DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

R E G I O N A L

GLOBAL CREDIT FOR SMALL CARIBBEAN STATES

Operation No. 1108/SF-RG
Approved on June 26, 2002

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

GLOBAL CREDIT FOR SMALL CARIBBEAN STATES

(RG-0056)

LOAN PROPOSAL

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CONTENT

EXECUTIVE SUMMARY

I. FRAME OF REFERENCE 1

- A. Socioeconomic framework 1
- B. Bank Policy and Strategy for Lending to Caribbean Non-Bank Member Countries. 3
- C. Eligibility of the CDB as a Borrower of Bank Resources 3
- D. Experience of the Bank 4
- E. Program strategy and justification 5

II. THE PROGRAM 7

- A. Objectives and description 7
- B. Cost and financing 9

III. PROGRAM EXECUTION 11

- A. The borrower, guarantor and executing agency 11
- B. Program execution and administration 16
- C. Procurement of goods and services 16
- D. Execution and disbursement schedule 17
- E. Monitoring and evaluation 18

IV. VIABILITY AND RISKS 19

- A. Institutional viability 19
- B. Socioeconomic viability 19
- C. Financial Viability 19
- D. Environmental impact 20
- E. Beneficiaries 20
- F. Risks 20

ANNEXES

ANNEX I	Disbursement and Execution of Current Loan (926/OC & 975/SF)
ANNEX II	Financial Policies of Selected Multilateral Development Banks
ANNEX III	Logical Framework
ANNEX IV	Credit Regulations

ABBREVIATIONS

CARTAC	Caribbean Regional Technical Assistance Centre
CDB	Caribbean Development Bank
FSO	Fund for Special Operation
IDA	International Development Agency
NRMU	Natural Resource Management Unit
OC	Ordinary Capital
OECS	Organization of Eastern Caribbean States
PPES	Project Performance Evaluation System

Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Regional

TENTATIVE LENDING PROGRAM

2002

Project Number	Project Name	IDB Fin. US$ Millions	Status
RG0056	Global CDB Loan	20.0	
	Total - A : 1 Projects	**20.0**	
*RG0058	El Faro Regional Power Project	N/A	
	Total - B : 1 Projects	**N/A**	
	TOTAL - 2002 : 2 Projects	**20.0**	
	Total Private Sector 2002 - 2003	**0.0**	
	Total Regular Program 2002 - 2003	**20.0**	

*** Private Sector Project**

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IDB LOANS

APPROVED AS OF APRIL 30, 2002

	US$Thousand	Percent
TOTAL APPROVED	**2,645,260**	
DISBURSED	2,069,865	78.2%
UNDISBURSED BALANCE	575,394	21.8%
CANCELLATIONS	459,732	17.4%
PRINCIPAL COLLECTED	1,180,172	44.6%
APPROVED BY FUND		
ORDINARY CAPITAL	2,434,895	92.0%
FUND FOR SPECIAL OPERATIONS	197,210	7.5%
OTHER FUNDS	13,154	0.5%
OUSTANDING DEBT BALANCE	**889,693**	
ORDINARY CAPITAL	829,554	93.2%
FUND FOR SPECIAL OPERATIONS	58,932	6.6%
OTHER FUNDS	1,207	0.1%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	12,292	0.5%
INDUSTRY, TOURISM, SCIENCE -TECHNOLOGY	57,554	2.2%
ENERGY	1,423,813	53.8%
TRANSPORTATION AND COMMUNICATIONS	124,684	4.7%
EDUCATION	61,211	2.3%
HEALTH AND SANITATION	0	0.0%
ENVIRONMENT	129,399	4.9%
URBAN DEVELOPMENT	5,465	0.2%
SOCIAL INVESTMENT AND MICROENTERPRISE	0	0.0%
REFORM -PUBLIC SECTOR MODERNIZATION	0	0.0%
EXPORT FINANCING	0	0.0%
PREINVESTMENT AND OTHER	830,842	31.4%

**** Net of cancellations with monetary adjustments and export financing loan collections.***

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STATUS OF LOANS IN EXECUTION AS OF APRIL 30, 2002

(Amounts in US$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1996	1	130,000	17,065	13.13%
1996 - 1997	3	420,000	43,498	10.36%
1998 - 1999	1	44,000	14,400	32.73%
2000 - 2001	4	115,650	59,293	51.27%
TOTAL	9	$709,650	$134,256	18.92%

* Net of Cancellations . Excluding export financing loans.

REGIONAL

IDB PRIVATE SECTOR "A" LOANS

APPROVED AS OF APRIL 30, 2002

	US$Thousand	Percent
TOTAL APPROVED	**158,000**	
AMOUNT APPROVED AND SIGNED	118,000	74.7%
DISBURSED	73,693	46.6%
UNDISBURSED SIGNED LOANS	44,307	28.0%
AMOUNT APPROVED AND NOT SIGNED	40,000	25.3%
CANCELLATIONS	31,000	19.6%
PRINCIPAL COLLECTED	0	0.0%
APPROVED BY FUND		
ORDINARY CAPITAL	158,000	100.0%
OTHER FUNDS	0	0.0%
OUSTANDING DEBT BALANCE	**73,693**	
ORDINARY CAPITAL	73,693	100.0%
OTHER FUNDS	0	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	0	0.0%
INDUSTRY, TOURISM, SCIENCE -TECHNOLOGY	0	0.0%
ENERGY	158,000	100.0%
TRANSPORTATION AND COMMUNICATIONS	0	0.0%
EDUCATION	0	0.0%
HEALTH AND SANITATION	0	0.0%
ENVIRONMENT	0	0.0%
URBAN DEVELOPMENT	0	0.0%
SOCIAL INVESTMENT AND MICROENTERPRISE	0	0.0%
REFORM -PUBLIC SECTOR MODERNIZATION	0	0.0%
EXPORT FINANCING	0	0.0%
PREINVESTMENT AND OTHER	0	0.0%

***** Net of cancellations with monetary adjustments and export financing loan collections.**

REGIONAL

STATUS OF LOANS IN EXECUTION AS OF APRIL 30, 2002

(Amounts in US$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED *	AMOUNT DISBURSED	% DISBURSED
REGULAR PROGRAM				
Before 1996	1	130,000	17,065	13.13%
1996 - 1997	3	420,000	43,498	10.36%
2000 - 2001	1	1,650	0	0.00%
PRIVATE SECTOR				
1998 - 1999	1	44,000	14,400	32.73%
2000 - 2001	3	114,000	59,293	52.01%
TOTAL	9	$709,650	$134,256	18.92%

Global Credit for Small Caribbean States

(RG-0056)

EXECUTIVE SUMMARY

Borrower:	Caribbean Development Bank		
Guarantor:	Caribbean Development Bank		
Executing agency:	Caribbean Development Bank		
Amount and Source:	IDB: Loan (FSO)	US$	20 Million
	Local:	US$	2.22 Million
	Total:	US$	22.22 Million
Financial terms and conditions:	Amortization Period:	40	Years
	Grace Period:	10	Years
	Disbursement Period:	7	Years
	Interest Rate:	1%	First ten years
		2%	11- 40 years
	Supervision and Inspection:	0	Exemption
	Credit Fee:	0	Exemption
	Currency:		

Objectives: To assist in the financing of projects that effectively address the development priorities of the FSO eligible members of the CDB, which are not members of the IDB.

