MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AND THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN AN AMOUNT EQUIVALENT TO US$20 MILLION

AND A

CREDIT OF SDR 7.8 MILLION

TO THE

CARIBBEAN DEVELOPMENT BANK

JUNE 1, 1994
CURRENCY AND EQUIVALENT UNITS

US$1.00 = BDS$2.00 (Barbados)
= BZ$2.00 (Belize)
= EC$2.70 (Eastern Caribbean)²
= G$130.75 (Guyana)
= J$31.83 (Jamaica)
= TT$5.81 (Trinidad and Tobago)
= B$1.00 (The Bahamas)

ABBREVIATIONS

BMCs - Borrowing Member Countries
CARICOM - Caribbean Community
CDB - Caribbean Development Bank
CGCED - Caribbean Group for Cooperation in Economic Development
DFCs - Development Finance Companies
ECLAC - Economic Commission for Latin America and Caribbean
FIs - Financial Intermediaries
GAAT - General Agreement on Tariffs and Trade
HRD - Human Resource Development
LDCs - Less Developed Countries
MDCs - More Developed Countries
MOU - Memorandum of Understanding
NAFTA - North America Free Trade Agreement
OCR - Ordinary Capital Resources
OECD - Organization for Economic Co-operation and Development
OECS - Organization of Eastern Caribbean States
PCR - Project Completion Report
PPAR - Project Performance Audit Report
SFR - Special Fund Resources
UNDP - United Nations Development Program

CDB’s FISCAL YEAR

January 1 - December 31

1/ As of December 1993.

2/ Antigua and Barbuda, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, and Montserrat.
CARIBBEAN DEVELOPMENT BANK

SIXTH CARIBBEAN DEVELOPMENT BANK PROJECT

LOAN, CREDIT AND PROJECT SUMMARY

Borrower: Caribbean Development Bank (CDB)

Beneficiaries: Public and private entities and enterprises in CDB member countries eligible for receiving IBRD-IDA funds.

Amount: US$20.0 million equivalent IBRD loan
SDR 7.8 million (US$11.9 million) IDA credit

Terms: IBRD loan to CDB: fixed amortization schedule: 17 years including a grace period of 5 years at the IBRD standard variable interest rate.
IDA credit to CDB: standard, with 40 years maturity.

Onlending Terms: (i) The proceeds of the IBRD loan would be onlent by CDB at CDB’s standard variable rate, which is currently 7.5%. The amortization period of the subloans would be determined by CDB on project grounds.

(ii) Disbursements of the IDA credit, blended with IBRD funds, would be onlent by CDB for subprojects in eligible OECS countries which have sound economic policies or would have agreed to adopt adjustment programs acceptable to IBRD/IDA and CDB, and would have not fully attained creditworthiness for exclusive IBRD lending. Financing would be IBRD/IDA blend with IBRD portion not less than 50% for every subproject in eligible OECD countries. The onlent credits to the OECD countries would have maturities not exceeding 35 years. Guyana would be entitled to maturities not exceeding 40 years. The borrowing governments would onlend IDA resources to subborrowers on commercial terms so that the benefit of IDA concessionary terms could accrue to the governments. For the IBRD loan and the IDA credit, the foreign exchange risk would be borne by the CDB’s borrowers.

Financing Plan: CDB (own resources) $17 million
CDB (cofinanciers) $8 million
Subborrowers $12 million
IBRD/IDA $31 million
Total US$68 million

Poverty Category: Not Applicable

Staff Appraisal Report: Report No. 12775-CRG

MAP: IBRD 10611R3

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.
MEMORANDUM AND RECOMMENDATIONS OF THE PRESIDENT
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN AND CREDIT
TO THE CARIBBEAN DEVELOPMENT BANK (CDB)

1. I submit for your approval the following memorandum and recommendation on a
proposed US$20 million loan and SDR 7.8 million (US$11 million) development credit to the
Caribbean Development Bank (CDB). The Loan and Credit would help CDB finance
subprojects of the types which the Bank itself would finance. The Loan would be
repayable over a period of 17 years, including 5 years of grace, at the IBRD standard
variable interest rate and the Credit would be on standard IDA terms with 40 years maturity.

