



Canadian International
Development Agency

Agence canadienne de
développement international

Canada

Report to Parliament

Canada's Participation in the
Regional Development Banks 2004



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Regional Development Banks
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Canadian International
Development Agency



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The regional development banks help people, like this woman training as an industrial technician in Senegal, through their support for private sector development.



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This report outlines the activities of the regional development banks for the 2004 calendar year. It is based, in part, on figures taken from the annual reports of the banks, which are generally released at their annual meetings in the following calendar year.

Abbreviations

AfDB	African Development Bank	MERCOSUR	Southern Common Market (Argentina, Brazil, Bolivia, Chile, Paraguay, Uruguay)
AfDF	African Development Fund	MfDR	Managing for development results
AsDB	Asian Development Bank	MIF	Multilateral Investment Fund (IDB)
AsDF	Asian Development Fund	NEPAD	New Partnership for Africa's Development
ASEAN	Association of Southeast Asian Nations	NTF	Nigeria Trust Fund (AfDB)
CDB	Caribbean Development Bank	OCR	Ordinary capital resources
CIDA	Canadian International Development Agency	OECD	Organisation for Economic Co-operation and Development
EBRD	European Bank for Reconstruction and Development	PSD	Private sector development
FSO	Fund for Special Operations (IDB)	RBM	Results-based management
HIPC	Heavily Indebted Poor Countries Initiative	RDB	Regional development bank
HIV/AIDS	Human immunodeficiency virus/ acquired immunodeficiency syndrome	SARS	Severe acute respiratory syndrome
IDB	Inter-American Development Bank	SDF	Special Development Fund (CDB)
IFI	International Financial Institutions	SMEs	Small and medium-sized enterprises
IMF	International Monetary Fund	UN	United Nations
MDGs	Millennium Development Goals		



Executive summary

The regional development banks (RDBs)—African, Asian, Inter-American, and Caribbean—play a key role in development cooperation.¹ As financial institutions, they can mobilize far greater financial resources than individual donors. They also make harmonization and coordination easier, enabling developing countries to undertake major projects in transportation, energy, social programming, and many other areas. Like the rest of the development community, the banks have accepted the Millennium Development Goals (MDGs) as the foundation for their operations and are working to improve the effectiveness of their assistance.²

Canada is the only country that has a permanent seat on the boards of directors of all four RDBs.³ As a member of these boards, Canada's executive directors not only endorse major policies and loans, but participate in the overall management of the banks as well. Membership gives Canada a voice in international decision-making and provides a forum for the promotion of Canada's core values of freedom, democracy, the rule of law and human rights around the world. Canadian priorities for the RDBs include focusing on the MDGs and poverty reduction, strengthening aid effectiveness, promoting private sector development (PSD), and improving the internal governance of the banks.

In 2004, world economic expansion continued, with all developing regions achieving annual growth rates of five percent or more; however, the gap between rich and poor, particularly within countries, continued to widen. As countries reviewed their progress toward the MDGs, it became clear that despite this economic growth, most of

Private sector development

A PSD approach recognizes that the private sector drives growth and can contribute to creating income and employment opportunities for the poor. While the definition of PSD varies across the RDBs, PSD activities can include improvements to the investment climate and business environment by changing regulations, improving infrastructure, connecting entrepreneurs to new markets, or financing businesses. Others might include strengthening financial and government institutions; enhancing the delivery of services to the poor, such as through microcredit; and promoting public-private partnerships.

1. Canada is also a member of the European Bank for Reconstruction and Development, an RDB operating in Europe and Central Asia. The Minister of Finance, Canada's governor for this bank, reports separately on its operations; as a result, it is not included in this report.
2. For more information on the MDGs, see page 1.
3. The United States is not a member of the Caribbean Development Bank and therefore does not have a seat on its board of directors. While Canada is a member of a constituency group of countries at both the African and Asian development banks, we have our own seats at the Inter-American and Caribbean banks.



them would not reach their targets by the 2015 deadline. The international community, including the banks, accelerated their efforts to support the achievement of the MDGs during 2004. These included support for developing-country partners in the creation of the sustainable economic growth that underpins poverty reduction.

A highlight of the year came when the United Nations Commission on the Private Sector and Development, which was co-chaired by Canada and Mexico, issued its report, *Unleashing Entrepreneurship: Making Business Work for the Poor*. The report underlined the link between PSD and poverty reduction and received widespread support among the donor community. The RDBs, which support projects in all sectors, are particularly well suited to act on PSD, given their experience in this sector and their access to financial resources. This Report to Parliament focuses on their efforts.

The African Development Bank (AfDB) completed negotiations for the tenth replenishment of the African Development Fund, which totalled \$5.75 billion, a 43-percent increase over the ninth replenishment. Total lending plus concessional grants and loans amounted to \$2.75 billion, concentrating on infrastructure, multi-sectoral projects, agriculture and rural development, finance, and social development.⁴ In 2004, the AfDB provided \$1.57 billion in enhanced debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative to Ghana, Ethiopia, Niger, the Republic of the Congo, and Senegal.⁵

The bank continued to implement a range of reforms in 2004, strengthening its corporate governance with the establishment of an inspection function, as well as compliance and mediation units. The first annual review of the implementation of the AfDB strategic plan noted considerable progress in linking strategic planning and budgeting. The bank introduced a results-based management (RBM) framework as well as a harmonization plan to improve the coordination of its activities. It invested \$254 million in PSD in 2004, mainly loans for development of skills, promotion of marketing, and funding for small- and medium-sized enterprises.

The AfDB also launched a major new initiative in water-supply programming, which Canada supported. Canada also played an important role in ensuring an approach based on results for the new PSD policy, advancing the gender action plan, mainstreaming RBM, and supporting reforms to the budgetary process as well as the evaluation system.

The Asian Development Bank (AsDB) serves many of the world's fastest-growing economies. In 2004, it concluded the ninth replenishment of the Asian Development Fund, which amounted to \$7 billion, as compared to \$5.65 billion in 2002. This replenishment launched the AsDB's wide-ranging reform agenda for development effectiveness, which affects almost every aspect of its work. Total lending, including concessional grants and loans, totalled \$5.68 billion, invested mainly in infrastructure, governance, social development, multisectoral

4. All dollar figures are in US\$ unless otherwise specified.

5. The HIPC Initiative is a comprehensive approach to debt reduction for heavily indebted poor countries pursuing adjustment and reform programs supported by the IMF and the World Bank. When a country qualifies for assistance under the initiative—the decision point—it is eligible for interim relief. When it has implemented policy reforms, achieved macroeconomic stability, and implemented a poverty reduction strategy for at least a year, it has reached the completion point and is eligible for the full relief available to it under the initiative.



projects, agriculture and rural development, and trade and industry.

The AsDB made concrete advances in governance during 2004. Its new accountability mechanism became fully operational, enabling people adversely affected by AsDB assisted projects not only to seek solutions to their problems, but also to report alleged violations of the bank's operational policies and procedures. An independent review of the impact of the bank's 2003 reorganization showed significant progress in the implementation of its poverty-reduction strategy as well as its aid effectiveness. In 2004, the AsDB approved a total of \$807.2 million in assistance to the private sector, up 49 percent from 2003, mainly in the form of loans for legislative and regulatory reform, equity investments, public-private partnerships, and investment guarantees.

Canada played an important part in expanding the role of the board of directors in decisions on policies, strategies, and programming; increasing attention to results in project preparation and planning; defining the direction of PSD programming; and encouraging management to respond to evaluation findings.

The Inter-American Development Bank (IDB) serves a region with many middle-income countries. However, the strength of the urban areas tends to overshadow pockets of deep poverty in the rural areas. Total lending in 2004, including concessional grants and loans, was \$6.09 billion, predominantly for projects in the social and productive sectors, governance and finance, infrastructure and agriculture, and rural development. In addition, the bank provided HIPC debt relief totalling \$82 million to Bolivia, Guyana, and Nicaragua over the course of the year.

During the year, the IDB implemented a new policy on information disclosure and overhauled its procurement activities. Its new Office of Institutional Integrity investigated a number of reported improprieties and instances of corruption, and also resolved a number of those reported before 2004 through education, training, prevention, and detection. Efforts to simplify and make lending instruments more flexible, as well as the development of a new lending framework, continued during the year. The bank also strengthened its project performance and risk management, and undertook multicountry programs to strengthen its commitment to the MDGs and monitor their progress through capacity building. The World Bank Group invested \$571 million in PSD, providing loans and guarantees, as well as venture capital, and supporting regulatory reform and skills development, as well as trade negotiations and implementation of agreements.

The IDB helped small developing countries prepare themselves to benefit more fully from free trade negotiations by strengthening their trade-related capacity. The bank focused on helping developing countries negotiate and implement trade agreements, and adjust to new trade regimes. This support was partially financed by the IDB-Canada Trade Fund (CCT).

Canada played an important role in the IDB's adoption of a development effectiveness strategy and implementation plan. Canada also supported the bank's PSD review and helped improve its development programs.

The Caribbean Development Bank (CDB), to which Canada is a major donor, provides strong support to regional integration, disaster mitigation, and rehabilitation programming. Total lending, together with concessional



loans and grants, amounted to \$123.64 million in support of projects in infrastructure, the productive sectors, social development, disaster recovery and reconstruction, basic needs, and governance. In 2004, the CDB established an evaluation department for the first time and adopted a poverty reduction strategy. The bank also took major steps to strengthen its disaster assistance programming, both in preparedness and reconstruction assistance.

The CDB continued to strengthen its development effectiveness by refining its resource allocation formula, strategic planning tools, risk management framework, and performance monitoring and evaluation systems. The bank made good progress on implementing RBM and harmonization, and worked closely with the IDB on emergency relief, credit risk management, and other programming. It invested \$10.3 million in PSD support consisting of training and technical assistance for more than 600 micro- and small enterprises; regulatory reform; the establishment of a credit rating agency; and a feasibility study for a fund to support countries disadvantaged by the Caribbean Community Single Market and Economy.

Canada played an important role in helping the CDB design its poverty reduction strategy, a key step in its evolution from a bank to a development institution. The CDB's Head of Evaluation is working closely with Canadian evaluation experts through informal knowledge sharing and exchanges on evaluation issues.

In summary, throughout 2004, all the RDBs made progress in strengthening aid effectiveness, particularly in internal governance, integration of RBM, harmonization with other donors, and alignment of their programming with the borrowing priorities of member countries. They continued to sharpen their poverty reduction focus, strive for more open and accountable governance, and contribute to the strengthening of the multilateral system by working together on key issues like HIV/AIDS, corruption, and aid effectiveness. Highlights of the year are captured in the tables of key results that follow. Canada will continue to advocate for improved governance, stronger audit and evaluation functions, continued progress in harmonization and alignment, gender mainstreaming, regional dialogue, and knowledge exchange.



Overview

The evolving context

Over the past generation, the world has grown closer, through the integration of markets, the information and communications revolution, and the emergence of common threats like avian influenza and global warming. Managing changes of this magnitude calls for international cooperation. Multilateral organizations like the United Nations (UN) and the international financial institutions provide unique forums where all countries can establish the rules of international conduct; undertake joint action; and promote common values, such as freedom, democracy, the rule of law, and human rights around the world.

Canada is a founding member and strong supporter of institutions like the UN and its agencies, the World Bank and the International Monetary Fund (IMF), and the regional development banks (RDBs), among many other organizations. In this way, Canada has contributed actively to world development and peace since the end of the Second World War. Through its membership in these organizations, Canada can pool its own resources with those of other countries to help address challenges too large for any one country, such as the overall achievement of the Millennium Development Goals (MDGs); controlling human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) and severe acute respiratory syndrome (SARS); or reversing climate change.