Description: The program consists of a US$20 million FSO loan and a minimum of US$2.22 million of counterpart resources. The loan would be used to finance no less than four CDB operations in FSO eligible countries that are not members of the IDB. Loan resources could be used to support programs in the social and infrastructure areas, for poverty reduction and natural disaster and mitigation measures, as well as to finance specific project expenses related to the implementation of economic policy and institutional strengthening measures. In addition, the Bank intends to fund three complementary Technical Cooperation operations over the next three years that would finance technical assistance to

	assist in the implementation of the program as well as to promote greater regional harmonization of regulatory and tax policies for the implementation of economic policy and institutional reforms.
Bank's country and sector strategy:	The Bank's Charter authorizes the Bank to promote the economic and social development of Caribbean countries that are not members of the Bank through the provision of loans and technical cooperations to the Caribbean Development Bank. To better meet the current priorities of the eligible countries of enhancing their competitiveness and reducing their vulnerability to external shocks, the program can be used to finance specific activities related to the implementation of economic policy and institutional strengthening measures.
Environmental/ Social review:	The CDB's environmental policy and regulations are similar to those of the Bank, requiring a classification of the potential environmental impact to determine the level of environmental impact analysis and the consequential identification and design of mitigation measures required for supported operations. The environmental analysis and management capabilities of the CDB and the eligible countries continue to improve. As such, the environmental risks of the programs should be adequately mitigated and managed. A significant portion of the program's resources are expected to be devoted to improve the quality of, and access to, social services, as well as to poverty reduction measures. Moreover, the eligible countries already enjoy high human development indicators, relative to their per capita incomes, indicating the high priority and commitment placed on effective social policies.
Benefits:	The program will provide additional low-cost resources to the eligible countries to finance priority activities to accelerate their social and economic development.
Risks:	**Policy Risk:** The level of benefits from the projects financed by this program will depend on the willingness of borrowing countries to implement and maintain sound economic policy frameworks. The track record of the eligible countries indicates that there is significant support for sound economic policies. **Credit Risk**: Since sub-regional development banks are not sovereign members of the Bank, the credit risk is different than those of loans to Bank members. However, given the sound and prudent financial management and policies of the CDB and the institution's unblemished payment record, the credit risk of this

operation is considered to be acceptable.

Special contractual clauses: The adoption by the CDB of the Credit Regulations of the Program.

Poverty-targeting and social equity classification: This operation does not qualify as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

Exceptions to Bank policy: 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 waivers to Bank policy are requested:

1. The Bank's inspection and supervision fee, as well as commitment fee. (See paragraph 2.6)
2. Limiting of advance of funds to 5% of the loan amount. (To allow for an advance of funds up to one-third of the loan amount. See paragraph 3.18)
3. Country eligibility for procurement. (To include members of the CDB that are not members of the IDB. See paragraph 3.1 and 3.17)

The Bank will not require audits of the sub-projects financed by the program, but only of the executing agency, the CDB. (See paragraph. 3.21)

Procurement: CDB procurement policies and procedures are consistent with those of the IDB in terms of ensuring transparency and competition in the selection of goods and service providers. 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 several exceptions. (See paragraph 3.17.) 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 will be based on international competitive bidding, as stated in the CDB's Guidelines for Procurement.

I. FRAME OF REFERENCE

A. Socioeconomic framework

1.1 The smaller and lower income member nations of the CDB (Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines), which are the FSO eligible members of the CDB, have largely enjoyed better economic and social performance than the larger nations in the region.[1] Although economic growth declined from the levels enjoyed in the 1980s, it remained relatively buoyant in the latter half of the 1990s, and allowed for continuing investments in human capital and improvements in social indicators. This relatively good performance is due largely to the maintenance of sound macroeconomic policies and progressive social sector policies. In spite of this relatively good performance, these countries still suffer from high incidences of poverty, and their economies are highly vulnerable to external shocks and natural disasters.

Table 1
Economic and Social Indicators
(1995-2000)

	GDP Growth (Avg. 1996-2000)	**Inflation** (2000)	**Current Account**[2] (2000, % of GDP)	**Poverty Rate** (% of population)	**Human Development Indicator Rank**
Dominica	1.3%	0.8%	-25.7%	33%	49
Grenada	6.5%	1.1%	-19.3%	32.1%	50
St. Lucia	4.8%	0.7%	-11.4%	25.1%	70
St. Vincent	3.7%	0.2%	-8.1%	37.5%	71

Source: International Financial Statistics, IMF; World Bank, UN Development Report 2000. Average HDI Rank for Latin American and Caribbean nations is 64.

1.2 The economies are extremely open, with trade in goods and services representing more than 130% of their joint GDP. Accordingly, shifts in external demand or prices have strong and immediate repercussions. External income remains highly concentrated in three sectors: tourism, agricultural and off-shore financial and business services, leaving these economies exposed to terms of trade shifts, adverse climatic factors as well changes in trade and regulatory policies in major markets. Traditional agricultural exports (primarily bananas and sugar) are competitive only in markets with preferential trading arrangements. However,

[1] GDP in the Latin American and Caribbean Region grew by an average of less than {2%} during the 1996-2000, period, compared to over 4% for this group of countries. Dominica's economic performance, however, lagged behind the other Eastern Caribbean States. But, it has superior social performance as indicated by its high human development rank.

[2] While the large current accounts of Dominica and Grenada reflect a degree of macroeconomic imbalance, these groups of countries can afford relatively large current account deficits as they have access to low cost financing.

planned trade liberalization measures are reducing these preferences. Moreover, international pressures are forcing changes in the regulatory environment for offshore services, which could reduce their attractiveness. The countries' small size and geographic position also make them prone to natural disasters. In the past five years, the countries have suffered from five major hurricanes, which are estimated to have inflicted costs estimated at about 50% of their joint GDP.

1.3 Structural changes are needed to reduce their vulnerability and allow for continued economic growth. Priorities are to: (i) eliminate their dependence on industries where they no longer have a comparative advantage; (ii) accelerate the regional integration of their economies to provide them with greater economies of scale and thereby allow them to better compete in international markets; and (iii) prepare the economies to take advantage of the opportunities to be provided by further liberalization of world and hemispheric trade. The countries have taken some important initial steps to address these challenges, including the lowering of trade barriers, the establishment of a regional common external tariffs, as well as improving and simplifying the regulatory framework for businesses in some countries. This has lead to the limited development of some new export oriented businesses, such as electronics assembly and data processing.

1.4 A joint IDB/CDB taskforce has been working with these countries to identify the measures required to accelerate and improve the process of reducing their vulnerability and improving their regional and worldwide integration. Particular attention needs to place on improved fiscal management capabilities, as this is the primary macroeconomic instrument available to authorities, given that monetary policy is limited by the fixed exchange rate of the regional currency and, the extreme openness of these small island economies, and that monetary policy is determined by the regional Eastern Caribbean Central Bank. Moreover, the establishment of a common external tariff has reduced fiscal revenues from this source and has created the need for efficient alternative sources of revenues.

1.5 The aftermath of the events of September 11 have had a profound negative impact on these economies, halting the period of economic improvement, and illustrating these countries' vulnerability to external events. Heightened perceived risks have lead to a sharp decline in tourism and its ancillary services. The World Bank estimates that the decline in tourism activity will lower GDP during over the 2001 and 2002 period between 4 and 10 percent in the eligible countries, while contributing to a fiscal deterioration equal 2% of GDP on average. Authorities in each of these countries are developing programs with the CDB, in coordination with the IMF and the World Bank, to implement needed policy reforms, address the current sharp drop in external demand and undertake investments to improve the competitiveness of the tourism sector and security of transportation.

