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REGIONAL

PROGRAM FOR BUILDING DISASTER AND CLIMATE CHANGE RESILIENCE IN THE OECS COUNTRIES

(RG-L1142)

LOAN PROPOSAL

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ABBREVIATIONS	
A&B	Antigua and Barbuda
BC	Benefit-Cost
CARICOM	Caribbean Community
CBDRM	Community-Based Disaster Risk Management
CC	Climate Change
CCLIP	Conditional Credit Line for Investment Projects
CDB	Caribbean Development Bank
CDRRF	Climate Change Adaptation Trust Fund
CTCS	Caribbean Technological Consultancy Services
DFI	Development Financial Institutions
DRM	Disaster Risk Management
EA	Executing Agency
EIB	European Investment Bank
E&S	Environmental and Social
ESHS	Environmental, Social, Health and Safety
ESMR	Environmental and Social Management Report
ESMS	Environmental and Social Management System
ESS	Environmental and Social Strategy
GCL	Global Credit Loan
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IPCC	Intergovernmental Panel on Climate Change
MEP	Monitoring and Evaluation Plan
MSMEs	Micro, Small, and Medium-sized Enterprises
NAP	National Adaptation Plans
OC	Ordinary Capital
OECS	Organization of Eastern Caribbean States
OR	Operating Regulations
PCR	Project Completion Report
QRR	Quality Risk and Review
SKN	Saint Kitts and Nevis
SPF	Safeguard Policy Filter
SSF	Safeguard Screening Form
STL	Saint Lucia
WMSMEs	Women Micro, Small, and Medium-sized Enterprises

PROJECT SUMMARY

REGIONAL

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Financial Terms and Conditions				
Borrower			**Flexible Financing Facility**[a]	
Caribbean Development Bank			**Amortization Period:**	23.5 years
Executing Agency			**Disbursement Period:**	6 years
Caribbean Development Bank			**Grace Period:**	7 years [b]
Source	**Amount (US$)**	**%**	**Interest rate:**	LIBOR based [c]
IDB (Ordinary Capital):	50,000,000	100	**Credit Fee:**	[d]
			Inspection and supervision fee:	[d]
			Weighted Average Life (WAL):	15.25 years
Total:	50,000,000	100	**Currency of Approval:**	Dollars of the United States of America

Project at a Glance
Project Objective/Description: This Global Credit Loan (GCL) has the objective of enhancing the resilience of eligible Organization of Eastern Caribbean States (OECS) member countries to disasters and climate change. The specific objectives of the operation are to enhance infrastructure for disaster resilience and to foster Micro, Small, and Medium-sized Enterprises (MSMEs) disaster-resilient growth.
Special Contractual Clauses prior to the first disbursement of the loan proceeds: The approval and entry into effect of the Operating Regulations (OR), including, among others, the sub-loan standard terms and conditions for Component 1, in accordance with the terms and conditions previously agreed upon between the Borrower and the Bank (¶3.15). **Special Contractual Clauses of execution:** a. Prior to the approval of each sub-loan, the Borrower shall submit the draft sub-loan proposal for the Bank's no objection (¶3.16). b. Prior to the first disbursement for each sub-loan, the Borrower shall submit to the Bank a copy of the signed sub-loan agreement with the respective eligible sub-borrower (¶3.16). c. Prior to the first disbursement of the sub-loan resources to MSMEs under Component 2, a disaster risk assessment of each MSME sub-loan will be carried out by the corresponding Development Financial Institutions (DFI) (¶3.16). **Special Environmental, Social, Health and Safety (ESHS) Contractual Clauses:** Please see the specific Environmental and Social (E&S) legal requirements in Annex B of the Environmental and Social Management Report (ESMR), "ESHS Legal Requirements".
Exceptions to Bank Policies: None.

Strategic Alignment			
Challenges[e]:	SI ☒	PI ☒	EI ☒
Cross-Cutting Issues[f]:	GE ☐ and DI ☐	CC ☒ and ES ☐	IC ☒

[a] Under the Flexible Financing Facility (document FN-655-1), the borrower has the option to request modifications to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

[b] Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.

[c] Consistent with document FN-729 "(Strategy and operational Readiness for the Execution of the Libor Transition for the IDB Balance Sheet") and document CF-257-1 "(Base Rate Replacement for Sovereign Guaranteed Libor Based Loans)," this Loan will be subject to the SOFR based interest rate either based upon notice to the Borrower by the Bank, or upon the request by the Borrower, in accordance with the provisions of the Loan Contract.

[d] The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.

[e] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[f] GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and justification

1.1 The Caribbean Development Bank (CDB) has requested a US$50 million Global Credit Loan (GCL) to enhance the disaster and climate change resilience of eligible Organization of Eastern Caribbean States' (OECS)[1] member countries. CDB is a regional development bank that supports member countries of the Caribbean region, contributing to the economic growth and sustainable and resilient development of these countries, and promoting economic cooperation and integration. CDB and the Inter-American Development Bank (IDB) have maintained a long collaborative relationship since 1977 with a total of eight approved operations[2] worth US$322 million, with the objective of supporting the economic and social development of OECS countries. An agreement between the IDB, the Inter-American Investment Corporation (IDB Invest) and CDB was recently signed to reinforce this commitment (¶3.3). In 2020, the IDB and CDB agreed to collaborate to support eligible OECS member countries during the crisis caused by the COVID-19 pandemic. Six OECS member countries are eligible to receive IDB funding through the CDB for this particular operation: Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines (hereinafter either referred to as Eligible OECS Member Countries).

1.2 **Natural hazards present one of the most serious threats to the sustainable development of the Caribbean**. Due to location, geomorphology, and socio-economic characteristics, the Caribbean is vulnerable to many hydro-meteorological (hurricanes, tropical storms, storm surges, flooding, and drought) and geophysical (earthquakes, volcanoes, landslides, and tsunamis) hazards.

1.3 **The Caribbean region is comprised of small open service-driven economies highly exposed to natural disasters**. The main economic activity of most of its countries is tourism and financial services, although some depend on commodity exports. The lack of economic diversification renders the region vulnerable to external shocks, while its geography leaves it highly exposed to natural disasters and climate change. In fact, disasters have caused significant damage to the OECS countries and resulted in significant reconstruction cost in countries with little fiscal space and no budget contingencies. The outcome has been disruption to economic growth, larger deficits, and higher public debt.[3] Debt to Gross

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[1] The OECS is an International Inter-Governmental Organization dedicated to regional integration in the Eastern Caribbean. It was created in 1981 to cooperate and promote unity and solidarity among the Members. It currently comprises 11 members states: Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. These members are part of the Economic Union and received the full benefits of Economic Union like, free movement of people and goods, with the British Virgin Islands, Anguilla, Martinique, and Guadeloupe as associate members of the OECS.

[2] 551/SF-RG (approved in 1978; US$12 million), 758/SF-RG and 488/OC-RG (1984; US$25M), 975/SF-RG and 926/OC-RG-1 (1996; 37M), 1108/SF-RG (2002; US$ 20M), 2798/BL-RG (2012; US$20M), 3561/OC-RG (2015; 98.87M), 4712/GN-RG (2018; US$60M) and 5156/OC-RG (2020; US$50M).

[3] Gomez Osorio, C. et al. *Together for Prosperity in the OECS.* IDB, 2017.

Domestic Product (GDP) ratios in the OECS countries are estimated to have grown by almost five percentage points faster during the year a storm struck, with a cumulative debt increase of 5% of GDP a few years later.[4] Between 2000 and 2020 the OECS countries were impacted by 32 disasters (30 hydrometeorological[5] and 2 geological),[6] which left 186 deaths and approximately 500,000 affected persons, and accrued an estimated US$6.5 billion in total damage.[7]

1.4 **The COVID-19 crisis is having a major impact on economic activity.** The region experienced a contraction of 12.8% in 2020, mainly driven by a halt in tourists' arrivals.[8] The tourism dependent economies in the Caribbean recorded an approximate 70% decline in overnight visitors, resulting in record increases in unemployment rates.[9] Lower government revenues and higher expenditures led to a deterioration of fiscal balances and higher levels of debt. The regional debt to GDP ratio increased to 79.5% in 2020 from 66.5% in 2019, and it is expected to continue on an upward trend. Although vaccination programs both in Caribbean countries as well as in source markets are advancing, many countries are currently facing their third or fourth wave of high COVID-19 infection rates since the beginning of the pandemic, further delaying recovery. The economic outlook is highly uncertain and will depend on the effectiveness of the vaccination efforts and the development of new variants.

1.5 **Disasters and poverty.** Disasters particularly impact people living in poverty in multiple ways: the poor frequently are overexposed because they are only able to reside in at-risk areas and depend on unstable agriculture-related income (Akter and Mallick, 2013; Noack et al., 2015), and they are more vulnerable in terms of assets and livelihoods (Carter et al., 2006; Rabbani et al., 2013). The poor also have less capacity to resist and recover, and less access to formal loan and insurance markets (Gentle et al., 2014; Guerrero, 2013). They are forced to make decisions with irreversible negative effects on their education and health that reinforce intergenerational transmission of poverty, such as taking children out of school early, increasing child labor, or cutting health spending (Kousky, 2016; Bustelo, 2011).