The international development community has been strengthened and reinvigorated over the past five years. All development organizations have integrated the MDGs adopted by the UN General Assembly in 2000,

The Millennium Development Goals

At the Millennium Summit in September 2000, world leaders adopted specific development goals that could be monitored. Subsequently, the United Nations published eight Millennium Development Goals in the September 6, 2001 report by the Secretary General on the road map toward implementing the UN Millennium Declaration. The eight goals are:

1. **eradicate extreme poverty and hunger;**
2. **achieve universal primary education;**
3. **promote gender equality and empower women;**
4. **reduce child mortality;**
5. **improve maternal health;**
6. **combat HIV/AIDS, malaria, and other diseases;**
7. **ensure environmental sustainability; and**
8. **develop a global partnership for development.**

These goals are time bound, with quantified targets and a set of indicators to measure the progress toward addressing extreme poverty in its many dimensions.



into their work. This has helped focus their priorities and programming. The “new development compact,” set at the 2002 UN Conference on Financing for Development, established the relationship between industrialized and developing countries as a partnership of equals: developing countries bear the primary responsibility for their own development, while industrialized countries and multi-lateral institutions provide effective and predictable aid and remove inconsistencies in their broader economic and trade policies that affect developing countries negatively.

This new compact is supported by wide-ranging international efforts to increase the effectiveness of aid. At a 2003 high-level meeting in Rome, development partners agreed on the need to harmonize aid policies, practices and processes to improve the efficiency and impact of their work. They formalized this agreement by endorsing the Paris Declaration on Aid Effectiveness in March 2005, which resulted in the development of targets and indicators that allow all parties to monitor the progress of their aid commitments.

The year 2004 saw a continuing economic recovery for most countries of the world. However, as countries prepared to review their progress toward the MDGs for the UN Special Session in 2005, it became apparent that most were not on track to reach their targets by 2015. Most countries had made some progress in primary education; however, serious challenges remained, particularly for Africa, in achieving the goals set for poverty reduction, gender equality, environmental sustainability, reduction of maternal mortality, and the battle against HIV/AIDS.

An introduction to the regional development banks

International financial institutions like the World Bank and the IMF, as well as the African, Asian, Inter-American, and Caribbean development banks, provide financial, analytical, and advisory services to their member countries. Canada contributes to the World Bank and the IMF through the Department of Finance Canada and to the other institutions through the Canadian International Development Agency (CIDA). In compliance with the *Bretton Woods and Related Agreements Act*, the Department of Finance Canada provides an annual report to Parliament summarizing World Bank and IMF operations, particularly those that affect or are supported by Canada. This report provides a similar summary of RDB operations, as recommended in 1995 by the Special Joint Parliamentary Committee reviewing Canadian foreign policy, in an effort to improve reporting on the international financial institutions to Parliament.

The African, Asian, Inter-American, and Caribbean development banks were formed in the 1960s to mobilize financial and technical resources for social and economic development in each of the regions. Because their roots are in the region, these banks can respond to the needs of their members in a more focused way than global institutions like the World Bank. For example, the Caribbean Development Bank has made significant investments in economic diversification and competitiveness to counter-balance the end of decades-long trade preferences that protected the island economies.



In addition, the RDBs give regional member countries a greater voice in setting priorities than global institutions, where voting reflects the size of the country's contribution. Voting at the RDBs also depends on the size of a country's contribution, but regional members as a group have a greater percentage of votes, which gives them a greater voice in setting priorities. Over the years, the RDBs have made it possible for their borrowing member countries to invest in capital-intensive projects like transportation and communications networks, energy distribution, health care and education services, as well as many other development activities.

Today, all RDBs have incorporated the MDGs into their programming and strategies. In addition, all of them are committed to strengthening the effectiveness of their programming by emphasizing country ownership of the development process, donor coordination and harmonization, and focusing on clear, measurable results in their work.

The membership of the RDBs includes borrowing member countries—the developing (and some middle-income) countries of Africa, Asia, Latin America, and the Caribbean—as well as non-borrowing countries, like Canada and other donors. Their resources come from the financial contributions of member countries, loan repayments, and borrowing on capital markets around the world. In this way, the banks can tap into far greater financial resources than any one member country, borrower or donor, can acquire on its own.

The financial contributions from member countries come in two forms: subscriptions to capital stock and

contributions to concessional funds. They are described below.

Subscriptions to capital stock

Canada, along with all member countries, contributes to the capital stock of the RDBs. These contributions, or subscriptions, include a “paid-in” amount and a “callable” amount. Countries pay a small proportion of their commitment in cash (as low as two percent in some cases) and promise to pay the rest—the callable capital—in the unlikely event it is needed. To date, there has never been a need to call on this capital at any multilateral development bank. The implicit guarantee of this callable capital provided to the bank by shareholders—the donor countries in particular—permits the bank to borrow on international capital markets at favourable rates. These funds, in turn, finance development lending by the bank at close to market interest rates – but at more favourable rates for recipient countries than they would be able to access on the markets. Borrowers from this non-concessional window of the bank are typically middle-income countries.⁶

Contributions to concessional funds

Donor countries also pay into the RDBs' concessional funds, like the Asian Development Fund (AsDF) or the African Development Fund (AfDF). These funds provide low-income borrowing member countries with grants or loans at very low interest rates and long repayment periods. They are usually provided for social investments such as health and education, but

6. Each bank's lending limit for non-concessional loans is determined by the total value of its subscribed capital (paid-in and callable), reserves, and surplus.



also support sectors like infrastructure and agriculture. Canada also makes smaller contributions to technical cooperation and trust funds, and co-finances projects with the RDBs (for more information on Canada's financial support to the RDBs, see the Appendix).

The sound management policies of the RDBs, together with the guarantees offered by donors, have earned each of them a triple-A rating from Standard & Poor's.

Canada and the regional development banks

Canada is the only country with a permanent seat on the board of directors of each of the four RDBs discussed in this report. Our relationship with the RDBs involves negotiation and compromise to establish consensus positions. At the boards, Canada contributes to ongoing policy dialogue, discussions on major management and administrative matters, and decisions on which projects and programs to support. In addition, members regularly review bank operations, especially during negotiations over additional financial contributions, and make recommendations on future strategies and priorities.

These relationships are supported by several federal government partners. The lead agency is CIDA; the Department of Finance Canada serves as financial overseer and as alternate governor on boards of directors; the Department of Foreign Affairs and International Trade Canada reviews the foreign policy implications of Canada's work with the RDBs, and is involved in related procurement issues.

Governing the regional development banks

The highest decision-making body in each regional development bank is the board of governors, which includes one representative from each member country. The board of governors sets overall policy direction and addresses important operational and institutional questions, while the board of directors oversees management of the RDBs and meets regularly on policy, financial, and operational issues. The directors are responsible for endorsing country strategies and the larger grants and loans proposed by managers.

The Canadian governor for each of these regional development banks is the Minister of Foreign Affairs and International Trade. Canada also holds a seat on each board of directors by reason of its shareholding level and related voting power. Canada's involvement in these four banks is managed by CIDA, in consultation with the Department of Finance Canada (which manages Canada's involvement with the World Bank Group, the International Monetary Fund, and the European Bank for Reconstruction and Development) and the Department of Foreign Affairs and International Trade Canada. In some cases, Canada represents a number of countries through a constituency office and cooperates with member countries with common interests.



Canada's priority is to support the institutions that are most effective in promoting global governance and contributing to the MDGs. All of them are assessed on an ongoing basis for their organizational effectiveness, relevance to Canada's development goals and foreign policy, contribution to the multilateral system as a whole, and ability to deliver development results on the ground. In its relationship with the RDBs, Canada is guided by the following objectives:

Development priorities—support of greater effort toward the achievement of the MDGs and a stronger focus on poverty reduction while ensuring environmental sustainability, gender equality, and good governance;

Aid effectiveness—more coordination between international financial institutions, and with other multilateral organizations and bilateral donors in the field, which should include harmonization of administrative practices; the use of new programming approaches, such as budgetary support, where needed; strengthening results-based management (RBM) and performance assessment; and a stronger focus on country ownership, achieved by basing the banks' development strategies on national development plans; and

Good governance within the institutions—better human resource strategies to attract and retain qualified staff; more transparent, open, and accountable bank operations for bank stakeholders and the public; stronger oversight within the institution to monitor breaches of ethics; sound financial management; and training, institutional reform, and restructuring to support good governance.

An active and prominent role in these banks is a key element of Canada's foreign policy. It allows us to promote our values, advance our development priorities, and leverage our influence on the world stage. Participation in the RDBs brings three types of benefits for both Canada and developing countries. They are described below.

Development benefits—The banks are in a unique position to make major progress on development issues important to Canadians, like poverty reduction and social equity. Our contributions support a wide range of programs, from supporting PSD (including funding for small- and medium-sized enterprises [SMEs]) and building infrastructure (to improve energy supplies, for example), to funding health and education projects, and ensuring gender equality.

Strategic benefits—There is a strong link between poverty reduction, social development, and stability in a society, a linkage particularly important in the post-9/11 world. The RDBs can play an important strategic role in contributing to stability, not only by supporting development programs, but also by providing member countries with a strong voice in their governance and the decision-making process. In addition, the RDBs support regional integration, which can contribute to poverty reduction by helping countries overcome the barriers of their relatively small domestic markets and giving them greater participation in, and benefit from, world trade.

Commercial benefits—Implementation of development projects funded by the banks requires procurement of a wide range of goods and services.



This provides commercial opportunities for Canadian firms because they are eligible to bid on contracts funded by the banks in which Canada is a member. For many of these firms, RDB projects are their primary access to developing country markets: such projects allow them to develop longer-term commercial interests abroad. In addition, RDB assistance helps strengthen the economies of the some of the world's poorest countries by further facilitating their trade and investment links.

Private sector development: the engine of economic growth

The RDBs support programs and projects in all sectors of development. We have chosen to highlight PSD as a theme in this year's Report to Parliament because of the key role the private sector plays in reducing poverty and providing the resources for countries to achieve the MDGs.

The first MDG – reducing the proportion of people living in extreme poverty by half – is unlikely to be achieved by the 2015 deadline in most regions of the world, except for East and Southeast Asia. Poverty reduction is the ultimate goal of all the RDBs, and all agree that PSD is critical to that effort. In 2004, the role of the private sector in economic growth and poverty reduction was highlighted when the UN Commission on the Private Sector and Development, co-chaired by Canada and Mexico, issued its report, *Unleashing Entrepreneurship: Making Business Work for the Poor*.

The commission worked from the basic assumption that the savings, investment, and innovation that lead to development are undertaken largely by private individuals,

corporations, and communities, and that no country can achieve sustainable development without a dynamic private sector that mobilizes savings and investment, creates meaningful jobs, meets consumer demand, and generates tax revenues to support social programs. The report noted that SMEs in developing countries *can* drive job creation, innovation, and growth, but in many countries, entrepreneurs face numerous barriers to entry into the formal economy, including access to financial resources and legal protection that would allow them to improve productivity, innovate, or expand.

Canada supported the commission and its conclusions: PSD is a program priority for Canada's development assistance program. Through CIDA, we support the work of the RDBs, together with other partners, to create conditions for the private sector to contribute to development through

- ♦ a supportive legislative, regulatory, and administrative environment;
- ♦ access to appropriate financial services;
- ♦ access to technical and management skills and knowledge; and
- ♦ access to markets.

The RDBs are particularly well suited to act on this agenda because of their experience in PSD and their ability to access financial resources. They have all developed or updated their policies on PSD in the last year. They have continued to provide support in the form of technical assistance to financial institutions, regulatory bodies, business associations, and entrepreneurs, as well as capital for lending by other (microfinance) institutions to SMEs. The following report provides an overview of their efforts.



OVERALL DEVELOPMENT: KEY RESULTS FOR 2004

African Development Bank

Total lending: \$2.75 billion, of which \$1.40 billion was concessional (World Bank lending in region: \$4.35 billion, \$3.92 billion concessional).

Major sectors: infrastructure (39%); multisector (26%); agriculture and rural development (16%); finance (10%); and social development (9%).

HIPC debt relief: \$1.57 billion in HIPC debt relief was approved for Ghana, Ethiopia, Niger, Republic of the Congo, and Senegal.

