CARIBBEAN DEVELOPMENT BANK

STRATEGIC PLAN 2010 – 2014

(Approved at the Two Hundred and Forty-First Meeting of the Board of Directors Held in The Bahamas on May 17, 2010)

MAY 2010

EXECUTIVE SUMMARY

1. The Strategic Plan 2010–2014 has been developed against the background of slow and variable economic growth and the persistence of unacceptable levels of poverty, indigence and inequality in many Borrowing Member Countries (BMCs). Economic performance in many BMCs is also constrained by unacceptably high levels of debt and debt service. The debt service dynamics severely reduces the fiscal space necessary to implement growth-enhancing economic and social programmes. Prospects for sustainable economic and social development are also threatened by the extreme vulnerability of all the Caribbean Development Bank's (CDB) BMCs to external economic shocks and natural hazard events.

2. The Strategic Plan addresses the concern that many of the social gains of the past decades will be lost in the face of the current global economic and financial crisis and aims to position the Bank to play an increasing role on the issues of economic adjustment, regional cooperation and integration (RCI), good governance and environmental sustainability. In addition, the Plan focuses on strengthening the results culture within the Bank through the enhancement of the Results Monitoring Framework (RMF) for tracking progress on the implementation of the Plan and for reporting on results.

CDB's Role and Relevance

3. The regional aid architecture consists of a large number of bilateral and multilateral agencies, and multilateral development banks (MDBs) which provide development assistance to CDB's BMCs in a wide range of sectors and thematic areas critical to their economic and social development. The Bank has worked closely with many of these development agencies and maintains longstanding and mutually supportive relationships with other Caribbean institutions and agencies, including those of the Caribbean Community (CARICOM) and the Organisation of Eastern Caribbean States (OECS) Secretariat. The role of the Bank in the aid architecture for the Region is built on the basis of all these relationships and the capacity to convene joint regional and international partnerships for addressing critical challenges faced by BMCs.

4. CDB has a special position in the regional development community supported by its structure, with majority ownership held by its regional membership, its close relationship with BMCs and its understanding of the problems and dynamics of the Region, easy access of Bank personnel to policy-makers and administrators as well as the institutions of civil society, and its exclusive focus on the Caribbean. CDB is recognised as an important regional development institution in the Caribbean, with a broad development mandate, and well-placed as a focal point for dialogue, intermediation and extended partnerships on behalf of BMCs, and for the strengthening of the regional ownership of development programmes. A leadership role by the Bank and leveraging of its comparative advantage will be of critical importance in assisting BMCs to meet their development challenges in the medium term.

Development Challenges

5. Erosion of trade preferences for their principal commodity exports and the global trend towards trade liberalisation make it imperative for CDB's BMCs to establish alternative bases for sustainable economic growth and reducing poverty and inequality. At the same time, they are committed to reduction of vulnerability to natural hazard events and climate change and to better management of the associated risks.

6. In addition to the investment requirements of structural adjustment for economic growth and social progress, BMCs must contend with the adverse effects of the global economic crisis which has derailed economic activity and development plans and reversed gains already made, especially putting at

greater risk the 6.8 million persons currently living below national poverty lines in BMCs, including Haiti's 4 million persons.

7. The capacity to pursue counter-cyclical policies in response to the global economic crisis is severely constrained by already large fiscal deficits and high levels of public indebtedness. The financing of these deficits has become more difficult as domestic liquidity has dried up at the same time as international capital markets are becoming more risk averse.

8. The allocation of substantial portions of recurrent revenue to debt servicing incurs a high opportunity cost in terms of expenditure foregone on education and training, roads and transportation, health, housing, water, sanitation and other services that are critical to the empowerment and welfare enhancement of the poor and vulnerable.

9. The Caribbean states belong to that group of countries that are most vulnerable to climate change, i.e. small island states. In economies where tourism is an important sector, loss of beaches and coastal land can result in contraction of demand and significant loss of incomes. Climate change could also increase the costs of providing services such as sea defence and water supply, and necessitate higher outlays on health services.

10. The small size of Caribbean economies means that RCI are important components of the measures needed to address their development challenges. A major challenge remaining for the Region is to accelerate the pace of implementation of the CARICOM Single Market and Economy project in order to support the goal of more rapid and sustainable growth rates in all of the countries and a more equitable distribution of these benefits among the participating countries and their citizens. This would entail strengthening the administrative capacities of both BMCs and CARICOM institutions.

11. Country Poverty Assessments (CPAs) for most BMCs show that female-headed households constitute a large percentage of the most vulnerable and deprived households in the Region. The goal of reducing poverty cannot be effectively addressed unless consideration of gender equality issues is integrated into poverty reduction initiatives. Such consideration would be equally important in the design of interventions to improve access to educational opportunities and to enhance other areas of human resource development such as health and housing.

Strategic Focus

12. During this planning period, CDB will assist BMCs to reduce poverty through sustainable economic growth and strengthening the resilience of BMCs to external shocks. There is also a need to promote a balanced approach to improving the welfare of BMCs' citizens and ensuring that growth is inclusive, explicitly focused on income and gender disparities and on other inequities, and that it is environmentally sustainable. In addition, measures will be adopted towards improving internal capacities and efficiencies for the delivery of Bank services and enhancing development effectiveness.

