

CREDIT PROGRAM FOR SMALL CARIBBEAN STATES

(RG-0037)

EXECUTIVE SUMMARY

BORROWER: Caribbean Development Bank (CDB)

EXECUTING AGENCY: Caribbean Development Bank

AMOUNT AND SOURCE:

IDB: loan	US\$ 20 million (OC)
loan	US\$ 17 million (FSO)
technical cooperation	US\$ 1 million
Local funding:	US\$105 million (CDB)
Total:	US\$143 million (CDB)

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	25 years (OC) 40 years (FSO)
Commitment period:	4 years (OC and FSO)
Disbursement period:	7 years or up to 5 years from the date of commitment
Interest rate:	Variable (OC), 1% during first ten years, 2% thereafter (FSO)
Inspection and supervision:	0% (OC & FSO)
Credit fee:	0% (OC & FSO)

OBJECTIVES: To support CDB's overall lending and technical assistance program with special emphasis on the target countries over a commitment period of four years.

DESCRIPTION: The Program consists of two loans and a non-reimbursable technical cooperation facility. The first loan, from the dollar window of the Bank's ordinary capital, is for US\$20 million. The second is a loan for US\$17 million from the Bank's Fund for Special Operations. The OC loan will be available primarily to support subloans in the target countries. Exceptionally, at the request of CDB and agreement of the IDB, the OC loan can also be used to fund subloans to countries that are borrowing members of both the IDB and the CDB. The FSO loan and the technical cooperation grant are reserved for operations in countries that are IDA-eligible.

Executive Summary

Page 2 of 3

- TARGET COUNTRIES:** Anguilla, the British Virgin Islands, Cayman Islands, Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, and Turks & Caicos Islands.
- ENVIRONMENTAL CLASSIFICATION:** The Environmental Management Committee, at its meeting of August 15, 1995, classified this as a Category III operation.
- IMPACT ON POVERTY:** Although the benefits of this Program are expected to be felt widely by all income groups, these effects are indirect and therefore this operation does not qualify as a program directed at poverty alleviation, according to the Bank's criteria.
- BENEFITS:** The Program is expected to benefit the target countries by building new infrastructure, improving human resources development, decreasing poverty, strengthening institutions, strengthening the productive sector, repairing the damage caused by natural disasters and improving environmental assessment and mitigation. Additionally, the operation will help to bring the CDB and the IDB closer together, since it is the first loan the bank has made to CDB in more than ten years.
- RISKS:**
- Policy risks: that the target countries do not maintain sound economic policies, thereby diluting the benefits of the subloans. To reduce these risks, CDB works closely with its borrowing member countries to promote the adoption of sound economic policies.
- Credit risk: Since the subregional banks are not sovereign members of the Bank, loans to them may have a higher degree of risk than loans to IDB member countries. The credit risk of the OC loan is very low, since CDB's borrowings of ordinary capital resources have a AAA credit rating. The risk is higher for the FSO loan, however, since soft-fund obligations of CDB are not backed by its ordinary capital. This risk is considered to be acceptable, due to the financial strength of CDB, and its unblemished track record.
- THE BANK'S COUNTRY AND SECTOR STRATEGY:** The Program is consistent with the strategy for the Caribbean currently being elaborated. It is also consistent with the goals of the Eighth Replenishment regarding the allocation of FSO resources to the IDA-eligible countries that are among the target countries of the proposed operation.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The adoption by CDB of the Credit Regulations to this program.

**EXCEPTIONS TO BANK
POLICY:**

In order to fulfil the requirements of the Bank's Charter to provide support to these small Caribbean countries, and to do so at a cost not substantially more than the cost of Bank finance to member countries, the following waivers to Bank policy are requested:

1. Dollar Window. (a) The eligibility policy for dollar window loans, which requires that these loans be used only to support subloans to private-sector borrowers; (b) The policy requiring expedited disbursement (within 18 months) of loans from the Bank's dollar window, and; (c) the ten-year limit on the tenor of dollar-window operations.

2. The Bank's inspection and supervision fees, and the credit fees.

3. Country eligibility for procurement to include all CDB members as well as IDB members. The procurement and consultant selection rules of the CDB will apply. These rules, like those of the IDB, are designed to ensure fairness and economic efficiency in the procurement of goods and services.

4. The requirement to submit annual audited accounts of the program. It is proposed that we require only the borrower's audited accounts. This practice was approved in 1990 for the administration of Loans 488/OC-RG and 758/SF-RG.

**PROCUREMENT
LIMITS:**

Procurement for works with an estimated cost above US\$1.5 million, for goods above US\$300,000 and for consulting services above US\$200,000 will be subject to international competitive bidding. Procurement by force account will be permitted (with IDB concurrence) for up to \$8 million in the FSO loan and up to \$3 million in the OC loan. This is requested to facilitate community self-help programs.

SPECIAL PROCEDURE:

CDB will be able to draw on the FSO loan on an accelerated basis in order to be able to invest these funds in the money market to obtain income that partially offsets the high cost of preparing sub-loans in the target countries.

I. FRAME OF REFERENCE

A. Background

- 1.1 Six independent countries and five U.K. dependencies are borrowing members of CDB but are not members of the IDB. The six countries are: Antigua and Barbuda, Dominica, Grenada, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines. The five U.K. dependencies are Anguilla, the British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos Islands. (Hereinafter, all of the six countries and the five U.K. dependencies will be referred to as "countries".) The total population of this group is approximately 600,000.
- 1.2 Most of the countries in these two groups have economies in which agriculture, tourism and government services play large roles. (Economic statistics on the target countries are given in Table I.) Manufacturing, while relatively important in a few countries, is restricted by the lack of economies of scale. The tourism business is a natural one, for obvious reasons. The agricultural business is much more difficult. Bananas and sugar are the main export crops. However, because of the small size of the countries and their mountainous terrain, farms are small and the costs of production are higher for this group of producers than they are for many of their competitors. In most countries, the contribution of the farming sector as a proportion of GDP has been declining, and replaced by growth in tourism.
- 1.3 Proximity to the U.S. and access to preferential markets in Europe and North America have determined the main export markets for the target countries. Market preferences are given by European Union (EU) countries through the Lome Convention and the General System of Preferences; by the U.S., through the Caribbean Basin Initiative (CBI); and by Canada through CARIBCAN. In addition, the target countries have traditionally enjoyed large aid flows, usually from the same countries that provide preferential access to import markets.
- 1.4 Until recently, this economic structure was adequate, as growth in tourism and agriculture provided employment for the growing population and provided tax revenues to the governments. When combined with external aid, these flows to the official sector were sufficient to pay for government services. More recently, however, the results have not been as good, with economic growth slowing and unemployment growing in several countries.
- 1.5 This deterioration in economic performance reflects problems that are worsening, and so the outlook is challenging. Between 1990 and 1993, economic growth slowed down substantially due to a combination of factors. A number of countries sustained damage to crops, tourism facilities, and infrastructure from Hurricane Hugo in 1989. More recently, two more hurricanes, Luis and Marilyn, visited some of the islands during 1995 causing severe additional

damage. Additionally, the doors to foreign markets that were opened by the Lome Convention, the CBI and by CARIBCAN are being closed or at least narrowed as their relative benefits have been eroded by NAFTA, and as agricultural competitors in Latin America struggle to open the European market for their growing production of lower-cost bananas. Also, aid flows are diminishing as the major donors face pressing claims for aid from Eastern Europe, the Middle East and Southern Africa at the same time that some of them face political pressures to justify the amount of foreign aid they are providing. Finally, migration, which traditionally has been the safety valve that released some of the pressure of poverty, is becoming much harder as more countries reduce quotas or otherwise restrict the numbers of immigrants that they are willing to take in.

- 1.6 In order to address some of the problems that they share, most of the target countries have joined together to form the Organization of Eastern Caribbean States (OECS). The OECS goals are to achieve a deeper integration of their economic, judicial, political, and monetary relationships. The OECS countries use a single currency, the EC dollar, and have a single central bank, the Eastern Caribbean Central Bank (ECCB).
- 1.7 In addition, the target countries have tried to address their economic problems by keeping up with the worldwide trend towards more open economies. Price controls have been lifted on most goods and financial services. Trade barriers are being lowered, (this effort is being led by CARICOM) and a common external tariff is being established. And they have tried to economize on the official costs of participating in the international economy by having CARICOM or the OECS represent them in international fora, or, as in the case of the ECCB, by establishing one institution rather than having one for each country.
- 1.8 These initiatives are necessary to keep pace with growing worldwide competition for business and investment. However, they are not sufficient to ensure prosperity. The reduction in tariffs has cut two ways. While it has lowered costs for consumers and made exports that have an imported content more competitive, these benefits have come at the high cost of reducing government revenues. Furthermore, even though tariffs have fallen, the benefits from this have not been large since the manufacturing sector of the region is not large and because other countries have tended to reduce their barriers as well, thereby creating a sort of competition of reduced tariff barriers.
- 1.9 Many of the benefits of the measures mentioned above have already been harvested. Looking to the future, it is very important that the target countries do what they can to strengthen their tourism sectors, where there is a clear comparative advantage, in environmentally sound ways, and to create new opportunities by diversifying their economies. One area that has been used to advantage by the Cayman Islands and the British Virgin Islands is

to carefully develop an offshore business regulatory structure to attract financial and trading companies. Although this is a tricky area -- the same low-tax, low-regulation structure that attracts these desirable businesses can also attract money-laundering activities that are disguised as legal businesses -- it is nonetheless something that continues to be in demand by legitimate businesses looking for a low-tax center of operation or a base in a pleasant setting with easy communications and access to North and South America and to Europe. Another interesting possibility is facilitating the creation of informatics and communications-intensive businesses that take advantage of the fact that the population is fairly well-educated and English-speaking and in the same time zones as the U.S and Canada. This sector has not lived up to its potential yet, and more should be done to provide the communications and educational infrastructure on which these kinds of businesses depend. Similarly, efforts at agriculture diversification should continue, since the traditional focus on bananas and sugar cane creates a dangerous reliance on only two markets. CDB is active in working with its borrowing member countries (BMCs) in these and other areas.