Background

2. CDB serves twelve English-speaking (Commonwealth Caribbean) countries which share a common heritage, including a parliamentary democracy and a common
educational system. Except for The Bahamas, these countries are joined by a regional union
and a common market (CARICOM). Their total population is about 5.7 million, ranging
from 2 million in Jamaica to 41,000 in St. Kitts and Nevis. All Commonwealth Caribbean
countries are members of IBRD/IDA, although, on the grounds of relatively high per capita
incomes or creditworthiness, some of them are now being graduated from lending by IBRD,
IDA or both. The proposed lending to CDB would assist primarily eligible countries,
which at this time are, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and
the Grenadines, Belize, Jamaica, Guyana, Trinidad and Tobago, and U.K. dependencies.
Bank financing would be IDA/IBRD blend (with IBRD portion not less than 50%) for
Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines, and would be limited to
IBRD financing for St. Kitts and Nevis, Belize, Jamaica, Trinidad and Tobago, and U.K.
dependencies. Guyana would be eligible for IDA lending only. In the case of Antigua and
Barbuda, implementation of sound economic policies would be required prior to any Bank
lending. Outlined in the following paragraphs are country/sector issues, which are relevant

1/ In this report, the term "Bank" normally refers to IBRD and IDA, unless otherwise noted.

2/ These twelve countries are The Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago and
the six small island countries of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and
St. Vincent and the Grenadines. They (and the U.K. dependency of Montserrat) belong to the Organization of
the Eastern Caribbean States (OECS), an economic union. Other U.K. dependencies also served by CDB are
Anguilla, British Virgin Islands, Cayman Islands, and Turks and Caicos Islands.

3/ The Bank Group lending strategy for the OECS countries is contained in the Board document titled
"Terms of Lending to Small Island Economies Graduating from IDA", dated November 18, 1985, as extended
through the periods covered by the IDA-9 and IDA-10 replenishments. The five OECS countries (excluding
Antigua and Barbuda) were above the IDA cut-off point, yet not fully creditworthy for IBRD lending. To avoid
abrupt cessation of Bank funds, these countries were allowed a transition period for moving out of IDA lending,
with the condition that over time, as the standards of living and creditworthiness improves, the countries would
be graduated for IBRD financing. During this transition period (which extended until the end of the IDA-10),
based on country creditworthiness assessments, IDA funds were allowed to be blended with IBRD resources.
for most Commonwealth Caribbean countries, and a description of the institutional framework.

3. **Country/Sector Background.** The Commonwealth Caribbean countries, classified as either lower or upper middle-income countries according to the 1993 World Bank Atlas, have small open economies, highly vulnerable to rapid changes in the external environment. Traditionally, most of them have been dependent primarily on a single export commodity -- bananas in Dominica, St. Lucia and St. Vincent and the Grenadines, nutmeg in Grenada, sugar in Belize and St. Kitts and Nevis, and petroleum in Trinidad and Tobago. More recently, however, they have diversified their economies in varying degrees. The region's economic performance during the past decade has been satisfactory as a whole, subject to significant country variations. High per capita inflows of official capital helped cushion the impact of external shocks and internal adjustment policies. With improved economic management, per capita incomes increased in many countries. Social indicators have, on the whole, improved over time. Environmental awareness remained high.

4. In the decade of the 1980s, the OECS countries and Belize experienced average growth rates of about 6% per year as they successfully adjusted to the changing external environment. This record was among the best in Latin America and the Caribbean. Human resource development and increases in private investment were significant contributory factors to growth. Growth was also enhanced by sound economic management, and supported by the successful development of a highly competitive tourist industry, expansion of export markets for traditional products, and increased official external assistance. By contrast, Jamaica achieved moderate growth, while Trinidad and Tobago and Guyana recorded negative growth rates during the same period owing to inadequate domestic policy responses.

5. After this impressive performance in the 1980s, economic growth in the OECS countries and Belize slowed down to about 3% per year during 1990-93. Jamaica registered moderate growth while Trinidad and Tobago and Guyana stagnated. The changing external environment, including economic slowdown in the OECD countries (1990-92), lower oil prices (adversely affecting Trinidad and Tobago), and the continuing sharp reduction in aid inflows, has significantly contributed to the slowdown. In most Commonwealth Caribbean countries, the services sector, particularly tourism, has emerged as the most dynamic sector in the 1990s. Tourism-related construction has also provided some impetus to growth. Activity in manufacturing has been rather sluggish, while agriculture has encountered serious difficulty. Since 1993, the incomes of banana farmers have been declining rapidly, particularly in St. Lucia, St. Vincent and the Grenadines, and Dominica.

6. Fiscal management in St. Lucia, and St. Vincent and the Grenadines has been good in recent years. The Governments of Jamaica, Trinidad and Tobago, Belize, Grenada, St. Kitts and Nevis and Dominica, in varying degrees, have also shown improvement in their fiscal performances. Expenditure containment and privatization of public entities has progressed. Fiscal situation in Antigua and Barbuda continued to deteriorate owing to inadequate fiscal management. Guyana and Jamaica have had high external debt to GDP
ratios, while in St. Kitts and Nevis, Antigua and Barbuda, Dominica and Grenada the stock of domestic debt increased. As part of the public sector domestic debt in the latter countries has also been contracted in US dollar terms, this has implications for their external balance-of-payments.