Highlights of the year: establishment of an inspection function, as well as compliance and mediation units; strengthened evaluation function; continued involvement in continental initiatives, including launching of African Water Facility; concrete progress on harmonization; and major progress in debt relief.

Noteworthy: tenth replenishment for the African Development Fund of \$5.75 billion.

Asia Development Bank

Total lending: \$5.68 billion, of which \$1.24 billion was concessional (World Bank lending in region: \$7.80 billion, \$3.92 billion concessional*).

Major sectors: infrastructure (54%); governance (17%); multisector (12%); social (10%); agriculture and rural development (4%); and industry and trade (3%).

HIPC debt relief: to date, Asian countries have not called for HIPC debt relief.

Highlights of the year: improving energy supply, including renewable energy; additional steps to strengthen institutional integrity; strong progress on RBM and harmonization with other donors; continued decentralization of operations; and major role in regional efforts to tackle corruption and HIV/AIDS.

Noteworthy: The December 26, 2004 tsunami triggered reforms in disaster response mechanisms that also helped the bank deal with the avian flu crisis.

*India is eligible for concessional lending from the World Bank but not from the AsDB.

Inter-American Development Bank

Total lending: \$6.09 billion, of which \$617.60 million was concessional (World Bank lending in region: \$5.35 billion, \$261 million concessional).

Major sectors: social (49%); productive (21%); governance and finance (15%); infrastructure (13%); agriculture and rural development (2%).

HIPC debt relief: \$82 million provided to Bolivia, Guyana, and Nicaragua.

Highlights of the year: new unit to investigate fraud and corruption very active; overhaul of bank procurement activities; new policy on information disclosure adopted; project performance and risk management strengthened; multicountry program to strengthen commitment to the MDGs through capacity building to monitor progress.

Noteworthy: a major role in the international response to the crisis in Haiti.

Caribbean Development Bank

Total lending: \$123.64 million, of which \$49.50 million was concessional (World Bank lending in region: \$57.80 million, \$7.44 million concessional; IDB lending in region: \$137.30 million, \$60.30 million concessional).

Major sectors: infrastructure (45%); productive (21%); social (17%); disaster recovery and reconstruction (10%); Basic Needs Trust Fund (7%).

HIPC debt relief: no call for HIPC debt relief in 2004.

Highlights of the year: establishment of an evaluation department; adoption of a poverty reduction strategy; progress in harmonization and alignment with country strategies; cooperation with IDB in emergency assistance, credit risk management, and tax reforms.

Noteworthy: Disaster assistance figured prominently in lending operations, and the bank took major steps to strengthen its disaster preparedness programming.



PRIVATE SECTOR DEVELOPMENT: KEY RESULTS FOR 2004

African Development Bank

Total loans and grants: \$166 million.

Policy base: The aim of the PSD strategy, approved in December 2004, is to build up the legal, regulatory, institutional, and human resource capacity of member countries to promote PSD.

Activities in 2004: loans provided through local institutions; grants to increase managerial skills, support marketing promotion, and assess the business environment for women; technical assistance for capacity building; and a study on free trade.

Asia Development Bank

Total loans and grants: \$807.2 million.

Policy base: PSD is a cross-cutting priority. The PSD strategy includes policy dialogue; support for institutional, legal, and regulatory reforms; increasing the availability of financial services; private sector participation in projects; investment support; and corporate governance.

Activities in 2004: capacity building for government institutions to promote PSD; loans provided through local institutions; legislative and regulatory reform; equity investments; public-private partnerships; and investment guarantees.

Inter-American Development Bank

Total loans and grants: Multilateral Investment Fund, \$115 million; IDB, \$271 million in loans, \$185 million in guarantees.

Policy base: A new PSD policy, approved in 2004, aims to build a business climate conducive to PSD and to strengthen policy dialogue, corporate governance, and the bank's programming capacity.

Activities in 2004: Multilateral Investment Fund - provision of venture capital, regulatory reform, development of skills, and mobilization of foreign remittances for investment; IDB - multicountry study to identify obstacles to investment and formulate a plan; competition strategy development, technical assistance in trade negotiation and agreement implementation, with capital provided through local institutions; major study on banking in the region, with recommendations.

Caribbean Development Bank

Total loans and grants: \$25.4 million.

Policy base: The PSD strategy, approved in December 2004, includes provisions for capability enhancement that aim to equip the poor to take advantage of economic opportunities.

Activities in 2004: Caribbean Technological Consultancy Services provided training and technical assistance for more

than 600 micro- and small enterprises; other bank activities included support for regulatory reform, loans provided through local institutions, establishment of a credit rating agency, and a feasibility study for a fund to support those disadvantaged by the Caribbean Community Single Market and Economy.



The African Development Bank: highlights of 2004

Headquarters:

Abidjan, Côte d'Ivoire, temporarily relocated to Tunis, Tunisia

President:

Omar Kabbaj (Donald Kaberuka as of September 2005)

Constituent institutions:

African Development Bank, African Development Fund, Nigeria Trust Fund

Year founded:

1964

Members:

53 African countries and 24 non-regional donor countries

Total subscribed capital:

\$33.542 billion

Total approvals to the end of 2004:

\$51.884 billion

Canada's capital share:

\$1.257 billion

Canada's paid-in capital:

\$116.025 million

Canada's callable share:

\$1.141 billion

Canada's capital share:

3.748 % (9th)

Canada's voting share:

3.713% (6.847% with constituency)

Canada's share of last AfDF replenishment in 2004:

4.500% (6th)

Website:

<http://www.afdb.org>

The African Development Bank (AfDB), the main financial development institution in Africa, operates in the most challenging environment in the world and serves the world's poorest countries. The AfDB's central goal is to promote accelerated, sustainable economic growth and reduce poverty in Africa. Its first strategic plan, adopted in 2002, identifies the following areas of focus: agricultural and rural development, human capital development, public utilities and infrastructure, PSD, good governance at the country level, and economic integration at the regional level, with gender equality and environmental sustainability cutting across all these issues. Civil unrest forced the AfDB to relocate its headquarters from Abidjan, Côte d'Ivoire, to Tunis, Tunisia, in 2003.

Delivering on objectives in 2004

In Africa, real average economic growth increased to an eight-year high of 5.1 percent overall in 2004, as a result of an improved economic climate, strengthened policies, and debt relief. Progress toward peace in West Africa and the Great Lakes region opened up space for social and economic development. The New Partnership for Africa's Development (NEPAD), a made-in-Africa plan to end the continent's marginalization from the mainstream of world progress, continued to receive support from the donor community. This helped ensure that new resources would support African priorities and African-led initiatives. However, many countries continued to struggle with corruption, debt, conflict, HIV/AIDS, extreme poverty, and infectious diseases.

Approvals for loans and grants in 2004	
Source	Amount (\$ million)
AfDB loans	1,253.28
AfDF loans	1,087.14
AfDF grants	331.50
Nigeria Trust Fund grants	14.37
Post-conflict Country Facility grants	4.14
GRAND TOTAL	2,750.43
HIPC debt relief	1,567.20

Organizational effectiveness

The year 2004 marked the AfDB's 40th anniversary, an occasion to review the bank's many achievements, including a strengthened financial position after a financial crisis in the mid-nineties and the resumption of normal operations despite the disruptive move in 2003. The AfDB has a strong record of performance in infrastructure projects (like roads, ports, energy distribution, and irrigation) and a growing tradition of co-financing with other donors, particularly the World Bank and other UN organizations, which leverages its investments and increases its impact. The AfDB now has solid financial management with a triple-A credit rating, while its institutional reforms have improved its effectiveness as a development institution. It is working to address continuing challenges, including its centralized, hierarchical system; its need to improve communications with clients, service providers, and the public; and its need to enhance staff capacities in a number of areas, including gender equality programming.

In December 2004, member countries completed negotiations for the tenth replenishment of the African Development Fund (AfDF-X), in the amount of \$5.75 billion, which represented a 43 percent increase over the ninth replenishment. The fund will continue to focus on reducing poverty, improving living standards, and promoting sustainable and equitable economic growth. It will support the poorest countries that have demonstrated a commitment to poverty reduction and creditworthiness. To avoid any future buildup of debt, the AfDF-X will place greater emphasis on providing grants for countries in high-debt distress.

An independent evaluation of the previous AfDF cycles during 2004 was positive, noting progress in the fund's reorganization initiative, policy formulation, quality control mechanisms, and standards and safeguards. The evaluation also identified the next challenge as enhancing the fund's human and financial resources. In the area of corporate governance, 2004 saw the bank adopt a policy on disclosure of information and approve the establishment of an inspection function, as well as a compliance and mediation unit. It also completed work on an anti-corruption and fraud investigation function. Finally, a reinvigoration of its evaluation department gave the bank a comprehensive performance assessment system that includes independent, self- and peer evaluations.

Development effectiveness

One of the AfDB's great strengths is its clear focus on poverty reduction. In 2004, it approved a number of new strategies and policies in areas like the environment, poverty reduction, information disclosure, post-conflict assistance, and PSD. It also developed an action plan on harmonization, alignment, and managing for results, which led to increased efforts in coordination and



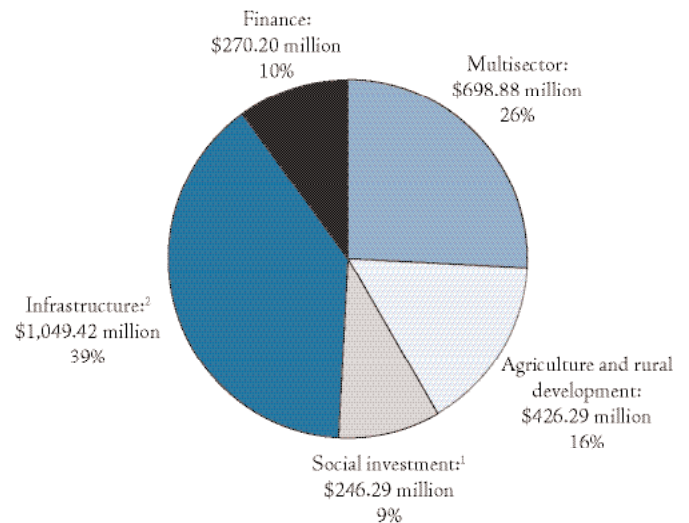
harmonization during the year. Its strengthened performance-based allocation system yielded better poverty reduction indicators that will help the bank measure its impact more accurately and reward countries that are performing better.

The first annual review of the implementation of AfDB's strategic plan noted considerable progress in a number of areas. The bank has a solid road map to maintain a focus on selectivity, enhanced field presence, and alignment of human, financial, and operational resources to strategic priorities. The review also noted a number of challenges, including the need to integrate a results orientation into all assistance strategies, loan appraisals, and country strategic plans, as well as the need for greater harmonization, improved communication, better gender mainstreaming and more attention to regional issues.

Contribution to the multilateral system

The AfDB is continuing to strengthen its involvement in continental initiatives, such as NEPAD, the African Peer Review Mechanism, debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative, and the African Water Vision and Framework for Action. The bank also participates in international initiatives like the International Comparison Program, an effort led by the World Bank to collect price data for common goods and services, and the Multilateral Debt Relief Initiative. The bank increased its co-financing operations in 2004 and continued to seek out new partnerships over the course of the year. It also undertook a study of its trust funds with a view to reforming them and increasing their reach and efficiency. At the same time, the bank took part in a major harmonization action plan and organized a regional workshop on harmonization and alignment initiatives in November of that year.

African Development Bank approvals by sector, 2004



1. Includes health, education, and environment.
2. Includes transportation, communications, energy, and sanitation.

The AfDB maintains extensive knowledge of local conditions and is seeking to enhance its position as a knowledge base and research centre for the development challenges in Africa. The African Development Institute, an independent policy research institute funded by the AfDB, and the Joint Africa Institute, a development training institute set up by the World Bank, IMF, and AfDB, frequently organize learning events. The AfDB also builds the capacity of member countries to generate statistical information and carry out research projects of their own. The year saw preparatory work continue on an upgrade of the bank's website, in line with its new policy on disclosure of information. In addition, the bank continued to upgrade its integrated knowledge management system with new software and began work on a corporate communications strategy.