1.6 **Climate Change.** According to the World Bank,[10] the average annual damages due to hurricanes and tropical storms in the Caribbean Community (CARICOM) countries is US$452 million. Based on estimations from Clark,[11] climate change (CC) impacts could add between US$160 million[12] and US$610 million[13] to the figure above. Broader CC impacts in the Eastern Caribbean include the erosion of soft shores, increased salinity of estuaries and aquifers, rising coastal water tables,

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[4] Acevedo, S. 2014. Debt, Growth and Natural Disasters: A Caribbean Trilogy. IMF Working Paper 14/125. International Monetary Fund, Washington, DC.
[5] For the period considered in this analysis (2000-2020): Tropical storms, floods, and droughts.
[6] For the period considered in this analysis (2000-2020): Earthquakes and volcanic eruptions.
[7] Centre for Research on the Epidemiology of Disasters (CRED). Online inquiry May 2021.
[8] Caribbean Development Bank (2020).
[9] IDB Caribbean Quarterly Bulletin (2021 2Q).
[10] Assessment of the Economic Impact of Climate Change on CARICOM Countries. WBG, 2002.
[11] Clark, K.M., 1997. *Current and Potential Impact of Hurricane Variability on the Insurance Industry, in Hurricanes, Climate and Socio Economics Impacts*, SP 1997. Although these estimates were made for coastal U.S.A. the percentage changes should apply equally in well populated Caribbean countries.
[12] Low impact scenario.
[13] High impact scenario.

and increased and more severe coastal flooding and storm damage.[14] If emissions continue in the current path, the cost of global inaction to CC could be approximately US$22 billion annually by 2050 and US$46 billion by 2100 for the Caribbean. This represents 10% and 22% of the aggregate GDP of CARICOM countries, respectively.[15] When measured in terms of 2004 GDP, the economic fallout from CC could reach as high as 75% by 2100 in Dominica, Grenada, and Saint Kitts and Nevis (SKN).[16]

1.7 **Damage and loss by sector.** A damage and loss assessment[17] carried out after Tropical Storm Erika struck Dominica in 2015 provides an example of the typical distribution of the disaster impact among sectors. Infrastructure sectors accrued almost 70% of damages and losses, followed by productive sectors (mostly tourism, agriculture, and fisheries) with 18% and social (housing, education, and health) with 12%. An assessment for the heavy rains that affected Saint Lucia (STL) in 2013 rendered similar results.[18]

1.8 **Road infrastructure.** The economic toll of these disasters on road infrastructure is often high and can take several years to be rebuilt. Extreme rainfall events, combined with the characteristically mountainous topography of many of the OECS countries, often lead to landslides and flash flood events which may block roads, isolate communities, restrict transit, erode road embankments, and damage bridges, among other damaging impacts. The disasters referred in the previous paragraph provided good evidence of this: post-disaster assessments indicated that road infrastructure sustained 72% of the damages and losses from these events in STL (US$71.9 million)[19] and 61% in Dominica (US$287.5 million).[20] Disaster risk studies in these two countries reveal that over 60% of the road kms present moderate to high landslide susceptibility. In STL, the road infrastructure sector shows annual asset losses of US$12 million and average annual well-being losses of US$26 million, including service disruption effects on the communities and the economy.[21]

1.9 The recent explosive eruption (April 9, 2021) of the La Soufriere volcano on St. Vincent caused the displacement of 22,400 people and damage to road infrastructure of over US$41.5 million[22] and highlighted the need to ensure resilience also to geophysical hazards, too, such that redundancy in the road network allows for safe evacuation, and timely resumption of social and economic activity.

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14 *Organisation of Eastern Caribbean States Systematic Regional Diagnostic*. WBG, 2018.

15 Bueno et al. *The Caribbean and Climate Change: The costs of inaction*. TU, 2008.

16 *An assessment of the economic impact of climate change on the macroeconomy in the Caribbean* ECLAC, 2011.

17 *Dominica, Rapid Damage and Impact Assessment Tropical Storm Erika.* Government of the Commonwealth of Dominica (2015).

18 *Saint Lucia, Joint Rapid Damage and Needs Assessment Flood Event of December 24–25, 2013*. Government of Saint Lucia and the World Bank (2014).

19 Ibid. World Bank (2014).

20 Ibid. Government of the Commonwealth of Dominica (2015).

21 *Climate and Disaster Resilient Transport in Small Island Developing States: A call for Action*. World Bank Group (2017).

22 *Presentation of the Findings of the Detailed Damage Sectoral Assessment Report of the Explosive Eruption of La Soufriere, St. Vincent*. Ministry of Finance and Planning. 2021.

1.10 **Water and sanitation**. Climate-related hazards present diverse risks to water security in countries which already have some of the highest levels of water stress in the world. Countries which rely on groundwater, such as SKN and Antigua and Barbuda (A&B), are impacted by saline intrusion to their aquifers, worsened by sea level rise. Threats to surface water sources are frequently evidenced when hurricanes damage watersheds, disrupting supplies due to turbidity issues and damaging effects of waterborne debris. The effects of drought are more pronounced in A&B, which does not benefit from the orographic rainfall of its more mountainous neighbors. Against these challenges, aged infrastructure, often vulnerable to the effects of flooding and other hazards, contributes to the high level of water loses and leakages (non-revenue water) estimated by most Caribbean utilities. Damage to wastewater collection and treatment systems resulting from the impact of hazard events increases the risk to public health through contamination of water sources. Water and sanitation infrastructure was the third most impacted sector (after transportation and agriculture), sustaining 6.4% of total damage and losses from the 2013 intense rainfall event in STL (¶1.7).[23] Dominica's water and sanitation sector suffered an estimated US$64 million in damage and losses due to Hurricane Maria in 2017, equivalent to 4.9% of the total national damage and loss, with 43 of the 44 water supply systems in the country being seriously affected.

1.11 **Demand for enhancing disaster and CC resilience of infrastructure.** The development of National Adaptation Plans (NAP) or similar plans and international finance support have been key in recent years to set a robust pipeline of projects and actions and have built sufficient momentum and knowledge to foster disaster risk reduction and CC adaptation measures. For example, Dominica identifies in its Climate Resilience and Recovery Plan 2020-2030[24] a financing gap of approximately US$90-130 million annually of which US$37 million should be directed to implement the infrastructure-based Resilient Dominica Physical Plan. Similarly, Grenada also launched its NAP[25] in 2017 for a 5-year period identifying a demand of US$260 million, of which US$50.2 million are dedicated to the water and sanitation sector, US$15 million to integrated coastal zone management, and US$113 million to resilient infrastructure and sustainable land management, among others. STL has developed specific sectoral adaptation strategies and action plans for 2018-2028 derived from its NAP[26], including for the water and sanitation sector,[27] which identify specific investments to be financed. St Vincent and the Grenadines approved its NAP[28] in 2019 for a period of 12 years (2018-2030), which also includes an indicative multimillion US dollar budget with defined actions. A comparable plan with similar level of detail has been developed by SKN.[29] The NAP for Antigua and Barbuda is currently under preparation.

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23 Ibid. Government of Saint Lucia and the World Bank (2014).

24 *Dominica Climate Resilience and Recovery Plan 2020-2030.* Government of Dominica (2020).

25 *National Climate Change Adaptation Plan (NAP) for Grenada 2017-2021.* Government of Grenada (2017).

26 *Saint Lucia's National Adaptation Plan (NAP) 2018-2028. Government of Saint Lucia (2018).*

27 *Saint Lucia's Sectoral Adaptation Strategy and Action Plan for the Water Sector (Water SASAP) 2018-2028.* Government of Saint Lucia (2018).

28 *National Adaptation Plan (NAP) for St. Vincent and the Grenadines 2018-2030. Government of St. Vincent and the Grenadines (2019).*

29 *National Climate Change Adaptation Strategy for St Kitts and Nevis. Caribbean Natural Resources Institute (2018).*

1.12 **Productive sectors.** Disasters have often resulted in significant damage and losses to the productive sectors, necessitating significant investment for recovery, primarily in the tourism and agriculture sectors. For instance, Hurricane Ivan on Grenada in 2004 caused damages to these sectors corresponding to 41% and 10%, respectively, in relation to GDP.[30] Similar impacts are observed for recent events such as Hurricane Irma (2017) in Antigua and Barbuda, with tourism supporting 50% of total damages and losses (44% of the GDP)[31]; or Hurricane Maria (2017) in Dominica, with agriculture damages and losses corresponding to a 35% of the GDP, with more than 90% of the crops being lost.[32]

1.13 **Micro, Small and Medium Enterprises (MSMEs**).[33] MSMEs are estimated to represent between 70% and 85% of total enterprises in the Caribbean, thus contributing between 60% and 70% of GDP, 50% of employment, and are a significant factor for income generation and poverty reduction.[34] Based on data obtained from the SME Finance Forum,[35] there are 19,841 MSMEs in the Eligible CDB Member Countries, with a collective finance gap of US$1.1 billion contrasting a potential demand for financing of US$1.6 billion as measured in 2017. Those MSMEs that can indeed obtain financing, are usually concentrated in short-term credit lines, which is not suitable to absorb and sustain capital investments. Furthermore, the current circumstances related to the pandemic have most likely further aggravated MSME's access to credit in Eligible OECS Member Countries. Although specific data is not available for the OECS countries, it has been a widespread phenomenon observed in the Caribbean.[36] In order to contribute to mitigate this impact, the IDB supported Eligible OECS Member Countries through the Global Loan Program to Build Health, Social and Economic Resilience in the OECS Member Countries during the COVID-19 Crisis (5156/OC-RG) for US$50 million, which could potentially support improvement of short-term financial capacity and access to production-oriented finance for economic recovery for MSMEs.

1.14 Furthermore, infrastructure damage has been identified as an important source of financial stress for MSME after natural disasters, by causing temporary business closure while structural repairs may be needed to restore operations usually require large amounts of capital investments. Disaster disruptions in services such as electricity, water and sanitation, transportation, and telecommunications, and of supply chain inputs required for MSMEs to generate their services, and disaster impacts to consumers of MSMEs goods can also disrupt their respective continuity of operations and increase probability of businesses closures.[37] Most MSMEs

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30 *Post-disaster Early Recovery in a Caribbean Small Island Developing State. The Case of Hurricane Ivan in Grenada (2004): Best Practices and Lessons Learned.* UNDP Barbados & the OECS (2007).

31 *Hurricane Irma Recovery Needs Assessment: A Report by the Government of Antigua and Barbuda. Government of Antigua and Barbuda and The World Bank (2017).*

32 *Dominica Climate Resilience and Recovery Plan 2020-2030. Government of Dominica (2020).*

33 For this program, MSMEs will follow the CDB classification in effect, currently as described in paragraph 3.5. This classification may be updated from time to time.

34 *Micro, Small and Medium Enterprise Development in the Caribbean: Towards A New Frontier*. CDB 2016.

35 *MSME Finance Gap database.* SME Finance Forum.

36 *The Impact of the COVID-19 Pandemic on Firms in the Caribbean. IDB Invest 2021.*

37 Zhang et al., *Modeling and managing the vulnerability of community businesses to environmental disasters. University College Station, Texas; 2014.*

usually have limited insurance coverage and contingency reserves to compensate for these liabilities and must therefore bear the burden directly on their cash flows.