- 1.10 In fact, the economic data that follow reveal a clear pattern. Countries where tourism and offshore business centers make large contributions to GDP (Anguilla, Antigua, Cayman Islands, St. Kitts, Turks and Caicos, and British Virgin Islands) had per capita GDP that in 1994 was, on average, more than 300% greater than those where agriculture played the larger role (Dominica, Grenada, Montserrat, and St. Vincent). (In St. Lucia, both sectors are important). Although it is true that an island's natural endowment explains much of its attractiveness as a tourist destination, the large size of the difference in favor of these service economies draws attention to the region's comparative advantages and disadvantages.

TABLE I

SELECTED ECONOMIC INDICATORS
TARGET COUNTRIES

	Anguilla		Cayman Islands		Antigua & Barbuda		Dominica		Grenada		Montserrat	
INDICATORS	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994
Population (000s)	9.8	9.9	29.1	31.3	64.5	64.2	72.8	73.5	95.5	97.0	10.6	10.4
GDP per capita (\$ 000s)	6.8	6.2	24.3	27.8	7.1	7.7	2.7	2.8	2.7	2.8	5.7	5.8
GDP Growth	7.7%	7.0%	1.5%	5.0%	3.5%	5.3%	1.8%	1.0%	0.9%	2.5%	1.9%	1.0%
Unemployment rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10.0%	8.3%
Agriculture (% of GDP)	4.0	3.0	N/A	N/A	4.1	4.2	20.4	19.5	10.6	10.2	5.6	5.8
Tourism (% of GDP)	33.6	33.6	N/A	N/A	N/A	N/A	2.8	3.0	8.2	9.3	3.1	3.1
Government (% of GDP)	13.5	13.0	N/A	N/A	N/A	N/A	18.4	18.4	10.0	9.7	18.0	17.3
Current Account (\$ millions)	-10.6	-10.4	N/A	N/A	-19.2	-18.0	-19.1	-26.9	-28.3	-16.9	-5.1	-11.9
Fiscal Surplus (\$ millions)	-1.8	-2.0	-15.7	-2.5	N/A	N/A	-43.7	-60.9	-1.5	-6.1	-20.3	-19.8
Inflation	3.7%	4.0%	2.5%	3.1%	N/A	3.5%	1.6%	1.6%	2.8%	2.6%	0.4%	2.8%

INDICATORS	St. Kitts & Nevis		St. Lucia		St. Vincent & the Grenadines		Turks & Caicos Islands		The British Virgin Islands	
	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994
Population (000s)	42.0	42.0	139.9	142.7	108.4	107.4	13.8	14.6	17.0	17.8
GDP per capita (US\$000s)	4.6	5.0	3.6	3.6	2.2	2.4	6.3	6.4	14.2	15.6
GDP Growth	4.5%	3.2%	2.3%	2.2%	1.4%	2.0%	8.9%	1.4%	3.5%	3.5%
Unemployment rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Agriculture (% of GDP)	7.2%	6.2%	10.9%	9.9%	16.0%	15.3%	3.9	4.6	4.2%	3.0%
Tourism (% of GDP)	10.3%	10.7%	10.4%	11.5%	2.6%	2.7%	N/A	N/A	25.2%	28.5%
Government (% of GDP)	17.4%	18.9%	13.2%	13.6%	16.5%	16.0%	N/A	N/A	15.7%	15.7%
Current Account (\$mns)	-23.8	-27.4	-52.8	-60.9	-25.5	-28.3	N/A	N/A	-26.6	-29.4
Fiscal Surplus (US\$mns)	-8.4	-10.3	-11.2	-16.9	-24.1	-45.5	N/A	N/A	-2.9	-3.4
Inflation	1.8%	2.6%	0.8%	2.6%	4.2%	0.7%	N/A	N/A	2.7%	4.2%

Official estimates of unemployment are not available for many countries. Unofficial estimates for unemployment in many countries where statistics are not available exceed 20%.

B. Justification for the program

- 1.11 It is important to realize that even an aggressive approach towards implementing better economic policy may not reduce poverty substantially, since better policy does not compensate for the disadvantages of small size, the difficulties of emigrating, or the frequency of hurricanes. For the foreseeable future, at least, these countries are going to be critically reliant on a diminishing amount of foreign assistance. Given these realities, the Caribbean Development Bank has requested the Program described in this Loan Document. The Program's resources will be used to fund developmental projects and to provide technical assistance in these two groups of countries and to repair some of the damage caused by past and future natural disasters.
- 1.12 By executing this operation, the Bank will be fulfilling the obligation contained in the Agreement Establishing the Bank (Article III, Section 1) to "finance the development of any of the members of the Caribbean Development Bank..." The principle of supporting these countries was reinforced in the Eighth Replenishment, which makes CDB eligible for a portion of the Replenishment's FSO resources. Recently, some of these countries

have expressed the concern that, although the Charter establishes the principle that the Bank would provide assistance to them, that this assistance has been expensive, and that they have not had access to the Bank's grant resources. For this reason, the proposed operation contains a technical assistance grant and other features designed to keep the cost of loan funds at a reasonably low level.-

- 1.13 CDB's lending program places emphasis on social development, poverty alleviation, human resource development and environmental protection, along with its traditional lending to finance infrastructure. In much the same manner, the Bank's sub-regional strategy, which will be outlined in a Regional Paper scheduled for completion in first quarter of 1996, is expected to reflect the mandate of IDB-8 with a sharp focus on poverty reduction and social equity, integration and the environment. The proposed operation would help to transform this convergence of interests and development strategies into practical development plans and programs for the target countries.

C. Integration

- 1.14 The integration process in the target countries is supported by four major regional institutions: The Organization of Eastern Caribbean States, the CDB, the University of West Indies, and CARICOM. The OECS was established in 1981, taking over the functions of the West Indies Associated States Council of Ministers and the Eastern Caribbean Common Market. It has tended to focus on trade matters, on policy coordination and on the provision of common services. While there have been considerable successes in the area of policy coordination, much remains to be done in order to achieve the maximum benefits from this cooperation. There is an ongoing need for harmonization of policies relating to fiscal incentives, taxes, and to the mobility of capital and the implementation of the common external tariff. Furthermore, much needs to be done to promote labor mobility within the OECS area.
- 1.15 The CARICOM has been effective in promoting the Common External Tariff, which is now in its second phase. Tariffs on non-agricultural products are reduced to a maximum of 35%, with a target of 5% to 20% by 1998. CARICOM is also an effective political instrument in trade and investment negotiations with other larger countries or with other regional trade associations and it has important cultural functions.
- 1.16 Overall, the economic integration process has been somewhat less successful than many have hoped. The full achievement of a "Caribbean Common Market" still remains an elusive goal. The gains to be harvested by the members of this trade block are understandably less than they are for larger, more economically diverse unions, since the export profile of each of the countries tends to be the same. And the costs of these benefits is high,

since import tariffs are an important part of the fiscal revenues of the governments.

- 1.17 The most important issue with respect to the exports of the target countries to the rest of the world, and more broadly, those of the CARICOM countries, is under what conditions the region continues to enjoy privileged access to markets in Europe, the U.S. and Canada. Preferential access to these markets is being eroded by the introduction of NAFTA, the revision of EU policy on banana imports, and by the successful completion of the Uruguay Round of GATT negotiations.
- 1.18 In July, 1994 25 Caribbean Basin countries signed an agreement creating the Association of Caribbean States (ACS). By bridging the gap between the CARICOM countries and their largely Spanish-speaking neighbors, the ACS offers the possibility to enhance cooperation in areas like: tourism, transportation, agriculture production, sustainable use of natural resources, and cooperation to overcome natural disasters. The activities of this group are still being determined.

D. Natural disasters

- 1.19 From time to time the region is hit by hurricanes and tropical storms which cause widespread damage to infrastructure, public buildings and commercial property. Over the past ten years there have been approximately ten such storms, and in some cases islands are affected by more than one event during a given year. Additionally, an active volcano is presently posing a serious threat to Montserrat. In most cases, emergency assistance is provided through bilateral arrangements and through CDERA, the local emergency response agency. However, the repair of damaged infrastructure normally requires extended periods of time and a significant portion of the countries' financial resources. CDB assistance is often the only way to finance larger-scale rehabilitation work.
- 1.20 During 1995, within a period of ten days, the region was hit by a hurricane and a tropical storm. Islands affected include Anguilla, Antigua & Barbuda, Dominica and St. Kitts & Nevis. Dominica was affected by both events. The high winds (up to 140 miles per hour), rough seas and storm surges resulted in significant damage to infrastructure -- mainly seaports, roads, power supply and sea defenses, as well as some damage to airports, water supplies and public buildings. Social infrastructure -- the schools, health facilities and the housing stock were extensively damaged in Antigua/Barbuda and St. Kitts & Nevis. In some islands the effect on the economy of damage to the infrastructure was exacerbated by extensive damage to the productive and service sectors, namely bananas, sugar, fisheries, poultry and tourism. These are all small economies, dominated in most cases by a single economic activity. Hence the complete destruction of the banana industry in Dominica, the tourism sector in Anguilla and damage to

the railway network which serves the sugar industry in St. Kitts have created serious setbacks for the economy of the region. The estimated cost of the damage is approximately US\$21 million for St. Kitts & Nevis, US\$300 million in Antigua/Barbuda, US\$55 million in Anguilla and US\$65 million in Dominica.