Country and regional operations

In 2004, the AfDB approved \$1.57 billion in debt relief operations for Ghana, Ethiopia, Niger, and Senegal, countries, which became eligible for full debt relief under the HIPC Initiative. The Democratic Republic of Congo reached its decision point, becoming eligible for interim relief. The bank continued to provide significant support to poverty reduction by funding the development of national poverty-reduction strategies and programs, such as Burkina Faso's program to strengthen economic policies, increase competitiveness, enhance access to social services, and promote good governance.

The AfDB also supported a wide range of other projects, including natural resource management and agribusiness development in Tanzania, Namibia, Uganda, and Ethiopia. For example, through the National Livestock Development Project in Ethiopia, which supports the National Veterinary Institute and other livestock organizations, 1,789 farmers were trained as community animal health workers. The AfDB funded education in Niger, Mali, and Cameroon, as well as HIV/AIDS prevention and control across the continent. Development of water resources was a particular priority in 2004. In addition to ongoing water projects across the continent, the Rural Water and Sanitation Initiative became operational, the African Water Facility was launched, and partners, plans, and resources were mobilized throughout the year. In Algeria, a water supply project, which saw the construction of a new treatment plant, 15 reservoirs, and related infrastructure, improved the drinking water supply for the 400,000 inhabitants of the Sidi Bel Abbes region. The bank also finalized its Gender Plan of Action in 2004 (with Canada as the first donor), and efforts throughout the year focused on

training staff in gender equality and developing gender guidelines and gender equality indicators.

Private sector development

Developing the private sector in Africa is a key component of the vision and strategic plan of the AfDB. Its PSD strategy was approved in December 2004. The objective is to create the conditions for PSD and build the legal, regulatory, institutional, and human resource capacity of member countries to promote PSD. The strategy focuses on financial intermediation, public-private partnerships and infrastructure, private sector reforms, and direct lending to enterprises, and allocates \$2.8 million for its implementation between 2005 and 2007.

In 2004, the AfDB provided some \$166 million to PSD, including four lines of credit, one equity participation loan, and a number of grants. Loans were provided, through other institutions, to SMEs operated by the previously disadvantaged in South Africa, Botswana's National Development Bank for loans and capacity-building, and the Kenya Commercial Bank for loans to support enterprise expansion and rehabilitation projects among SMEs.

The AfDB provided grants to support restructuring of the private sector in Senegal, multicountry programs to improve managerial skills in SMEs, initiatives to deal with the negative risk perceptions of local banks, agricultural marketing promotion, and assessment of the business environment for women entrepreneurs in East Africa. Technical assistance was provided to the African Training and Management Services Company, which plays a key role in enterprise development in Africa. The bank also funded a study on the implementation



of free-trade zones in middle-income countries and revised its strategy and technical assistance fund for middle-income countries.

Canada's role

In 2004, Canada paid particular attention to improving development effectiveness at the AfDB, as well as gender mainstreaming, implementing the NEPAD Infrastructure

The Canadian Technical Assistance Trust Fund at the African Development Bank

Canada's priority is to reinforce the integrity and quality of operations, as well as the efficiency, of the World Bank Group, through the C\$5-million Canadian Technical Assistance Trust Fund. This fund supports institutional reforms, encourages innovative and client-oriented programs, and promotes constructive policy dialogue with clients and partners. It has contributed to both development practices and management tools, and ultimately to the progressive transformation of the African Development Bank group toward a results-oriented and knowledge-based organization. In 2004, the Canadian Technical Assistance Program provided expertise in risk analysis for the bank's financial management division, preparation of operational guidelines on educational infrastructure, training for change facilitators, a study on wind energy, a study and framework for decentralization at the bank, an assessment of and recommendations on procurement processes, and technical support to develop gender budgeting.

Project Preparation Facility, and developing water programming. Canada played an important role in ensuring that the AfDB's new policy on PSD had a clear results orientation—a first for the bank—as well as in approving and resourcing the gender action plan and reforms to the budgetary process. Canada also made a major contribution to the development of a comprehensive evaluation system and to mainstreaming RBM. Through CIDA's Canada Fund for Africa, we were the first country to support the African Water Facility, contributing C\$20 million; the fund also provided C\$5 million to the Water Partnership Program.

Canada's executive director chaired the Committee on Development Effectiveness during 2004, which reviewed, among other things, an internal audit on the implementation of its recommendations. Overall, Canada met its objectives, playing an important role in ensuring strong progress on the alignment of resources to priorities, the launch of the PSD strategy, the establishment of water projects, harmonization between the bank's country strategies and country poverty reduction plans, and continuing progress on RBM, corporate governance, and audit functions. Remaining challenges include the development of a communications strategy, gender budgeting, decentralization of operations, and trust fund reform.

In the coming year, Canada will continue to contribute to the AfDB's effectiveness by

- ♦ promoting *development effectiveness* through decentralization, alignment and harmonization, quality at entry, better use of knowledge management, adequate monitoring and evaluation, and an increased presence in the field;



- ♦ encouraging the bank to *strengthen its strategic linkages* with multilateral development and regional institutions;
- ♦ improving the bank's *governance* through, for example, the establishment of an ethics committee, improvements in the board of directors' efficiency and effectiveness, and efforts to fight corruption;
- ♦ encouraging the bank to articulate a better vision on how to maximize the benefits of *regional economic integration* in order to reduce poverty;
- ♦ promoting *strengthened management and finance*, including improvements in annual budget exercises, performance-based allocations, and the implementation of audit recommendations; and
- ♦ supporting *gender mainstreaming*.

President Donald Kaberuka, who took office in September 2005, is focused on institutional reform: his objective is to make the bank more strategic. In October 2005, he formed a Task Force on Institutional Reforms to examine how best to position the bank to play an expanded role in the development of the African continent. On the basis of the preliminary recommendations of this task force, bank management has begun implementing changes to its operational units and has introduced measures to strengthen the Office of the Chief Economist, as well as improve human resource management and business processes. President Kaberuka is also forming a high-level eminent persons' panel to review the bank's comparative advantages and propose an AfDB mission statement for the next 10 years.



© African Development Bank

An expansion of the Ghana Oil Palm Development Company Limited's operations, supported by the African Development Bank, generated hundreds of new jobs in the eastern region of Ghana.

Generating jobs in Ghana

“The Ghana Oil Palm Development Company Limited (GOPDC) is the first certified organic palm oil producer in Africa and it is working in an environmentally and socially responsible manner,” says François Arsenault, Canada’s Executive Director to the African Development Bank (AfDB). With support from the AfDB, the GOPDC has expanded its operations. In a country with a 40 percent poverty rate, the expansion has meant jobs for Ghanaians. GOPDC has also built housing for its employees and their families and uses environmentally responsible management practices.

In 2004, the GOPDC received a US\$8.69 million loan from the AfDB and support from the Belgian agro-industrial company Siat SA to expand its organic palm oil operations. The Company used the funds to establish a new 2,100 hectares (ha) organic oil palm nucleus estate in Okumaning, replant 2,300 ha of nucleus estate in Kwae, develop 5,000 ha of outgrower and smallholder farms in both Okumaning and Kwae, and establish a new refinery and fractionating plant. The Company is also increasing the production capacity of its palm oil mill and palm kernel crushing plant by 20 to 25 percent.

The AfDB loan has helped the Company thrive. In 2005, profits were US\$15 million with approximately 40 percent of its products exported to EU markets and the remaining 60 percent sold domestically. Plant expansion has also stimulated value-added production. The successful establishment of a 100-tonne per day refinery and fractionating plant has allowed the Company to shift its focus to producing other semi-finished products. Eventually, it hopes to move into finished products like margarine and cooking oil. This business success has in turn benefited the country as the Company has generated US\$483,440 in national tax revenues.



The expansion has created employment in Ghana, including for women. The plant employs an additional 300 permanent staff as well as seasonal workers. Women constitute about 30 percent of the permanent workforce and up to 80 percent of the seasonal employees. The expansion has also indirectly created jobs because small vendors and restaurants have opened nearby to service the plant employees. Women are further involved in other income-generating activities such as sewing, dress making, and hairdressing.

The Company uses environmentally sustainable practices, particularly in safe waste-management practices. It is internationally accredited as an organic producer and, in 2002, was awarded one of the World Summit Business Awards for Sustainable Development Partnerships.

Other benefits of this AfDB-supported project are the social investments GOPDC has made in its employees and their dependants. It has introduced a Workplace HIV/AIDS Policy, which recognizes that the Company depends on the well-being of its employees and takes steps to minimize the risks of HIV/AIDS. To implement this policy, GOPDC launched a HIV/AIDS awareness campaign, implemented safety measures to help prevent the spread of HIV/AIDS in the workplace, and started to offer HIV/AIDS counselling services. The Company has built 36 housing units for its employees and their families, and constructed wells, an outpatient clinic, and a school. GOPDC also built 440 km of roads to facilitate transporting goods.



© African Development Bank

The African Development Bank contributed to this Ghana-based company that provides housing and health facilities to its employees.





The Asian Development Bank: highlights of 2004

Headquarters:

Manila, Philippines

President:

Tadao Chino (Haruhiko Kuroda as of January 2005)

Constituent institutions:

Asian Development Bank, Asian Development Fund, Asian Development Bank Institute

Year founded:

1966

Members:

45 Asian countries, 18 non-regional donors

Canadian Executive Director:

Émile Gauvreau

Constituency members:

Canada, Denmark, Finland, the Netherlands, Norway, Sweden

Total subscribed capital:

\$51.996 billion

Canada's capital share:

\$2.865 billion

Canada's paid-in capital:

\$200.616 million

Canada's callable share:

\$2.664 billion

Canada's capital share:

5.30% (7th)

Canada's voting share:

4.55 % (8.07% with constituency)

Canada's share of last AfDF replenishment in 2004:

4.66% (6th)

Website:

<http://www.adb.org>

The Asian Development Bank (AsDB) serves the world's fastest-growing economies. As the region with the largest number of people living in poverty, however, Asia faces continuing challenges in maintaining prosperity. The AsDB's vision is a region free of poverty, with better living conditions and quality of life for all. Its strategic agenda focuses on pro-poor, sustainable economic growth, inclusive social development and governance for effective policies and institutions. Its poverty reduction strategy focuses on achieving the MDGs within its overall mandate of promoting economic growth. Cutting across these priorities are gender equality, environmental sustainability, PSD, regional cooperation and integration, and capacity development.

Delivering on objectives in 2004

In Asia, rapid economic growth continued in 2004, especially in China, India, and the countries of the Association of Southeast Asian Nations (ASEAN) region, although there were growing signs of a widening gap between rich and poor within all these countries. East Asia is expected to reach most of the MDGs, including those on income poverty and primary education. However, Asia is still home to half the world's population and two-thirds of the world's poor. Security problems in Afghanistan, Nepal, Pakistan, the Philippines, Indonesia, Sri Lanka, and North Korea, which often included terrorism, contributed to volatility in the region during 2004, as did a growing HIV/AIDS problem, SARS, and the emerging avian flu crisis.

Approvals for loans and grants in 2004	
Source	Amount (\$ million)
AsDB ordinary capital resource (OCR) loans	3,705.00
Private sector loans (OCR)	347.00
AsDF grants	1,242.00
Equity investment loans	185.00
Technical assistance grants	197.00
GRAND TOTAL	5,676.00

Organizational effectiveness

The AsDB is financially solid, with a triple-A credit rating and a well-established, broad policy framework. Its strength is in promoting economic growth, good governance, anti-corruption initiatives, and physical and social infrastructure. The AsDB has also made strong contributions to regional cooperation. In 2004, the bank dedicated itself to improving the management of its resources and the impact of its operations. The AsDB approved a new disaster assistance policy, which contributed greatly to its ability to respond to the December 26, 2004 Indian Ocean earthquake and tsunami.