1.15 On the supply side, the financial system in Eligible OECS Member Countries is comprised of 34 banks (of which 23 are of foreign capital and 11 are locally owned) and 15 non-bank financial institutions; in addition, there are 47 credit unions, 132 insurance companies and 29 international financial services sector banks. Commercial banks mostly supply credit to larger firms and individuals, most of the smaller financial institutions provide credit to MSMEs, albeit in limited amounts. Each Eligible OECS Member Country has a development bank, except for St. Vincent and the Grenadines.[38] Domestic credit to the private sector in these countries ranges from 50.2% to 69.2% of GDP as of 2020, which is comparable to the reference of 60.3% for Latin America and the Caribbean, however significantly below the World, which registers 146.7% of credit to GDP. Non-performing loans to total loans are variable throughout the OECS countries, with most countries maintaining levels higher than 5% as of 2019, except for Grenada. These figures do not account the data post pandemic which have indicatively risen significantly to higher levels.[39]

1.16 With CDB already focused on providing financing relief and recovery for MSMEs in the OECS countries (as previously mentioned for example through the IDB loan 5156/OC-RG), more support should be directed towards fostering a green recovery for MSMEs, by enhancing their resilience to sustain the potential impact of natural disasters. Towards this objective, a specific study was commissioned to better understand the potential credit demand of MSMEs in the Eligible OECS Member Countries, including their appetite for resilience investments (OEL#3). The main preliminary findings are: (i) credit to MSMEs has been significantly constrained during the pandemic, both through firms suffering financial deterioration as well as the banking sector reflecting significantly higher decline in the quality of its lending portfolio to MSMEs; (ii) there would be demand for credit overall in the Eligible OECS Member Countries for the proposed program; (iii) both the banking sector and MSMEs have keen interest to assess their disaster risk and mitigate it; and (iv) the cost of implementing such disaster risk assessments for MSMEs must be mitigated through grant resources.

1.17 **Sector knowledge.** Since the inception of the foundational Disaster Mitigation Facility Project (2001-2006) focusing on institutional strengthening for Disaster Risk Management (DRM) within CDB and the institutionalization of DRM policies in borrowing member countries, CDB has continued to subsequently increase its programming footprint for DRM in its operations.

1.18 In 2008, IDB approved a technical cooperation – Mainstreaming Disaster Risk Management in OECS Countries (ATN/OC-11176-RS) - valued at US$400,000 to support the mainstreaming of DRM in OECS countries focused on building the OECS Secretariat and OECS member states institutional capacity in Community-Based Disaster Risk Management (CBDRM) and enhancing disaster resilience in vulnerable low-income communities.

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[38] Gomez Osorio, Waithe and Blenman, *Together in Prosperity in the OECS – Growth, Development, and Adversity in Small Island Developing States. Inter-American Development Bank, 2017.*

[39] *World Bank Open Data*.

1.19 In 2012, CDB developed a US$24 million Canada/UK/CDB financed multi-donor Community-Based Disaster Risk Reduction and Climate Change Adaptation Trust Fund (CDRRF). The CDRRF financed community-driven projects, selected through a competitive process, that were aimed at reducing natural hazard and climate change impacts. Additionally, under its Caribbean Technological Consultancy Services (CTCS) program, CDB has developed a business continuity toolkit for MSMEs which was inclusive of the identification of planning and risk management measures in relation to potential natural hazard impacts.

1.20 In 2014, CDB co-implemented with the Caribbean Disaster Emergency Management Agency (CDEMA) and the Government of the Dominican Republic, a EUR 20 million five-year Natural Disaster Risk Management Program supported by the European Union which strengthened the capacity of national disaster offices and enhanced resilience through early warning systems, risk profiling and CBDRM, as well as mainstreamed disaster risk reduction and climate change adaptation in key sectors such as water and sanitation and transport.

1.21 Through the Special Development Fund and other sources of funding, CDB has done significant work in improving the business ecosystem for MSMEs, including improving their access to credit through blended resources, which have been intermediated through DFIs and financing institutions, and capacity building of MSMEs primarily through CDB's CTCS program. Work to support the enabling environment has also been undertaken, more recently in partnership with the Compete Caribbean Facility, a partnership of IDB, CDB, UK and Canada, to develop and implement a program addressing business climate reforms.

1.22 The Bank, too, has extensive experience designing sovereign guaranteed loan programs aimed at improving MSMEs access to finance. In the last financial crisis faced by the region in 2007, the Bank played a countercyclical role by expanding the amount of financing and facilities used to address the lack of access to credit faced by the region's MSMEs. Liquidity programs for growth sustainability were approved in 2008 and 2009 with the aim of reestablishing access to finance for working capital and foreign trade in the productive sectors.[40] In December 2020, IDB approved 5156/OC-RG, a US$50 million GCL to CDB to support the OECS member countries response to the health, social and economic consequences of the COVID-19 crisis. Component 3 of the project provides financing to improve short-term financial capacity of MSMEs and access to production-oriented finance for economic recovery.

1.23 **Lessons learned from previous work with CDB**. Project Completion Reports (PCR) of the two most recently completed GCLs to the CDB (926/OC-RG; 975/SF-RG, and 1108/SF-RG) highlight the following aspects that contributed to effective program implementation: (i) sound project design process as reflected in the high quality of CDB project appraisal documents; (ii) project consistency with country strategies; (iii) CDB´s responsive approach to clients, as reflected by the flexibility in the use of sub-loans to address changing priorities in the borrowing countries; and (iv) high quality supervision by CDB in terms of ensuring that project outputs were achieved. In addition, the GCLs currently in implementation

[40] In 2008, the IDB created the Liquidity Program for Growth Sustainability under the category of emergency lending (GN-2492-3).

(2798/BL-RG, 3561/OC-RG and 5156/OC-RG) also signal the importance that all parties agree on the environmental and social requirements applicable to sub-loans. In this sense, the CDB's Environmental and Social (E&S) Review Procedure includes the IFC Performance Standards, which have considerable overlap with the IDB's safeguard policies. In previous loans this overlap has simplified the process of harmonizing the requirements of IDB and CDB E&S policies, requiring a limited set of additional requirements. Nevertheless, the number of CDB E&S officers seems to be insufficient for the CDB's current portfolio. E&S Supervision Reports of FI operations with the CDB as Executing Agency have consistently indicated that although CDB E&S officers are qualified, the possible lack of sufficient personnel has resulted in low responsiveness and on occasions in which the IDB has had to lead the due diligence or supervision process, although this process is commonly the responsibility of the CDB or a joint responsibility (¶2.5). It is also important to mention the complementarity that the proposed operation will provide to MSMEs by promoting a green recovery through investments in resilience (¶1.14).

1.24 **Lessons learned from previous IDB operations.** Regarding DRM interventions, the following lessons from similar operations in Bolivia (4403/BL-BO and 3812/BL-BO), Honduras (2152/BL-HO), Nicaragua (2415/-BL-NI) and Haiti (2187/GR-HA and 3622/GR-HA) will be considered in the formulation of this loan: (i) the importance of using a gradual and scalable approach to disaster and CC risk screening and assessment that considers hazard exposure and the analysis of the criticality and vulnerability of the exposed assets and economic activities (¶1.34, ¶1.35); and (ii) non-structural measures complement the level of protection offered by structural measures (¶1.34). In terms of MSME interventions, the operation will build on lessons learned from similar programs in Brazil (Conditional Credit Line for Investment Projects [CCLIP] for Productive and Sustainable Investments - BR-O0001), Colombia (CCLIP for Productive Business Financing - CO-O0004), and Uruguay (Financing Productive Development Line for Uruguay - UR-X1011), including the importance of ensuring effective supervision of financial terms for final beneficiaries and promoting adequate monitoring activities. Thus, for the design of the proposed program the following lessons have been considered: (i) the inclusion of proper supervision of financial conditions at which resources are provided to final beneficiaries, in order to avoid market distortions and ensure additionality is not exhausted throughout the intermediation chain; (ii) ensuring that there will be institutional capacity of the DFI to adequately assess and monitor sub-loans, including the design and implementation of the resilience tool; (iii) establish relationships and commit the use of resources within the DFI to encourage high-quality execution of the program, with support of staff specifically responsible for responding for program activity; (iv) the encouragement of a formal monitoring and evaluation system so that local capacity is developed and the importance of accountability is understood; and (v) related to the latter, a systematic collection, management and maintenance of data on the program, so that results can be properly analyzed and used for further enhancing future.

1.25 **Innovation.** Given, its critical economic importance to livelihoods and quality of life for populations in the OECS member countries, it is important that strengthening the resilience of MSMEs (which are important generators of employment in this space) be addressed; especially in the face of the probability of increasing loss impacts due to climate change. Financing resilience building in key infrastructure

sectors is not new. However, the program is innovative in that it is seeking to mainstream both the conceptual and practical consideration of resilience within eligible OECS member countries' MSMEs by providing finance, as well as the opportunity to generate an invaluable body of implementation knowledge on barriers and optimal feasible/scalable future approaches towards increasing resilience within these enterprises in the longer term. There are or have been little to no, specific development interventions that endeavor to foster resilience at an operational or practical level within MSMEs, and within the context of their relevance to the informal sector. From supervision, monitoring of implementation and experiential learning perspectives it is expected that greater technical know-how on how best to target resilience within OECS member countries' MSMEs will be generated as well as increased sensitivity to more practical consideration of resilience by MSMEs owners and operators. The International Labor Organization (ILO)[41] has identified that "facilitating the transition of micro and small enterprises which are the main generators of employment in the Caribbean from informality to formality is a key strategy for reducing informal employment in the Caribbean". Creating the opportunity to increase the transfer of awareness of the need for MSME owners/operators to better think about, appraise and address their own resilience, and to implement such measures, is an innovative approach in the context of generally low structured consideration of this issue. Over the long term, those MSMEs pursuing such approaches, would also be increasing their skills and competencies that gains them recognition in the context of any desired trajectory to greater formality.

1.26 **Strategic alignment.** This operation is aligned with IDB´s Second Update to the Institutional Strategy (AB-3190-2) and is expected to contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) through the priorities of: (i) Social Inclusion and Equality, by contributing to indicator "Projects incorporating structural and/or non-structural measures that enhance disaster and climate-change resilience in the water and sanitation sector;" (ii) Productivity and Innovation, by contributing to indicator "Micro, small, medium enterprises financed;" and (iii) Economic Integration, by contributing to indicator "Disaster-resilient roads built or upgraded (km)." It also aligns to the cross-cutting issues of: (i) Climate Change and Environmental Sustainability, by contributing to indicator "Beneficiaries of enhanced disaster and climate change resilience;" and (ii) Institutional Capacity and Rule of Law, by contributing to indicator "Development financial institutions with strengthened managerial capacity", through the technical assistance to be provided to these institutions to assess the disaster risk of the sub-loans. The operation is aligned with the Strategy "Sustainable Infrastructure for Competitiveness and Inclusive Growth" (GN-2710-5), specifically with its priority action area "support the construction and maintenance of socially and environmentally sustainable infrastructure, thus enhancing quality of life," through actions that will contribute to safe and more resilient infrastructure. It is also consistent with the Disaster Risk Management Policy (GN-2354-5), by identifying disaster risks, reducing vulnerability and by preventing and mitigating disasters before they occur, and with the Support to SME and Financial Access/Supervision Sector Framework Document (GN-2768-7). The

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41 Informality and economic units in the Caribbean International Labor Organization, Office for the Caribbean - Port of Spain: ILO, 2017. ISBN: 978-922-130003-8

operation is included in Update of the Operation Program report 2021 (GN-3034-2).