E. CDB's Role in the target countries

- 1.21 CDB has the task of promoting economic development and integration in the Commonwealth Caribbean in general, with special regard to the needs of the less-developed countries in the region. Since its creation in 1970 it has grown to be the key developmental financial institution for the target countries, and has played a very important role in providing assistance to the larger countries (those which are members of the IDB) as well. Out of total loans outstanding of US\$509 million at the end of 1994, US\$ 153 million are outstanding to the target countries of the proposed operation. The following table provides full details on loans outstanding per country:

TABLE 2

**CDB - Summary of Loans Outstanding at December 31, 1994
(US\$'000)**

Target Country	FUND					
	OCR	SDF(U)	SDF(O)	OSFR	VTF	Total
Anguilla	1,712	3,676	888	500		6,776
Antigua and Barbuda	2,281	1,944	2,504	960		7,689
British Virgin Islands	11,258	7,471	2,853	703		22,285
Cayman Islands	23,537	1,314	339	1,874		27,064
Dominica	3,707	21,454	6,208	9,882		41,251
Grenada	6,191	25,390	2,947	4,501		39,029
Montserrat	2,484	3,620	187	394		6,685
St. Kitts and Nevis	2,583	12,415	2,235	2,782		20,015
St. Lucia	14,104	17,468	12,079	10,980		54,631
St. Vincent and the Grenadines	4,169	18,071	5,518	9,534	376	37,668
Turks and Caicos Islands	2,010	1,641	755			4,406
Total (Target Countries)	74,036	114,464	36,513	42,110	376	267,499
Total (all Borrowing Member Countries)	204,961	200,893	22,404	80,553	2,148	511,159

- 1.22 CDB has established itself as an important supplier of long-term credit to the public sector in its borrowing members. Overall, CDB has a 42% share of the outstanding public and publicly-guaranteed external debt of the OECS countries, (excluding Antigua and Barbuda). CDB is concerned that other multilateral lending institutions' financing of public sector investments may decline in the near future, as a result of financial constraints, and due

to multilateral agencies' lending policies (notably World Bank (WB) and IDA graduation policies).

- 1.23 In order to be able to respond to the growing needs of these countries during the next few years, CDB plans to (i) intensify its policy dialogue with its borrowing members, with other multilateral financial institutions, with donors and with development institutions to promote concerted action in dealing with development problems faced by its borrowing members; (ii) strengthen its economic and sector work; (iii) increase its mobilization of resources from external and regional capital markets; (iv) expand its lending operations by 3% annually in real terms by continuing its lending to the public sector for social and infrastructure and by channelling a greater proportion of its resources to the private sector through a broader range of financial intermediaries; (v) broaden the scope of its public sector lending for development of economic and social infrastructure, including poverty reduction, human resource development and environmental protection; and (vi) increase its level of technical cooperation for institutional strengthening. The attainment of these objectives will take considerable effort and will call for collaboration with other multilateral development institutions active in these areas.
- 1.24 The bulk of CDB's conventional lending resources comes from its own funds, market borrowings and other multilateral lending agencies. CDB has done two capital market issues. The first, for US\$30 million, was done in 1992 and the second, for US\$11.5 million, was done in 1994. The notes, which were placed privately, received a Triple A rating. Lending by CDB on softer terms is provided principally through CDB's Special Development Fund (SDF) and its Other Special Funds (OSF). From these soft lending resources, CDB extends to its less-developed members a large volume and variety of financial and technical assistance.
- 1.25 CDB also performs an important advisory role in many areas, particularly as an advocate for sound macroeconomic policies. The role of CDB in providing policy advice to its borrowers continues to expand, facilitated by the borrowers' growing concerns about their declining access to concessionary resources, the need to use such resources in a more cost-effective manner, and the need to design and implement a coherent set of policies geared to encourage private investment and to produce a sound and sustainable rate of economic growth. Field visits by senior management of CDB, and staff participation in meetings of the Caribbean Group for Co-operation in Economic Development, the Economic Policy Review Committee of the OECS, and other regional meetings organized by the Caribbean Community, the Eastern Caribbean Central Bank, and the OECS provide the major avenues for CDB's policy advice to its borrowing members.
- 1.26 Increasingly, CDB has been participating in joint missions with other institutions to assist governments to develop and implement

economic reforms. Ongoing efforts by CDB to broaden its consultations with international and regional agencies led, in 1995, to the formalization of arrangements with the International Monetary Fund (IMF) for CDB's participation in that institution's Article IV consultation missions to the OECS countries. CDB also shares responsibilities with the WB for the Consultative Group for Caribbean Economic Development (CGCED). It takes the lead in assisting the OECS countries prepare Medium-Term Economic Strategy Papers, chairs CGCED subgroup meetings concerning the UK-dependent territories and prepares the documents for these meetings.

F. Experience of the Bank & other institutions

- 1.27 The IDB has made five loans and eleven non-reimbursable technical cooperations to CDB. The last loan program, approved in 1984, consisted of a multisector credit, and components for preinvestment studies and for institutional strengthening. Subloans were approved for investments in the Cayman Islands, Jamaica, The Bahamas and St. Lucia, and for preinvestment studies in the non-member countries. The institutional strengthening helped CDB to improve their management information systems and their ex-post evaluation capabilities, helped to train personnel from CDB's borrowing member countries in project preparation and management techniques, and enabled CDB to develop an expertise in the area of marginal cost tariff pricing. Overall, the objectives of the program were met, but some problems were encountered that should be anticipated in this proposed operation.
- 1.28 There have been problems related to the slow pace of disbursements of the sub-loans. The main causes of this have been: delays in meeting the conditions precedent of the sub-loans; shortages of counterpart resources; and slower than expected project implementation due to limited project implementation capacity in beneficiary countries. As a result, the full seven-year disbursement period provided for in the 1984 program was required. Experience gained in the execution of the 1984 operation will help to reduce these delays, however it will not be possible to eliminate all of the bottlenecks, such as the common requirement that all loan contracts be approved by parliament, so this proposed operation also contains a seven-year disbursement schedule.
- 1.29 Some problems from CDB's point of view have also occurred because of the requirement to satisfy the Bank's sectoral priorities and to satisfy both institutions' procurement regulations. CDB has also noted that it is expensive for them to comply with the Bank's requirement regarding the submission of audited financial statements of IDB programs, following the format that is set out in AF 300. They point out that most of the same information is contained in their annual report, which is audited by a big six firm, and accepted by their various constituencies. Finally, CDB's borrowing members have suffered large foreign exchange losses as a result of operations funded by IDB and WB unit-of-

account-denominated loans. To protect against future losses, the borrowers have been prepaying these loans where possible, and they are reluctant to assume new obligations unless they are dollar-denominated.

- 1.30 Many of these problems were resolved during the execution of Loans number 758/SF-RG and 488/OC-RG. Problems concerning the absorptive capacity of the borrowing countries are now better anticipated and compensated for. Procurement problems have been minimized, partly by dividing projects into separate components, to be financed separately using IDB funds or CDB funds, and following the procurement practices of only the institution funding the particular component. And the issue of the costs of preparing special audited accounts for the IDB has been solved by the Bank's agreement to accept CDB's standard audited accounts, provided they are prepared in accordance with international accounting standards. During this time, the overall relationship between the IDB and CDB has gone from a borrower/lender relationship to one of mutual respect and cooperation on many fronts. Recent examples include CDB's appointment as agent of the MIF in the preparation and administration of projects, and its co-financing role in the University of the West Indies Development Program. CDB is also helping to channel US\$150,000 in emergency technical cooperation funding to countries affected by Hurricane Luis.
- 1.31 The WB recently approved its sixth loan to CDB, for the equivalent of US\$31 million. Their loan is also a mix of OC and soft resources. There have been delays in the execution of the subloans caused by the same problem of limited absorptive capacity, which have been dealt with as described above.