1.6 Motivated in part by the effects of September 11, the CDB has developed with its member countries an Economic Reconstruction Program that is designed to accelerate measures required to improve their competitiveness and reduce their vulnerability to both external economic shocks as well as natural disasters. In

order to facilitate a more rapid implementation of these programs and measures, the CDB will accelerate its internal project development and approval procedures of the operations included in the Economic Reconstruction Program. The CDB expects that a significant proportion of the proposed IDB loan would be used to finance projects included in the Economic Reconstruction Program.

B. Bank Policy and Strategy for Lending to Caribbean Non-Bank Member Countries.

1.7 The Bank's Charter gives the Bank the facility to foster economic and social development in non-member Caribbean states through the provision of loans and technical cooperations to the Caribbean Development Bank. These resources can them be on-lent or allocated to CDB borrowing countries which are not members of the IDB. During the Eighth Replenishment, it was agreed that FSO lending for these countries would be limited to those which are IDA-blend eligible due to their status as "small vulnerable island nations." These countries include Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines, which would be beneficiaries of this FSO loan.

1.8 This mechanism has proven to be an efficient mechanism for both the Bank and the beneficiary countries, as it provides significant levels of Bank resources for needed development efforts, with low administrative costs. While the OECS countries have considered requesting Bank membership, they have decided to delay their application. This decision is due in part to the efficiency of and the level of benefits received from the current mechanism of accessing IDB resources via the CDB.

C. Eligibility of the CDB as a Borrower of Bank Resources

1.9 Bank policy (OP-601) for lending to sub-regional development financing institutions is based on meeting three principal eligibility criteria.

a. **Compatibility,** which requires that the strategies and policies of the IDB and the sub-regional institution are consistent with each other.

b. **Complementarity,** which requires that the sub-regional institution have the capacity to act more efficiently than the IDB in specific activities, and as such, Bank support leads to more efficient support to the borrowing country.

c. **Additionality,** which requires that the Bank's support of the regional institution have a multiplier effect with regard to financial resource flows to the sub-regions.

1.10 This operation meets all three criteria. Based on a review of CDB policies and operational practices, it was found that CDB policies are **compatible** with those of the IDB and based on essentially the same consistent principles detailed in their respective Charters. The results of this review are presented in more detail in

Chapter 3 as part of the analysis of the Executing Agency. Moreover, there were few rules that conflict with each other, and those that do have been dealt with in this program's credit regulation or via a waiver, in the case of procurement policies.

1.11 This operation clearly meet the **complementarity** criteria, as the Bank cannot lend directly to non-member countries, although the Bank Charter calls for the Bank to specially assist non-member Caribbean countries. The CDB provides the instrument and mechanism for the Bank to fulfill this Charter capability.

1.12 With regard to **additionality**, this operation has a multiplier effect for the sub-region in several ways. First, the operations funded by the loan will assist in the implementation of policy reforms that are conditions for the release of STABEX funds.[3] Second, the program will also help implement improved fiscal management policies and capabilities. These changes should help some countries obtain greater access to private sources of finance.

D. Experience of the Bank

1.13 The IDB has a long experience of supporting the CDB. The IDB has approved six loans and 12 technical cooperations. As the CDB's institutional capacity has strengthened and in keeping with the objectives of the new Bank policy for sub-regional institutions, the last operation approved in 1996 was a global credit facility. In this program, resources were not allocated to predefined projects, but rather project eligibility criteria and guidelines were defined in a credit agreement. The CDB then was able to develop programs consistent with the country's development priorities and the CDB's areas of strength that would be financed from the IDB resources. This program, consisted of two loans, a US$20 million OC loan and a US$17 million FSO loan, as well as a parallel US$ 666 thousand Technical Cooperation grant.

1.14 **Execution of Loans (926/OC-RG) and (975/SF-RG).** It is not yet possible to evaluate rigorously the effectiveness of the program, as only one operation financed by the loan is completed. Nevertheless, the flexibility provided by the operation allowed the CDB to support programs in different sectors that met the priorities of the country. In this regard it should be noted that about half of the program's resources are approved for programs designed improve social sector services or for poverty reduction. The importance of these sectors reflected the CDB's strategy to expand the range of its operations, and to place greater emphasis of social services and poverty reduction. (See Annex I, for a list of operations supported by the program and a summary of their execution and disbursement levels.) In addition, it should be noted that over 80% of the OC loan resources also went to the lower income FSO eligible countries, even though all CDB members that were not members of the Bank were eligible. Using the

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[3] STABEX is a program of the European Union that provides grants resources to eligible developing countries to compensate for reduced revenues from primary commodity exports.

CDB's own internal evaluation system, the performance of these sub-loans in their implementation phase is significantly better than the average of CDB loans. (Paragraph 3.3 provides a description of this evaluation system.) The average performance ranking of programs supported by the IDB loan was at the 68th percentile of CDB programs in implementation. This high performance ranking during execution should predict better than average project results as well as that Bank resources were used effectively in meeting sub-project development objectives. In terms of environmental impact and mitigation measures, all of the projects financed were classified as projects where limited environmental impact analysis was required given the narrow scope of environmental impacts.[5]

1.15 These loans have been fully committed, and disbursements are now accelerating. Disbursement levels to final borrowers were 47% of the loan amount by the end of March 2002, and are expected by the CDB to reach about 55% by the 2nd quarter[6]. The CDB estimates that the program will be fully disbursed by 2004, which would imply a one-year extension of the original disbursement period. The execution of the program was delayed initially due to slower than expected development and preparation of projects for the FSO eligible countries, as well as complicated land issues that had to be settled before works could be initiated. These issues have all been settled. Several projects financed by the loans are now nearing completion, while the work contracts are signed and construction initiated for all remaining projects, except, one, which has yet to meet one condition precedent.

1.16 **Parallel Technical Cooperation (ATN/SF-5203).** The objective of this operation was to strengthen the CDB's capacity to support its FSO eligible member countries in improve environmental and natural resource management capabilities and improve the delivery of social services and reduce poverty. All of the program funds have been committed, and the CDB has disbursed approximately 80% of the program resources. Environmental objectives were met with the financing of an institutional strengthening and training program for the OECS regional environmental management agency and participation in IDB regional workshops. Social sector and poverty reduction objectives were met with technical assistance to develop programs to restructure and identify alternatives for the OECS banana industry, where the primary producers are low-income families.

E. Program strategy and justification

1.17 This program is designed to allow the Bank in an effective and efficient manner to fulfill its Charter objectives and capabilities regarding non-member countries in

[4] The average percentile ranking of the projects under execution as of 12/31/2002 was 83.1.

[5] The independent assessment of CDB environmental policies and procedures contracted by the Bank considered these classifications to be appropriate, and that the environmental impact management of the projects financed by the IDB to be more than adequate.

[6] Including advance of funds, the IDB has disbursed over 80% of the loans.

the Caribbean via lending and technical cooperations with the CDB. The CDB is able to borrow Ordinary Capital Resources in private financial markets at a significantly lower cost than they can borrow from the Bank, due to its prudent financial management and consequent AAA credit rating. As such, in this operation the CDB has only requested FSO resources. Accordingly, the program will focus on addressing the development challenges facing the aforementioned four FSO eligible countries. The need to implement economic policy and institutional changes argues for an expansion of the type of eligible sub-projects. Moreover, the effects of the aftermath of September 11 increases the urgency of the operation.

1.18 Other CDB borrowing members will benefit only indirectly, through the freeing up of some other lower cost resources for their use and via progress in regional harmonization of government policies that the parallel TC program will support. It should be noted that the other non-IDB borrowing members have higher per capita incomes and are able to access more easily private financial markets.