1.27 This operation aligns with CDB's 2020-2024 Strategic Plan,[42] which prioritizes the need for adaptation and climate resilience. Climate resilience is now mainstreamed into all CDB infrastructure investments. This operation is consistent with Vision 2025 and promotes IDB's sub-regional initiative of smart and resilient investments for the Caribbean – Build Forward.[43]

1.28 The program is consistent with the Climate Change Sector Framework Document (document GN-2835-8). According to the joint methodology of the Multilateral Development Banks, it is estimated that 80.78%[44] of IDB resources of this program are invested in supporting the improvement of infrastructure for disaster resilience and fostering disaster-resilient growth of MSMEs. These resources contribute to the IDB's climate financing goal (30% of the annual approval volume).

1.29 **Gender considerations.** According to the World Health Organization, globally, households dedicate daily 125 million hours to collect water, women being responsible for 64% of this work (Sturzenegger & Dockweiler, 2019). The time spent in this activity impacts their access to education, their participation in the labor market and their possibilities of becoming involved in political and community activities, this affecting their economic, social, and political empowerment. In contrast, reducing the time spent collecting water increases school attendance, which in turn has a positive impact on future income and social welfare (Ayala et al., 2020). Studies show that when communities have access to water and sanitation services, female school enrollment increases by 15% and that for every year a girl stays in school, her adult earnings increase by at least 15% (Monje et al., 2016; Water.org, 2018), as well as improving overall wellbeing and safety conditions. From the road infrastructure perspective, more resilient roads can ensure that women's access to, for instance, markets and health services is not impaired by natural disasters, fostering women's empowerment by providing access to resources and economic opportunities and improving women's and families' health and life expectancy.[45] The program will contribute to avoid the disruption in the provision of transport and water and sanitation services in the occurrence of a natural event by upgrading or retrofitting these critical infrastructures. In accordance with IDB´s environmental and social requirements, consultations related to infrastructure works will involve women and their concerns will be given due consideration to ensure that new infrastructure is gender inclusive.

1.30 Regarding access to finance, while there is a lack of adequate gender-disaggregated data to understand the situation of women owned or led MSMEs (WMSMEs) at national levels, the pre-COVID financing gap affecting WMSMEs in the OECS countries was estimated at US$236 million. Similarly, around 48% of WMSMEs were estimated to be fully or partly credit-constrained

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42 CDB's 2020-2024 Strategic Plan.

43 Build Forward is a sub-regional strategy of Vision 2025 for the Caribbean. It is a delivery-oriented initiative aimed at helping Caribbean countries define Sustainable Development Pathways for their transformation in a smart and resilient manner.

44 Please see Climate Finance Technical Document.

45 Caballero, Luz. *Guidelines to mainstream gender in transport projects*. World Bank 2008.

prior to the crisis, versus 32% of those owned or led by men (IFC, 2017). Barriers preventing women entrepreneurs from accessing financing are from both the demand and supply side. An example of the former is that women tend to own fewer assets that can used as collateral, whereas gender biases in the practices of financial intermediaries is an example of the latter. This credit constraint situation may have been exacerbated by the COVID-19 pandemic, as WMSMEs are more present in the services and tourism industries, which are the economic sectors most affected by the crisis (Kevane et al., 2021). As part of the formulation of this Program, a consultancy carried out in the eligible OECS countries showed that none of the DFIs have a definition of women-owned firm, and hence, no information is collected on women businesses as credit takers. This consultancy also revealed that because of high exposure to climate risk that women MSMEs face, an effort should be made to tailor eligibility requirements (e.g., loan size, collateral) and specifically target women for climate risk awareness and credit loan marketing. As part of the program activities, the screening/assessment protocols/procedures to be used to assess the disaster and climate change risk of potentially eligible MSME projects will be reviewed and improved, as appropriate, to ensure that they are social and gender inclusive. To support capacity building of DFIs, program and/or technical assistance financing will be incorporated to train their staff on social and gender inclusive disaster risk screening and assessment methodologies. Additional activities to mainstream gender into Component 2 were thoroughly discussed with CDB during the formulation of this operation. At this time, limitations in terms of non-reimbursable funding hinder the pursuit of more activities related to this cross-cutting topic.

1.31 **Coordination with other donors.** Regarding Component 1, CDB has had since 2017 a Climate Action Line of Credit (CALC2), at a value of EUR 120 million, from the European Investment Bank (EIB) for infrastructure climate action projects, covering both climate change mitigation and adaptation. Given the flexibility of this line, blending EIB resources with the present Program is a possibility that will be explored by the CDB. Also, CDB has a GBP 300 million grant for infrastructure with the UK whose funds have already been allocated, but it is possible that some eligible OECS member countries (e.g. Grenada) might want to use IDB resources to extend or build on existing UK financed projects. Regarding Component 2, the study commissioned by the Bank to ascertain the potential demand for sub-loans identified the US$5 million Climate Adaptation Facility that the World Bank has with STL Development Bank, which can finance disaster risk reduction activities although, due to COVID, some funds have recently been diverted for business recovery. The above are the three main donors identified during the formulation of this Program and with whom CDB is expected to coordinate during the formulation and implementation of the sub-loans.

B. Objective, components, and cost

1.32 **Objective.** This Global Credit Loan (GCL) has the objective of enhancing the resilience of eligible OECS member countries to disasters and climate change. The specific objectives of the operation are to enhance infrastructure for disaster resilience and to foster MSMEs disaster-resilient growth.

1.33 **Components.** The Bank will provide a GCL to the CDB, which will on-lend the resources to finance eligible sub-loans in the eligible OECS member countries according to the following components:

1.34 **Component 1. Enhancing the disaster resilience of infrastructure (US$40 million).[46]** The starting point for reducing disaster risk is to analyze disaster risk and vulnerabilities (UNISDR, 2011). The program will conduct disaster and climate change risk studies which include social and gender considerations to identify critical disaster and climate change risks to roads and water and sanitation systems, and design and implement a combination of structural and non-structural measures to reduce the vulnerability of these systems, and to address social and gender responsiveness in the continuity and the provision of these basic services during emergencies. Examples of structural measures include, but are not limited to, the construction of sea defenses along coastal roads, floodwalls, and nature-based solutions for flood management, retrofitting infrastructure to withstand earthquakes and, generally, any works aimed at reducing the physical vulnerability of existing infrastructure to natural hazards. A multi-hazard approach including climate change considerations will be followed. Building new infrastructure is also eligible when justified to ensure the continuity in the provision of the transport or water and sanitation services. Examples of non-structural measures include, but are not limited to, activities related to contingency planning aimed at ensuring the continuity or swift resumption of the service provided by the infrastructure, that complement the level of disaster protection offered by the structural measures. This component will finance consulting services, infrastructure works, and the provision of goods and equipment required to enhance the disaster and CC resilience of infrastructure in the road and water and sanitation sectors. Infrastructure works to be financed are expected to be mainly upgrades, improvements, and re-fits to pre-existing, *in situ*, built footprints in locations already anthropized.[47] This component will also finance the disaster and climate change risk assessments and other feasibility studies that are required to generate the information needed to justify from both a risk reduction and economic viability perspectives the structural and/or non-structural measures. It could also finance other technical assistance required to prepare designs, costings, to identify and compare disaster risk reduction and adaptation solutions, to undertake environmental and social assessments before the commencement of activities, and to manage and supervise the project implementation, including environmental & social aspects.

1.35 **Component 2. Fostering disaster-resilient growth of MSMEs (US$10 million).** This component will finance productive and disaster and climate change risk reduction investments in MSMEs, channeling resources from CDB to the eligible OECS Member Countries or to eligible Development Financial Institutions (DFI) so that they may on-lend to MSMEs. The sub-loans will require the DFI (or designated executing agencies acceptable to the IDB[48]) to implement a disaster and CC risk screening/assessment of potentially eligible MSME projects, so that resilience is

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[46] See OEL#2 for a detailed technical justification of Component 1.

[47] New infrastructure could, however, be financed, especially when it could produce the necessary redundancy for resilience in the context of disaster risk.

[48] Applicable to those countries that may not have a DFI or that may propose more efficient execution mechanisms.

duly considered in their design.[49] Based on the results of these assessments, the financial resources of the individual sub-loans will be used to finance productive investments, and, when applicable, may enhance the resilience of MSMEs to natural disasters and climate change. Measures for enhancing resilience may include, but are not limited to, capital investments,[50] disaster risk assessments, business continuity plans, feasibility studies and other technical assistance required to formulate each sub-loan. To be eligible, DFIs must meet the Program's eligibility criteria (¶3.5).

1.36 **Beneficiaries.** The eligible beneficiary OECS member countries are Antigua and Barbuda, Commonwealth of Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. Direct beneficiaries are people, MSMEs and DFIs exposed to natural hazards in these eligible OECS member countries.

C. Key results indicators

1.37 **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 regarding results management, in particular evaluation and monitoring, are largely consistent with those of the Bank, the Bank will rely on CDB's procedures to receive information about the advance of the program results. An Evaluability Assessment Note is included as Annex I confirming that implementation metrics and ex post reporting by CDB are consistent with the standards of the Bank for its own operations and attesting to the adequacy of this arrangement.

1.38 **Expected impact**. The general objective of the program is to enhance the resilience of the eligible OECS member countries to disasters and climate change. The impact indicator will measure the total estimated avoided economic losses caused by disasters triggered by natural phenomena. The expected impact, outcomes and outputs are detailed in the Results Matrix (Annex II).