II. THE PROGRAM

A. Program objectives and description

- 2.1 The purpose of the program is to help develop the target countries by providing financing: (i) for infrastructure development; (ii) to repair damage caused by natural disasters; (iii) for social projects, and (iv) for technical assistance related to the program's subloans. The program consists of three projects. The first is a loan to CDB in the amount of US\$20 million from the Bank's ordinary capital. The proceeds from this loan will be available to fund subloans to all of the target countries. The second is a loan to CDB for US\$17 million from the Bank's Fund for Special Operations to fund sub-loans to countries in the target group that are eligible to receive the IDB's soft resources (the "IDA-eligible countries" -- Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines). CDB would be permitted to blend OC resources with FSO resources for loans to IDA-eligible countries, if CDB determines that this would be useful to spread the FSO resources over a greater number of projects. The last part of the program is a non-reimbursable technical assistance grant to strengthen CDB's capacity to help the IDA-eligible countries address environmental and social-sector problems, and identify, prepare and administer projects.
- 2.2 The OC loan: This part of the proposed operation is a US\$20 million loan, from the Bank's Dollar Window, with a final maturity of 25 years. CDB will be the borrower-of-record. The loan from the Bank and the assets that CDB creates with the Bank's resources will be accounted for in CDB's Ordinary Capital Resources books. The resources will be used to fund a number of sub-loans to public-sector borrowers in the target areas, as described in section C below. Disbursements will be made from time to time to fund sub-loan disbursements under the subprogram. The Bank's normal interest rates will apply.
- 2.3 CDB on-lends these funds at rates of interest that take into account CDB's cost of funds plus margins for administrative costs and targeted profits. Accordingly, the sub-borrowers would effectively be paying fees at two levels: those applied by the CDB as well as the IDB credit fees and the inspection and supervision fees. In order to be able to support the target countries at rates not substantially higher than they would receive if they were members of the IDB, a waiver of these fees is requested. The financial impact to the IDB of the requested waiver is small, nonetheless, other borrowers will need to compensate for this foregone income, as required by the Bank's income targeting methodology.
- 2.4 The FSO loan: In accordance with the Eighth Replenishment mandate, the FSO portion of this operation is recommended at US\$17 million.

These funds would be disbursed at CDB's request, from time to time or all at one time, once the loan is signed and conditions precedent met. The final maturity will be 40 years. CDB will be the borrower-of-record. The loan from the Bank and the assets that CDB creates with these resources will be accounted for in CDB's Other Special Funds Resources books. These resources will be used to fund a number of sub-loans in the IDA-eligible countries, as described in section C below. The Bank's normal interest rates will apply, and a waiver of the Bank's fees is being requested, as above.

2.5 **The TC grant:** The TC resources will be available to: (i) fund a variety of environmental and social sector interventions in the IDA-eligible countries; (ii) identify, prepare and administer projects; and (iii) pay for professionals in the IDA-eligible countries to participate in IDB-sponsored conferences and seminars. (This component is more fully described in Annex II). Although most of these will be higher-level interventions directed at strengthening the institutions involved or improving environmental and social-sector policy, assistance will also be available for more grass-roots-level projects to solve urgent problems.

2.6 Subloans funded with the Bank's OC resources will be onlent at a variable rate of interest with terms and conditions determined in accordance with CDB's interest rate policy, which adds a margin for profit determined in accordance with CDB's income-targeting policy, to its cost of funds. For subloans funded with the Bank's FSO resources, the interest rate will be fixed at rates that reflect the low cost of funds, plus a margin for administrative expenses.

B. Costs and financing

TABLE 3

CDB Planned Financing Activities in Target Countries 1996-99

FUND	Total Financing		Of which: IDB	
	US\$ '000	%	US\$ '000	%
Ordinary Capital Resources	100,000	65.2	20,000	20.0
Special Funds Resources	42,000	27.4	17,000	40.5
Technical Assistance Grant	1,000	7.3	1,000	100.0
Total	143,000	100.0	38,000	26.6

C. Tentative pipeline of subloans

2.7 In accordance with the Bank's draft policy on lending to subregional financial institutions (described in paragraphs 3.23-3.24), the sub-loans will not be fixed at the time of the approval

of this operation. Rather, CDB will select the sub-loans according to its normal portfolio development criteria, which emphasize the economic rate-of-return of projects, subject to their meeting environmental criteria. These criteria are substantively similar to those used by the IDB. CDB's pipeline of pending operations contain a number of sub-loans that would be likely to be funded by the Bank's resources. These prospective sub-loans give a good indication of the developmental activities that CDB is likely to be undertaking during the next few years. A brief description of these prospective sub-loans is set out below:

TABLE 4

COUNTRY	PROJECT	SECTOR	FINANCING		
			OC	PCO	Total
Montserrat	Road improvement & maintenance	Transportation	3.00		3.00
Montserrat	Second power project	Power	5.00		5.00
Regional-OCCS	Institutional strengthening	Agriculture	2.00	2.00	4.00
St. Kitts & Nevis	Road improvement & management program in Nevis	Transportation	3.00		3.00
Cayman Islands	Pedro St. James	Tourism	5.79		5.79
St. Vincent & the Grenadines	Kingstown sewerage project	Water & sewerage	2.25	2.25	4.50
Turks & Caicos	Second port project	Transportation	1.75		1.75
Grand Total			22.79	4.25	27.04

D. Executing capacity of CDB

- 2.8 CDB staff carry out periodic inspection of the works, plant and goods financed from its loans, as well as the records, documents and accounts of the projects. These reviews cover the projects' institutional, financial, and technical aspects. The frequency of visits and reporting depends on the status of execution and the likelihood of a project meeting its objectives. Over the past five years, the CDB has been supervising the implementation of an average of 102 projects per year, and the incremental workload arising from projects to be financed by this operation will be within the capacity of CDB to manage. The Project Team has reviewed samples of the reports prepared by CDB and they were found to be up to Bank standards. Supervision by the Country Office will include reviews of CDB's reports, which result from its own inspection program.

- 2.9 Program resources would be committed over four years and disbursed in seven years. The following table shows the tentative schedule for commitments and disbursements of the program during execution.

TABLE 5

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
Commitments	5.00	5.00	5.00	5.00				\$20m
	5.00	4.00	4.00	4.00				\$17m
Disbursements	1.25	3.75	4.00	5.00	3.75	1.25	1.00	\$20m
	1.25	3.50	3.50	4.00	3.00	1.00	0.75	\$17m
Total Disbursements	2.50	7.25	7.50	9.00	6.75	2.25	1.75	\$37m

E. Procurement

- 2.10 CDB's policies and procedures for procurement on works contracts and for the purchase of goods are generally similar to those of the IDB in respect of publicity, the use of brand names, bonding and insurance requirements, and in the procedures for the administration of the bidding process. Similarly, their policies in the selection of consultants are essentially identical to those of the IDB. All procurement above US\$750,000 for works and US\$1 million for goods and works together are carried out by international competitive bidding, including announcements in Development Business, the local press and foreign embassies of eligible countries. Where the estimated cost of services of goods is below the foregoing limits, procurement is through price competition.
- 2.11 In the execution of the program covered by loans 488/OC-RG and 758/SF-RG, the procurement procedures of both the CDB and the IDB were used, resulting in major problems of loan administration for the borrowing member countries, as well as the CDB. The application of uniform procedures would assist in minimizing these problems.
- 2.12 Taking into account the need to facilitate CDB's administration of the program, and the need for timely response to natural disasters in particular, it is recommended that CDB's procurement procedures be used in the procurement of goods and services, with the following special provisions:
- eligibility for procurement using the resources of the loans should be open only to IDB and CDB member countries, without restrictions.

- b. in the use of resources for emergency rehabilitation, the CDB Board of Directors may grant a waiver of its procurement procedures to facilitate an immediate response.
- c. after consultation with the IDB, permit the use of loan resources to finance the execution of work by force account, including community self-help programs, up to US\$8 million of the FSO loan and US\$3 million of the OC loan.
- d. procurement of contracting services for works with an estimated cost above US\$1.5 million, for goods above US\$300,000 and for consulting services above US\$200,000 should be based on international public bidding as stated in CDB's Guidelines for Procurement.
- e. the IDB reserves the right to carry out, at any stage of the procurement process, ex-ante or ex-post reviews of the procedures being followed.
- f. all bids may be rejected, after consultation with CDB if the lowest evaluated bid exceeds the estimate by an amount sufficient to provide a reasonable justification. In such cases, with the approval of CDB, the executing agency may call for new bids from at least all who were invited to bid in the first instance, but may not negotiate a contract with any bidder.

F. Environmental issues

- 2.13 CDB has environmental policies and practices similar to those of the IDB, therefore no changes in these are recommended. However, the small countries require some assistance in the preparation of loan projects, and more generally, in developing and executing environmentally sound policies. The CMA, in its session of February 20, 1996, recommended that the Program include a technical assistance facility to assist the target countries to address environmental issues, especially to ensure that the borrowers are able to prepare investment projects in the form that CDB's environmental policies require. This technical assistance is described in Annex II.

G. Program evaluation, inspection and supervision

- 2.14 The IDB Country Office in Barbados will have administrative responsibility for the execution of the Program. Reviews will be done on the basis of the many reports that CDB prepares in the course of managing its business, supplemented with visits to CDB and, if necessary, to the projects themselves. CDB prepares regular reports to senior management and to its Board in order to ensure that financial controls are followed and that the portfolio of projects is being well managed. Appraisal, Project Supervision and the recently introduced Project Implementation and Portfolio Quality Management Report, contain the information and databases

that are necessary to monitor progress in the development and execution of projects. Quarterly status reports of disbursements and projects under implementation are also prepared. These reports provide the framework for CDB's annual review of its loan portfolio, with special attention given to the performance of executing agencies. The information in these reports will be reviewed to ensure that the verifiable indicators set out in the Logical Framework Analysis are being met. These criteria establish loan and technical assistance approval and execution goals. In addition, CDB will present financial statements of its ordinary capital resources, its Special Development Fund and its Other Special Resources Fund to the Bank within 180 days of the close of each fiscal year.

H. Disbursement

- 2.15 Both loans are proposed to be disbursed in minimum amounts of US\$3 million. Up to 100% of the FSO loan can be disbursed, subject to availability of funds. Up to 25% of the grant may be advanced to the CDB.