The bank concluded its ninth replenishment of the AsDF valued at \$7 billion, which exceeded the 2002 replenishment of \$5.65 billion. This funding launched the bank's wide-ranging reform agenda for development effectiveness, which touches on nearly every aspect of its work. Adopted in June 2004, this agenda specifies 19 initiatives;

among the items already completed are a strengthened performance-based allocation system and the establishment of a results management unit.

Corporate governance is also being strengthened at the AsDB. A new mechanism to investigate complaints, the Office of the Special Project Facilitator, replaced the bank's inspection function. The office made a number of recommendations for remedial actions in water supply and transport projects over the course of the year. The Anti-corruption Unit opened 99 investigations and took action against 61 firms and 66 individuals.

The AsDB is prudent and often consensus-driven. It is an evolving institution, now engaged in implementing reforms in several areas of past concern, such as a lack of transparency and a hierarchical management style. It is also working to focus its goals and strengthen its capacity in gender equality programming and evaluation, and regional economic integration.

Development effectiveness

An independent review of the effectiveness of the AsDB's 2003 reorganization reaffirmed the bank's goals and guiding principles, including its poverty reduction strategy. The review recognized the bank's improved alignment with national poverty reduction strategies; its stronger emphasis on the MDGs; its country focus and its increased attention on results, monitoring and evaluation; and its greater stress on capacity building. Recommendations on selectivity, development effectiveness, and corporate governance are now under consideration, with many already in implementation.



The AsDB continues to work with middle-income developing countries to reduce the income gaps that often come with economic growth and to provide market access and downstream benefits for their poorer neighbors. The bank's progress on poverty reduction is also being underscored by the requirement that all loans and technical assistance grants show how they address poverty reduction. The AsDB approved its first regional strategy in 2004, for the Pacific Region.

The bank has also made significant progress in development effectiveness; improving operational policies, strategies, and approaches; mainstreaming results-oriented management; and refining its business processes and organizational structure. In July 2004, Canada and the Netherlands established a cooperation fund to support pilot initiatives aimed at promoting the adoption of results-based approaches and techniques in public sector management. The focus of the fund is on capacity building in developing member countries. In addition, all country strategies and programs now have a results framework that includes monitoring and desired outcomes, as well as expected outputs and relevant indicators. The bank is also increasing its efforts at internal coordination; harmonization of processes like evaluation, monitoring, and procurement with other development partners; and alignment of its policies with member country priorities and strategies. During the year, the bank continued to delegate responsibility to the field, an effort that included the opening of five new offices.

Contribution to the multilateral system

The AsDB is the premier development institution in Asia, with world-class expertise on the development challenges facing the region. In June 2004, the bank

adopted a knowledge management framework to better integrate knowledge sharing into the corporate culture, improve knowledge products and services, update information technology, and foster communities of practice. The Asian Development Bank Institute is the primary information source on development for the bank. Its priorities are poverty reduction, regional cooperation, PSD, and governance. In 2004, the institute carried out research and training activities for the bank, mainly in poverty reduction and governance.

Cooperation with other organizations includes an anti-corruption initiative with the Organization for Economic Co-operation and Development (OECD) which involves training in critical areas like procurement, seminars on local governance and service delivery that help the poor, and support for public administration networks. The bank is also seeking to share the lessons of the 1997 financial crisis through a regional economic monitoring unit. It aims to harness the benefits of globalization and minimize the disruptive effects through initiatives like investment in infrastructure and assistance to countries that need help to meet their international obligations.

The bank participated in a number of donor initiatives, including chairing the multilateral development bank working group on managing for development results (MfDR) and co-chairing the OECD Development Assistance Committee joint venture on MfDR. It also signed a memorandum of understanding on regional cooperation toward achievement of the MDGs and participated in a special regional program to combat HIV/AIDS. The bank established a cooperation fund to strengthen assistance to its developing member countries in fighting money laundering and the financing of terrorism. With the outbreak of the avian flu in 2004



and the rapid spread of HIV/AIDS along new economic corridors, the AsDB worked quickly, in partnership with the World Health Organization, to assess country readiness to react effectively to contain disease outbreaks and mobilize financial support.

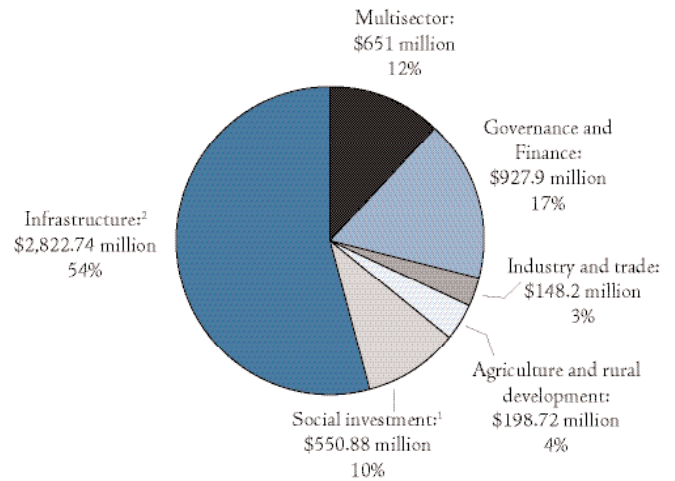
Country and regional operations

In 2004, the bank contributed to poverty reduction and inclusive social development through special poverty funds that helped finance development of national poverty reduction strategies and policies, as well as numerous specific projects. Among the initiatives it funded were vocational training and credit for women in Uzbekistan, affordable heating for urban dwellers in China, and improved police services in Pakistan. Cooperation with non-governmental organizations was strengthened during the year, with increased consultations and the launch of a new network to promote partnerships between the private and non-government sectors for poverty reduction. Other activities included agricultural production in Afghanistan that is an alternative to poppies and opium, health programs in conflict areas of Sri Lanka that benefit approximately 15,000 households, and AIDS awareness in the Mekong delta that has increased condom use among sex workers by 40 percent. A project to improve the quality of teaching in Bangladesh resulted in the training of 2,315 secondary school teachers. Environmental sustainability was supported through water supply projects, greenhouse gas abatement, natural resource management, and institution building.

Private sector development

The AsDB supports PSD at the corporate level through policy dialogue and support for institutional, legal, and regulatory reform. Its Private Sector Operations

Asian Development Bank approvals by sector, 2004



1. Includes health, education, and environment.
2. Includes transportation, communications, energy, and sanitation.

Department provides direct support to private sector programming for businesses, investment funds, and financial institutions, and mobilizes international and domestic capital for private sector projects. The bank's approach to PSD also includes increasing the availability of financial services; creating opportunities for private sector participation in projects; catalyzing private investment through direct financing and risk mitigation under guarantee schemes; and improving corporate governance.

In 2004, the bank had a total of \$807.2 million in approved assistance in the private sector, up 49 percent from 2003. Its activities included assistance to the governments of Bangladesh, Cambodia, and Vietnam to establish an institutional framework for SME development as well as improve governance, regulatory reforms, and access to credit. The bank also provided loans and



equity to institutions and funds that facilitate access to financial services for SMEs. In Laos, the AsDB supported reforms to commercial and financial legislation and a review of the framework for industrial quality standards.

To increase and broaden the flow of capital into more countries, the bank approved equity investments and private sector loans for twice the number of countries approved in 2003. Bank investments included support for telecom facilities in Afghanistan; the newly privatized, formerly state-owned bank in Mongolia; and a Philippines guarantee facility that protects private financial institutions and other investors in local government units from default. The bank also financed public-private partnerships and supported risk mitigation, as in Afghanistan, where an investment guarantee facility protects investors against political risks. In 2004, the AsDB joined the ASEAN+3 finance ministers in launching AsiaBonds Online, a one-stop clearing house of information on the rapidly growing sovereign and corporate bond markets in the region.

Canada's role

Canada is very supportive of the process of change and renewal in the bank. The AsDB views Canada as an important source of development experience and an advocate of Asia's full participation in an open, inclusive global economy. Canada has made specific contributions to the bank's institutional policies and development effectiveness that promote pro-poor development, gender equality, environmental sustainability, and good governance.

Canada's influence at the head of the six-country constituency remained high in 2004, after dealing with several major issues, in collaboration with constituency

members, related to corruption, risk assessment, MfDR, and human resource management. Canada's support on these issues helped bring about some changes, including an examination of ways to engage the board earlier in the process of formulating country strategies and programs; the incorporation of a set of values and principles into the new human resource strategy that engages management in responding to evaluation findings; and a much sharper focus on results in the planning and preparation of projects throughout the bank.

Together with the other members of its constituency office, Canada has encouraged the board of directors to assume a stronger role in guiding the bank at the policy, strategy, and programming levels. Canada will continue to engage the board in discussions about the strategic direction of the bank's PSD operations and press for a formal review, as well as urge the bank to integrate PSD into its country assessments or portfolio reviews.

Canada will be supporting the priorities of the new president, Haruhiko Kuroda, to make the bank more responsive, relevant, and result-oriented, in order to strengthen its role in regional integration and build up its knowledge capacity. Canada will also seek more opportunities for co-financing projects with the bank and work closely with its North American Regional Office to increase civil society organizations in policy dialogue.

Canada encourages the AsDB to present a new strategic vision of its role in the region and to

- ♦ find new ways to *direct investments toward the poor* to promote equity and reduce the gap between rich and poor;



- ♦ make *good governance* and *anti-corruption* corporate management a central priority for the bank;
- ♦ continue to implement its *MfDR* plan;
- ♦ *strengthen working linkages* with other regional banks, multilateral development institutions, and civil society;
- ♦ continue *implementation of the Paris Declaration on Aid Effectiveness*; and
- ♦ strengthen the capacity for *gender equality programming*.

Canada's cooperation funds at the Asian Development Bank

- ♦ The Canadian Cooperation Fund for Climate Change (\$5 million) was established in 2001 to help member countries develop policies and programs to reduce greenhouse gases. In 2004, it supported adaptation to climate change in the Pacific, carbon sequestration in China, gas generation from waste in Indonesia, and capacity building for environmentally sustainable development in both India and China.
- ♦ The Governance Cooperation Fund (\$2.5 million) was established in 2002. Its aim is to build capacity and strengthen transparency, accountability, and participatory decision-making in the public sector of member countries. In 2004, it strengthened the national budget for the agricultural sector in Cambodia; in addition, it improved governance in the non-profit sector in Pakistan, local government budget consultation in Tajikistan, and training in the government inspectorate in Vietnam.
- ♦ The Cooperation Fund for Gender and Development (\$1.2 million) was established in 2003. In 2004, it approved 12 projects, including improvement of the gender design features in Asian Development Bank loans and a review of the implementation of the bank's 1998 gender and development policy. Previous projects have included action plans for gender mainstreaming in agriculture and rural development in Vietnam, and agriculture in Cambodia, as well as capacity building for gender equality and the empowerment of women in Nepal.
- ♦ The Managing for Development Results Fund was established in 2004. This multidonor trust fund, which is also supported by the Netherlands, aims to help the bank strengthen the managing for development results plan at the project and program level.



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The Asian Development Bank's support to the Afghan cellular company Roshan helped support the opening of this customer call centre and provides more people access to telephones.

Improving telephone services and infrastructure in Afghanistan

After more than two decades of conflict, Afghanistan was left with no functioning national fixed-line telecommunications service, a barely functioning postal service, and poor roads. Cellular networks in the country, while growing fast, are still basic, limited in reach, and require significant additional investment if they are to extend coverage beyond the major cities.

Telecommunications is an essential element of a country's infrastructure, alongside transport, water supply, and energy. In mountainous and landlocked Afghanistan, cellular telephone services are seen as the only viable method of providing reliable, countrywide communications coverage. National demand for this service exists but development is constrained by the limited availability of funds.

In 2004, as part of its Private Sector Development programming, the Asian Development Bank (AsDB) approved a US\$35 million loan to finance the nationwide expansion and upgrading of the country's leading cellular network, Roshan. In addition to supporting the expansion of countrywide coverage, the project deployed public call offices and provided access to communications for less affluent users.

