operations will comply with strategic alignment metrics homologous to the Bank’s.

**Evaluability and Reporting of Results.** The CDB has strengthened its results management framework, allowing for a more systematic monitoring and evaluation of its projects. In relation to ex ante evaluability, all projects financed by the CDB have results matrix that define impact, output and outcome indicators with baselines and targets, including timelines for the achievement of outputs. In addition, project supervision reports are being revised and when adopted, expected in early 2012, they will include largely the same information required for the Bank’s Program Monitoring Report (PMR). All loans will submit to the Bank a Project Completion Report. The PCRs will include the progress in meeting the project results as defined in the results matrix, information on the execution of the program and lessons learned.

**Additionality.** As to additionality, this loan has a multiplier effect with regard to financial resource flows to the sub-region and will increase the level of resources that the CDB could provide to the eligible countries by boosting the CDB’s availability of limited concessional resources as well as supplementing the funding for ordinary capital resources raised from capital markets.

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<sup>1</sup> Document AB-2764 “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank”, paragraph 3.25.

## Results Matrix

|   |   |
|---|---|
| <b>Program general objective<sup>1</sup>:</b> | To contribute to the acceleration of the social and economic development of the four IDA-eligible OECS countries, Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines. |
|---|---|

| <b>Specific objective 1:</b> Enhancing eligible countries' access to lower cost and longer term resources.   |          |        |        |        |        |                 |  |
|--|----------|--------|--------|--------|--------|-----------------|--|
| Indicators   | Baseline | Year 1 | Year 2 | Year 3 | Year 4 | Target          | Description  |
| <b>Outcome</b>   |          |        |        |        |        |                 |  |
| Savings resulting from access to the CDB financing funded by the global loan.<br><br>(Savings are defined as the difference in borrowing costs between CDB resources, financed by IDB, and those borrowed from private financial markets. Private financial markets are considered the alternative source of financing, given the limited availability of other lower cost and longer term multilateral or bilateral sources). | 0        |        |        |        |        | US\$7.1 million | NPV of discounted differences in loan payments of CDB financing and loan payments if borrowed from private markets. <u>Source of data:</u> CDB for terms of their financing. IMF or Eastern Caribbean Central Bank for data on rates from private market sources. The calculation will be based on the terms of the CDB and those available from private markets at the time of the signing of the CDB loans.<br><br>Target is based on current market and CDB interest rates. |
| <b>Outputs</b>   |          |        |        |        |        |                 |  |
| Countries receiving financing from the IDB loan  | 0        |        | 2      |        |        | 2               | This indicator will show the number of country beneficiaries. The source of verification will be program documentation, approval communications and financial accounts.  |
| Total amount of IDB resources provided   | 0        |        |        |        |        | US\$20 million  | This indicator will show the total amount of increased lower costs and longer term multilateral resources received as a result of the operation. The source of verification will be the financial records of the program.  |

<sup>1</sup> Since the specific projects to be financed with the program's resources are not yet defined, it is not possible to define indicators for this objective at this time as they depend on the nature of the projects.

|  |   |  |   |  |  |                |  |
|--|---|--|---|--|--|----------------|--|
| Number of projects financed that are consistent with the Bank's GCI-9 quantitative lending mandates                    | 0 |  | 3 |  |  | 3              | The source of verification will be program documentation.                        |
| Amount of loan resources disbursed to projects that are consistent with the Bank's GCI-9 quantitative lending mandates | 0 |  |   |  |  | US\$15 million | The source of verification will be program documentation and financial accounts. |

## FIDUCIARY ARRANGEMENTS

**COUNTRY:** REGIONAL

**PROJECT N°** RG-L1018

**NAME:** CDB Global Program for the IDA-Eligible OECS Member Countries

**EXECUTING AGENCY:** Caribbean Development Bank

**PREPARED BY:** Paula Louis-Grant and Magda Theodate, and updated by the Team Leader.

### I. Executive Summary

1. CDB is a regional development bank with similar quality assurance and supervision processes to the IDB. In 2008, a financial management risk assessment was conducted. In 2009 and 2010, financial institutional inspection visits were conducted in which CDB's institutional and organizational structure for the financial management of projects was reviewed as well as CDB's financial management system and records management system.
2. The risk assessment concluded CDB as low risk and to this end, CDB was moved to *ex-post* review for disbursements. The review of the CDB's financial and accounting systems, mirrored in many ways that of IDB's. In 2009, CDB upgraded its Loan Management System with one of the main features being enhanced reporting capabilities. Reflecting both its financial soundness and prudent financial management, the CDB has an Aa- credit rating from Moody's and AA+ from Standard and Poor's. CDB was recently downgraded one notch from a AAA rating from both agencies during May and June of 2012, driven by shortcomings in the Bank's risk management and financial planning capacity, as well as weaker capital adequacy ratios and the comparative credit quality of its membership versus other MDBs. Although the Bank does not have preferred creditor status with the CDB, the financial risk to the Bank is limited. In addition, there is a demonstrated strong commitment of borrowing countries to the CDB and a preferred creditor status. There has never been a default by a borrowing country, albeit in a couple of exceptional occasions where restructurings were arranged. The capital adequacy ratios remain strong, notwithstanding recent deterioration.
3. The Bank can rely on CDB's fiduciary oversight procedures for sub-loans hence, audits of the individual projects financed by the program will not be required. The Bank will rely on CDB to conduct these audits as required by their procedures. Unaudited semi-annual financial reports on the sub-loans will be submitted to the Bank as well annual audited financial statements (AFS) of the CDB.