7. The incidence of poverty in the Commonwealth Caribbean has been less than that elsewhere in Latin America mainly because of the traditionally high priority assigned by the Caribbean governments to the elimination of poverty. Remittances from expatriates have also had a significant impact in averting deprivation. Only pockets of poverty are now found. Major constraints to the elimination of this poverty are: (i) inadequate land titling to small farmers; (ii) high unemployment rates (averaging between 20-30%); (iii) declining levels of educational attainment; and (iv) increase in the breakdown of family units. Reports by the Bank, the UNDP and ECLAC suggest an improvement in human resource development in the Caribbean over the last decade. Access to health services, safe water, and sanitation is near to 100%. Indicators on life expectancy, infant mortality, malnutrition, and fertility compare favorably to those in middle-income countries elsewhere. Public health and education services, strongly supported by donor assistance, free social services, some low-income housing and social programs have significantly enhanced the standard of living in the Caribbean. The Commonwealth Caribbean countries have long tolerated high rates of unemployment, which is attributed to the tradition of extended family systems, inadequate skills development, assured flow of remittances from relatives abroad, and the adequacy of social safety nets. Inadequate child care facilities contribute to female unemployment. Recent indications are that women are better educated than men and progress is being made in integrating women into positions of authority.

8. The Commonwealth Caribbean countries have a rich and diverse natural resource base. However, their terrestrial and marine environments are under increasing pressure from rapid economic development. To protect their environment, the governments have identified waste management, land-use management, and coastal zone management as priority concerns. Issues such as the legal framework, environmental standards, enforcement, cost recovery, and institutional strengthening are being addressed throughout the region.

9. The Caribbean region is now facing serious external challenges. Its preferential market access will be increasingly eroded by the implementation of NAFTA, revised European Union (EU) policies on bananas, and completion of the Uruguay Round of GATT. With the introduction of a new banana regime in the EU in July 1993, banana producers in the OECS countries are facing price and quantity restrictions which will be effective over the next few years; this may be followed by elimination of quotas in the EU market. Sugar prices may decline during the remaining part of the 1990s. Thus, high-cost Caribbean producers of bananas and sugar may find it difficult to survive in the face of global competition. Rapid decline in official capital inflows may also hit the Caribbean economies rather severely. Hence, the Caribbean countries have to adapt their economies to this rapidly-changing world environment. Additional safety nets to protect the most vulnerable
groups and policy reforms to ensure 3-4% economic growth per year over the medium term will be needed.

10. To adjust their economies to the changing world economy, the Commonwealth Caribbean governments will need to give high priority to rapid diversification into tourism and other export services. A series of reforms will: (i) move the countries towards closer economic cooperation; (ii) ensure stability in public finances through a restructuring of the states' role; (ii) improve the enabling environment to foster private sector led economic development; (iii) re-orient basic education system to adopt the new technology-based mode of production; and (iv) protect the environment. These reforms have to be supported by investments in economic and social infrastructure.

11. In this context, the Bank's assistance strategy incorporates: (i) a regional focus (e.g. trade liberalization, capital and labor mobility, education reforms, environmental action, private sector development, agricultural diversification); and (ii) accompanying country-specific assistance programs and strategies. A three-pronged approach by the Bank has evolved over the years. First, through its country economic and sector work (ESW), the Bank (in collaboration with the IMF and the CDB), has been assisting the Caribbean governments in strengthening their institutional capacity to formulate and implement priority policies and programs. During FY93-FY94, these joint efforts led to the preparation of Medium Term Economic Strategy Papers (MTESPs, except for Antigua and Barbuda), regional reports and National Environmental Action Plans (NEAPs). Second, the Bank is assisting CDB to increase and diversify its capacity to undertake ESW and lending. Third, the Bank is involved in donor aid coordination, through the Caribbean Group for Cooperation in Economic Development (CGCED), aimed at mobilization and coordination of aid to the Caribbean. The proposed project is consistent with the Bank's strategy and will be an important step in the attainment of the above mentioned objectives.