According to Agence France-Press in April 2006, "in its two years of existence, mobile telephone operator Roshan has been a runaway success, becoming the leading private enterprise in Afghanistan's emerging market".



As of 2006, Roshan provides network coverage in over 150 major cities and towns and along four border roads and five major highways, providing mobile accessibility to over 38 percent of the population. The company has significantly exceeded its subscriber and traffic growth targets. Roshan's subscriber base has grown from some 150,000 in 2004, to over 750,000 in early 2006. Roshan also has the largest distribution network, comprising over 165 retail outlets throughout the country.

Meaning "light" in Afghanistan's two most widely spoken languages, Dari and Pashto, Roshan, in the company's own words, "brings a promise of hope, development, and a brighter future for the people of Afghanistan". Roshan is one of the largest private company employers in Afghanistan, directly employing over 700 people, 25 percent of whom are women. In addition, Roshan provides indirect employment to the more than 15,000 people who work as dealers, distributors, contractors, and suppliers.

Roshan also contributed \$45 million in taxes to the Afghan Government by the end of 2005. This accounted for approximately six percent of the Afghan Government's overall tax revenue.

Due to tremendous demand, the company wishes to further expand operations. In June 2006, the AsDB approved a second loan of US\$40 million for Roshan. Not only does this enable Roshan's further expansion, it also made it possible for Roshan to borrow up to US\$30 million from international commercial banks.

Roshan is an international consortium formed by the Aga Khan Fund for Economic Development, Monaco Telecom International, and US-based MCT Corp.

Afghanistan's leading cellular phone company Roshan expanded, thus providing much-needed employment thanks to support from the Asian Development Bank and others.



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The Inter-American Development Bank: highlights of 2004

Headquarters:

Washington, D.C., United States

President:

Enrique V. Iglesias (Luis Alberto Moreno as of October 2005)

Constituent institutions:

Inter-American Development Bank, Inter-American Investment Corporation, Multilateral Investment Fund, Fund for Special Operations (FSO)

Year founded:

1959

Members:

26 regional members, 20 non-regional donors

Total subscribed capital:

\$100.95 billion

Canada's capital share:

\$4.04 billion

Canada's paid-in capital:

\$173.70 million

Canada's callable share:

\$3.87 billion

Canada's capital share:

4% (6th)

Canada's voting share:

4% (6th)

Canada's share of last IDB replenishment (1994):

2% (7th)

Canada's contribution to the FSO:

\$313.30 million (7th)

Website:

<http://www.iadb.org>

The Inter-American Development Bank (IDB) is the largest provider of development assistance to Latin America and the Caribbean. It enjoys a close and collaborative relationship with its members. Its commitment to accelerating socio-economic development in the region is implemented through two overarching priorities: reducing poverty while enhancing social equity and fostering sustainable economic growth. The bank supports poverty reduction and social equity by supporting national poverty reduction strategies, providing loans to finance poverty reduction projects, supporting acquisition and dissemination of knowledge on poverty reduction, and compiling data. It fosters sustainable economic growth by strengthening institutions, improving conditions for competitiveness, enhancing the quality and coverage of health and education, and promoting regional integration and inclusion in the world economy.

The bank delivers programming in four major areas: poverty reduction and social equity, modernization of the state, competitiveness, and regional integration.

Delivering on objectives in 2004

The region of Latin America and the Caribbean has the highest levels of social and economic inequality in the world. Economic recovery continued in 2004, with a growth of more than 5 percent, leading to a modest drop in the proportion of people living in extreme poverty from 19.6 to 18.6 percent. Trade expanded, inflation and interest rates were low, and sound fiscal policies reduced deficits. Almost all countries in the region have

Approvals for loans and grants in 2004	
Source	Amount (\$ million)
OCR loans	5,468.30
FSO loans	551.60
FSO grants	36.00
Other grants	30.00
GRAND TOTAL	6,085.90
HIPC debt relief	82.00

democratically elected governments and market-based economies; however, debt and corruption continued to be a problem for several. Personal security across the region was also threatened by rising levels of crime and violence, fuelled by illegal trade in guns and drugs.

Organizational effectiveness

The IDB continues to be a solid financial organization with a triple-A credit rating. In 2004, corporate governance continued to improve. The IDB established the Office of Institutional Integrity, which investigates fraud and corruption in bank-financed activities as well as violations of ethics codes. During the year, 142 new allegations of impropriety were received, 67 investigations completed, and 48 matters dating from before 2004 resolved.

Other initiatives in 2004 included the establishment of an audit committee of the board of executive directors, implementation of a new policy on information disclosure, an overhaul of the bank's procurement activities, and a strategy for citizen participation in IDB activities. Efforts

to simplify and make lending instruments more flexible, as well as the development of a new lending framework, continued during the year. The bank's budget for 2005 reflected greater efforts to strengthen internal controls and governance and improve bank support for regional development.

Development effectiveness

The IDB is continuing to sharpen its focus on poverty reduction. It is working hard to build consensus in the region on the MDGs by providing technical assistance to help countries assess and report on their results. This includes funds to train monitors, in specific areas like conducting surveys and developing databases. In 2004, Bolivia, Guyana, and Nicaragua became eligible for full debt relief under the HIPC Initiative and received some \$82 million from the IDB.

The bank continued its efforts to improve development effectiveness, both within its own operations and among its borrowing members. One of its major achievements in 2004 was the development of a road map that includes new initiatives in strategic planning, operational policies, internal procedures, and fostering a results culture. A new Development Effectiveness and Strategic Planning Department is overseeing this work. Recent initiatives include improvement of the bank's project performance monitoring and reporting systems as well as stronger project design and supervision based on sound risk management principles. Greater efforts by the IDB to improve project performance have resulted in continuing progress: 92 percent of projects were judged to be on track for achieving their development objectives in 2004, as compared to 88 percent in 2003; and 79 percent of projects were not experiencing any significant difficulties, as compared to 74 percent in 2003.



Contribution to the multilateral system

The IDB was a major linchpin in the international community's response to the crisis in Haiti. As a key member of the multidonor steering committee that, together with the government, developed the Interim Cooperation Framework for Haiti, the bank was able to help determine the direction of the recovery program. Despite growing security concerns in 2004, the bank disbursed about \$30 million in Haiti, including technical cooperation in the fields of basic services, institutional strengthening, and emergency response, as well as social services, basic economic infrastructure, and road rehabilitation. The bank has developed flexible, innovative approaches to maintain and even accelerate the implementation of the recovery program. It is continuing to streamline its procedures and is setting an example for other agencies.

The IDB continues to work closely with the Caribbean Development Bank (CDB) in arranging co-funding for a number of projects. Co-financing more than doubled in volume in 2004, partly because of an expansion in activities with the World Bank, mainly in the social sector. Three private sector loans were also co-financed with other donors. The IDB signed a memorandum of understanding with the European Investment Bank to facilitate future cooperation; it also approached a number of private foundations in Europe. In addition, the IDB paved the way for more collaboration by approving the use of sector-wide approaches, in which the bank combines its financial resources with the borrower (and other donors) to support activities in a specific sector, such as education or health.

The bank continued to generate and share information in 2004, improving the quality of its policies on poverty reduction and equity enhancement. It sponsored networks

and conferences on institutional challenges in social equity, poverty, social protection, and the links between poverty reduction and access to financial services.

Country and regional operations

Improved reporting of results has also improved the IDB's ability to evaluate its development impact on the ground. A snapshot of projects ending in 2004 shows concrete results in all sectors. For example, a judicial reform project in Costa Rica resulted in a 13-percent decrease in the average cost of processing cases and a reduction of more than 25 percent in case backlog. A basic sanitation project in Uruguay led to a reduction in organic and industrial wastes in streams and a 90-percent drop in heavy metal discharge. A tourism project to upgrade local archaeological sites and access roads in Belize has resulted in more than twice the number of visitors, doubling employment and increasing government revenues by 50 percent. A program to improve basic health for children in Nicaragua caused the number of children achieving satisfactory growth rates to rise from 20 to 40 percent in the first year alone. In addition, to underpin these initiatives, the governments of most countries are undertaking a broad range of reforms, which the IDB supports through training and technical assistance in areas like fiscal and financial management reform.

A review of the IDB Gender Mainstreaming Action Plan revealed progress on all fronts, especially the incorporation of gender equality into country strategies and project design. In 2005, a multidonor fund will support this action plan. The bank's Social Inclusion Trust Fund was launched in 2004. A draft policy and strategy on indigenous issues has identified priorities and specific areas for support.



Private sector development

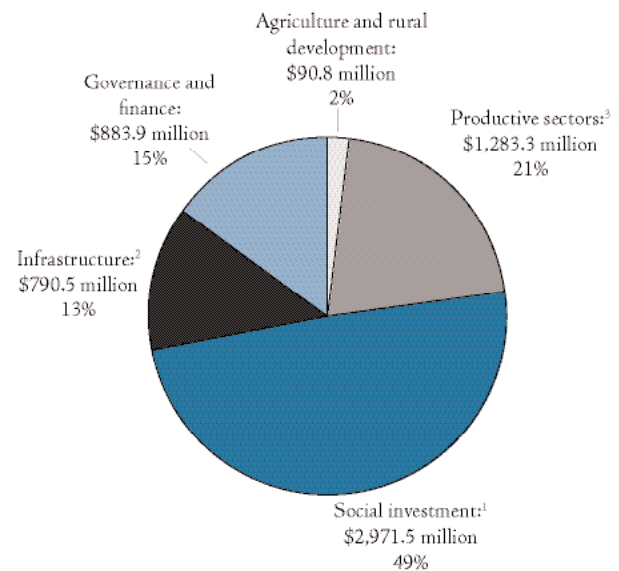
The IDB was the first multilateral institution to grant loans without government guarantees to private organizations, and it has been a major supporter of microcredit for more than 25 years. It has supported, directly and indirectly, a total of 570 projects worth \$302 million, reaching some 530,000 small business people, agricultural producers, and artisans.

A new PSD strategy was approved in 2004. Its goal is to strengthen the coherence and complementarity of private sector activities by

- ♦ coordinating the development of a climate conducive for business;
- ♦ developing guidelines to engage the private sector in dialogue and action;
- ♦ identifying incentives to increase cooperation within the bank on PSD, then creating a Private Sector Coordinator position; and
- ♦ including corporate governance indicators in IDB projects.

Through its Multilateral Investment Fund, the bank provides technical assistance grants and investment financing for poverty reduction initiatives at the grassroots. In 2004, this facility approved 82 new projects worth more than \$116 million. These investments financed activities like small business innovation, provision of venture capital, skills development for workers, regulatory reform, and mobilizing foreign remittances for investment. For example, in Peru, a \$7-million loan to

Inter-American Development Bank approvals by sector, 2004



1. Includes health, education, and environment.
2. Includes transportation, communications, energy, and sanitation.
3. Includes industry, mining, tourism, capital markets, multisector credit and pre-investment, multisector infrastructure, science and technology, trade financing and PSD.

the *Banca del Trabajo* helps channel remittances from Japan-based Peruvians toward increased savings and investments back home.

In 2004, the IDB was supporting 64 private sector projects, including 10 new operations (6 loans totalling \$271 million and 4 guarantees totalling \$185 million). The bank also approved a new trade finance guarantee initiative involving 16 countries, known as the Regional Trade Finance Facilitation Program, with total commitments of \$5.6 billion. It supports projects like the Business Climate Initiative, under which governments, in partnership with the private sector, identify the main



obstacles to investment (for example, an inadequate property rights regime or weak commercial codes) and form action plans to eliminate them. Other projects include the development of strategies to boost competitiveness in El Salvador and Guatemala; support for technological innovation in agriculture in Brazil; development of a regulatory framework for infrastructure services in Mexico; and management and supervision of the financial sector in Honduras. A major study on banking systems in the region, released in 2004, underlined the vulnerability of the financial sector and presented key recommendations in areas ranging from property rights to supervision regimes and money laundering.