### II. Executing Agency's Fiduciary Context

The Bank can rely on CDB's fiduciary oversight procedures for loans on-lent under the program.

### III. Fiduciary risk evaluation and mitigation actions

Reflecting both its financial soundness and prudent financial management, the CDB has an Aa- credit rating from Moody's and AA+ from Standard and Poor's, which can be considered low risk. CDB was recently downgraded one notch from a AAA rating from both agencies during May and June of 2012, driven by shortcomings in the Bank's risk management and financial planning capacity, as well as weaker capital adequacy ratios and the comparative credit quality of its membership versus other MDBs. Although the Bank does not have preferred creditor status with the CDB, the financial risk to the Bank is limited. In addition, there is a demonstrated strong commitment of borrowing countries to the CDB and a preferred creditor status. There has never been a default by a borrowing country, albeit in a couple of exceptional occasions where restructurings were arranged. The capital adequacy ratios remain strong, notwithstanding recent deterioration.

#### **IV. Aspects to be considered in the Special Conditions of Contract**

In order to move forward the contract negotiations by the project team and mainly by LEG, herein are those fiduciary arrangements that must be negotiated on, outlined below are agreements and requirements which will be incorporated into the special conditions:

##### **a. Rate of Exchange Agreed with the Executing Agency**

The application of the exchange rate has been agreed with the Executing Agency as follows:

- i. Reimbursement of Expenses made: the effective rate of exchange on the date of payment of each expenditure, in effect on the day on which the Borrower makes the disbursement of the Loan resources to the sub-borrower to finance the sub-loans.
- ii. Rendering of Accounts (Advance Justification): the effective rate of exchange used in the conversion of the currency of the operation to the local currency.

Disbursements in another currency different from the US Dollar and the Barbados dollar: In cases of direct payment and reimbursement of a guarantee of letter of credit, the equivalent of the currency of the operation will be fixed in accordance with the amount effectively disbursed by the IDB.

##### **b. Financial Statements and Reports, audited or unaudited**

For each fiscal year during project execution, CDB will be responsible to produce:

- i. Semi-annual unaudited financial reports for each sub-loan under the program. This will be due 60 days after the end of the each semester.
- ii. The annual Audited Financial Statements (AFS) of CDB, the Summary of Overdue Debt Service Report and the Internal Control Memorandum. These reports are to be presented to the Bank within 180 days following the end of CDB's fiscal year. CDB's AFS shall be audited by a firm of independent public accountants acceptable to the Bank. Ernst and Young are the current auditors of CDB.
- iii. The AFS of CDB should contain information in the notes to the accounts, an annex or supplementary information regarding the physical and financial advance, results, indicators and development impact of the projects financed with IDB's resources.

#### **V. Financial Management**

##### **1. Programming and Budget**

CDB has committed to allocate, for each year of project execution, adequate fiscal space to guarantee the unfettered execution of the project. Even though no counterpart resources are contemplated in the original project budget, CDB will undertake to provide all required resources for the total and effective completion of the project activities.

##### **2. Accounting and Information Systems**

The CDB's financial and accounting systems mirror in many instances that of the IDB's. The electronic system includes a Loan Management System (Flex Cube) and a General Ledger System (Smart Stream). One of the many features of CDB's LMS system, which was upgraded in 2009, is its reporting capacity which allows for reports to be customized and generated via the use of COGNOS. The Financial reports are prepared in accordance with International Financial Reporting Standards and under the historical cost basis. It is expected that the accounting



system will facilitate the recording of all financial transactions and provide information related to the financial execution of the project.

### 3. Disbursements and Funds Flows

- i. CDB will be responsible for the submission of all disbursement requests to the Bank.
- ii. Resources requested from Bank financing are payable according to the Advance of Funds (for up to 180 days) and Reimbursement of Expenses. The funds will be deposited into a Special Account, denominated in US Dollars, established for receipt of funds from the Bank.
- iii. CDB will provide adequate justification of the existing Advance of Funds balance, whenever 80% of said Advance of Funds has been spent.
- iv. CDB commits to maintain strict control over the utilization of the funds advanced so as to ensure the easy verification and reconciliation of balances between its records and the records of the Bank (LMS1 Report).