II. THE PROGRAM

A. Objectives and description

2.1 The objective of this program is to assist in the financing of projects that effectively address the development priorities of the FSO eligible members of the CDB that are not members of the IDB. The program consists of a US$20 million FSO loan. In addition the Bank intends to provide a series of three complementary Technical Cooperation operations of U$0.5 million each over the next three years.

2.2 **FSO Loan.** In accordance with the Eighth Replenishment mandate, the Bank would provide US$20 million of FSO resources to finance programs in the four FSO eligible countries that are not members of the IDB. Loan funds can be used to support infrastructure, social sector, natural disaster repair and mitigation, and to finance specific project expenses related to the implementation of policy and institutional strengthening measures. The CDB will allocate these funds amongst the eligible countries in accordance with their programming process and in a manner consistent with the credit regulation agreed to with the Bank.

2.3 Demand for CDB resources from the eligible countries is high, as demonstrated by the current CDB pipeline, which includes 9 programs, totaling US$34 million of loans scheduled for appraisal and approval in 2002. (See Table 2.) The magnitude of the pipeline, close to double the size of the loan, and the advanced stage of preparation of the potential operations, should allow for a more rapid disbursement of the loan compared to past operations with the CDB. It should be noted that the CDB often finances programs with a blend of financing from different sources, including their higher cost ordinary capital resources or their lower cost Special Development Funds. Funds from the IDB would not finance fast-disbursing policy based sector loans, but could be used to finance the expenses associated with the implementation of associated policy and institutional strengthening measures, such as consulting services, equipment and software. In order to encourage and facilitate the use of the loan across different sectors and countries, the amount of any sub-loan to a specific project is limited to US$ 5 million.

Table 2
CDB Indicative Pipeline for FSO Eligible Countries (US$ Millions)

Implementation of Economic Policy and Institutional Measures	Sector	Amount	Status
Grenada	Fiscal Reform	5.0	Appraisal, July 2002.
St. Lucia	Fiscal and Social Safety Net Reform	5.0	Appraisal. July 2002.
St. Vincent	Fiscal Adjustment	5.0	Appraisal, October 2002
Sub-total		**15.0**	
Other Investment Loans			
Dominica	Indigenous Peoples Development	2.0	Appraisal, July 2002.
Dominica	Small-scale Social and Economic Infrastructure	4.0	Appraisal June 2002
Dominica	Eco-Tourism Infrastructure	2.5	Appraisal, July 2002
Grenada	Higher Education Financing	3.5	Appraisal underway.
St. Lucia	Disaster Mitigation	2.0	Appraisal, October 2002.
St. Vincent	Basic Education II	5.0	Appraisal, October 2002
Sub-total		**19**	
TOTAL		**34**	

2.4 **Technical Cooperation Grant.** The IDB intends to provide US$1.5 million of grant FSO resources for Technical Cooperation operations to complement the loan. Due to the scarcity of regional FSO grant resources, management is planning to provide these resources in three separate US$500 thousand operations. It is intended that one operation would be processed and approved annually over the first three years of the loan program. These resources will be used to provide technical assistance two objectives: (1) to assist in the implementation of reforms in the FSO eligible countries associated with the Economic Reconstruction Program, which the loan program will also address; or (2) to promote greater regional harmonization of governmental policy. These Technical Cooperation operations should allow for a more effective and efficient implementation of the reform efforts of the eligible countries, as well as

accelerating the process of policy harmonization, an important element in the regional integration process.[7]

B. Cost and financing

2.5 **Counterpart.** Bank policy does not require a specific counterpart requirement for lending to sub-regional financial institutions. The CDB, however, requires a 10% counterpart requirement for loans of the eligible countries in this operation. Given that this requirement is consistent with Bank policy, it will be used for loans financed with this operation.

2.6 **Pricing.** The CDB will charge the same interest rate on the loan resources as those from its Special Development Fund, the CDB's primary source of low-cost financing. This interest rate implies a 1 percentage point reduction from the rate charged on the resources of the current loan to 2.5% per annum. In order to facilitate this significant reduction in the costs for final borrowers and to make them closer to those charged to Bank member countries for FSO resources, it is recommended that a waiver be granted and such commitment and inspection fees not be charged to the CDB. A similar waiver was granted for the previous loan. If the Bank were to charge these fees, they would be passed on by the CDB to the final borrower, and thereby increase even further the cost differential between these FSO eligible countries and the rates charged by the bank to direct FSO borrowers.

Table 3
Total Costs and Sources of Financing

	IDB Contribution	Counterpart	Total
FSO Loan	US$20 Million	US$ 2.22 Million	US$22.22 Million
Inspection and Supervision Fees	0	0	0
TOTAL	**US$20.0 Million**	**US$2.22 Million**	**US$22.22Million**

7 These TC operations would complement the technical assistance provided through the Caribbean Regional Technical Assistance Centre (CARTAC), which the Bank is supporting with other multilateral and bilateral donors. CARTAC provides largely short-term assistance provided by its own staff, while the proposed Technical Cooperation would finance more comprehensive operations that require in many cases more specialized services than CARTAC can provide.

III. PROGRAM EXECUTION

A. The borrower, guarantor and executing agency

3.1 The Caribbean Development Bank will be the borrower, guarantor and the executing agent of this program. The CDB was founded in 1970 with the objective of contributing to the economic growth and development of member countries in the Caribbean and to promote their economic cooperation and integration. The original members of the CDB were the 16 British Commonwealth Caribbean governments and two non-regional members, Canada and the UK. Since them, an additional Caribbean country has joined, as well as six other non-borrowing countries, all of which, except one, are also members of the Bank.[8]

3.2 The CDB can provide loans to both public and private sector entities in its borrowing member countries that contribute to the social and economic development of its members and the region. The CDB historically provided financing primarily for infrastructure projects. However, since the mid-1990s, the CDB has expanded its lending to the social sectors, and more recently to support economic policy and institutional reforms. Direct lending to private entities remains limited, due to the higher risks of these projects and the requirement that the project have important and demonstrable development impact.

3.3 The CDB is the most important source of credit to the OECS countries, comprising about 40% of their external credit. The CDB provides both Ordinary Capital resources that are provided at rates linked to private financial market financing, as well as soft-term resources financed from contributions and low cost loans. OC and soft-term (Special Fund) resources can be blended to finance a specific project.

1. Financial performance and management

3.4 **Financial Policies and Outcomes**. The CDB generally maintains more conservative financial management practices and policies than other MDBs (Multilateral Development Banks) due to the need to compensate for lower levels of AAA callable capital (14% compared to about 40% for the IDB) and the narrowness of its lending market. (See Table 4.) The percentage of AAA callable capital was reduced by the decision in 2000 of France to withdraw from the CDB. As such CDB access to and costs of borrowing from international financial markets depends more on financial performance and the quality of its operating balance sheets, rather than on the quality of its callable capital. To ensure strong financial performance, the CDB has maintained relatively high levels of profitability and required an Interest Coverage Ratio, which measures net income relative to borrowing expenses, to be at least 100%, compared to only 20-30% in other MDBs. Moreover, the CDB gearing ratio (lending to paid-in-capital and

[8] China is a recent non-regional member of the CDB.

reserves), and leveraging (borrowing to capital) are the most conservative of all MDBs.

3.5 In order to facilitate greater levels of lending, while not jeopardizing its strong performance and balance sheet, the CDB moderated some of its financial policy limits. These limits still remain in most cases more conservative than other MDBs, but give authorities more flexibility to meet the needs of its borrowing members. (See Annex II for a comparison of CDB financial policies with those of other MDBs.)