49 MSME projects will be appraised from a disaster risk perspective, and resilience requirements based on the results of such disaster risk analysis will be incorporated or "stapled" to the contracts with MSMEs that are found to be vulnerable to natural disasters. DFIs that already have procedures, protocols, or tools to assess disaster risks, such as Saint Lucia Development Bank, will be encouraged to use them if they are satisfied with their performance. For those DFIs that do not have such protocols, the operation will finance the development or adoption of similar protocols (for instance, best practices manual and case studies of experiences of microfinance institutions in Latin America and the Caribbean, jointly developed by CDB and BID Lab under the Emergency Liquidity Facility) and train their staff.

50 Capital investments include the purchase of plants, equipment and machinery, the expansion and improvement of infrastructure and retrofitting to make businesses disaster resilient and the implementation of new technology, techniques, and processes for the operation of the firms in the medium and long term. Up to 10% of the sub-loan may be considered for working capital needs if they are associated with capital investments.

1.39 The program's expected results indicators are:

Table 1. Key results indicators

Expected outcomes	Indicators
Component 1. Enhancing the disaster resilience of infrastructure	
Outcome 1. Infrastructure enhanced for disaster resilience.	Beneficiaries of enhanced disaster and climate change resilience.
Component 2. Fostering disaster-resilient growth of MSMEs	
Outcome 2. Disaster-resilient growth of MSMEs.	Beneficiaries of enhanced disaster and climate change resilience.
	Average duration of MSME loans granted with operation resources.
	Agencies[51] with strengthened managerial capacity.

1.40 **Economic viability.** A cost-benefit analysis on disaster-related economic losses was carried out in compliance with the IDB Guidelines for Economic Analysis. The analysis shows that the program has an aggregate economic net present value of approximately US$44.6 million, thus reflecting the economic viability of the intervention. The internal rate of return is greater than 26%. A sensitivity analysis was conducted and indicates that the program's economic viability is maintained despite changes in the values of key variables (OEL#1).

1.41 **Effectiveness of outcomes.** Different studies show the high Benefit-Cost (BC) ratios of generating and disseminating information related to disaster risk, with ratios of up to US$15 of benefit for every dollar invested (UN, 2010). In the same vein, a study by Shreve and Kelman (2014) reviews more than 20 cost-benefit analyses for both structural and non-structural measures, with BC ratios ranging from 3 to 15, displaying solid evidence to support the economic effectiveness of both. Similarly, studies by Heidari (2009) and Kunreuther and Michel-Kerjan (2013) assess the effectiveness of structural interventions and observe BC ratios ranging from 8.5 to 9.2 and 15, respectively. For roads in particular, research shows that spending about 2% of the road value in better drainage and flood barriers could yield positive returns for 60% of the roads that are exposed to at least one flood event, and for over 80% of the primary and secondary roads of middle income countries flooded on average every year, and tertiary roads in lower- and middle-income countries.[52] Research shows that, for instance in STL, the implementation of resilience enhancing measures in the road sector could reduce annual direct and indirect damage and losses caused by disasters by 25%, equivalent to US$4.5 million annually.[53] For water and sanitation, research shows that every $1 spent on enhancing infrastructure resilience to flooding could avoid at least $62 in flood restoration costs as well as preventing life-threatening contamination of water sources. Also, there is ample evidence that disaster risk reduction, by lowering low-income individuals' loss of assets, leads to less income inequality (Hallegatte et al., 2017). Furthermore, institutional capacity building to help governments and financial intermediaries address disaster risk reduction and CC adaptation has an impact on the way risks affect households and businesses

51 These agencies are the DFIs.

52 Koks, E.E., Rozenberg, J., Zorn, C. et al. *A global multi-hazard risk analysis of road and railway infrastructure assets*. Nat Commun 10, 2677 (2019).

53 *Climate and Disaster Resilient Transport in Small Island Developing States: A call for Action*. World Bank Group (2017).

and may facilitate or hinder the respective responses (Kuriakose et al., 2013). Along the same lines, the Intergovernmental Panel on Climate Change (IPCC) recommends bolstering institutional capacity to support climate resilience processes (IPCC, 2014). The IPCC also proposes that successful strategies include a combination of structural mitigation measures together with nonstructural solutions (Field, 2012).

1.42 In terms of credit to MSMEs, while specific literature on the impact of long-term credit access to MSMEs on productivity is limited, the problems related to access to credit for all types of firms, empirical evidence and the basis of correlations between credit and growth have been widely analyzed and some studies have broadly demonstrated the relationship between a higher level of credit to the private sector (including MSMEs) and an increase in productivity.[54] More specifically in Latin America and the Caribbean, some examples of public policies to provide financing to MSMEs have shown the following results: (i) in Chile, MSMEs that were beneficiaries of a guarantee fund that supported financing showed an increase of 40% in volume of credit, in sales of 32% and in profits of 24%[55] and (ii) in Colombia, MSMEs that were supported by financing increased 6% in terms of sales and 3.7% in terms of employment more than firms that did not benefit from the program.[56]

II. Financing Structure and Main Risks

A. Financing instruments

2.1 The total amount of the program will be US$50 million, financed with resources from the Bank's Ordinary Capital (OC). The component allocations are indicative, demand driven, and subject to reallocation based on demand from eligible countries. Any changes to the component allocations will be subject to IDB policies and procedures. The budget breaks down is as follows:

Table 2. Budget breakdown (US$)

Description	IDB	%
Component 1. Enhancing the disaster resilience of infrastructure	40,000,000	80
Component 2. Fostering disaster-resilient growth of MSMEs	10,000,000	20
Total	**50,000,000**	**100**

54 A revision of this as well as a general description of financing programs for productive development can be found in the "Sector Framework Document for Support of SME and Financial Access and Supervision" (IDB, GN-2768-7). See also IDB (2010). Development in the Americas (DIA), "The Productivity Era: How to transform economies from its foundations;" Eslava, M. et al (2009). "The Impact of Credit Markets on Productivity Behavior in Colombia;" Centro de Estudios Tecnológicos del Instituto Tecnológico de Monterrey. "Integral Evaluation 2008-2009 of the Fund to Support Micro, Small and Medium Enterprises;" Coelho, D. and De Negri, J. (2010) "BNDES Financing Impact on Firms' Productivity: An Application of the Quantile Treatment Effect"; Coelho, D. and Sousa, F.L. (2010); "The Effects of BNDES Financing on the Performance of Brazilian Industrial Companies."

55 OECD, "Facilitating access to finance: discussion paper on credit guarantee schemes;" Juan José Llisteri et al, IDB, "Sistema de garantías de crédito en América Latina: orientaciones operativas," 2006.

56 Irani Arraíz, Marcela Meléndez and Rodolfo Stucchi, Office of the Evaluation and Oversight, IDB, "Partial credit guarantee and firm performance: evidence from the Colombian National Guarantee Fund," September 2012.

2.2 **Financing instrument.** This operation will be structured as a Global Credit Loan since it involves financial intermediation to the beneficiaries and it is considered the most effective mechanism to implement this intervention based on the preceding operations approved with CDB in 2012, 2015 and 2020. The CDB will on-lend the resources through sub-projects based on the components of the program. All the resources of the program will be committed within four years[57] and disbursed within six years. This is justified by CDB's experience in the implementation of investment projects.[58]

B. Environmental and social safeguard risks

2.3 Because this operation is a financial intermediation operation, and in accordance with the Environmental and Safeguards Compliance of the Bank (OP-703), the Directive B.13, this operation cannot be classified ex ante. The risks and potential impacts of the eligible financing are predicted to be of moderate to substantial magnitude and can be managed with the application of an Environmental and Social Management System (ESMS) of the program. The key potential risks and impacts of expected interventions under Component 1 are, to a greater extent, related to the physical infrastructure measures required to enhance the disaster resilience of critical infrastructure in the transport and water and sanitation sectors. The infrastructure works that could be financed under this loan will likely be relatively small/localized works – generally, upgrades of existing infrastructure and being implemented in already anthropized areas –, given the overall amount of the loan and the fact that it is expected to support several projects in different countries. Projects classified as Category "A" under the Environmental and Safeguards Compliance of the Bank (OP-703), will not be eligible for financing. Nevertheless, CDB's existing Environmental and Social Review Procedures (ESRP), combined with the special conditions to be included in the loan agreement to ensure compliance with IDB policies, is expected to be sufficient to mitigate the potential negative impacts and risks of sub-loans. For Component 2, the profile of the portfolio to be financed is expected to have a strong focus on the tourism and agriculture sectors. CDB's ESRP includes screening procedures to ensure that DFIs have in place the ESMS necessary to manage the potential negative impacts and risks.

2.4 For both components, the physical infrastructure as well as the other activities targeted by this loan are mostly expected to be exposed to natural hazards and climate change impacts. Therefore, Disaster Type 1 risks will be underlying most sub-projects of this loan. Moderate risk ratings are generally expected, with some high-risk ratings for certain infrastructure projects, due to their level of exposure and vulnerability to cyclonic storm surges, volcanic and related seismic activity, landslides, and intense precipitation.

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57 The resources shall be considered to have been committed for a given sub-loan as of the date on which the CDB and the sub-borrower have signed the respective loan contract.

58 CDB's 2020 Annual Review of the Performance of the Portfolio (ARPP), to be published shortly, supports six years period for implementation. According to this review, although 61 projects (72%) were under implementation for six years or less, these include policy-based loans, which by their nature are quick to complete. If stripped out would increase average beyond six years.

2.5 While in practice CDB requires consultation for Category B projects, including considerations for gender, CDB's ESRP only requires in its text that the comprehensive ESIAs for Cat A projects do consultation. IDB's OP-703, directive B.6 requires one round of consultation for Category B projects, and two for Category A projects. A specific requirement will be added in the loan conditions. A risk factor is the lack of sufficient E&S officers to manage the IDB-CDB operations in the context of the CDB portfolio. As such, a requirement will be included in the loan conditions to assign an E&S liaison for this operation. Additionally, the IDB is making two recommendations: one for the CDB to hire additional E&S officers, and another to assign a CDB liaison for all the IDB operations in which the CDB is a Financial Intermediary.

2.6 The Type 1 Disaster Risks underlying the majority of sub-loans (particularly under Component 1), as well as the channeling of funds through DFIs in Component 2 make this operation a B.13 Medium Risk Financial Intermediation.

C. Fiduciary risk

2.7 The institutional capacity assessment of the executing agency shows that the CDB satisfies the necessary conditions to perform generally the fiduciary management activities for the loan operation. The assessment showed the adequacy of the CDB's organization structure and procedures for fiduciary management, its demonstrated capacity in the fiduciary management of previous projects, (see Annex III). Notwithstanding, there has been a delay and an extension request for the submission of an Audited Financial Statement corresponding to other operation. Considering this, the fiduciary risk for this operation has been determined as medium. To mitigate this risk, the Bank[59] has budgeted for a consultant dedicated to the CDB in the area of Financial Management, where the primary focus is on financial reporting. In addition, the Bank will increase supervision activities in the form of Action Plans to receive AFS.