III. THE BORROWER AND EXECUTING AGENCY

A. Introduction

- 3.1 CDB will be the borrower and the executing agency. It was founded in 1970 to contribute to the economic growth and development of its member countries in the Caribbean and to promote economic cooperation and integration among them. CDB was established by 16 Commonwealth Caribbean governments ^{1/} and two non-regional members, Canada and the U.K. Subsequently, Venezuela, Colombia, Mexico, Anguilla, France, Italy, and Germany joined, in that order. Holland is not a member, but is a donor in support of social programs. The U.S. has contributed to special programs in a number of sectors. The WB has been a steady lender to CDB and the IDB has made loans to CDB mainly for on-lending to the smaller Caribbean states that are members of CDB but which are not members of the Bank. The Bank's charter (Article III, sections 1 and 4) established this special relationship and the Eighth Replenishment reaffirmed it.

B. Institutional aspects

- 3.2 CDB manages four pools of resources: the ordinary capital resources (OCR) of the bank, and three special purpose funds. One special fund, called the Special Development Fund (SDF), is used to make loans of high developmental priority, calling for longer maturities, longer grace periods or lower interest rates than those at which ordinary operations are made. A second pool of resources, called Other Special Fund (OSF), is also used to make soft loans, but its contributors are mainly non-member countries. The third fund, the Venezuelan Trust Fund, was used to fund loans at non-concessional rates. It is much smaller than the other parts of CDB.

^{1/} The Commonwealth Caribbean consists of 12 independent countries -- Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, St. Kitts and Nevis, and Trinidad and Tobago, plus five U.K. dependencies -- Anguilla, Cayman Islands, Montserrat, Turks and Caicos Islands, and the British Virgin Islands.

The relative size of the four pools of resources is indicated in the following table:

CARIBBEAN DEVELOPMENT BANK

Ordinary Capital and Special Fund Resources
(in US\$ 000s as at June 30, 1995)

	TOTAL ASSETS
Ordinary Capital	\$351,284
Special Development Fund	472,929
Other Special Resources	165,800
<u>Venezuelan Trust Fund</u>	<u>5,546</u>
TOTAL ASSETS	\$995,559

- 3.3 The subscribed capital of CDB is divided into paid-up shares and callable shares. CDB's subscribed capital totalled US\$648 million at June 30, 1995, of which US\$143 was paid up. According to CDB's charter, regional members must hold at least 60% of CDB's shares. At year-end 1994, the actual figure was 61%.
- 3.4 All of the powers of CDB are vested in the Board of Governors. Each member country has one governor and one alternate ^{2/}. Voting power is roughly proportional to the number of shares a country has, with a slight weighting in favor of the smaller members. The Board of Governors has delegated all except certain powers to the Board of Directors. The Board of Directors has 17 members, of whom twelve are selected by the governors representing regional members. CDB is an international organization, and is vested with the status, immunities, exemptions and privileges that are usual for such organizations.
- 3.5 The Board of Governors meets once a year, but may also be summoned as required. The Board of Directors normally meets six times a year. The Board of Directors is responsible for the general policy and direction of the operations of CDB. The Directors take decisions concerning loans, guarantees and other investments by CDB, CDB's borrowing program, technical assistance and other operations of CDB. It also approves the CDB's administrative budget and submits accounts pertaining to each financial year to the Board of Governors for its approval. CDB's President is also chairman of the Board of Directors. He is responsible for the organization and operation of the bank, including the appointment of staff and the development of loan proposals.

^{2/} Excepting Montserrat, the British Virgin Islands, the Cayman Islands, the Turks and Caicos Islands and Anguilla, which jointly elect one governor.

- 3.6 CDB's organization chart is shown in Appendix I. There are two vice-presidencies, one which is in charge of operations, the other corporate services. The Projects Department and the Economics and Programming Department report to the Vice-President for Operations. The Finance, Legal, Human Resources, and Management Services Departments report to the Vice President for Corporate Services, who is also Bank Secretary. The Advisory Council to the President is the most important committee at CDB. Its members are the two vice-presidents and the directors of the Finance, Projects, Economics and Programming, and Legal Departments. It meets at least once a week to discuss issues requiring decisions from senior management.
- 3.7 CDB's charter gives it the following functions:
- a. to assist regional members in the co-ordination of their development programs with a view to achieving better utilization of their resources, making their economies more complementary, and promoting the orderly expansion of their international trade;
 - b. to mobilize within and outside the region additional financial resources for the development of the region;
 - c. to finance projects and programs contributing to the development of the region or any of the regional members;
 - d. to provide technical assistance to its regional members, particularly by undertaking or commissioning pre-investment surveys and by assisting in the identification and preparation of project proposals;
 - e. to promote public and private investment in development projects by, among other means, aiding financial institutions in the region and supporting the establishment of consortia;
 - f. to co-operate and assist in other regional efforts designed to promote regional and locally-controlled financial institutions and a regional market for credit and savings;
 - g. to stimulate and encourage the development of capital markets within the region; and
 - h. to undertake or promote such other activities as may advance its purpose.
- 3.8 CDB's lending activities are divided into two major categories: Ordinary Operations and Special Operations. Ordinary Operations are those financed from the Ordinary Capital Resources of CDB. Special Operations have softer terms and are financed from the Special Funds Resources of CDB. A project may combine aspects financed as Ordinary Operations and other aspects financed as Special Operations. CDB can make loans to and investments in both

public and private sector entities. Nonetheless, direct loans and investments in private sector companies are only a small part of CDB's activities. This reflects CDB's caution in taking on these risks, as well as its requirement that private sector projects have an important developmental effect. Furthermore, CDB gives priority to the needs of its less-developed member countries, and a major part of its Special Operations are to the less-developed members.

- 3.9 On its OCR loans, CDB charges a variable rate of interest that is determined semiannually, in accordance with its income-targeting calculation. Presently, this rate is 7.75%. (For comparison, the IDB OC rate is 6.89%.) On OCR loans, CDB also levies a commitment fee of 1% p.a. on undisbursed amounts, and, for loans to private sector companies, a 1% front-end fee. Also, private-sector borrowers pay two points above the OCR rate. Most loans are repayable over a maximum period of 17-22 years, except for private sector loans, which have a maximum tenor of 14 years. Special Operations have interest rates that are fixed for the life of the loan at rates that reflect the low cost of funds, plus a margin for administrative expenses. Different countries pay different rates of interest, depending on the purpose of the loan and CDB's classification of its borrowing member countries based on their eligibility for concessionary funding.
- 3.10 CDB sends programming missions to three or four countries per year. These visits are supplemented by meetings held around CDB's annual meeting and by the information gained when CDB assists in the preparation of the members' public sector investment program. (CDB does this for several of the smaller member countries.) This process results in the identification of a loan pipeline. Project teams are then formed to prepare the projects, led by a project team leader. The project team prepares an appraisal report that is defended in front of the Loan Committee. Operations approved by the Loan Committee are submitted to the Board for its approval. In a recent re-examination of its portfolio management and execution, CDB determined that many delays in execution occurred because the executing agencies were unclear about the final project design. As a result, CDB has found it useful to take a more participative approach and now incorporates their local counterpart into the project team. The initial results of this have been very encouraging.
- 3.11 In appraising projects, CDB has regard to their technical, commercial, financial, economic, legal, organizational and managerial, environmental and social characteristics; their effects on the general development of the country; their contribution to the removal of economic bottlenecks; the capacity of the borrowing country to service additional debt; the introduction of appropriate technologies to raise productivity; and the expansion of employment opportunities. CDB also considers the ability of the borrower to obtain financing elsewhere on terms and conditions that CDB considers reasonable. CDB requires its borrowers to undertake an environmental impact assessment to ensure that projects are sound

and sustainable and that any environmental consequences are taken into account in the project design.

- 3.12 Within the broad context of CDB's continuing efforts to contain costs, the major priorities of the 1996 Budget are to: (i) expand activities in the social sector; (ii) improve portfolio quality; and, (iii) strengthen CDB to improve its efficiency and effectiveness in all areas. CDB has 194 staff members (including four consultants) to carry out its activities.

C. Financial analysis

- 3.13 **Ordinary Capital Resources:** CDB's audited financial figures for 1993 and 1994 and management's pro-forma figures for 1995 are presented in Appendix II. Total OCR assets have grown over this period from US\$314 million to US\$348 million. The loan portfolio has grown in proportion, from US\$176 million to US\$209 million. Most of the financing for CDB's OCR assets was provided by paid-in capital and retained earnings. Leverage is very low, even by the standards of multilateral development banks. CDB's operating guidelines require it to limit the total of loans, guaranties and loan commitments to no more than 133% of the sum of its paid-up capital, ordinary reserves, and 85% of the callable capital of its members who are members of the Organization of Economic Cooperation and Development (OECD). Their actual lending is well within this constraint. Some funds are borrowed from multilateral banks and from the international capital markets. These borrowed funds totalled US\$97 million at the end of 1994.
- 3.14 CDB's liquidity is strong, as well. Cash and marketable securities were greater than its total liabilities in each period. CDB tries to maintain its total liquidity at a minimum of 40% of undisbursed commitments or three years' net funding requirements, whichever is the greater.
- 3.15 CDB's OCR profits were US\$12.8 million in 1993. They fell slightly in 1994, to US\$11.8 million due to lower interest margin and a decline in investment income. Net income for 1995 is estimated to have been US\$15.5 million. This improvement was due to falling interest expenses and to the writing back of loan provisions that were no longer necessary. The return on equity was 5.4% in 1993 and 1994 and rose slightly to 5.5% for the 1995. While these numbers would be low for a commercial bank (since commercial banks operate with a much thinner cushion of capital) they are more than adequate by the standards of development banks that fund themselves more with equity capital than with borrowed funds. The strength of CDB's profits is better demonstrated by its interest coverage ratio (ICR). CDB's ICR was 3.5 times in 1993 and is now over four times. CDB's guideline is not to let the ICR fall below 2.0.
- 3.16 CDB also manages its portfolio carefully. Loans outstanding to any single borrower cannot exceed 50% of capital and loans to the three

largest borrowers cannot exceed 120% of capital. CDB's policy prohibits disbursements to members who are more than three months in arrears. These conservative policies are matched by equally conservative policies concerning provisions for bad debts. During the last three accounting periods, the amount of provisions has actually exceeded total past-due loans. To discourage borrowers from falling into arrears, CDB charges a penalty rate of interest equal to 100 basis points over its normal OCR rate.