Table 4:

Comparison of Financial Performance Indicators

Financial Ratios (1999)	CDB	IDB	IBRD	CAF
Capital Quality (Paid-in capital/total capital)	12.4%	3.4%	5.1%	42.2%
Gearing (Lending/ paid-in-capital)	118%	314%	417%	321%
Leverage (Debt/paid-in-capita plus reserves)	50%	322%	425%	320%
Profitability (Operating income/assets)	2.8%	0.8%	0.8%	1.9%

Source: CDB, Internal Document, 2000.

3.6 **Financial Structure.** The CDB Charter requires that Special Fund resources be managed, accounted and disposed of separately from Ordinary Capital Resources. These low cost resources are in turn financed and managed from two separate funds. The largest is the Special Development Fund, which is financed by contributions from members and provides low-cost loans and grant technical cooperation. In addition, soft resources lent or contributed by bilateral donors or multilateral institutions to the CDB for their management under specific terms are consolidated and accounted for separately in Other Special Funds. The repayment of loans lent to Other Special Funds are supported by the net income of the consolidated Other Special Funds, a special reserve financed by the fees charged on CDB lending, as well as assets of the Ordinary Capital. The proceeds of IDB FSO loans are managed and accounted for in Other Special Funds.

3.7 Special Fund resources are available to the majority of CDB members, but the CDB gives more advantageous terms and priority to its least developed members. Special Fund resources have an interest rate between 2% and 5% and maximum maturities of between 10 and 30 years, depending on the level of development of the borrowing country. All of the eligible countries for the resources from this loan are in the CDB Group 3, (the second lowest group in terms of level of

development).[9] These countries can borrow from the Special Development Fund at a rate of 2.5%, with a maximum maturity of 30 years, and a maximum grace period of 10 years. The minimum counterpart requirement is 10% of the project costs. The CDB is planning to allocate resources from its Special Development Fund using a transparent formula that takes into account both need (size of the economy, income and vulnerability) as well as performance in terms of their CDB projects and of their poverty reduction strategies.

3.8 OC resources are raised from private market borrowing, sources, lending from multilateral institutions, earnings, and -capital capital subscriptions.. OC assets totaled about US$550 million at year-end 2000, of which 70% were loans to borrowing countries. OC lending increased by 50% since 1995. Due to aforementioned prudent financial management, the CDB has maintained a triple AAA credit rating, and is able to borrow in the market at rates similar to that of the IDB. An indication of the increasing financial strength and capacity of the CDB is that market borrowings are expanding, in spite of a reduction in callable capital from OECD (AAA) countries, and make up an increasing proportion of its OC fund liabilities, reaching over 90% by 2001. With this improved market access, the CDB did not request OC lending for this proposed Global Credit Facility, even though the CDB expects to increase its OC lending over the next five years.

3.9 Previously, the soft term funds financed the majority of CDB lending. However, over the past five years with the relatively rapid growth of CDB market borrowings, and the difficulty in obtaining new soft-term loans and contributions, soft-term lending now makes up about 46% of CDB lending, compared to compare to 37% in 1995 (See Table 5). Operating expenses for the CDB, however, did not decline over the past five years, and in general are about twice as high as those of the IDB in terms of percentage of assets. These higher costs are due primarily to the much smaller average size of CDB operations relative to those of the IDB.

Table 5

Size, Growth and Distribution of CDB Funds
(US$ Millions, except as noted)

	Ordinary Capital		**Special Develop.**		**Oth. Special Fund**		**TOTAL**	
	1995	**2000**	**1995**	**2000**	**1995**	**2000**	**1995**	**2000**

[9] Guyana is considered to be the least developed member of the CDB and is the only country in Group 4. However, as Guyana is also a member of the IDB, it is not an eligible borrower of resources from this loan.
[10] CDB manages its funds prudently given the narrowness of its lending market and the need to minimize risks to its creditors. Reserves as a percent of outstanding loans are 3 to four times higher than most other Multilateral Development Banks, and its interest coverage ratio about 80% greater, as its net income is about twice borrowing costs, and the returns on its paid-in-capital are about 2 percentage points higher.

Assets (Annual Growth)	348	546 (9.4%)	470	554 (3.3%)	160	156 (-0.6%)	978	1256 (5.1%)
-- Loans	209	379	256	282	78	41	569	702
Liabilities	67	203	38	17	106	77	211	297
Capital/Equity	281	343	432	537	55	79	768	959
Administrative Costs (% of Assets) *IDB*	3.2 (0.9%)	5.8 (1.1%) *0.5%*	6.2 (1.3%)	9.6 (1.7%) *0.6%*	1.0 (0.6%)	2.3 (1.5%)	10.4 (1.1%)	17.7 (1.4%)

Source: CDB Annual Reports, IDB Annual Report

2. Operational policies and procedures

3.10 The CDB has devoted considerable resources to improve all phases of the project cycle in order to increase the effectiveness of the operations it supports. At the programming level, the CDB is committed to prepare Country Strategies for each of its borrowing countries every two to three years. These Country Strategies are designed to ensure consistency between the CDB's activities in its member countries with the CDB's overall Strategic Plan and priorities, and with the countries' own development objectives and priorities. Once agreement is reached with national authorities on the country strategy, a country strategy paper, which includes an action plan with performance indicators, is submitted for review and approval by the CDB Board of Directors. It is intended that the Country Strategies should provide the framework within which all projects submitted for approval by the Board will have been developed.

3.11 Once a project has been included in the CDB pipeline, a project team is formed to assist in its preparation and to appraise the project. Projects are appraised with regard to their technical, commercial, and financial, economic, institutional and environmental viability. In addition, projects are assessed regarding their contribution to the removal of economic bottlenecks, poverty reduction, external debt capacity of the country, the introduction of technologies to increase productivity and the expansion of employment opportunities.

3.12 Recently, the CDB has introduced a process to systematically evaluate and compare the performance of its projects at all stages—appraisal, implementation (supervision) and completion. The Project Performance Evaluation System (PPES) assesses projects based on five weighted indicators. (Technical Annexes include a detailed explanation of this system) The first two address the rationale of the project in terms of consistency with the CDB's country strategy and with regard to poverty reduction and mitigation strategies. A second set of four factors is used to evaluate the outcomes of the project. These include indicators to measure: the **efficacy** in meeting specific project objectives; the **cost efficiency**, which measures how much and how quickly benefits exceed its costs, **institutional development impact**, which measures how the norms and practices

of the project allow for the institutions involved to better use their resources; and the **sustainability** of project benefits. All project appraisal documents now include an assessment of these indicators, in addition to annual supervisory reports, and project completion reports. Efforts are being made to ensure the objectivity of these assessments, given the incentives of project team leaders and supervisors to provide positive reports. The CDB is considering having an independent entity validate a sample of project scores or exchanging validation services with other international development banks.

3.13 **Environmental Policy.** A key component of the appraisal and design of projects is the assessment of environmental factors. The CDB requires its borrowers to undertake an impact assessment of project proposal to ensure that they are environmentally sound and sustainable, and that environmental consequences are taken into account in the project design. The Terms of Reference for pre-investment and feasibility studies are required to include environmental analysis. Prior to including a project in its pipeline, all projects are screened and categorized for their potential environmental impact. The categorization determines the scope and depth of the environmental assessment required. The CDB may require environmental conditionalities to be incorporated into loan and grant agreements, and monitors their compliance. To assure sounder environmental designs, the CDB has developed particular environmental protocols for key sectors, including Agriculture, Tourism, and Water and Sanitation. In addition, it funds a regional facility to provide grants to finance Environmental Impact Assessments, policy development studies, as well as to finance environmental mitigation works associated with investment projects.[11]

3.14 The CDB also works with country authorities to boost their internal capacity for environmental management. In this regard the CDB has, in collaboration with the IDB and the World Bank, supported the development of National Environmental Action Plans for the OECS countries, as well as for Belize and Guyana. Moreover, the CDB has provided Technical Assistance to national and regional authorities to improve the effectiveness of their environmental regulations and enforcement capacities.