D. Other risks and key issues

2.8 **Execution environment risks.** There is a medium-low risk that weather-related and geophysical hazards, as well as an upsurge in COVID-19, during the program implementation delay the sub-loans preparation and/or implementation, leading to a delay in the program execution. The mitigation strategy would be acceptance, with the Executing Agency (EA) addressing the risk as it materializes, through rescheduling, reallocating resources for reconstruction purposes in the countries affected, redirecting budget to countries not affected, increasing the maximum cap per country as necessary or, eventually, extending the sub-loans and/or program's duration, following, in every case, the Bank's policies and procedures. Regarding COVID-19, health and safety measures will be proactively integrated into the contracts for the implementation of infrastructure works.

2.9 There is a medium-low risk that a worsening in the macroeconomic situation may bring a limited ability of countries to borrow from CDB, which may impact on the program's disbursement rates. In this case as well, the mitigation strategy will be of acceptance, though the reallocation resources among beneficiary countries

[59] Through VPC/FMP.

and/or increasing the maximum cap per country as necessary, following, in every case, the Bank's policies and procedures.

2.10 There is a medium-high risk that, given the overall economic conditions, the sub-loans under Component 2 may be constrained due to lesser demand from MSMEs with limited capacity to absorb resilient and/or productive investments, and/or due to lesser risk appetite by DFIs to undertake lending to a MSME resilient investments when their overall portfolio has deteriorated. Either or both of these circumstances may lead to an under-execution of this component and, therefore, to an under achievement of Component 2 outcomes. The mitigation strategy would be of acceptance: IDB will work with CDB to better understand demand and to support hose viable projects that may prioritize resilience and monitor the pipeline accordingly.

2.11 **Executing agencies risks.** There is a medium-high risk that if DFIs have difficulty in implementing the required disaster risk screening and assessment of loan requests from MSMEs, they may either impose burdensome resilience requirements on MSMEs, which may lead to insufficient demand for Component 2 sub-loans, or they may adopt insufficient disaster risk requirements that do not really enhance resilience. The mitigation strategy would be to start the implementation of Component 2 with DFIs which already have in place disaster risk screening procedures/protocols.[60] For those DFIs that do not have such protocols, the strategy will be to finance through the program´s resources (and/or seek non-reimbursable funding) their adoption of similar protocols and train their staff so that loans are appraised from a disaster risk perspective, and resilience requirements based on such risk analysis are "stapled" to the contracts with disaster vulnerable MSMEs.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 **Borrower and executing agency**. CDB will be the Borrower and the Executing Agency (EA) for this operation. CDB is an AA+ rated financial institution according to recent reports, which has ample experience working with the IDB. To date, the IDB has financed eight loans to CDB (¶1.1) for a total value of US$322 million. All the resources were lent by CDB for projects in its OECS member countries.

3.2 CDB will have fiduciary responsibility for the Program resources and perform the following functions: (i) administration, including making disbursements to eligible countries and executing to meet the program objectives under the stipulations of the Loan Contract and the Operating Regulations; (ii) preparing – project implementation and financial progress reports for the Program; (iii) monitoring use of resources and compliance with applicable procurement policies and procedures and environmental and social safeguards; and (iv) Sub-loan monitoring, evaluation and auditing.

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[60] According to the results of a consultancy carried out as part of the preparation of this loan, for instance, STL Development Bank conducts disaster risk assessments for loans to firms, community groups and households as part of its E&S procedures.

3.3 **CDB as a borrower of IDB resources**. On July 13, 2020, the IDB, IDB Invest and CDB entered into an agreement for mutual cooperation in the Caribbean region. This agreement sets out how the parties will cooperate in the financing or co-financing of projects to build social, economic and environment reliance in the region. It establishes the general standards applicable to operating relations between IDB and CDB. Pursuant to such agreement CDB policies and procedures are applicable to the Program since they are consistent with those of the IDB. The proposed financing to CDB complies with all three criteria (compatibility,[61] complementarity[62] and additionality[63]) as set forth in the Bank´s Operational Policies and Strategies Manual, "Relationship with Subregional Financial Institutions – General Policy" (OP-601).

3.4 **Executing agencies of the sub-loans**. Sub-loans under Component 1 will be made available to the governments of the eligible OECS member countries. Executing agencies will be determined for each sub-loan. which will need to have the capabilities to manage the project cycle efficiently, including identification, registration, and undertaking the financial management and disbursements, as well as providing fiduciary assurance of the processes to allow for traceability of the funds, among others. In addition, they should also interface with other relevant stakeholders such as the Ministry of Finance, and ministries or entities responsible for environmental and social matters, tender boards/units, etc.

3.5 Sub-loans under Component 2 will be made available to eligible OECS member countries or directly to an eligible DFI with a sovereign guarantee. The executing agencies will be eligible DFIs or alternative executing agencies acceptable to the IDB, as indicated in ¶1.35. For Component 2, there will be a team or focal point responsible for oversight and implementation of the sub-loan at the DFI. To be eligible, DFIs must have: (i) Non-performing Loan (NPL) portfolio adequately covered by loan loss provisions; (ii) cash collection ratio on loans should be sufficiently high that liquidity is not adversely affected; (iii) debt- service coverage should not normally be less than 1.25 times; (iv) the ratio of total debt-to-equity should not normally exceed 4:1; and (v) normally a minimum Return of Assessments of 1%. In addition, to be eligible, MSME must: (i) be incorporated under the laws of the Eligible OECS Member Country; (ii) have between 1-50 employees; and (iii) have annual sales of up to US$750,000 or its equivalent in local currency. The Borrower will determine whether all financial intermediaries and MSME satisfy the above requirements, according to their procedures and the criteria established in the OR. No credit loan to a MSME may exceed US$250,000 or its equivalent in local currency,[64] on the basis of the expected demand with a potential average between US$30,000 to US$50,000.

3.6 A Project Steering Committee for Component 1 will be responsible for oversight of the executing agencies and will be made up of relevant stakeholders. For

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61 CDB policies are consistent with those of the Bank.

62 Since the Bank cannot lend directly to the OECS countries, as they are not IDB member countries, CDB provides the channel for Bank assistance to support the sustainable development of these countries.

63 This loan has a multiplier effect with regards to financial resource flow to the subregion and will increase the level or resources that CDB can provide to the beneficiary countries.

64 In the case of strategic value chain programs, the loan to the anchor company may exceed this amount, provided that the limit of US$1 million or equivalent in local currency is not exceeded for sub loans to the beneficiary MSMEs.

Component 2, while a DFI team will execute the sub-loans, CDB will supervise progress and arrange regular review meetings with the responsible DFI and Ministry of Finance staff.

3.7 **Eligibility & Prioritization criteria for Component 1 Infrastructure Resilience Enhancement.** In order for individual infrastructure projects to be considered eligible for financing under Component 1 of the program, and to expedite those viable for execution the said project must: (i) have detailed designs informed by disaster and climate change risk assessments, economic, and other relevant feasibility studies required to justify them from risk reduction and economic viability perspectives (as detailed in Section V of the Operating Regulations); and with a sufficient degree of detail to be tendered; (ii) have an Economic Internal Rate of Return (EIRR) of 12% or more[65] ; (iii) be identified and/or prioritized under National Adaptation Plans (NAP), National Resilience and Recovery Plans, National Physical Development Plans; and/or relevant Sectoral Development Strategies/Resilience Plans; and/or the CDB's Country Engagement Strategies and Sector Policies; and (iv) have detailed socio-environmental studies consistent with the works to be executed and in conformity to applicable CDB Policies and Environmental and Social Safeguards, including an environmental and social management plan and environmental licenses as required under national legislation, including for Category B projects, which should be subjected to public consultation and disclosure prior to Board approval.

3.8 **Operating Regulations (OR).** The OR define in detail the use of the program´s resources, and include a description of the institutional, operating, financial management, procurement, reporting and oversight arrangements (OEL#4).

3.9 **Resource allocation.** Loan resources shall be allocated to the Eligible OECS Member Countries by prorating the proportions received by each country under the Borrower's current Performance-Based Allocation (PBA) formula. However, in order to manage the demand from Eligible OECS Member Countries, if an Eligible OECS Member County does not submit a firm written request to utilize its allocated resources within six (6) months from the date of signature of the Loan Contract, the Borrower will inform the IDB of such a situation and may request the authorization of a reallocation of the unused resources among the other Eligible OECS Member Countries that have additional demand for resources under the Program. The reallocation will be made on the basis of demand on a first-come first-serve basis and according to the CDB's programming process. At the start of the program all countries will receive details of the program in writing and through a meeting, allowing for equal access to information and the opportunity to participate ensuring that the operation provides equitable opportunity of access to all beneficiary countries while having a flexible design to address country specific needs. Resources will be used by CDB for the financing of sub-loans for any of the six eligible OECS member countries that meet eligibility criteria set forth in the OR.

[65] Exceptions, on a case specific basis will be considered for projects for sub-loans which present a clear rationale under joint review, for the application of a lower discount rate e.g., where there may be significant unquantifiable benefits from a poverty reduction/social sector, disaster prevention and environmental protection/conservation perspectives.

The resources of the loan may be blended with other resources of CDB, in proportions to be determined by CDB.

3.10 **Sub-loan amounts**. The maximum sub-loan size will be up to US$11 million, while the minimum will be at least of US$1 million[66]. The value of all the sub-loans cannot exceed US$15 million [being thirty percent (30%) of the total Loan resources] in total for a single country unless, on the basis of special circumstances, CDB obtains the prior approval of the IDB. Should a country seek and obtain additional funding by virtue of another country not using their allocation in full/part, in such a situation there would be no upper limit on a sub-loan amount. The aforementioned limits refer to the Loan resources and not to the additional resources that CDB might add as part of blending. Each sub-loan will finance activities based on only one of the two components of the Program, including administrative costs of the sub-loans which are eligible expenses.