12. Institutional Framework. CDB was set up in 1970 by 16 founding Commonwealth Caribbean governments (including the U.K. dependent territories) as regional members, Canada and the United Kingdom as non-regional members, and with the financial assistance of the USA, a nonmember. Venezuela joined CDB in 1973, Colombia in 1974, Mexico and Anguilla in 1982, France in 1984, Italy in 1988, and the Federal Republic of Germany in 1989. CDB's Charter provides that the regional members must hold not less than 60% of its shares. CDB's task is to promote economic development and integration in the Commonwealth Caribbean with special emphasis on the needs of the Less Developed Countries (LDCs) in the region. The LDCs have traditionally consisted of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Belize, Montserrat and other UK dependencies. The first six countries noted above and Montserrat are members of the Organization of Eastern Caribbean States (OECS). To fulfill its task, CDB assists its regional members in formulating their development programs, provides technical assistance and finances their projects and programs. CDB is required by its charter to be guided by sound development banking principles.
13. CDB, with substantial assistance since its inception from bilateral and multilateral aid agencies (including the Bank), has developed into an important regional development finance institution. Its cumulative loan approvals through the end of 1993 reached US$1.1 billion, covering national and regional projects in such sectors as transport, public utilities, housing, industry, tourism, agriculture, and financial intermediaries (FIs). CDB has a strong, well-knit management team and generally competent professional staff, supplemented by donor-financed special experts and consultants. It is in the process of upgrading office technology and enhancing the quality of staff. CDB has recently reorganized its Projects Department to strengthen its capacity for lending for human resource development and poverty reduction. It plans to add a modest number of professional staff, to deal with new areas of emphasis in lending and to strengthen supervision of a growing portfolio of projects. CDB's operating policies and procedures, by and large, are similar to the Bank's.

14. CDB's financial position remains sound and its financial performance is satisfactory. CDB obtained a "triple A" credit rating status and raised US$30 million in the international capital market in 1992. Its Ordinary Capital Resource (OCR) loan portfolio of US$188 million at the end of 1993 remains sound, with only 4.2% of this amount being in "non-performing" status. Aware of CDB's experience in the late 1980s with large arrears by one of its major borrowing members and the limited diversification of its loan portfolio in comparison with larger multilateral development banks, CDB management pursues fairly conservative financial policies. To facilitate future resource mobilization in the international capital markets, CDB management is establishing new financial targets. CDB management, concerned about the slow pace of loan disbursements and to improve CDB's portfolio management, has recently established a task force with responsibility for recommending changes in CDB's policies and procedures to speed disbursements, to maintain portfolio quality and to develop a project monitoring system.

15. The Bank Group has been associated with CDB since its inception, providing technical assistance and loans/credits for five projects. Each operation, in addition to resource transfer, attempted to support CDB's efforts to upgrade its operating policies and standards, improve its procedures, and strengthen its institutional capacity. The first three operations were of the line-of-credit type, designed to finance subprojects which were too small to warrant direct Bank/IDA involvement. Under the first two, the Bank helped CDB prepare sectoral policy papers and technical requirements, and strengthen broad institutional capacity. Under the third, IDA assisted in reviewing and refining CDB's financial policies on interest rates, liquidity, capital structure, etc, and during implementation of the project, provided CDB with assistance in dealing with its arrears problem. Under the fourth operation referred to as "CDB IV" (the OECS regional technical education project), CDB acted as financial conduit for IDA, the executing agency and a co-financier. During preparation of CDB IV, the Bank assisted CDB in refining/strengthening its loan administration and financial/accounting policies. The fifth operation (an ongoing line-of-credit, referred to as "CDB V") was designed to enhance the amount and scope of financial services offered to common Bank/CDB member states in the Commonwealth Caribbean by an appropriate division of labor between the Bank and CDB, under a broadly-based
collaborative arrangement set out in a 1990 Memorandum of Understanding (MOU). In addition, as groundwork for closer collaboration in project lending, CDB formulated, with inputs from the Bank, new medium-term strategies covering major sectors and indirect lending through FIs.

Project Objectives

16. The proposed "CDB VI" project, would seek to: (a) channel, at a lower cost than the Bank could do directly, the proposed IBRD/IDA loan funds to eligible Bank/CDB member countries in the Commonwealth Caribbean, consistent with the agreed sector lending strategies; (b) enhance the amount and scope of development and financial services offered to common Bank/CDB borrowing member countries (BMCs) in the Commonwealth Caribbean through better work sharing between the Bank and CDB under the collaborative program; and (c) help CDB implement the agreed sectoral and institutional strategies, including its proposed strategy to expand its lending to the private sector through FIs and for human resource development, and to strengthen its institutional capabilities to undertake effective portfolio management and its economic and sector work, providing advice on appropriate sectoral strategy and policies for OECS economic development, within the framework for closer collaboration between the Bank and CDB.