13. To achieve its overarching goal, the Bank over the next five years will focus on the strategic objectives of:

(a) promoting broad-based economic growth and inclusive social development;

(b) supporting environmental sustainability and disaster risk management (DRM);

(c) promoting good governance;

(d) fostering RCI; and

(e) enhancing organisational efficiency and effectiveness.

14. The Bank will also treat gender equality as a theme cutting across all sector interventions, i.e. a cross-cutting theme, for the purpose of broadening the poverty impact of its interventions.

Demand for Ordinary Capital Resources (OCR)

15. CDB's demand analysis has estimated that BMCs' total resource requirements for the 2010–2019 period would be $37.8 billion (bn) to $41.1 bn, depending on the pace of economic recovery. CDB also estimated the demand for its OCR financing for the same period. Two scenarios were developed for the forecasts.

16. Based on the study of the demand for OCR financial resources, it is estimated that a need exists for OCR resources of between $3.1 bn and $3.4 bn in the period 2010–2019. Under Scenario 1, OCR demand for disbursements during the period 2010–14 amounts to $1,500 mn, increasing to $1,595 mn in the period 2015–19. For Scenario 2, demand is projected to decrease from $1,705 mn in the period 2010–2014 to $1,680 mn, in the period 2015–2019.

Resourcing the Strategy

17. The critical constraints to an expansion of CDB's lending programme are its capital adequacy requirements and its ability to increase borrowings. Expanding these limits requires appropriate increases in non-borrowing members' investment-grade callable capital and adequate amounts of cash capital from all shareholders and from retained earnings.

18. As at December 31, 2009, CDB had long-term borrowings of $718 mn or 98% of the operating limit on borrowings. The remaining borrowing headroom amounts to $15 mn. The Bank's current borrowing headroom status does not allow it to respond to any requirement for additional liquidity and as a consequence can also place its Triple 'A' credit rating at risk until this situation is rectified. The expansion of the Bank's lending operations is severely restricted until additional headroom is provided through the input of cash capital, and callable capital from investment-grade non-borrowing members. Shareholders agreed to consider a general capital increase (GCI) as a way of resolving these issues.

19. At the Sixth Special Meeting of the Board of Directors held on April 27, 2010, the Directors considered Paper BD 12/10 Add. 1 entitled "Proposals for a General Capital Increase" and agreed to recommend to the Board of Governors that the subscribed capital of the Bank be increased by approximately $985 mn as being required to provide sufficient headroom for an annual average level of lending of $198 mn or 64% of the annual demand for Scenario 1 over the ten-year period. Importantly, this amount of subscribed capital would also contribute additional non-borrowing members' investment-grade callable capital of approximately $300 mn and hence provide a substantial proportion of the borrowing headroom required to approach the international and regional financial market for liquidity to support the projected new lending.

DECISION OF BOARD OF GOVERNORS ON GCI

On May 18, 2010, the Board of Governors considered and approved a Report for the BOD entitled "General Capital Increase in Share Capital" and Draft Resolution No. 4/10 entitled "Increase in the Subscribed Capital Stock of the Bank and in Subscriptions of Members of the Bank".

These approvals allow for an increase of $984.8 mn or 150% of the subscribed capital; and an increase of $216.7 mn or 22% of the callable capital payable in six equal annual installments commencing in 2010.

The capital increase allows the Bank to pursue its objectives as outlined in the Strategic Plan 2010–2014.

Results Monitoring Framework

20. The effectiveness of the Bank's development assistance to BMCs will depend to a large extent on its ability to monitor and evaluate its work in a measureable manner and to make appropriate adjustments to the design and implementation of its initiatives based on results. A RMF has been adopted in the context of the Special Development Fund (Seventh Cycle) (SDF 7) replenishment cycle and will be expanded and applied across the Bank for the purpose of reporting on results during the implementation of this Strategic Plan. The Framework is designed to measure the degree to which CDB is assisting BMCs' economies to grow and reduce poverty; strengthen the focus of its activities on development outcomes; and provide information on the effectiveness of CDB's interventions.

Conclusions

21. CDB's BMCs are challenged by their vulnerability to external shocks and natural hazard events which, to a significant degree, is derived from their small physical and economic size. The impact of this vulnerability together with global trends towards trade liberalisation and the erosion of trade preferences have compelled BMCs to develop strategies for medium-term economic transformation and sustainable growth, poverty reduction and to strengthen their resilience to shocks and natural hazard events.

22. BMCs' capacity to implement these plans is severely constrained by already large fiscal deficits and high levels of public indebtedness. It is recognised that BMCs would need the assistance of CDB and other development partners (DPs) to mobilise the significant amount of financial resources, both concessionary and non-concessionary, that would be required to pursue their development objectives.

23. The Strategic Plan 2010–2014 sets out CDB's programme for assisting BMCs to confront their major development challenges and to implement their policies and strategies for economic and social development; positions the Bank to improve the delivery of appropriate products and services to its clients as well as to enhance its development effectiveness and results focus.