3.11 **CDB's approval process for sub-loans**. Upon receipt of a formal request from a country, CDB reviews it and, after having determined that it would fit within the strategic priorities of CDB and the parameters of the Country Engagement Strategy for the country in question (that can be viewed on the CDB website), CDB gathers the necessary data to prepare the appraisal report that will be reviewed internally (Departmental and then Loans Committee review processes). It should be noted that prior to the Loans Committee approval of a sub-loan, CDB will submit a draft specific to each sub-loan proposal to the IDB for its no objection. Subject to the scope and content of the proposed sub-loans CDB and IDB teams will coordinate to review and discuss loans during relevant preparation and/or approval-review stages of the CDB project development cycle. Once the proposal has internal validation, it is submitted to CDB's Board of Directors (BOD) for approval. Finally, CDB shall submit to the Bank a copy of the signed sub loan agreement with the respective eligible sub-borrower prior to the first disbursement of each sub-loan.

3.12 **Retroactive financing.** The Bank may retroactively finance from the resources of the loan, up to the sum of US$10 million (20%) of the proposed loan amount, eligible expenses incurred by the Borrower prior to the date of approval of the loan provided that all requirements are substantially similar to those set out in the loan contract and the procedures are in conformity with the Core Procurement Principles[67] Such expenses must have been incurred from July 1, 2021 (date of approval of Project Profile), but under no circumstances will expenses incurred more than 18 months before the loan approval date be included.

3.13 The loan will not be used for disaster relief, and any resources used for reconstruction purposes will strictly be guided by the principle of "building back better"[68] to avoid rebuilding or increasing vulnerability, thus safeguarding against

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[66] The minimum threshold is to guarantee economies of scale and for countries to submit sub-loan proposals that mirror as much as possible the Program and not individual/loose activities. The maximum cap per sub-loan is to ensure that all eligible OECS member countries have the opportunity to take resources from the Program.

[67] As described in the Policies for the Procurement of Goods and Works financed by Bank and the Policies for the Selection and Contracting of Consultants Financed by the Bank (GN-2349-15 y GN-2350-15).

[68] Disaster-resilient, climate-smart and future-proof following the guiding principles of the Build Forward Initiative.

future disasters. Additionally, the OR include a list of expenses that may not be financed by the loan.

3.14 **Fiduciary arrangements and requirements**. The fiduciary arrangements and requirements described in Annex III establish the framework for financial management and planning, as well as for procurement execution and supervision, that will govern the operation.

3.15 **Special contractual condition prior to the first disbursement of the loan proceeds: The approval and entry into effect of the OR, including, among others, the sub-loan standard terms and conditions for Component 1, in accordance with the terms and conditions previously agreed upon between the Borrower and the Bank**. This condition will ensure that the EA has in place the OR for the successful implementation of the program.

3.16 **Special contractual conditions for execution:**

a. Prior to the approval of each sub-loan, the Borrower shall submit the draft sub-loan proposal for the Bank's no objection. This condition will ensure the Bank that each sub-loan meets the operational, technical and economic viability criteria agreed between the Borrower and the Bank.

b. Prior to the first disbursement for each sub-loan, the Borrower shall submit to the Bank a copy of the signed sub-loan agreement with the respective Eligible sub-borrower. This condition will ensure the Bank that a sub-loan agreement has been entered into between the Borrower and the Eligible OECS member country (sub-borrower) in accordance with the terms and conditions agreed with the Bank.

c. Prior to the first disbursement of the sub-loan resources to MSMEs under Component 2, a disaster risk assessment of each MSME sub-loan will be carried out by the corresponding DFI. This condition will ensure the Bank that sub-loans' disaster risks are appraised, and reasonable resilience requirements are included in the loan contracts with MSMEs that are exposed and vulnerable to natural hazards.

B. Summary of arrangements for monitoring results

3.17 The EA is the main party responsible for providing inputs to monitor and evaluate the program. Some program's outputs' targets, however, are not fixed in advance as they will depend on the actual project typology, resource distribution across countries, and potential demand for sub-loans for all components requested by beneficiary countries. As such, the indicators are designed to be flexible enough to allow for this variability in quantity of outputs, which is reflected in target values to be determined in the Results Matrix. Nonetheless, CDB's Guidelines for Preparing and Using the Results Framework requires its projects and programs to set quantitative targets against which actual performance will be subsequently compared and measured. In compliance with its own Guidelines as well as IDB's Development Effectiveness Framework, the EA is responsible for updating indicators' target values as information becomes available. The EA will bear the costs of evaluation and monitoring in all cases.

3.18 **Monitoring.** The EA will monitor and supervise sub-loans based on their policies and procedures and provide the IDB with the necessary information to monitor and evaluate the program. The results of EA's monitoring and supervision will be reported to the Bank through semi-annual progress reports submitted no later than 60 days after the end of each semester. These reports will indicate the degree of fulfillment of the output indicators and progress toward the outcomes of the Results Matrix, making it possible for the Bank to monitor these indicators using the Bank's Monitoring and Evaluation Plan (MEP). Due to the ongoing global outbreak of coronavirus disease, the EA and the IDB have committed to carry out virtual meetings in lieu of field inspections. However, field inspections, should travel restrictions be lifted and are deemed essential, should be carried out semiannually, within a 60-day period after the Semi-Annual Reports are submitted.

3.19 **Evaluation.** An end-of-project report will be prepared following a before-completion and after-completion methodology to evaluate the results of the program, based on the information reported in the semi-annual progress reports. The evaluation strategy is described in the MEP.

3.20 **Information for program monitoring and evaluation.** The EA will be responsible for maintaining data gathering and monitoring systems. The EA will commit to maintain a system for monitoring and evaluation of all subcomponents, which it will use to prepare the reports and data delivered to the Bank. For the purposes of the evaluation, the EA will compile, store, and safeguard all of information, indicators, and parameters necessary to prepare the project completion report, including annual plans and the final evaluation. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports of relevant organizations.

Evaluability Assessment Note

PROGRAM FOR BUILDING DISASTER AND CLIMATE CHANGE RESILIENCE IN THE OECS COUNTRIES

The objective of this Evaluability Assessment Note is to inform the Board of Executive Directors about the evaluability of the Program for Building Disaster and Climate Change Resilience in the OECS Countries (RG-L1142). Given the nature of this loan proposal, a standard Development Effectiveness Matrix (DEM) score is not applicable. Rather, Management has ensured that ex-ante evaluability, implementation metrics and ex-post reporting by the Caribbean Development Bank (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)1 establishes that the Bank will continue its work in partnership with the CDB. To this end, Management was directed to propose a mechanism for approval by the Board of Executive Directors to provide ordinary capital resources, grants and concessional loans from other donors to the CDB. Six OECS member countries are eligible to receive IDB funding through the CDB: Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. These resources shall be mainly utilized to enhance infrastructure for disaster resilience and to foster Micro, Small, and Medium-sized Enterprises (MSMEs) disaster-resilient growth. 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. CDB and the IDB have maintained a long collaborative relationship since 1977 with a total of eight approved operations worth US$322 million, with the objective of supporting the economic and social development of the OECS. An agreement between the IDB, the Inter-American Investment Corporation (IDB Invest) and CDB was recently signed to reinforce this commitment. In 2020, the IDB and CDB agreed to collaborate to support OECS countries during the crisis caused by the COVID-19 pandemic. The proposed Global Credit Loan (GCL), which has the objective of enhancing the resilience of Organization of Eastern Caribbean States (OECS) countries to disasters and climate change, will be chargeable to the Bank´s ordinary capital resources

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 principles homologous to the Bank's.

Evaluability. Given the nature of this operation, where the projects to be financed are not yet defined, the type of projects likely to be financed are supported by ample evidence on their cost-effectiveness. Similarly, the result matrix, although exhibiting vertical logic, does not include defined baseline or target values. The Bank will rely on CDB's procedures, consistent with IDB's result management procedures, to receive information about the advance of the program results A cost-benefit analysis on disaster-related economic losses was carried out that shows that the program has an aggregate economic net present value of US$44.6 million. The internal rate of

return is 26%. A sensitivity analysis was conducted and indicates that the program's economic viability is maintained despite changes in the values of some key variables.

Reporting of results. The CDB will monitor and supervise operations based on their policies and procedures and provide IDB with the necessary information for IDB to monitor and evaluate the program. The CDB's results management framework allows for a systematic monitoring and evaluation of its projects thus complying with the reporting requirements established in the Monitoring & Evaluation Plan. Effects will be evaluated against expected impacts, results and outputs, as detailed in the Results Matrix.

RESULTS MATRIX

Project Objective: Enhancing the resilience of Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines to disasters and climate change.

Specific Objectives: Enhancing infrastructure for disaster resilience and fostering MSMEs disaster-resilient growth.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline Year	End of Project	Means of verification	Observations
IMPACT 1: Improved climate-change and disaster resilience in OECS countries						
Total estimated avoided economic losses caused by disasters triggered by natural phenomena	Percentage-point change	0	2015-2020	10	Program reports by CDB; Data estimates from EM-DAT database.	This indicator will be calculated at the regional level. Reduction in economic losses are based on the results of the CBA. Baseline and target value are calculated as ten-year averages. EOP period will be 2026-2031.

OUTCOMES

Indicators	Unit of measure	Baseline	Baseline Year	End of Project	Means of verification	Observations
OUTCOME 1: Infrastructure enhanced for disaster resilience						
Beneficiaries of enhanced disaster and climate change resilience	#	0	2020	TBD	Program reports by CDB	Data constraints for some OECS countries prevent gender disaggregation for this indicator.
OUTCOME 2: Disaster-resilient growth of MSMEs						
Beneficiaries of enhanced disaster and climate change resilience	#	0	2020	TBD	Program reports by CDB	The number of beneficiaries represents the total number of MSME employees. Data constraints for some OECS countries prevent gender disaggregation for this indicator.
Average duration of MSME loans granted with operation resources	Months	TBD	2020	TBD	Program reports by CDB	The determination of what is considered a Micro, Small or Medium enterprise (MSMEs) is based on the CTCS eligibility criteria.
Development Financing Institutions with strengthened managerial capacity	#	0	2020	TBD	Program reports by CDB	Managerial capacity in this case is understood as improved operational policies and procedures related to the screening and assessment of disaster- and climate change risk.