3.15 **Poverty Reduction, and Governance.** As part of the CDB's strategic thrust for the first years of the 21st century, its Governors have decided to place increased emphasis on poverty reduction and improved governance. In terms of poverty reduction, CDB initiatives focus on enhancing the capabilities and reducing the vulnerabilities of less advantaged groups in Borrowing Member Countries. In this regard, 60% of soft-term resources would be devoted to low-income communities. Important new initiatives in this regard include a focus on early childhood

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[11] An independent environmental management and policy expert, familiar with Bank policies and procedures, was contracted to assess CDB environmental procedures. He concluded that their policies and practices are consistent with those of the Bank, albeit the policies are not as comprehensive. He also concluded that the CDB assures that environmental issues are adequately addressed in the programs, which they finance.

education and the protection of children at risk, and on health promotion and disease prevention. With regard to improved governance, CDB interventions would focus on five areas: modernizing the public sector and improving the delivery of public services, economic management, strengthening civil society, justice and power, and strengthening regional mechanisms for joint action. The principles that will guide these interventions comprise accountability, participation, predictability and transparency.

B. Program execution and administration

3.16 The operation would be executed and administered by the CDB. Operations financed by the program would be selected and appraised with the policies and procedures of the CDB and would be consistent with the policies and objectives of the IDB. The Credit Regulation details the eligibility criteria and requirements for access to the funds of these programs. In particular, these regulations limit the access of the funds to operations in the FSO eligible countries, and to investment projects to improve the quality of and access to infrastructure and social sector services, poverty mitigation efforts, natural disaster mitigation, and the implementation of policy and institutional reforms. Moreover, to ensure effective evaluation of the operations supported, measurable indicators of performance results in terms of meeting development objectives must be defined and baseline data established. In addition, the regulations specify the types of operations and uses of funds that are prohibited by Bank policies. The Barbados Country Office would supervise the execution of the program, and review the compatibility of proposed operations by the CDB with the credit regulations and other contractual obligations.

C. Procurement of goods and services

3.17 CDB procurement policies and procedures are consistent with those of the IDB in terms of ensuring transparency and competition in the selection of goods and service providers. 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; [12]

[12] 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.

(ii) after consultation with the IDB, permit the use of loan resources to finance the execution by force account, including community self-help programs, up to 20% of the loan amount, or US$5 million;

(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.

(iv) the IDB reserves the right to carry out, at any stage of the procurement process, ex-ante or ex-post reviews of the procurement procedures being followed;

(v) all bids may be rejected, after consultation with the CDB, if the lowest evaluate bid exceeds the estimate by an amount to provide a reasonable justification. In such cases, with the approval of the CDB, the executing agency may call for new bids from at least all that were invited to bid in the first instance, but may not negotiate a contract with any bidder.

D. Execution and disbursement schedule

3.18 Program resources would be committed over three years and disbursed to final borrowers in seven years. This would be faster than the current program, and reflects the size of the current pipeline and its advanced level of preparation. However, to defray in part the administrative costs of the program, it is recommended that a waiver to the Banks advance of fund policy be provided, such that up to one-third of the loan amount could be advanced and held in a revolving fund. The advanced funds not on-lent to final borrowers could be used for investment purposes to cover part of the costs of administrating the program. In keeping with recent guidelines regarding the disbursement of investment loans, no more than one-third of the loan could be disbursed annually to the CDB during the first three years of loan execution. No exceptions to bank policy regarding the replenishment of the revolving fund would be required. The following table shows the expected commitment and disbursements to eligible CDB borrowing member countries.

Table 6
Expected Commitment and Disbursement Schedule
(US Millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Commitments	7.0	7.0	6.0				

Disbursements	2.0	3.0	4.0	4.0	3.0	3.0	1.0

E. Monitoring and evaluation

3.19 As noted earlier, the CDB has developed a relatively advanced monitoring and evaluation system. The CDB will make this data available to the Country Office, as well as the annual supervisory reports of the projects, which includes an assessment of the program's performance and the specification of remedial measures, when necessary. In addition, the CDB will provide a copy of its annual report on the implementation of projects, which provides data on all CDB projects in execution. This report will allow the IDB to compare the performance of projects financed with the loan resources with other CDB loans by sector and by country. This information will be sufficient to indicate whether the project is meeting the execution goals in the logical framework (see Annex III).

3.20 The performance evaluation system will be complimented by the requirement that all projects supported by the Program have measurable performance indicators, with baseline data, that show whether the supported projects meet their objectives and demonstrate their development effectiveness. This requirement is included in the Credit Regulations (Annex IV) Appraisal documents should include baseline data and define execution and project termination benchmarks for these performance indicators. These indicators, along with the information included in the CDB's performance evaluation system and project completion reports will allow for an evaluation of the effectiveness of the sub-projects and thereby the development effectiveness of the Program itself.

3.21 **Audits.** The Bank will not require audits of the individual projects financed by the program, but will rely on the CDB to conduct these audits as required by their procedures. This would be an exception to ordinary Bank policy. However, during program execution, the CDB, as the executing unit, will prepare and submit to the Bank its annual audited financial statements (comprising Ordinary Capital resources, Special Development Fund and Other Special Resources Fund) within 180 days after the closing date of each fiscal year. An auditing firm acceptable to the Bank will be responsible for the audit.

IV. VIABILITY AND RISKS

A. Institutional viability

4.1 The CDB continues to improve its operational effectiveness. As noted earlier, it has devoted considerable energy and resources to improve all stages of the program cycle. A more rigorous, comprehensive and open programming process has been implemented. With the implementation of a Project Performance Evaluation System, the CDB is better able during the appraisal phase to predict project performance as well compare more objectively different programs. This system is also helps to provide more effective supervision of programs during implementation. In this regard, CDB plans to provide staff on the ground in its member countries will assist their members in implementing projects in a more timely and effective manner. Finally, the CDB has placed greater emphasis on evaluation, requiring baseline data for performance indicators, which allows for more accurate measurement of program results and effectiveness.

4.2 In addition to these operational modifications, the CDB is also taking measures to improve the effectiveness and efficiency of its human resources. These include a restructuring of its program areas. The CDB is planning to separate the staffing for program analysis and supervision, and previous sectoral divisions would be eliminated. Groups of projects would be placed under the management of a portfolio manager either for preparation or supervision. It is expected that these changes will allow for a more efficient use of CDB human resources as well as making staff responsibilities more transparent.

B. Socioeconomic viability

4.3 The CDB requires as part of its appraisal the estimation of economic rates or return of its programs, as well as the definition of indicators to measure the improvement in access and quality of social services for social sector programs. In addition, all projects are evaluated during appraisal for their effectiveness and relevancy to reduce poverty as well as for their institutional development impact.

4.4 When economic rates of return cannot be estimated, the CDB requires the estimation of the costs of at least three alternative technically feasible methods to achieve the project objective in order to assure that the project meets its development goals at the least cost. With this appraisal and evaluation process, the CDB works to assure that projects they finance are socially and economically viable.