Project Description

17. The proposed project would provide a US$20 million equivalent IBRD loan and an SDR 7.8 million IDA credit to CDB, in support of its lending operations in its member countries eligible to borrow from IBRD and IDA, respectively. The Bank would inform CDB from time to time of such eligible countries. The IDA credit and Bank loan proceeds would be re-lent by CDB in support of private as well as public sector projects of the type which the Bank/IDA normally finances, and would be available for lending for investment and permanent working capital or for technical assistance. The eligible sectors would be those sectors for which CDB has a lending strategy acceptable to the Bank. These sectors at present include: agriculture, industry, tourism, infrastructure (transportation, water and sewerage, and power), human resource development (HRD) and lending to FIs for onlending to the private sector. In consultation between the Bank and CDB, new sectors may be added, or any of the existing sectors may be deleted. The total cost of the proposed project is estimated at US$68 million, with a foreign exchange component of US$55 million (80.8%).

18. To meet their institutional objectives, the Bank and CDB would jointly review, at least annually, their respective economic and sector work and lending programs in the Commonwealth Caribbean, including projects to be financed out of the proceeds of the proposed lending. In the context of the MOU, they would agree on collaboration in lending as well as country economic evaluations, aid coordination and technical assistance activities (including assistance to the OECS countries in structural adaptation). During such reviews, attention would also be given to: (a) CDB’s manpower/staff training needs to fulfill its role under the collaborative program and the proposed project; (b) ways of further collaboration
to support CDB’s initiative to expand its lending to the private sector through FIs and for HRD; and (c) ways to further strengthen CDB’s financial policies and management.

Project Implementation

19. **Onlending Arrangements.** All IBRD/CDB member countries in the Commonwealth Caribbean, which are creditworthy and would have not graduated from IBRD lending, would be eligible to borrow IBRD funds. The CDB relending to OECS countries would be on the basis of a blend of IBRD/IDA funds (with IBRD portion not less than 50% for every national and regional project). Guyana would benefit from CDB relending of unblended IDA credit proceeds. Within the framework of its lending strategy, CDB’s selection of subprojects would be in accordance with criteria set out in its Policies and Procedural Manual, particularly concerning the minimum economic and financial rate of return of 12%. CDB’s relending interest rate for the proceeds of the IBRD loan would be CDB’s standard variable rate, which is currently 7.5%. This rate would be adjusted annually to achieve CDB’s financial targets. A standing guarantee satisfactory to the Bank from the corresponding IBRD member country would be required for disbursement in respect of the IBRD-financed CDB subloans in each eligible country. CDB would assign to IDA its rights under subloan contracts made with subborrowers for relending of IDA resources. In effect, this approach would be equivalent to a direct IDA credit to the country receiving it. CDB’s liabilities in respect of the credit would be limited to amounts paid to CDB by its subborrowers in respect of subloans. To cover CDB’s estimated costs in relending the proposed IDA credit on IDA terms, IDA would pay to CDB a fee totalling US$385,000, in five equal annual installments. The borrowing governments may onlend IDA resources to subborrowers but only on commercial terms so that the benefit of IDA concessional terms would accrue to the governments. The amortization of the IBRD subloans would be determined by CDB on project grounds. CDB would relend proceeds of the IDA credit with maturities not exceeding 35 years to the eligible OECS countries and with maturities not exceeding 40 years to Guyana. Given the time required for CDB to appraise subprojects and to enter into the required agreements including country guarantees required by IBRD, IBRD’s and IDA’s charging of commitment fees would be delayed until each subproject is authorized by IBRD/IDA for disbursements. Except as IBRD/IDA shall otherwise agree, CDB will not use more than 35% of the proceeds of the proposed Loan and the Credit (separately) in any one of its member countries. To secure a blending of at least 50% IBRD funds in the OECS countries eligible for receiving a blend of IBRD/IDA funds, at least US$7.15 million of the proposed IBRD loan would be reserved for eligible OECS subborrowers.

20. **Subproject Review.** CDB would send to the Bank for review and comments an appraisal report on all subprojects to be financed out of the proposed Loan and the Credit. CDB would undertake environmental impact assessments of subprojects in accordance with its guidelines, satisfactory to the Bank. An Implementation Plan for the proposed project has been agreed with CDB. The Bank would review subproject proposals to ensure that they are consistent with the agreed CDB sector strategies and lending policies. As provided under the MOU, the Bank would review jointly with CDB relevant work programs. Also, on the
basis of periodic reports provided by CDB and through supervision missions, the Bank would
review progress on project implementation, including performance indicators.

Project Sustainability

21. The proposed project has been designed to ensure the institutional sustainability
of CDB as an important regional development agency and as a Bank partner to enable the
Bank to utilize its resources in the Commonwealth Caribbean with maximum developmental
impact. The Bank would review jointly with CDB, as provided under the MOU and the
agreed Project Implementation Plan, at least annually each other's work programs related to
country economic and sector work, lending programs, technical assistance, and CDB's
institutional development needs. The Bank would also monitor project implementation, on
the basis of CDB's subproject appraisal reports, periodic reports provided by CDB and
through Bank supervision visits.