The bank also provided technical assistance to regional trade groups, including the Central America Common Market, the Caribbean Community and Common Market, the Mercado Común del Sur (Southern Common Market or MERCOSUR), the Free Trade Area of the Americas, and the Andean Community. This assistance covered a wide range of areas, including harmonization of value-added and excise taxes, and regional infrastructure projects like the Central American electrification project. New activities included support for a power project in Brazil, transmission lines in Bolivia, a Brazilian infrastructure investment fund, \$25 million for infrastructure through local institutions to companies from IDB borrowing-member countries, two trade financing facilities for exporters, and support to mortgage lenders wishing to expand home loan operations in Mexico and El Salvador.

Canada's role

Canada has a strong presence at the IDB. The Canadian executive director represents only Canada: this is unlike the situation at the Asian and African development banks, where Canada represents a constituency that includes other donor countries.

Canada has contributed to a number of recent reforms, including the implementation of the new Capital Adequacy Framework, the new policy on information disclosure, improvements to the Independent Investigation Mechanism, and the new office on institutional integrity. Canada also played an important role in the adoption of the bank's development effectiveness strategy and its implementation plan.

Canada supported the bank's PSD review and helped rationalize its programming efforts. Originally managed by three separate units with different mandates and operations, the PSD system now operates much more effectively under the Private Sector Operations Coordinator. Canada is a member of two of these units, but not the third, the Inter-American Investment Cooperation unit, a multilateral facility established to promote PSD in Latin American and Caribbean member countries by directing resources to SMEs. This is because Canada prefers the programming approach of the other units—the Private Sector Department and the Multilateral Investment Fund—which target smaller private sector enterprises.



Canada continues to contribute to the bank's effectiveness by advocating an acceleration in the transition of the IDB from a strictly financial institution to one predominantly focused on development. Canada plays an active role in policy dialogue at the bank and is focused on

- ♦ improving *governance* by encouraging more citizen participation in bank policies and decisions, as well as cooperation with the financial and justice systems in borrowing member countries;
- ♦ supporting *health and education* by developing policies that help the poor and improve their access to higher-quality social services;
- ♦ promoting *PSD* by encouraging a supportive environment for SMEs, trade integration, and microfinance;

- ♦ fostering *environmental sustainability* by widening regional dialogue, strengthening national regulatory mechanisms, and managing waste and water resources;
- ♦ maintaining the focus on *gender equality* by increasing the involvement of men in the promotion of gender equality; and
- ♦ improving the *quality of aid* in line with the *Paris Declaration on Aid Effectiveness*.

Negotiations over the replenishment of the bank's concessional fund, the FSO, may start in 2007. Canada will push for a revision of the current fund's rules and procedures to increase its development effectiveness in the field.



© Inter-American Development Bank

The IADB is leading efforts to improve banking services to remittance senders and recipients.

Reducing poverty through remittances in Latin America and the Caribbean

Remittances—money sent home by immigrant workers abroad—are a big source of income for developing countries. The United Nations estimates that about 175 million people lived and worked abroad in 2002, and remittances to developing countries exceeded \$126 billion in 2004.¹ Some developing countries receive even more capital in remittances than foreign direct investment and development aid.

In many Latin American and Caribbean countries, an Inter-American Development Bank (IADB) survey found that remittances dwarf the combined value of foreign direct investment, multilateral aid, and interest payments on foreign debt. In the coming decade, remittances will reach \$450 billion in the region.

Workers' remittances directly help the poor who use the money for education and for better health care, nutrition, and housing. In Latin America, it is estimated that at least 50 million people receive remittances of about \$2,000 a year.

Remittances already help the poor but can they be used more productively? Do they present an untapped opportunity to help ease poverty?

1. When Money Really Matters - Remittances Vital to South Asia, World Bank, <http://www.worldbank.org.af/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/AFGHANISTANEXTN/0,,contentMDK:20587408~menuPK:50003484~pagePK:141137~piPK:141127~theSitePK:305985,00.html>.



A global leader on remittances, the IADB is finding new ways to maximize the benefits for the poor. Through the Multilateral Investment Fund (MIF), an independent fund administered by the IADB and partially supported by Canada with \$30 million in 2005, the Bank is working with governments, commercial banks, business associations, and civil society to turn remittances into a source of development in Latin America and the Caribbean.

Turning remittances into a source of development

If channelled to the right investments, remittances can do more to reduce poverty. In Mexico, Ecuador, and Central America, a MIF study found that up to 20 percent of remittance earnings could be directed to long-term savings or investments. To harness this potential, MIF is encouraging financial institutions to provide migrants and their families with more productive options for using their money. For example, institutions can provide services and products that could facilitate paying a mortgage, starting a business, or saving for a child's future education. In Ecuador, Banco Solidario has shown that remittances can also profitably be used to create housing and business accounts for immigrants.

Reducing costs for remittance senders

Most immigrants use money transfer firms to send remittances. These firms are convenient but tend to use unfavourable exchange rates and immigrants often do not know how much money actually reaches their families. The MIF is working with its partners to improve access to better and less expensive services for remittance senders. They aim to reduce the cost of sending remittances by 50 percent by 2010, and increase the number of families receiving funds through bank and credit cooperatives by 50 percent.

Increasing understanding of remittances



© CIDA/Pierre St-Jacques

Little was known about using remittance funds for poverty reduction but IADB's work has changed this. The MIF has completed 12 studies/surveys, sponsored nine major conferences, and published a book on the global impact of remittances on development entitled *Beyond Small Change*. The Fund also published a list of "core principles" to spotlight the most pressing tasks, guide decision makers, and help organize and focus efforts by banks and remittance institutions, public authorities, and civil society.

Better banking services, such as those supported by the Inter-American Development Bank, help women like Madame Joseph start small businesses.



The Caribbean Development Bank: highlights of 2004

Headquarters:

Bridgetown, Barbados

President:

Dr. Compton Bourne

Constituent institutions:

Caribbean Development Bank, Caribbean Special Development Fund (SDF)

Year founded:

1969

Members:

17 Caribbean countries; 3 Latin American donors and 5 non-regional donors

Total subscribed capital:

\$705 million

Total approvals to the end of 2004:

\$2.255 billion

Canada's capital share:

\$62.7 million

Canada's paid-in capital:

\$13.7 million

Canada's callable share:

\$49.0 million

Canada's capital share:

9.63% (3rd, tied with the United Kingdom)

Canada's voting share:

9.50% (3rd, tied with the United Kingdom)

Canada's share of last replenishment:

20.16% (1st, tied with the United Kingdom)

Canada's contribution to the SDF

\$143 million (1st)

Website:

<http://www.caribank.org>

The Caribbean Development Bank (CDB) is a small, sub-regional bank that serves the countries of the Commonwealth Caribbean.⁷ It responds to the unique economic needs of small island states and is often called upon to deal with the devastation caused by hurricanes. The CDB mission is to work collaboratively with its borrowing members toward the systematic reduction of poverty through social and economic development. Its core mandate is to foster more rapid economic growth, help reduce poverty and improve the status of the most vulnerable, promote good governance and efficiency in public policy formulation, promote improved environmental management as integral to project planning, and encourage greater economic integration of borrowing member countries.

Delivering on objectives in 2004

The Caribbean region enjoyed continued economic growth in 2004. Growing international demand for its products and services and the devaluation of the American dollar stimulated most sectors of the economy, particularly tourism. This generated downstream growth in associated sectors, such as transport and construction. Good weather and improved agricultural practices resulted in production increases for key crops like bananas and sugar cane. Off-shore business services thrived, while energy production and manufacturing also grew. Overall, trade expanded, sound fiscal policies helped reduce deficits, and interest rates were low. The move toward regional integration continued in 2004: the year saw the creation of the

7. Jamaica, Guyana, Barbados, Bahamas, Trinidad, and Tobago are also members of the IDB. Throughout 2004, Canada supported CDB membership for Haiti, which became a member in April 2006. The members of the Organization of Eastern Caribbean States, the small island states in the region, are not members of the IDB, although the CDB does borrow from the IDB for its lending to these countries.

Approvals for loans and grants in 2004	
Source	Amount (\$ million)
OCR loans	73.98
SDF loans	24.41
SDF grants	2.18
Other special fund loans	14.95
Other special fund grants	7.95
Other special fund equity	0.16
GRAND TOTAL	123.63

Caribbean Court of Justice, which manages trade and other conflicts in the region. However, the region also saw a rise in public debt, caused by overspending, as a matter of concern. Vulnerability to natural disasters, debt, and corruption continued to be a problem for several countries in the region.

Organizational effectiveness

The CDB continues to be a solid financial organization, with a triple-A credit rating and a very close relationship with its members, acting as an advocate for them with other organizations and in a variety of international forums. Its strength is its closeness to the community, which allows it to work closely with local governments and organizations in funding community-based projects, like the establishment of microenterprises or the provision of water supply and sanitation systems. It provides strong support to regional integration and funds disaster mitigation and rehabilitation programs. In 2004, the bank focused on assisting its member countries to

advance their economic transformation, reduce their vulnerability to external shocks and natural disasters, improve their competitiveness, and promote social development.

In 2004, the CDB established an evaluation department for the first time; it is now building up that function within the organization. The CDB's traditional management style, which tends to be prescriptive and risk-averse, discourages innovation and strong country ownership. These issues were addressed through the bank's implementation of the internal reforms recommended by its change management program.

Development effectiveness

In 2004, the CDB approved a poverty reduction strategy that includes capacity building and empowerment of the poor, vulnerability reduction, and good governance (including appropriate regulatory systems, social protection measures, and citizen participation, together with local development planning and resource allocation that benefits the poor). It aims to mainstream poverty reduction into all aspects of the bank's work. Development of the social protection framework progressed with a major study on the key risks and vulnerabilities of small-island developing states and how current programs are addressing them. The bank also took major steps to strengthen its disaster preparedness and reconstruction assistance programs.

The CDB continued to strengthen its development effectiveness, refining its resource allocation formula, strategic planning tools, risk management framework, and performance monitoring and evaluation systems. It produced new guidelines to integrate its country strategies



with national poverty reduction strategies and continued to promote harmonization with other donors. It also made good progress on implementing RBM; linking evaluation and oversight functions through a new electronic database of goals, outputs, and performance indicators; and integrating the implementation of RBM into the employee performance appraisal system.

Contribution to the multilateral system

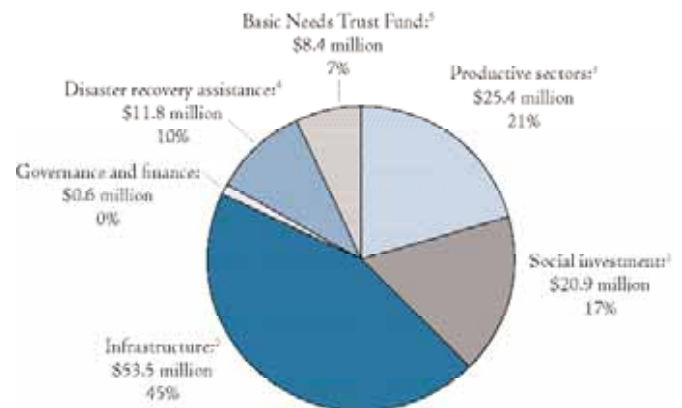
The CDB cooperates with a number of organizations and institutions to foster more multilateral harmonization, discuss key development issues, and increase its access to resources. A key element of the CDB-IDB cooperation program included concessional resources from the IDB for emergency assistance to Grenada and St. Vincent and the Grenadines. The IDB also provided technical support to the CDB for the development of a credit risk management model as part of a wider capital adequacy framework. In addition, the bank's Caribbean Technical Assistance Centre received a \$650,000 IDB grant to support reforms in tax administration, tax systems, and customs administration.