- 3.17 The targeting of net income is an important feature of CDB's financial management that provides further assurances that the institution will at all times have sufficient funds to service its debts and to maintain its credit rating. Net income is targeted at 3% (in real terms) of average usable capital (essentially paid-in capital plus reserves) and the interest rate charged by CDB is set at the level necessary to achieve this target return on equity.
- 3.18 This cautious pattern is expected to continue. Appendix V gives CDB's projected financial statements and selected ratios from 1995 until the year 2000. The rating agencies have taken these strengths into consideration, along with other considerations such as its callable capital and CDB's close relations with the IDB and the WB, and have given CDB's bonds a AAA rating.
- 3.19 **FSO Credit Analysis:** The Agreement Establishing the CDB requires that the Special Funds of CDB "must be held, used, committed, invested or otherwise disposed of entirely separate from the Ordinary Capital Resources". This effectively means that the OCR resources of CDB are not available (except in the event that CDB terminates its operations) to satisfy obligations obtained on concessionary terms. In addition, within the Other Special Resources fund, each donor's funds must be accounted for and administered separately from each other donor's funds. Although this causes CDB some additional administrative work in managing these funds, in practice there have been no problems.
- 3.20 The OSF is of particular interest because it includes the soft resources borrowed from the IDB, IDA and other donors. Each donor negotiates its own program with CDB, and the funds are lent to CDB itself (i.e. the loan is not made to the OSF nor are the funds placed in a trust fund with CDB). CDB onlends to borrowers meeting the goals of each donor's program. The benefit of this is that each donor is assured that its program is being separately administered according to its goals. The risk is that the liquidity of one donor's program cannot generally be used to satisfy shortfalls in the repayments of sub-loans to CDB. In practice, this has not caused problems, that is, CDB has never been late in meeting any of its obligations and continues to enjoy an excellent reputation as an executing agency for many donors.
- 3.21 There are other protections provided to the lenders of soft resources, in addition to those provided by CDB's careful

administration of these funds. Firstly, to cover temporary shortfalls that may occur, for example, when the timing of the flows to CDB from its borrowers does not match the timing of amounts owed to the lender, CDB can make short-term borrowings from one fund to another. If the problem is not one of timing, but a more serious credit problem, then CDB's Board of Directors may authorize the use of a special reserve of US\$6.3 million that is maintained to meet the liabilities of the bank. Lastly, if the funds in the reserve are not sufficient to cover the shortfall, CDB's Board may allocate funds from net income to satisfy obligations to the providers of soft funds. CDB has never had to tap the reserve nor has it ever had to allocate net income for this purpose.

- 3.22 CDB's special funds are also carefully managed. The chart below shows the financial ratios of all three "parts" of CDB. The financial statements for CDB's Special Development Fund are shown in Appendix III and for other Special Fund in Appendix IV.

TABLE 6

CARIBBEAN DEVELOPMENT BANK
Selected Financial Ratios
1995-unaudited

	Equity capital/ total loans	Liquid assets/ total liabilities	Return on assets	Interest coverage ratio	Provisions /non- performing loans
Ordinary Capital Resources	135%	121%	4.5%	4.1x	88%
Special Development Fund	N/A	N/A	1.9%	N/A	171%
Other Special Fund Resources	N/A	N/A	1.9%	N/A	82%

D. The IDB's proposed policy for sub-regional banks

- 3.23 The Bank's proposed policy for loans to sub-regional development banks takes the focus away from directing credit through these institutions and instead focused on the characteristics of the sub-regional institution itself. This recognizes the difficulty developmental institutions have in picking winners (or compensating losers) and at the same time recognizes that, if the intermediary institution has certain characteristics, it is likely to be a good executing agency for credit operations. This draft policy (Document PL-10) was discussed by the Policy Committee of the Bank's Board of Executive Directors on June 1, 1995. The Committee noted the document and expressed its agreement with the Administration's proposal to continue preparing the new policy. A new version of the draft policy, reflecting some changes suggested by the Programming Committee, has been distributed to the Policy Committee.

- 3.24 The proposed loan is consistent with the draft policy. CDB has the three characteristics that subregional institutions should have, according to the policy. These characteristics are consistency of policy, complementarity of operations, and additionality of resources.

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 The Program will benefit the target countries generally through the improvements in physical infrastructure, including the repair of hurricane damage, and improvements in social services that will result from the execution of the sub-projects. It will also strengthen the relationship between the IDB and the CDB. These benefits have been extensively described in section II, The Program.

B. Risks

- 4.2 The risks of the program are the following:

- a. That the developmental support that CDB provides its smaller members with these resources, does not help to put the borrowing countries on an economically sustainable path. This could happen if the borrowing countries did not implement the policies necessary to compete in international markets and run their governments efficiently. This risk is substantially mitigated through the policy advice CDB provides to its members, through the use of soft-fund resources for loans to countries with low per-capita incomes or balance of payments problems, and through its programming practices which give importance to a country's ability to service its debts. Countries which are unlikely to be able to service their debts are required to change their economic policies and put themselves on more solid footing before borrowing from CDB.
- b. That CDB will be unable to service the IDB loans. The shareholders of the subregional banks do not provide direct guarantees of the obligations of these banks. This means that the risks that the IDB is exposed to in lending to these organizations is fundamentally different from the risks the Bank is exposed to in the majority of its operations. As explained in the section on credit analysis, for the OC portion of the loan, the IDB will have the protection of the full strength of CDB's balance sheet, including CDB's callable capital. In addition, the ability of CDB to service its debts is enhanced by its consistent profitability. With regard to the FSO loan, although the Bank will not have full access to CDB's ordinary capital resources, it will be protected by CDB's conservative operating practices, which have produced consistent profits for the organization and an unblemished record in servicing its debts; by a special reserve of US\$6.3 million, which is available to enable CDB to meet its liabilities, in the unlikely event that the sub-loans default; and CDB's future net income, which can be allocated to service soft-fund borrowings.

C. Impact on low income groups

- 4.3 By strengthening the infrastructure of the islands, conditions for agricultural production and transportation will be improved, and the islands will attract more tourists than they would have if these improvements had not been made. The economic effects of these improvements are likely to be felt widely by all income groups, from small farmers to large hotel owners. However, these effects are indirect and, therefore, this operation does not qualify as a program directed at poverty alleviation, according to the Bank's criteria.

D. Participation of women in the benefits of the program

- 4.4 The program should be classified as neutral in its effects on women.

E. Special conditions

- 4.5 The loan will become effective upon agreement by CDB to the Credit Regulations in Annex I.

LOGICAL FRAMEWORK TABLE -- CREDIT FOR NON-MEMBER STATES CARIBBEAN DEVELOPMENT BANK (RG0037)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
to enhance the rate of social and economic development in the target countries.	<ol style="list-style-type: none"> 1. Annual rate of growth in the economic sectors that have been supported with projects. 2. Annual rate of improvement in the human development indicators for the social sectors supported by projects. 	<ol style="list-style-type: none"> 1. National statistics and CDB's economic reviews and country strategy papers. 2. UN Human Development Reports and related data. 	
to build infrastructure, repair damage, and increase the amount and improve the quality of social services in the target countries.	Evidence that projects have been successfully executed and that funds have been disbursed.	<ol style="list-style-type: none"> 1. Advice received from CDB that funds have been disbursed. 2. Reports on project execution or completion received from CDB. 	That there are no major external shocks having negative effects on economic growth.
<p>Loan projects in target countries approved by CDB.</p> <p>Environmental technical assistance provided by CDB to target countries.</p> <p>Social-sector technical assistance provided by CDB to target countries.</p>	<ol style="list-style-type: none"> 1. A total of at least 5 subloans totalling at least \$20m approved by CDB's Loan Committee by Dec. 31, 1998. 2. At least two environmental technical projects totalling at least \$400,000 approved by CDB before Dec. 31, 1998. 3. At least two social-sector technical assistance projects approved by CDB before Dec. 31, 1998. 4. Loans and technical assistance operations for the remaining funds approved by CDB's Loan Committee by June 30, 2001. 	Annual report from CDB showing the projects funded by the IDB that have been approved during the previous year.	That the target countries will have the capacity to absorb the projects, and the executing agencies the capacity to execute them.
<p>CDB staff time, direct costs and overheads for developing a portfolio of loan and technical assistance projects.</p> <p>Staff time, direct costs and overheads of executing agencies for developing loan and technical assistance projects.</p>	<ol style="list-style-type: none"> 1. Project teams formed and working on at least five loan projects by July 1, 1998. 2. Project teams formed and working on at least two environmental technical assistance projects. (The TCs may be related to the preparation of loan projects.) 3. Project teams formed and working on at least two social sector technical assistance projects. (May be loan project-related.) 4. project teams formed and working on the remaining projects by Jan. 1, 2000. 	Evidence (project profiles or appraisal reports) received from CDB.	That there is an adequate supply of sound projects in the target countries.