Lessons Learned from Previous Bank Involvement

22. Overall, the Bank's experience with CDB as borrower and co-financier has been
satisfactory. A 1986 PPAR on the first Bank loan to CDB (Report No. 6306) pointed out the
desirability of a better focused institution-building effort by the Bank. A 1991 PCR on the
second CDB project (Report No. 9741) has underlined the value of closer collaboration
between the Bank and CDB staff at all levels through frequent contacts, mostly on an
informal basis, in order to increase the effectiveness of both institutions' development and
financial services, to avoid duplication, and to better serve common member states in the
Commonwealth Caribbean. The PCR pointed out the need for CDB to put more emphasis
during appraisal on the institutional capacity of project executing agencies. It was also noted
that CDB would need to strengthen its capabilities to provide its borrowing member countries
with macro-economic analysis and policy advice. A 1993 PCR on the third CDB project has
emphasized that it would be desirable for CDB to prepare comprehensive portfolio review
reports, at least once every year, to help CDB implement effectively its plans for monitoring
and improving the quality of its portfolio. The last two CDB projects are still being
implemented.

23. The results of the 1990 Bank/CDB collaborative program were reviewed at two
meetings between the Bank and the CDB staff in September 1992 and March 1993. Both
institutions expressed general satisfaction with the results of the effort. It was also agreed
that the process needed to be strengthened to provide for greater interchange of ideas
between the two institutions. Specific changes to achieve this objective and to identify the
role of CDB more clearly in economic and sector work have been reflected in a revised
MOU. The collaborative program will henceforth focus on further solidifying the strategic
alliance between CDB and the Bank, so that the comparative advantage of each will fully
come into play, and CDB will continue to strengthen its capability for economic and sector
work. With due regard to the lessons learned under the three completed CDB projects noted
in the preceding paragraph and to the considerable maturing CDB has so far achieved in
technical aspects of project evaluation, preparation of the proposed operation has focussed on
the development of more explicit institutional strategies. In particular, CDB is undertaking: 

(a) a full review of its portfolio management practices and measures to ensure effective project implementation; (b) a comprehensive review and revision of its financial policies; and (c) a strategy for expanding its lending to the private sector through FLs and making efforts towards expansion of its lending for human resource development, while maintaining the focus on lending for infrastructure development. The Bank would continue to help CDB strengthen its economic and sector work capabilities. Attention would be given to CDB’s appraisal of the institutional capabilities of subproject executing agencies, on which it has recently made a sustained effort. The implementation plan for the proposed project specifies, among other things, the timetable for CDB’s preparation of comprehensive portfolio review reports, at least once every year.

24. During preparation of the CDB VI, the Bank helped CDB update/revise its sector strategies. Under revised strategy for lending through FLs, specific criteria have been set on FI’s eligibility; this should provide a sound framework to expand CDB’s lending to the private sector. CDB has also revised, with the Bank’s help, its lending strategies for infrastructure sector, to foster privatization and increase private sector role in managing public infrastructure and services. In agriculture, the revised strategies reflect the changing environment, particularly the phase-out of preferential trading arrangements for bananas and sugar. The Bank and CDB would continue to review and exchange views on ways of helping the banana producing OECS countries adapt to the new opportunities for structural change presented by phasing out of preferential trade arrangements and reduced concessionary aid flows. CDB has also refined its strategies for industry and tourism sectors. It has recently established a "Small-scale Enterprise Development Programme (SEDP)" which involves an allocation of US$3 million concessionary funding for credit operations and US$2 million grant funding for technical assistance for micro- and small-scale enterprises. The Bank would collaborate with CDB in reviewing the adequacy and operational modalities of this program. CDB has recently adopted a human resource development (HRD) policy paper acceptable to the Bank. On the whole, the revised sector strategies are more focussed and explicit, and should provide a good basis for developing and monitoring CDB’s capacity and performance in implementing them.

Rationale for Bank Involvement

25. The Bank’s operations in the Commonwealth Caribbean have been designed to respond better and more efficiently to its member states’ changing developmental needs. Continued closer collaboration between the Bank and CDB would enable each institution to take the lead in lending operations and other developmental work, reflecting its comparative advantage. CDB, in general, has a comparative advantage over the Bank for less complicated investment lending, principally because of its lower manpower costs and its proximity to the borrowers. To the extent that CDB can take over Bank roles in project lending and, gradually in other activities, the Bank would be able to redirect its manpower resources within the Commonwealth Caribbean for policy advice and support of policy reforms (where it has a clear comparative advantage over CDB) and for other developmental work where there is no immediate alternative to the Bank. This division of responsibilities
offers incremental benefits to the common member states being served, while helping CDB accelerate its institutional development, as evidenced by its recent access to capital markets and developing/updating its lending strategies in major sectors.