Senior bank officials acted to increase cooperation in key areas and broaden membership, particularly through more dialogue with European countries. In addition, the CDB attended several key meetings, including the High-level Forum on Harmonization and a meeting for multilateral development banks on harmonizing budgetary and planning procedures. Finally, the Caribbean Forum for Development (formerly the Caribbean Group for Cooperation in Economic Development) moved from the World Bank to the CDB in 2004, reinforcing Caribbean ownership and control of the dialogue on key development issues fostered by the group.

Country and regional operations

Emergency operations were an important part of the CDB's work in 2004. Grenada was the country most affected by hurricanes, requiring emergency loans and grants as well as reconstruction support to meet its financial obligations and fund its recovery programs. The bank also supported vulnerability reduction works, like the rebuilding of a sea dike and facade drain in Guyana, and flood mitigation measures in St. Lucia. It collaborated with CIDA on the production of a *Natural Hazard Impact Assessment Guide and Resource Book*, and the bank funded the associated training. Through its Disaster Mitigation Facility for the Caribbean, the bank supported the development of disaster mitigation plans for member countries, including hazard mapping,

Caribbean Development Bank approvals by sector, 2004



1. Includes health, education, and environment.
2. Includes transportation, communications, energy, and sanitation.
3. Includes industry, mining, tourism, and PSD.
4. Includes natural and economic disaster recovery assistance.
5. The Basic Needs Trust Fund provides grants for access, community market, education, health, skills training, and water supply.



vulnerability assessment, and integration of disaster management into the reconstruction process after hurricanes.

Other major activities supported by the CDB in 2004 included debt relief for Dominica (one of the most indebted countries in the region), power generation and transmission in Belize, tourism in Jamaica, child development and basic education in St. Kitts and Nevis, and training in environmental assessment for intermediary institutions in Grenada and St. Vincent and the Grenadines. Work also continued on the operation of the Caribbean Court of Justice.

Private sector development

The CDB contributed to poverty reduction during 2004 through its support to SMEs in the region. Its Caribbean Technological Consultancy Services mechanism supported training and technical assistance for more than 600 micro- and small entrepreneurs. This support covered a wide range of sectors and activities, including management techniques for entrepreneurs and skill training for workers in basketry, agroprocessing, farming, garment production, cake decorating, and pottery. For example

- ♦ farmers took courses on weed identification and control, operating their farms as a business, post-harvest handling of fresh produce, organic farming, and the development of value-added products;
- ♦ tourism personnel learned management principles, customer service, housekeeping, dining room and restaurant service, and the development of menus based on local produce; and

- ♦ standards organizations received training in areas like records management and the operation of calibration equipment.

The CDB also supported new activities, including the establishment of the Caribbean Information and Credit Rating Agency Ltd. The bank approved loans to modernize the regulatory framework of the Barbados financial sector, conduct a feasibility study for manufacturing nutmeg products in Grenada, and extend a line of credit to the Development Bank of Jamaica for lending to the tourism and other industries which are net earners and savers of foreign exchange. In addition, the CDB supported a study to establish a regional development fund for countries disadvantaged by the Caribbean Community Single Market and Economy.

Canada's role

Canada is a major donor at the CDB. Together with the United Kingdom, it holds the highest non-regional voting share and is also the largest contributor to the SDF. Canada takes an active role in policy dialogue at the CDB. Its priorities are the following:

- ♦ greater *participation* of affected populations in the decisions of the bank;
- ♦ stronger CDB *cooperation* with the financial and justice systems in borrowing member countries;
- ♦ policies that address *the needs of the poor* and improve their access to higher-quality social services;
- ♦ better policies and regulations for *PSD*;



- ♦ more *regional dialogue* on a wide range of issues, including water resource management and resource consumption;
- ♦ continued priority for *gender equality*, including a stronger role for men in its promotion;
- ♦ *harmonization* of aid and improved absorptive capacity for aid in the field;
- ♦ better *management* of policy reforms like PSD; and
- ♦ *strengthening governance* and civil society.

Canada played an important role in helping the CDB design its poverty reduction strategy. In 2005, Canada will continue to contribute to the bank's effectiveness by promoting aid effectiveness through harmonization, focusing on poverty reduction and attainment of the MDGs, and promoting regional dialogue on a range of issues, including environmental sustainability. Canada is also promoting good governance within the institution by participating in a knowledge exchange on evaluation methods. The CDB's Head of Evaluation is working closely with Canadian evaluation experts through informal knowledge sharing and exchanges.

The Basic Needs Trust Fund at the Caribbean Development Bank: an update

Canada has been a major contributor to the Basic Needs Trust Fund, which improves the standard of living in poor communities, increases the productivity and income of the unemployed and underemployed, expands the stock of economic and social infrastructure, and provides basic social services. In 2004, 153 subprojects were approved for grants totalling \$8.4 million, mainly in education, water supply, and health. Disaster mitigation was integrated into the fund's activities for the first time in 2004, while programming was integrated with country poverty reduction strategies. The fund also strengthened its own internal operations by improving administrative arrangements and project management and implementation, as well as increasing the participation of beneficiaries throughout the project cycle.

A debris sorting area in Grenada. Following hurricane Ivan, which devastated much of Grenada in September 2004, the Caribbean Development Bank (CDB) provided the Government of Grenada with much-needed support to hire locals to clean up and remove debris.



© Courtesy of Glean's Engineering Co. Ltd.

Reducing the hazards of nature

Imagine 100-kilometre winds flattening homes, battering hospitals and schools, and torrential rains turning city streets into waterways. Over the last two decades the Caribbean has seen a dramatic upsurge in the frequency of natural hazards and disasters. Earthquakes, floods, hurricanes, and tropical storms cause millions of dollars worth of damage to already poor countries. People's homes are destroyed, transportation and business are disrupted, and hospitals are damaged.

To reduce the hazards of nature, the Caribbean Development Bank (CDB) has developed a Disaster Mitigation Facility for the Caribbean (DMFC). Through the DMFC, the Bank helps Caribbean countries recover from, mitigate, and plan for natural disasters.

Flood mitigation in St. Lucia

The island of St. Lucia is particularly vulnerable to flooding. For example, the capital city of Castries experiences flash floods up to four times a year when hit by high-intensity rainfall. These storms can last for up to eight hours and congest the city's drainage system. During intense flooding the city can come to a virtual standstill. People cannot get to work or school, shopkeepers lose business, and roads and power supplies are damaged.

The CDB is working with St. Lucia to reduce the hazards and vulnerability to flooding of Castries and the village of Anse La Raye. In 2004, the Bank provided a US\$5.47 million loan to improve drainage and promote a public education and awareness program in these places.



© ACIDI/David Trattles

The Caribbean Development Bank supports flood mitigation activities in much-needed areas.

Improved drainage and awareness now make it possible on a stormy day for approximately 17,000 people to use public transit to access Castries' shops, schools, and other services and for 23,400 vehicles to travel in the city. As well, some 367 market traders and 22 businesses no longer face disruptions previously caused by flooded streets. In Anse La Raye, CDB support helped relocate eight households to less flood-prone locations, and benefited 281 households, 515 self-employed residents, 75 transport providers, and over 6,500 vehicles passing through the village each day.

Emergency assistance in Grenada and St. Vincent

Catastrophic damage struck Grenada, the Caribbean "Spice Island", in 2004 when the 120-mph winds of Hurricane Ivan, the strongest hurricane to hit the region in decades, damaged 90 percent of the buildings and killed dozens of people.¹ Grenada's Prime Minister Keith Mitchell told a news agency that the hurricane caused "hundreds of millions of dollars of damage."²

To help Grenada's 900,000 citizens, the Caribbean Development Bank provided a series of grants and loans. A grant of US\$100,000 allowed the Caribbean Disaster Emergency Response Agency (CDERA) to immediately assess people's survival needs and deploy critical personnel. It funded seven technical assistance personnel in the CDERA's Emergency Operations Centre and 20 personnel in the Caribbean Disaster Response Unit. The grant also allowed for the

1. This hurricane also caused heavy damage in Jamaica, Grand Cayman, St. Vincent, the Grenadines, the western tip of Cuba, and parts of the United States, and was classified in the highest possible category on the Saffir-Simpson Hurricane Scale.
2. Hurricane Ivan blasts Caribbean, BBC News, 2004/09/09.



purchase of emergency equipment and a generator. The CDB immediately released another US\$520,000 to clear and clean up debris and restore essential services. Later in 2004, to allow the Government of Grenada to focus on maintaining public services such as hospitals and medical care, the CDB provided a loan of US\$8.1 million.

Many people lost their homes in St. Vincent, another island hit by Hurricane Ivan. With the help of a US\$100,000 grant to the Government of St. Vincent, 298 buildings and individual homes were repaired.

In addition to immediate emergency assistance, the CDB is supporting disaster mitigation planning. The CDB, along with the Inter-American Development Bank and the World Bank, has embarked upon expanded programs of technical assistance, financing, and policy advocacy intended to move disaster risk reduction and management into the Caribbean's mainstream public sector planning and budgeting activities.



Conclusion

In 2004, a number of independent reviews and evaluations showed concrete progress in aid effectiveness at the RDBs, in areas like identifying and measuring results, assessing and evaluating performance, linking resources with strategic plans, aligning programs with member country priorities, and assessing risk. All the banks made progress in dealing with fraud and corruption, and several made headway in opening up bank operations to scrutiny and to civil society participation. Regional cooperation was enhanced by solid progress in harmonization of aid policies, procedures, and practices among various donors and member countries, and by inter-agency collaboration on issues of regional importance, from fighting HIV/AIDS to increasing economic competitiveness.

On the ground, a much stronger orientation toward poverty reduction and the MDGs was also evident in new project approvals. During 2004, considerable progress was made in debt relief, particularly in Africa, and disaster assistance and recovery, especially in Asia and the Americas. All the banks made progress in PSD programming, with support that helped build private sector firms and institutions, and enhance the business

climate in their member countries. The banks also strengthened their programming in regional integration, underlining the key role that trade relationships play in economic growth and poverty reduction.

As a permanent member on all the RDB boards, Canada has contributed to this progress significantly, through dialogue on policy with its RDB partners and technical assistance to implement priorities that make aid more effective. We will continue to encourage significant progress in these areas. Canada will also support and assist the RDBs in dealing with their main challenges, including the internal changes needed to support their reforms, like training and shifts in organizational culture, greater progress on decentralization and streamlining of business processes, stronger internal knowledge management systems, and more openness and flexibility. With the clear commitment to reform and modernization among all the RDBs and the progress they have achieved to date, Canada will continue to contribute to aid effectiveness, not only among the RDBs, but in the broader development community as well.



Appendix

Canada's contribution to the regional development banks for fiscal years 2002-2003, 2003-2004, and 2004-2005

All values in this appendix are in Canadian dollars

African Development Bank

	2002-2003 fiscal year	2003-2004 fiscal year	2004-2005 fiscal year
Capital investment (non-budgetary)	4,479,988.06	3,812,442.98	3,461,282.04
Concessional fund (AfDF)	72,000,000.00	67,227,302.00	69,603,210.00
Program flows (including trust funds)	11,510,000.00	3,510,000.00	13,100,003.00

Asian Development Bank

	2002-2003 fiscal year	2003-2004 fiscal year	2004-2005 fiscal year
Capital investment (non-budgetary)	0.00	0.00	0.00
Concessional fund (AsDF)	48,689,252.00	0.00	100,339,869.00
Program flows (including trust funds)	1,948,505.00	1,374,140.00	5,975,546.00



Inter-American Development Bank

	2002-2003 fiscal year	2003-2004 fiscal year	2004-2005 fiscal year
Capital investment (non-budgetary)	0.00	0.00	0.00
Concessional fund (FSO)	0.00	0.00	0.00
Program flows (including trust funds)	175,000.00	6,626,000.00	645,000.00

Caribbean Development Bank

	2002-2003 fiscal year	2003-2004 fiscal year	2004-2005 fiscal year
Capital investment (non-budgetary)	0.00	0.00	0.00
Concessional fund (SDF)	18,294,504.65	9,022,298.00	1,681,197.15
Program flows (including trust funds)	4,500,000.00	1,000,000.00	2,927,844.00