CREDIT REGULATIONS

I. PURPOSE

- 1.1 These Credit Regulations establish the terms and conditions for the execution of the Credit Program for Small Caribbean States (CPSCS - "the Program"). These Regulations should be interpreted together with the agreements set out in Loan Contracts #xx/OC-RG and xx/SF-RG entered into by the Inter-American Development Bank (IDB) and the Caribbean Development Bank (CDB) on xx/xx/1996.

II. DEFINITIONS

CDB: Caribbean Development Bank

IDB: Inter-American Development Bank

SCS

Countries: Any of the target countries for the Program: Anguilla, Antigua & Barbuda, Cayman Islands, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, The British Virgin Islands, Turks and Caicos Islands.

IDA-eligible

country: Any Country which is eligible to borrow from the International Development Association of the World Bank Group.

Loan Funds: Funds received by CDB under Loan Contracts #xx/OC-RG and #xx/SF-RG and onlent by CDB to an SCS Country to finance a project.

Regulations: These Credit Regulations

III. PURPOSE AND DESCRIPTION OF THE PROGRAM

- 3.1 The purpose of the Program is to make available resources to CDB for socially and economically viable projects especially in the small states that are not members of the IDB.
- 3.2 The Program consists of financing a series of public-sector projects in the SCS Countries. The resources of the Program consist of US\$20 million in funds from the Ordinary Capital of the IDB, and US\$17 million from IDB's Fund for Special Operations.

IV. ELIGIBILITY OF THE PROJECTS

- 4.1 The funds of the Program can be used to finance projects to develop infrastructure, to repair damage caused by natural disasters, and for projects in the social sectors. The projects to be financed with Loan Funds will be specific development projects that are technically, economically, financially, and environmentally viable and sound.
- 4.2 To ensure the preservation of the environment, CDB will ensure that its environmental criteria are being followed.

V. TERMS AND CONDITIONS OF THE LOANS

- 5.1 CDB will apply the following terms and conditions for loans made under the Program:
- a. Tenor: Loan #xx/OC-RG -- Up to twenty-two years including up to ten years of grace. Loan #xx/SF-RG -- up to thirty years, including five years' grace. No grace period will be granted for interest payments.
 - b. Rate of Interest and Commissions: For loans funded with the proceeds of xx/OC-RG, the normal rate of interest and commissions applied by CDB for operations funded with CDB's Ordinary Capital Resources. For loans funded with the proceeds of xx/SF-RG, the rates of interest and commissions charged to the borrower must transfer to the borrower substantially all of the benefits of the concessional interest rates and commissions charged to CDB by the IDB, plus a margin agreed upon with the IDB for CDB's operating expenses.
- 5.2 Additionally, CDB will undertake to:
- a. require the borrower to use the proceeds of the subloans exclusively to purchase the goods and services required to execute the sub-project;
 - b. secure the right of CDB and IDB to inspect the machinery and equipment, sites, works and other aspects of the project during its execution;
 - c. require the borrower to supply whatever information that CDB may reasonably request in relation to the project;
 - d. require the borrower to ensure that the acquisition of goods and services will be made at a reasonable cost, considering market price, quality, efficiency, and any other pertinent factors;
 - e. obtain the right to suspend disbursements of the loan if the borrower defaults in the fulfillment of any of its obligations;

f. in cases where the borrower is not an SCS Country government, CDB will require the guaranty of the government of the SCS Country.

5.3 The resources of Loan ~~xxx~~/OC-RG can be used to finance up to 80% of the total cost of projects in the SCS Countries. Exceptionally, at the request of CDB and with the agreement of the IDB, projects in countries that are borrowing members of both the IDB and CDB can be eligible for financing from Loan ~~xxx~~/OC-RG. The resources of Loan ~~xxx~~/SF-RG can be used to finance up to 90% of the total cost of projects in IDA-eligible countries, when these resources fund social-sector projects. When these projects are not in the social sectors, the 80% limit applies. (At the time of IDB approval of the Program, the IDA-eligible countries were: Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines.) Additionally, in the IDA-eligible countries, the resources of Loan ~~xxx~~/SF-RG may be blended with the resources of Loan ~~xxx~~/OC-RG, in proportions to be determined by CDB.

5.4 The Loan Funds may not be used to finance:

- a. the payment of debts or the refinancing of loans;
- b. the purchase of shares, bonds, participation in private-sector enterprises, or other securities;
- c. projects which do not comply with CDB's environmental regulations and with those of the SCS Country in which the project is located;
- d. taxes or duties;
- e. military equipment; and
- f. the acquisition of goods and services from countries which are not members of CDB or the IDB.

VI. LOAN LIMITS

6.1 Individual subloans are limited to a maximum of US\$7 million for both loan ~~xxx~~/OC-RG and ~~xxx~~/SF-RG.

VII. AUDITS AND INSPECTIONS

7.1 CDB and the IDB reserve the right to audit and inspect the projects to verify the correct application of the Loan Funds and compliance with these Credit Regulations. CDB will inspect each project, at least once a year during execution, to determine the compliance with environmental regulations. If CDB determines that a project is not following the relevant environmental norms, CDB will:

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

- b. inform the government of the SCS Country in which the project is located; and
- c. exclude the SCS Country from participation in the Program until all its projects are in compliance with the relevant environmental regulations.

VIII. MODIFICATION OF THESE CREDIT REGULATIONS

- 8.1 CDB can request modifications to these Credit Regulations, in order to adapt the Program to new conditions that may present themselves during the execution of the Program. Any modification to these Regulations will become effective as and when the IDB expresses its agreement in writing.
- 8.2 These Regulations will become effective on the date that the IDB makes Loan Funds available for relending pursuant to IDB Loans ~~xx~~/OC-RG and ~~xx~~/SF-RG.

**INSTITUTIONAL STRENGTHENING OF THE CARIBBEAN DEVELOPMENT BANK
IN ENVIRONMENTAL AND SOCIAL SECTOR WORK**

(TC-s/n)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Caribbean Development Bank (CDB)

BENEFICIARIES: The IDA-eligible members of CDB

FINANCING: IDB: US\$1,000,000 (FSO non-reimbursable)
This technical cooperation project is eligible for funding from FOE net income convertible currency as a regional project in support of priorities of the Eighth Replenishment. See Document AB-1704, paragraphs 2.60 and 4.8 to 4.9.

**TERMS AND
CONDITIONS:**

Execution period: 24 months from the date of signature of the technical cooperation agreement with the CDB

Disbursement period: 36 months from the date of signature of the technical cooperation agreement with the CDB

Deadline for requesting final disbursement: 33 months from the date of signature of the technical cooperation agreement with the CDB

A revolving fund of 25% will be established in foreign exchange.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environmental Management Committee, at its meeting of August 15, 1995, classified the CDB Program as a Category III operation.

OBJECTIVES:

The main objectives of this operation are to strengthen CDB's capacity to support the efforts of its borrowing member countries (BMCs) in the following ways: i) to

improve the environmental control and natural resources management capabilities of agencies in the target countries; ii) to improve the delivery of social sector services in the target countries; (iii) to identify, prepare and implement projects; and (iv) to help professionals in the IDA-eligible countries to attend IDB-sponsored conferences and seminars.

DESCRIPTION:

The technical assistance will be used to finance the contracting of consulting services and the procurement of equipment to satisfy the objectives of the Program. The following areas have been identified as possible areas of intervention: i) develop the capacity within environmental agencies to prepare feasibility studies, monitor environmental requirements in project execution and manage and regulate natural resources; ii) develop the capacity to analyze the extent and causes of poverty and identify needed assistance and action plans; and iii) to undertake education and training programs in the social sectors.

BENEFITS:

The benefits from a successful execution of the Program are a strengthening of environmental and social sector institutions in the target countries, improved policy making in these areas, and ultimately an improved environment, and more and better social services.

RISKS:

The main risks are related to the level of commitment in the beneficiary countries to environmental issues. The pressures for development and for immediate results can cause environmental issues to be overlooked. This is especially true if the funds available for environmental work are expensive. The fact that these are grant resources, and the fact that CDB is already heavily involved in this area, helps to reduce these risks.