Actions Agreed

26. CDB and the Bank have agreed on: (a) project objectives and description, eligible countries and sectors (paras. 16-17); (b) terms and conditions of CDB’s onlending of the IBRD loan and the IDA credit proceeds, and arrangements for subproject processing ( paras. 19 and 20); (c) a project implementation plan and arrangements for monitoring its execution (para. 20); (d) commencement of IBRD’s and IDA’s charging of commitment fees (para. 19); (e) compensation for CDB’s administrative costs in relending the IDA credit proceeds on IDA terms (para. 19); and (f) not having CDB’s Charter, "Operational Policies and Procedures Manual" and "OCR Financial Policies and Operating Guidelines" changed in a manner that would materially and adversely affect CDB’s operations or financial condition. Conditions for effectiveness of Loan and Credit agreements include: (i) CDB’s adoption of revised Guidelines on environmental assessment acceptable to the Bank; and (ii) CDB’s issuance of standard bidding documents, acceptable to the Bank, for regional or local bidding.

Environmental Aspects

27. CDB, as in the case of all Commonwealth Caribbean Governments, remains keen to promote policies to protect the region’s economic base. Its record on environmental assessment under the previous Bank financed projects has been satisfactory. Nevertheless, CDB will revise and amplify its environmental guidelines, taking into account the Bank’s suggestions. For purposes of the proposed project, CDB would undertake environmental impact assessments of subprojects in accordance with its revised guidelines.

Program Objective Categories

28. The main thrust of the proposed project would be to maintain and deepen the close collaboration between the Bank and CDB, to entrust the latter with growing role in the attainment of the Bank’s developmental objectives in the Commonwealth Caribbean, including economic and social advancement, and poverty alleviation. While the project is not specifically designed to make a significant contribution toward poverty alleviation, subprojects to be supported under it would generate a considerable number of new jobs during their implementation.

Benefits

29. The Bank’s channeling of its funds to the Commonwealth Caribbean member states through CDB has clear advantages for all the parties concerned. Benefits for member states would be increased access to development finance and services which would have been more limited if the comparative advantages of both institutions were not brought together.
Because of its lower costs of operations, CDB can make a larger number of loans in the region, whereas the Bank would focus on fewer but strategic loans/credits, as well as policy advice and support for reforms. By lending through CDB, the Bank will have greater country/sector coverage and economic impact than if it tried to make loans/credits directly. With the Bank's support, CDB would continue to gain strength, as a major development institution in the Commonwealth Caribbean, and would progressively be able to take over certain Bank roles in the region. This would enable the Bank to redirect its resources within the Commonwealth Caribbean for maximum developmental impact. The proposed project would be instrumental for further solidifying strategic alliance between the Bank and CDB for the benefit of their common member states.

Risks

30. There are four main risks. First, the weak economic base of the region and its susceptibility to external shocks (e.g., significant changes in world commodity prices and the reduction in preferential trade arrangements for banana and sugar) could slow the rate of subloan commitments. CDB's subproject pipeline indicates, however, that the projected levels of lending are likely to be achieved. Potential subprojects include projects designed to help OECS banana growing countries diversify into alternative viable economic activities. Second, significant changes in the macroeconomic situation of certain borrowing member countries could adversely affect their ability to provide counterpart funds for subproject execution. In part to help manage this risk, CDB will continue to assist the OECS countries and Belize in their preparation of public sector investment programs, and will make annual reviews of its borrowing member states' public sector expenditures. Third, reduced revenues from trade taxes could cause fiscal problems, a shortage of counterpart funds and slow subproject execution unless adequately compensated by sound new revenue measures. The Bank and CDB will, in their policy dialogue with member countries, provide advice on fiscal policy to help address this risk. Fourth, the multi-year comprehensive Bank/CDB collaborative program, which requires intensive efforts to make it work smoothly, may not be maintained. However, based on a successful experience so far, both the Bank and CDB expect that collaboration will continue in a smooth manner.

Recommendation

31. I am satisfied that the proposed loan and credit would comply with the Articles of Agreement of the Bank and the Association, and recommend that the Executive Directors approve the proposed loan and credit.