In order to request disbursements from the Bank, the CBD will present the following forms and supporting documents:

| Type of Disbursement            | Mandatory Forms  | Optional forms/ information that can be requested by the IDB |
|---------------------------------|--|--|
| Advance                         | Disbursement Request Form<br>Financial Plan                                    | List of Commitments<br>Physical/Financial Progress Reports   |
| Reimbursements of Payments Made | Disbursement Request Form<br>Project Execution Status<br>Statement of Expenses | List of Commitments<br>Physical/Financial Progress Reports   |

Generally, supporting documentation for Justification of Advances and Reimbursement of Payments Made will be kept at the offices of the CDB and may be reviewed by the Bank on an *ex-post* basis. These reviews do not entail a blanket approval, based on the samples reviewed, of the whole universe of expenditures.

### 4. Internal Control and Audit

CDB will assume the responsibility for implementing and ensuring a sound system of internal control for the project.

The Bank will not require audits of the sub-projects financed by the program, but only of the executing agency, the CDB.

### 5. External Control and Reporting

The annual AFS of CDB, the Summary of Overdue Debt Service Report and the Internal Control Memorandum are to be presented to the Bank within 180 days following the end of CDB's fiscal year. OP-273-2 requires the presentation of AFS not later than 120 days after the close of the project's fiscal year. Although CDB's AFS are completed by March 31, they are not publicly available until May 31 to allow for review by the CDB's Board of Governors. This exception to the Bank's stated policy is required to allow CDB to present its AFS to the Bank within 180 days following the close of its fiscal year, as is the case with previous IDB global loans and technical cooperations to the CDB.

CBD's AFS shall be audited by a firm of independent public accountants acceptable to the Bank. Ernst and Young are the current auditors of CDB.

## 6. Financial Supervision Plan

Financial Supervision will be developed based on the initial risk assessments carried out for CDB and the fact that CDB is a development Bank with an 'AAA' rating (assigned by Standard and Poor's on July 6, 2011). Financial, Accounting and Institutional Inspection visits will be performed annually by the Bank, covering the following:

- a) Review of the Reconciliation and supporting documentation for Advances and Justifications.
- b) Compliance with procedures.
- c) Review of compliance with the lending criteria.
- d) Conducting *Ex-Post* Review of Disbursements.

## VI. Procurement Execution

### 1. Applicable Policies

- a. The IADB has conducted its own review of the Caribbean Development Bank's Procurement Guidelines for Goods and Service Providers, and Guidelines for Consulting Services (current edition) [no distinction is made between policy and guidelines for CDB financed procurement] and determined that the systems are substantially aligned. Consequently, procurements for the proposed project will be carried out in accordance with the CDB's Procurement Guidelines for Goods and Service Providers, and Guidelines for Consulting Services.
- b. In order to provide FSO resources to eligible CDB members at a cost that is not substantially more than the cost for Bank members and to coordinate the IDB and CDB's procurement policies, the following waiver to Bank policy is requested:
  - I. **Eligibility:** Country eligibility for procurement is to include members of the CDB that are not members of the IDB. The CDB administration will recommend to its Board that a waiver be granted, which would apply these eligibility conditions for the entire program, and therefore give access to IDB member countries for procurement on components which may not be financed with IDB resources.

### 2. Procurement Procedures

- a. **Other:** CDB procurement Guidelines are consistent with those of the IDB, and support the principles of transparency and competition in the selection of service providers and acquisition of goods. Nevertheless, the Prohibited Practices Section of the IDB's procurement policies (GN2349-9 and GN2350-9) is more expansive than those of the CDB, and it is recommended that beneficiaries of loan resources be made aware that the IDB's prohibited practices apply to loan resources.
- b. **Administration:**

In order to facilitate the administration of the program and to provide borrowers with uniform procedures, it is recommended that the CDB's procurement procedures be used with the following provisions:

- (i) eligibility for procurement using the resources of the loan should be open only to CDB and IDB members;

- (ii) to further simplify procedures for borrowers of programs that are financed with a blend of resources from this loan and from other CDB financing sources, the CDB administration will recommend to its Board that a waiver be granted, which would apply these eligibility conditions for the entire program, and therefore give access to IDB member countries for procurement on components which are not financed with IDB resources;
- (iii) procurement of contracting services for works with an estimated cost above US\$1.5 million, for goods above US\$300,000, and for consulting services above US\$200,000 should be based on international competitive bidding, as stated in the CDB's Guidelines for Procurement; and
- (iv) the IDB reserves the right to carry out an ex-post review of the procurement procedures being followed, on a yearly basis, or as it deems necessary. The ex post review may be carried out by the IDB, expert consultants engaged by the IDB, or during the audit of the executing agency, at the IDB's discretion.

### **3. Records and Files**

All records and files will be maintained by the CDB, according to accepted best practices, and be kept for a minimum of three (3) years beyond the end of the operation's execution period, or as stipulated in the loan agreement.