I. BACKGROUND

- 1.1 The main constraints on the expansion of CDB's lending program are the limited experience of staff on appraisal teams, the lack of country experience in preparing investment projects and the lack of counterpart funds. In accordance with priorities established in its 1996 Work Program, CDB is addressing these problems in order to be able to deliver projects to reduce poverty, develop human resources, improve the management of natural resources, and to strengthen environmental protection. Towards this end, CDB created a Social Development Division. This Division comprises a Poverty Reduction and Environmental Unit, which manages the Basic Needs Trust Fund Program; a Technical Cooperation Unit and a Human Resource Development Unit.
- 1.2 The technical assistance (TA) will be administered by this Division and the TA resources will be available to: (i) identify, prepare and administer projects funded by the IDB's Credit Program for Small Caribbean States; (ii) provide support for education reforms and to strengthen human resources development institutions; (iii) support programs to develop and improve low income housing; (iv) assess the environmental impact of projects, design mitigation measures, and strengthen environmental institutions; (v) develop appropriate tools for social impact assessment; and (vi) provide information, training and technical assistance to reduce constraints on the absorptive capacity of BMCs.
 - A. The environmental framework
- 1.3 The small Caribbean developing states and dependent territories of the Organization of Eastern Caribbean States (OECS) have similar institutional problems related to environmental control and natural resources management. In most countries there is a disequilibrium between short-term economic benefits and long-term concern about environmental protection and natural resources management even though natural resources are the mainstay of the economy. Natural resource degradation is a serious problem in almost every country and is evident in poor land use practices, misplaced agriculture development, and environmentally unfriendly tourism.
- 1.4 Natural resources management and environmental control are usually dispersed among too many government agencies so that coordination is not very effective, despite the small size of these governments. Also, budgets of environmental agencies are very low, which restricts their ability to assess and monitor resource management issues. Many environmental laws and acts exist but most are outdated, lack supporting regulations, and some are not enforceable. Fines for violations are unreasonably low and there is seldom a formal EIA process to assist development planning. Where there is, it is ad hoc and ministerial over-riding of EIA recommendations is common.
- 1.5 However, some improvements and changes are taking place within the region which are making the development process more closely tied to the environmental base of the countries. There is an emerging recognition

in the public and private sector that the natural resources of the country are the base for economic growth and well-being of the people and a realization of the need to define national environmental policy. There is a close association among government environmental professionals, environmental NGOs, and bilateral and multilateral development organizations on environmental issues. Participation by agencies such as the OECS/Natural Resources Management Unit (NRMU), UNDP, and the CDB, in capacity building for environmental agencies, and local and regional NGO development programs and projects are improving awareness and management capability.

- 1.6 Notwithstanding this increased awareness of environmental issues, Caribbean governments are slow to incorporate environmental aspects into development operations and to link sound natural resources management to development goals. Assistance is urgently needed for various governmental environmental units, to acquire appropriate capacity and tools for accelerating the process of sustainable development through natural resources management.
- 1.7 CDB has prepared environmental policies, procedures and implementation guidelines that are comparable to those of the IDB and the World Bank, and has shared these instruments with its borrowing member countries. CDB requires its borrowers to adhere to its environmental criteria in preparing loan proposals; and assists its borrowers with environmental screening and assessment, and with TA grant funds when available. CDB however, has a small environmental staff which cannot always provide direct assistance to the borrowers. Borrowers do not always have the expertise or the funds to assure that environmental screening and assessments are properly carried out.

B. The social sectors

- 1.8 As a regional institution CDB is well-placed to address some of the problems which are unique to the Caribbean. Although the states of the region have a lot in common in terms of what they are trying to achieve -- equity in access, uniformly high standards of quality, economies of scale, social and geographical mobility -- regional resource disparities have led to variations in the means by, and the time scale over which these objectives will be achieved. In addition to the technical analysis required to bring about improvements in these area, the CDB's local perspective and its ability to provide a forum for a regional policy dialogue are advantages which need to be more fully exploited.
- 1.9 Current education and training programs lack coverage, especially at higher levels of education. Technical and Vocational Education and Training (TVET) has a low status compared to academic education and there is a lack of mobility between the two streams. Diseconomies of scale are building up as individual countries duplicate some of the services which could be offered regionally - assessment, vocational qualifications, curriculum development, and specialized teacher training. Financial resource constraints limit the opportunities for sharing experiences while simultaneously creating a greater need to avoid duplication of development efforts.

- 1.10 Changes taking place in the TVET sector are reaching out to a wider range of beneficiaries and involving a wider range of public and private providers than ever before. However, not all the benefits of this can be harnessed if there are misunderstandings about the comparability or equivalency of certification offered by the different training programs. Emphasis on the certification of key skills and the provision of modular training will be required if a skilled and flexible work force is to respond the economic changes facing the Region.
- 1.11 In addition to the development of a long-term strategy to promote equity and efficiency in education there are a number of well-known immediate needs which face the region. In the teaching of mathematics, English and basic sciences, there are serious shortages of teachers as well as deficiencies in the skills of the teachers currently engaged to teach those subjects. In addition, these three subjects require some curriculum modernization, from the development of course content and teaching materials to the development of pupil assessment instruments, examinations and teacher skills. Emphasis needs to be shifted from the memorization of facts to the understanding and derivation of principles, implying a switch from expository teaching and the testing of recall, to discovery learning and the demonstration of understanding.
- 1.12 For the longer term development of the science education the challenges will be to develop a better conception of science in relation to technology, to develop skills such as anomaly spotting, hypothesis testing and determination of significance, more appropriate to living and working, and to breaking down the sharp division between TVET and academic education. The erroneous belief that sciences are for bright children while TVET is for slower learners is contributing to shortages of technically skilled young workers.

II. OBJECTIVES

- 2.1 The main objectives of this operation are to strengthen CDB's capacity to support the efforts of its borrowing member countries i) to improve the environmental control and natural resources management capabilities of agencies in the target countries; and ii) to improve the delivery of social services in the target countries.
- 2.2 This will be achieved through technical assistance to: i) increase the capability of the borrowers in preparing environmental feasibility studies for project preparation and monitoring environmental performance of operations in execution, ii) strengthen the capacity of the environmental and development units to provide environmental control and manage natural resources, and iii) improve environmental legislative and regulatory frameworks; (iv) identify, prepare and administer projects; and (v) provide training to professionals in the IDA-eligible countries by offsetting some of the expenses of attending IDB-sponsored conferences and seminars.

III. ADDITIONAL ACTIVITIES

3.1 In addition, the following components/activities may be undertaken:

A. Environmental aspects

- a. Assist the country environmental and development agencies to assess environmental impacts during the feasibility studies and loan preparation for investment projects, and to assist in monitoring environmental mitigation measures for operations in execution.
- b. Assess national environmental and development agencies' technical and administrative capacity to perform their functions and strengthen them in the areas where improvement is needed.
- c. Help to develop environmental policy and guidelines for sustainable development.
- d. Review environmental legislation and regulations for environmental management and propose rationalization of legal instruments to improve compliance and enforcement with the countries' policies and guidelines.
- e. Assess the countries' participation and compliance with international environmental agreements (e.g. protocols, conventions) and improve their capacity to derive the benefits from and fulfil their obligations under these agreements.

B. Poverty reduction activities

- f. Develop baseline data on the incidence and severity of poverty.
- g. Develop targets for poverty reduction in areas such as education, health, nutrition, population, shelter, the informal sector, water and sanitation.
- h. Identify specific measures for addressing the poverty problem in each country and the respective resource requirements (e.g. policy and institutional reforms, strategies and programs).
- i. To provide a foundation for analyzing assessment, examinations and curriculum development issues and needs, and to review the current regional status of testing, and recommend strategies to improve the relevance, transferability and efficiency of qualifications.

C. Cost and financing

3.2 The total cost of the project is estimated to be the equivalent of US\$1 million, which the Bank would contribute on a non-reimbursable basis from the net income of the Fund for Special Operations. The

consolidated budget, distributed by category and source, is described below.

(In US\$ thousands)

CATEGORIES	TOTAL
2. Individual Consultants	830.0
6. General support	0.0
7. Publications	0.0
97. Workshops	90.0
98. Contingencies	80.0
TOTAL	1,000.0

- 3.3 CDB will prepare terms of reference and budgets for each operation. These documents will be made available to the Bank, but the Bank's prior approval will not be required. At the request of the CDB, the Bank could establish a revolving fund up to the equivalent of 25% of its contribution. The Bank will replenish the revolving fund, totally or partially, at the request of the CDB, on the basis of the presentation of documents detailing the expenses charged to the Bank's contribution.

PROPOSED RESOLUTION

REGIONAL. LOAN ____/OC-RG TO THE CARIBBEAN DEVELOPMENT BANK
(CREDIT PROGRAM FOR SMALL CARIBBEAN STATES)

The Board of Executive Directors

RESOLVES:

1. 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 a credit program for small Caribbean states. Such financing will be for the amount of up to US\$20,000,000, or its equivalent in other currencies, from the Ordinary Capital resources of the Bank, and will be subject to the "Terms and Financial Conditions" and "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

REGIONAL. LOAN ____/SF-RG TO THE CARIBBEAN DEVELOPMENT BANK
(CREDIT PROGRAM FOR SMALL CARIBBEAN STATES)

The Board of Executive Directors

RESOLVES:

1. 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 a credit program for small Caribbean states. Such financing will be for the amount of up to US\$17,000,000, or its equivalent in other currencies, from the Fund for Special Operations of the Bank, and will be subject to the "Terms and Financial Conditions" and "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

REGIONAL. NONREIMBURSABLE TECHNICAL COOPERATION FOR
THE CARIBBEAN DEVELOPMENT BANK

(Credit Program for Small Caribbean States)

The Board of Executive Directors

RESOLVES:

1. 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 agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document _____ with respect to a technical cooperation with the Caribbean Development Bank for a credit program for small Caribbean states.

2. That up to the sum of US\$1,000,000, or its equivalent, is authorized for the purposes of this resolution, chargeable to the net income of the Fund for Special Operations.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.