Lewis T. Preston
President

Attachments
Washington, D.C.
June 1, 1994
CARIBBEAN DEVELOPMENT BANK

SIXTH CARIBBEAN DEVELOPMENT BANK PROJECT

Estimated Costs and Financing Plan
(US$ Million)

<table>
<thead>
<tr>
<th></th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estimated Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subproject costs</td>
<td>13.0</td>
<td>55.0</td>
<td>68.0</td>
</tr>
<tr>
<td>Total project costs</td>
<td>13.0</td>
<td>55.0</td>
<td>68.0</td>
</tr>
<tr>
<td><strong>Financing Plan</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which CDB's own &amp; borrowed resources</td>
<td>1.0</td>
<td>16.0</td>
<td>17.0</td>
</tr>
<tr>
<td>IBRD/IDA</td>
<td>--</td>
<td>31.0</td>
<td>31.0</td>
</tr>
<tr>
<td>CDB cofinancers</td>
<td>--</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Subborrowers</td>
<td>12.0</td>
<td>--</td>
<td>12.0</td>
</tr>
<tr>
<td></td>
<td>13.0</td>
<td>55.0</td>
<td>68.0</td>
</tr>
</tbody>
</table>
CARIBBEAN DEVELOPMENT BANK

SIXTH CARIBBEAN DEVELOPMENT BANK PROJECT

Procurement Method and Disbursements

<table>
<thead>
<tr>
<th>Project element</th>
<th>Procurement Method</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ICB</td>
<td>LCB</td>
</tr>
<tr>
<td>Subproject financing</td>
<td>6.0</td>
<td>40.0</td>
</tr>
<tr>
<td></td>
<td>(3.0)</td>
<td>(18.0)</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses are the respective amounts financed by IDA/IBRD.

Disbursements

<table>
<thead>
<tr>
<th>Category</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subproject financing:</td>
<td></td>
</tr>
<tr>
<td>(a) For subprojects in Belize, OECS countries, Jamaica and Guyana</td>
<td>Up to 80% (of subproject cost)</td>
</tr>
<tr>
<td>(b) For subprojects in Trinidad and Tobago</td>
<td>Up to 70% (of subproject cost)</td>
</tr>
</tbody>
</table>

Estimated IBRD/IDA Disbursements

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>96</th>
<th>97</th>
<th>98</th>
<th>99</th>
<th>00</th>
<th>01</th>
<th>02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.5</td>
<td>1.6</td>
<td>3.4</td>
<td>8.0</td>
<td>11.5</td>
<td>4.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Cumulative</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.5</td>
<td>2.1</td>
<td>5.5</td>
<td>13.5</td>
<td>25.0</td>
<td>29.2</td>
<td>31.0</td>
</tr>
</tbody>
</table>
**CARIBBEAN DEVELOPMENT BANK**

**SIXTH CARIBBEAN DEVELOPMENT BANK PROJECT**

**Timetable of Key Project Processing Events**

<table>
<thead>
<tr>
<th>(a)</th>
<th>Time taken to prepare:</th>
<th>7 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b)</td>
<td>Prepared by:</td>
<td>CDB/ IBRD/IDA</td>
</tr>
<tr>
<td>(c)</td>
<td>First IBRD/IDA mission:</td>
<td>June 1993</td>
</tr>
<tr>
<td>(d)</td>
<td>Appraisal mission departure:</td>
<td>November/December 1993</td>
</tr>
<tr>
<td>(e)</td>
<td>Negotiations:</td>
<td>March 1994</td>
</tr>
<tr>
<td>(f)</td>
<td>Planned Date of Effectiveness:</td>
<td>September 1994</td>
</tr>
<tr>
<td>(g)</td>
<td>List of relevant PCRs and PPARs:</td>
<td>First CDB Project (PPAR No. 6306), Second CDB Project (Report No. 9741), Third CDB Project</td>
</tr>
</tbody>
</table>
CARIBBEAN DEVELOPMENT BANK

SIXTH CARIBBEAN DEVELOPMENT BANK PROJECT

Statement of IBRD/IDA Loans/Credits and IFC Investments to CDB

A. Statement of IBRD and Third Window Loans, and IDA Credits as of March 31, 1994

<table>
<thead>
<tr>
<th>Loan or Credit No.</th>
<th>Fiscal Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>US$ million amount (less cancellations)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>IBRD</td>
</tr>
</tbody>
</table>

3 loans and 2 credits fully disbursed and PCR prepared

| 1785 | 1987 | CDB | Relending | 35.2 | 3.0 | 14.1 |
| 3200 | 1990 | CDB | Relending | 20.0 | -- | -- | 18.2 |
| 2135 | 1990 | CDB | Relending | -- | -- | 12.8 | 11.5 |

Total 55.2 3.0 33.7 30.3

Of which has been repaid 22.4 1.6 0.3

Total now held by IBRD/IDA 32.8 1.4 33.4

B. Statement of IFC Investments as of March 31, 1994

None

a. Third window.