PRODUCTS

Indicators	Unit of measure	Baseline	Baseline Year	End of Project	Means of verification	Observations
COMPONENT 1: Enhancing the disaster resilience of infrastructure						
Product 1. Feasibility studies for structural and/or non-structural measures, carried out and finalized	#	0	2020	TBD	Program reports by CDB	
Milestone 1.1. Disaster risk assessments, carried out and finalized	#	0	2020	TBD	Program reports by CDB	
Milestone 1.2. Economic viability studies, carried out and finalized	#	0	2020	TBD	Program reports by CDB	
Milestone 1.3. Final design and costing studies, carried out and finalized	#	0	2020	TBD	Program reports by CDB	
Product 2. Operations continuity plans, designed	#	0	2020	TBD	Program reports by CDB	
Product 3. Projects incorporating structural and/or non-structural measures that enhance disaster and climate-change resilience in the water and sanitation sector, executed	#	0	2020	TBD	Program reports by CDB	
Product 4. Kms of disaster-resilient roads built or upgraded	#	0	2020	TBD	Program reports by CDB	

Indicators	Unit of measure	Baseline	Baseline Year	End of Project	Means of verification	Observations
COMPONENT 2: Fostering disaster-resilient growth of MSMEs						
Product 5. MSME financed	#	0	2020	TBD	Program reports by CDB	
Milestone 5.1. MSME financed, which do not require specific investment in disaster resilience	#	0	2020	TBD	Program reports by CDB	The information for these milestones will be disaggregated by sex.
Milestone 5.2. MSMEs financed, which require specific investments in disaster resilience	#	0	2020	TBD	Program reports by CDB	
Product 6. Amount of program resources dedicated to MSME disaster-resilient investment financing	#	0	2020	TBD	Program reports by CDB	
Product 7. Financial Intermediary Disaster risk assessments, carried out and finalized	#	0	2020	TBD	Program reports by CDB	
Product 8. MSME Disaster risk assessments, carried out and finalized	#	0	2020	TBD	Program reports by CDB	
Product 9. Financial Intermediaries with Business Continuity Plans, developed	#	0	2020	TBD	Program reports by CDB	
Product 10. MSMEs with Business Continuity Plans, developed	#	0	2020	TBD	Program reports by CDB	

Fiduciary Agreements and Requirements

Country: RG **Division**: RND **Operation No.**: RG-L1142 **Year**: 2021

Executing Agency (EA): Caribbean Development Bank (CDB)

Operation Name: Program for Building Disaster and Climate Change Resilience in the OECS Countries

I. Fiduciary Context of Executing Agency

1. Use of country system in the operation (Any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation).

☒ Budget	☒ Reports	☐ Information System	☐ National Competitive Bidding (NCB)
☒ Treasury	☒ Internal audit	☐ Shopping	☐ Others
☒ Accounting	☐ External Control	☐ Individual Consultants	☐ Others

2. Fiduciary execution mechanism

☒	Particularities of the Fiduciary Execution	The Caribbean Development Bank (CDB) will have the fiduciary responsibility for the program resources and perform among other the following functions: (i) making disbursements to eligible countries and executing agencies to meet the program objectives; (ii) preparing-project implementation and financial progress reports for the program; (iii) monitoring compliance with applicable procurement processes and procedures; and (iv) sub-loan monitoring, evaluation, and auditing.

3. Fiduciary Capacity

Fiduciary Capacity of the EA	The CDB has adequate fiduciary capacity to execute the project. From a procurement perspective, the CDB has a robust procurement system, having reviewed its Procurement Policy and Procedures for Projects financed by CDB in 2019 and further reviewed such Procedures in 2021 to introduce international best practices. These policies are in turn applied to the on leading operations between the CDB and the OECS Countries. From the financial management standpoint, the CDB has in place adequate Financial Management policies and rules that outline requirements in the eligibility of expenses, disbursement management, render of accounts, project financial supervision, financial reporting, internal controls, external audits, prohibited practices, and transparency from the project execution prospective. Project financial reporting is produced trough COGNOS reporting tool SMARTSTREAM software to record general loan transactions such as disbursements and borrowings. Apart from its adequate financial management policies and rules, the CDB recently requested an extension to the submission date of an operation’s AFS. Resulting from this, it is envisaged that capacity in the area of financial reporting can be improved, and support provided.

4. Fiduciary risks and risk response

Risk Taxonomy	Risk	Risk level	Risk response
Procurement Risk	There are no medium or high risks associated with this operation as CDB has a robust procurement system which will apply to the on leading operations between the CDB and the OECS countries.	Low	No response actions are required.
Financial management risk	Delayed submission of Audited Financial Statements, which can adversely affect the project disbursements and financing.	Medium	FMP has budgeted for a consultant dedicated to the CDB in the area of Financial Management, where the primary focus is on financial reporting. In addition, we will increase supervision activities in the form of Action Plans to receive AFS.

5. Policies and Guides applicable to operation: Pursuant with the "Agreement between the Inter-American Development Bank, Inter-American Investment Corporation and the Caribbean Development Bank for Mutual Cooperation in the Caribbean Region", CDB Procurement Policies and Procedures will apply for the procurement of goods, works, consulting services and services other than consulting services, financed with resources of the IDB, or resources under its administration, and made available to CDB for on lending projects. Eligibility to participate in the corresponding procurement process will be extended to: (i) firms and individuals from and goods originating in CDB member countries which are not members of the IDB; and (ii) firms and individuals from and goods originating in IDB member countries which are not members of CDB.

Financial management Policies GN-2811 [OP-273-12]

6. Exceptions to Policies and Rules: None

II. Aspects to be Considered in the Special Conditions of the Loan Agreement

No condition prior to the first disbursement.
Exchange rate: For the purpose of determining the equivalence of expenses incurred in local currency of the reimbursement of expenses from the Loan, the agreed exchange rate will be the rate on the effective date on which the Borrower, the Executing Agency or any other natural or legal person to whom the power to make expenses has been delegated, makes the respective payments in favour of the contractor, supplier or beneficiary.
Justification of advance of funds: Each advance of funds shall be subject to: (i) the request for advance of funds being presented in a manner acceptable to the Bank; and (ii) with the exception of the first advance of funds, the CDB should have presented a justification for the use of at least 70% of the total cumulative balances pending justification for this purpose, and the Bank having accepted such justification.
Audit report: Financial statements and audited statements to be submitted by the CDB are as follows: (i) Annual Audited Financial Statements (AFS) of the CDB. These reports are to be presented to the Bank within 180 days following the end of CDB's fiscal year end, December 31st, and should be audited by an independent audit firm; and (ii) annual assurance reports on the process of preparation and submission of disbursement requests. The engagement should be conducted by an independent audit firm that is eligible

to the Bank and the report submitted within 180 days following the end of CDB's fiscal year end, December 31st.

III. Agreements and Requirements for Procurement Execution

☒	Projects with Financial Intermediaries	CDB undertakes to include in the Sub-loan agreements the terms and conditions of the Loan Contract in relation to procurement execution, including the requirement on the Sub-borrower to utilize the integrity covenant in bidding documents and contracts.
☒	Advanced Contracting Retroactive financing	The Bank may retroactively finance from the resources of the loan, up to the sum of US$ 10 million (20% of the proposed loan amount), eligible expenses incurred by the Borrower prior to the date of approval of the loan provided they meet requirements substantially similar to those set out in the loan contract. Such expenses must have been incurred from July 1st, 2021, but under no circumstances will expenses incurred more than 18 months before the loan approval date be included. (See GN-2349-15, GN-2350-15 and Policy on Cost Recognition, Retroactive Financing and Early Acquisition (GN-2259-1).)

<u>Main Acquisitions</u>

Procurement Plan is not applicable as they will be prepared in a sub-project basis

IV. Agreements and Requirements for Financial Management

☒	Programming and Budget	The CDB will allocate loan resources based on criteria specified in the Loan Contract and credit regulations.
☒	Treasury and Disbursement Management	Disbursement mechanism. The CDB will present manual disbursement request forms. Disbursement methods. The reimbursement and advance of funds disbursement methodologies will be mainly used for the project Designated account. The CDB uses a Treasury Single Account (TSA) in the Bank of America (BofA) in United States Dollar (USD). The CDB Finance Department creates a designated a sub-ledger account for the management of project resources. Justification of the advance of funds. The CDB will request a new advance of funds when they justify at least 70% of the total accumulated balances of unjustified advances outstanding. The flexibility in the advance of funds limit (from the norm of 80%) is being requested to facilitate the smooth disbursement of funds to be on-lent by the CDB to beneficiary countries The loan resources will be disbursed to CDB to the designated account established by CDB's finance department.
☒	Accounting, information systems and reporting	The CDB records its financial transactions and prepares its financial statements in accordance with International Financial Reporting Standards and under the historical cost basis. Accounting reports. The CDB uses COGNOS to generate reports that provides loan status on a project sub/loan level. Information can be access in relation of the total amounts approved, amount disbursed, undisbursed balances – all by funding source; amounts repaid and total outstanding balances. Reports may also be generated on dates

		and amounts for each disbursement as well as commitment fee and interest provisioning where these are capitalized as part of the project. Accounting method and currency. The accounting method is accrual based and for the purposes of financial project reporting is cash based. Its functional and presentation currency of the CDB is the USD.
☒	Internal Control and Internal Audit	The CDB has a well establish internal audit department that applies the international internal audit standards.
☒	External control: external financial audit and project reports	Submission of the AFS of the CDB. These reports are to be presented to the Bank within 180 days following the end of CDB's fiscal year end, December 31st. The longer due date is being requested since the CDB's financial rules dictate that its AFS may not be released until approved by the Board of Governors at its annual meeting held in May of each year. Semi-annual unaudited financial reports of the SEF including financial status reports on sub-loans. These statements should be submitted within 90 days after the close of each semester. These statements are intended to supplement the information in CDB's AFS since the AFS do not include project specific information Assurance reports on the process of preparation and submission of disbursement requests. The engagement should be conducted by an independent audit firm that is eligible to the Bank, and the report submitted within 180 days following the end of CDB's fiscal year end, December 31st and should be audited by an independent audit firm. The Terms of Reference (TORs) of this engagement must be agreed with the Bank. The CDB may utilize the services of its auditors, once they are eligible to the Bank.
☒	Project Financial Supervision	The CDB will have full financial management supervision responsibility in relation to the sub-loans provided to the OECS beneficiaries by applying their own financial policies and will liaise with its Finance Department as it relates to the processing of payments and accounting and financial reporting.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/21

Regional. Loan ____/OC-RG to the Caribbean Development Bank.
Program for Building Disaster and Climate Change
Resilience in the OECS Countries.

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Caribbean Development Bank, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program for Building Disaster and Climate Change Resilience in the OECS Countries. Such financing will be for the amount of up to US$50,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ___________ 2021)

LEG/SGO/CCB/EZSHARE-456533210-61710
RG-L1142