C. Financial Viability

4.5 At the CDB level, the terms and conditions of the program should ensure financial viability. The CDB has estimated that with the spreads of 2.5% during the first 10 years of the loans and 1.5% for the remaining 20 years, the financial returns from the loan should exceed operational costs. Operational costs for Other Special

Development Funds equal about 1.5% of assets. Nevertheless as noted in paragraph 2.6, the CDB is analyzing the possibility of reducing its spread by 1 percentage point to make the lending rate to final borrowers the same as that from its Special Development Fund. The CDB Finance Department is estimating whether the efficiency gains expected from institutional and operational changes as well as the investment income obtained by a larger advance of funds would be sufficient to allow for this reduction of final interest rates.

D. Environmental impact

4.6 As explained in paragraph 3.11, the CDB requires has a rigorous environmental policy designed to mitigate the possible negative and amplify the positive environmental impacts of the projects financed by this Loan. Moreover, in the eligible countries, the awareness of environmental issues and commitment to effective environmental management is increasing. The OECS countries have jointly established a Natural Resource Management Unit (NRMU) to assist them with the development, implementation and enforcement of environmental management policies and regulations. This institution was established with financial support from the CDB, the World Bank as well as the Canadian and British development agencies.

4.7 With the inputs of the NRMU, a regional environmental management strategy has been developed and approved. Moreover, updated and comprehensive environmental management legislation has been prepared and is in the process of being approved and implemented. While monitoring and enforcement capacities still remain weak, with the increasing commitment to more effectively manage natural resources, it is expected that the OECS countries will continue to improve their capabilities to monitor and enforce environmental policies.

E. Beneficiaries

4.8 The program will benefit the eligible countries by providing low-cost resources to improve their competitiveness, improve access to and the quality of social services as well as reducing their vulnerability to external economic shocks and natural disasters. The parallel Technical Cooperation will also accelerate the process of regional harmonization of policies, and thereby promote more effective regional integration. Finally, the program maintains the strong relation between the IDB and the CDB.

F. Risks

4.9 **Credit Risk**. The credit risk of this operation is different than those of loans to Bank members. It is a combination of sovereign risk mitigated by support from CDB resources. Repayment depends first on the ability of the eligible countries to repay the sub-loans. All of these countries have good repayment records, and relatively low debt burdens. However, their vulnerability to external shocks, especially natural disaster can be viewed as heightening their sovereign risks. In

the event of any delay in repayment by the final borrower, the loan's repayment is supported by several sources of funding from the CDB. First, the net income of Other Special Funds can be used. Second, the CDB maintains a special reserve, financed from loan commissions and fees, to guarantee Other Special Fund liabilities. This Fund currently totals US$14 million. Finally, repayment is supported by the paid in capital and retained earnings of the Ordinary Capital, which currently total US$351 million, or about 60% of assets. Given the expectation of continued prudent financial policies, these resources provide a strong level of support. In summary, the financial support of the CDB reduces greatly the sovereign risks of the final borrowers, and makes the credit risk of this operation acceptable.

4.10 **Policy Risk**. If a sound economic policy framework were not maintained, the potential benefits of the program would be reduced. Given the relatively good track record of governments in the eligible countries, and the combination of social cohesion and strong democratic institutions, it is unlikely that the necessary political support would deteriorate.

Disbursement and Execution of Current Loan (926/OC & 975/SF)

Country	Project Sector	Amount	Approval Date/Status	Disbursement to Countries	Environmental Classification/ Performance Rank[1/]
Cayman Islands	Heritage Tourism	4.79 (OC)	8/96 (Completed)	4.37 (OC)	B/
Dominica	Water & Sanitation* (Blended)	3.98 (OC) 2 loans 2.93 (FSO)	12/97, 12/01 Near completion. 12/97 Contracts for works signed.	1.36(OC) 2.92(FSO)	B/81.7
Grenada	Transport & Communication (Blended)	2.63 (OC) 5.11 (FSO) 2 loans	5/98 All works near completions. 5/98, 10/00, near completion.	2.60 (OC) 3.29 (FSO	B/83.5
St. Kitts	Road Improvement	7.0 (OC) 2 loans	12/97, Near completion. 12/01 Contract for works signed.	2.34 (OC))	B/84.4
St. Lucia	Basic Education*	4.25 (FSO)	12/99, Construction of works initiated, scheduled for completion by 9/03.	0.30 (FSO)	B/53.2
St. Lucia	Low-Income Housing*	4.71 (FSO)	12/00, Land issues delayed start-up.	-	B/
St. Lucia	Potable Water*	2.34 (OC)	12/01, Two of three conditions precedent met.	-	B/
Sub- TOTAL		19.73 (OC) 17.0 (FSO)		10.62 (OC) 53.8% 6.85 (FSO) 40.3% **17.5 (47.2%)**	Average 83.1
IDB Disbursement for sub-loans				9.78 (OC) 6.59 (FSO)	
Advance of Funds				3.0 (OC) 10.40 (FSO)	
Total IDB Disbursements				12.78 (OC) 63.9% 17.00 (FSO) 100% **29.78 (80.4%)**	

[1/] Environmental Classification B denotes the need for a limited environmental impact assessment based on expected narrow environmental effects of the project. Performance Ranking lists the percentile rank of all operating CDB projects based on a weighted five indicator scoring system of project implementation and expected effectiveness.

* Indicates poverty reduction projects.

Source: IDB and CDB. Disbursement data as of 3/31/02.

FINANCIAL POLICIES OF SELECTED MULTILATERAL DEVELOPMENT BANKS

Organization	Gearing Ration	Debt Leverage	Liquidity
CDB	Total commitments cannot exceed 133% of net paid-in-capital, ordinary reserves less investments, unallocated income, and 85% of callable capital from OECD members.	Borrowing and guarantees for Ordinary Capital Resource limited to value of 100% of investment grade callable capital, plus paid-in capital and retained earnings.	Maintain liquid assets no less than 40% of undisbursed loan commitments.
IDB	Loans outstanding plus guarantees cannot exceed paid-in-capital plus general reserves and the callable capital of nonborrowing members.	Debt and guarantees, net of qualified liquid assets and special reserve, limited to 100% of callable capital of nonborrowing members.	Targets annual range of 70-90% of sum of 50% of projected year-end undisbursed balances of signed loans plus 33% of projected net cash requirements for that and the succeeding year.
IBRD (World Bank)	Loans outstanding plus the present value of guarantees cannot 100% of subscribed capital, reserves and surplus.	No explicit policy. Gearing ratio implicitly limits net debt funding loans to 100% of subscribed capital and reserves. Maximum debt funding liquidity subject to guideline set by the board.	Minimum liquidity at 100% of highest six months of debt service plus six months anticipated disbursements on committed loans net of repayments.
CAF	Loans outstanding plus equity investments and guarantees limited to 400% of paid-in-capital, reserves and retained earnings.	Debt limited to350% of paid-in-capital, reserves, and retained earnings.	Must be no less than30% of the sum of current portion of long-term debt, increase in short-term debt and project loan disbursements, or 30% of the total undisbursed project loans, whatever is greater.

Source: Standard & Poor's, Sovereign Rating Service, 2002. CDB Internal Documents and Annual Report 2001.

LOGICAL FRAMEWORK
GLOBAL CREDIT FOR SMALL CARIBBEAN STATES (RG-0056)

	NARRATIVE	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL	Contribute effectively to addressing the development priorities in the FSO eligible OECS countries.	Projects financed by programs in eligible countries by the time projects are completed (no later than seven years after project initiation) have either: (i) positive economic rates of return; (ii) improved the quality and access to social or infrastructure services, or (iii) improved countries' economic policy or institutional framework, Projects are consistent with the priorities established in Country Strategies of the CDB.	Project appraisal reports including logical frameworks, Reporting from Project Performance Evaluation System scores, annual supervisory reports, project completion reports,. Country Strategy Papers, as well as and IMF Article IV reports.	No profound changes in political and social consensus in eligible countries. No extreme external shocks.
PURPOSES	Quality of, and access to, social sector and infrastructure services improved. Economic policy and institutional measures implemented.	By the end of year 3 of project execution, all projects to be financed by the loan meet one of these two purposes and that the projects include the definition of measurable performance indicators that can verify the meeting of these purposes with baseline data, and project implementation and completion targets. (Loan resources committed by three years after Board approval) By year four, projects representing half of loan fund resources have reached their mid-term execution point and are meeting project implementation benchmarks, or agreements have been reached between the CDB and sub-borrower to ensure completion through remedial measures.	CDB Project Appraisal Reports, including Logical Frameworks, CDB Supervisory Reports.	Borrowing countries maintain the political will to implement needed reforms.
OUTPUTS	Loan projects approved and implemented in FSO eligible countries.	All loan resources committed to eligible countries by the end of year three of project execution, At least 50% of resources disbursed to eligible borrowing countries the end of year four of project execution.	CDB monitoring reports to the IDB. IDB project monitoring system reports. Annual report of the CDB.	Demand for funds remains high in eligible countries.

I N P U T S	Staff time, direct costs, external advice and overheads of executing agencies in borrowing countries and of the CDB for the design and implementation of loans and technical assistance.	Project teams formed and working on at least four loans within 6 months after IDB Board approval.	Project preliminary appraisal reports.	

GLOBAL CREDIT FOR SMALL CARIBBEAN STATES

PROGRAM

(RG-0056)

CREDIT REGULATIONS

I. PURPOSE

1.1 These Credit Regulations establish the terms and conditions for the execution of the Credit Program for Small Caribbean States (CPSCS - -"the Program"). These Regulations should be interpreted together with the agreement set out in Loan Contract [--]/SF- RG entered into by the Inter-American Development Bank (IDB) and the Caribbean Development Bank (CDB) on *[date]* 2002.

II. DEFINITIONS

CDB: Caribbean Development Bank

IDB: Inter-American Development Bank

Eligible CDB Member Countries: Any of CDB borrowing member countries that are IDA eligible from time to time, and which are not members of the IDB. Currently, these countries include Dominica, Grenada, St. Lucia, and St. Vincent & the Grenadines.

Loan Funds: Funds received by CDB under Loan Contract [--]/SF-RG and on-lent by CDB to an Eligible CDB Member Country to finance a project.

Regulations: These Credit Regulations

Sub-borrowers: Recipients of Loan Funds lent by the CDB for individual projects contemplated by the terms of the Project.

Sub-loans: The Loan Funds lent to sub-borrowers.

Sub-projects: The projects funded with the sub-loans.

III. PURPOSE AND DESCRIPTION OF THE PROGRAM

3.1 The purpose of the Program is to provide IDB resources for socially and economically viable subprojects in the eligible CDB Member Countries.

3.2 The Program consists of financing a series of public-sector projects in the eligible CDB member countries. The resources of the Program consist of up to US$20 million in funds

from the IDB's Fund for Special Operations, and up to US$2.22 million in counterpart funding to be provided by the Sub-borrowers.

IV. ELIGIBILITY OF THE PROJECTS

4.1 The funds of the Program can be used to finance investment in public sector projects to improve infrastructure and social sector services, to implement economic policy and institutional reforms, and to repair or mitigate damage caused by natural disasters. The projects to be financed with Loan Funds will be specific development projects that are technically, economically, financially, and environmentally viable and sound.

4.2 To ensure the preservation of the environment, CDB will ensure that its environmental criteria are being followed.

V. TERMS AND CONDITIONS OF THE LOANS

5.1 CDB will apply the following terms and conditions for loans made under the Program:

a. Tenor: Up to thirty years, including ten years' grace. No grace period will be granted for interest payments.

b. Rate of Interest: The rate of interest charged to the sub-borrowers by the CDB will be the same as that of its Special Development Fund (Unified) for the respective country.

5.2 Additionally, CDB will undertake to:

a. require the sub-borrower to use the proceeds of the subloans exclusively to purchase he goods and services required to execute the respective project;

b. secure the right of CDB and IDB to inspect the machinery and equipment, sites, works and other aspects of the project during its execution;

c. require the sub-borrower to supply whatever information that CDB may reasonably request in relation to the project;

d. require the sub-borrower to ensure that the acquisition of goods and services will be made according to principles of efficiency and economy;

e. obtain the right to suspend disbursements of the loan if the sub-borrower defaults in the fulfillment of any of its obligations;

f. require the guaranty of the central government of the Eligible CDB Member Country in cases where the sub-borrower is not an Eligible CDB Member Country government, CDB;

g. require that all sub-projects have measurable performance criteria that demonstrate the effectiveness of the project in meeting its development objectives, and that benchmark

values, and target values for project implementation and completion are established and agreed with the sub-borrower as part of the sub-loan agreements.

h. include provisions to ensure appropriate maintenance of equipment or works purchased with resources from the Financing, as well as requiring periodic reports regarding the sub-borrower's maintenance programs.

5.3 The resources of the Loan Funds can only be used to finance up to 90%% of the total cost of projects in Eligible CDB Member Countries. The resources of the Loan Funds may be blended with the other loan resources of the CDB, in proportions to be determined by CDB.

5.4 The Loan Funds may not be used to finance:

a. the payment of debts or the refinancing of loans;

b. the purchase of shares, bonds, participation's in private-sector enterprises, or other securities;

c. projects which do not comply with CDB's environmental regulations and with those of the Eligible CDB Member Country in which the project is located;

d. taxes or duties;

e. military equipment; and

f. the acquisition of goods and services from countries, which are not members of the CDB or the IDB.

VI. LOAN LIMITS

6.1 Individual sub loans are limited to a maximum of $5 million.

VII. AUDITS INSPECTIONS AND SUPERVISION

7.1 CDB and the IDB reserve the right to audit and inspect the projects to verify the correct application of the Loan Funds and compliance with these Credit Regulations. CDB will inspect each project, at least once a year during execution, to determine the compliance with environmental regulations, implementation benchmarks, and performance indicators, and agree on measures with the sub-borrower to ensure compliance.

7.2 If the CDB determines that a project is not following the relevant environmental norms, CDB will:

a. inform the project-executing entity of the lack of compliance;

b. inform the government of the Eligible CDB Member Country in which the project is located; and

c. exclude the Eligible CDB Member Country from participation in the Program until all its projects are in compliance with the relevant environmental regulations.

7.3 To facilitate effective supervision and evaluation of the loan by the IDB, the CDB will. provide to the IDB copies of the project appraisal reports, project supervision reports, annual CDB review of project implementation, project completion reports and any other evaluation of the financed projects once they are completed.

VIII. MODIFICATION OF THESE CREDIT REGULATIONS

8.1 CDB can request modifications to these Credit Regulations, in order to adapt the Program to new conditions that may present themselves during the execution of the Program. Any modification to these Regulations will become effective as and when the IDB expresses its agreement in writing.

8.2 These Regulations will become effective on the date that the IDB makes Loan Funds available for relending pursuant to IDB Loan[-]/SF-RG.