



ADAPTATION FUND

26 February 2016

Adaptation Fund Board

Accreditation Panel recommendation on accreditation of the Caribbean Development Bank (CDB) as Regional Implementing Entity

Having reviewed the accreditation applications of the Caribbean Development Bank (CDB), the Accreditation Panel recommends that the CDB be accredited as a Regional Implementing Entity (RIE) of the Adaptation Fund.

A summary of the review can be found in Annex I.

Accreditation Decision:

Having considered the recommendation of the Accreditation Panel, the Adaptation Fund Board decided to accredit the Caribbean Development Bank (CDB) as a Regional Implementing Entity (RIE) of the Adaptation Fund for five years.

Decision B.26-27/23

ANNEX I: REPORT OF THE ACCREDITATION PANEL ON AN ASSESSMENT OF THE CARIBBEAN DEVELOPMENT BANK (CDB) FOR ACCREDITATION AS A REGIONAL IMPLEMENTING ENTITY (RIE) OF THE ADAPTATION FUND

The Applicant:

The CDB is a regional financial institution for the Caribbean. The Caribbean is a region of almost twenty independent island states of which a number are classified as Small Island Developing States. The region has a number of challenges including erosion of trade preferences, impact of the economic crisis, poverty of 6.8 million persons of which two-thirds live in Haiti, and significant vulnerability to the impact of climate change. The purpose of the CDB is to contribute to the harmonious economic growth and development of the Region and to promote economic cooperation and integration among its member states. There is a special and urgent regard to the needs of the less developed members and that includes reducing poverty in the region.

The CDB commenced operations as a regional development bank in 1970. It has a staff of over 200 with over half in the professional category. The administrative expenses amounted to US\$ 27 million in 2014. Loans approved in that year were US\$ 255 million. The CDB participates in the selection, study and preparation of projects and where necessary, provides technical assistance. Financing to reach the CDB objectives come through its Ordinary Capital Resources (OCR) which is supplemented by the Special Development Fund (SDF) and the Other Special Funds (OSF). These two funds are separate and independently operated and have distinct assets and liabilities and for various aspects are subject to different operational, financial and other rules.

The CDB has been revising and updating many of its policy and procedures just before the application and while the application was in progress and these were necessary to meet the Fiduciary Standards. They related amongst others to the internal audit function; project monitoring including the monitoring of environmental and social aspects; the evaluation function; the system to receive and deal with questions of anti-fraud including receiving complaints; and establishing a mechanism to deal with allegations of environmental and social harm. The Panel is satisfied that while these reforms are continuing they are sufficiently well advanced that the respective areas meet the Fiduciary Standards of the Adaptation Fund. Nevertheless, these areas should be closely scrutinized by the Panel if the applicant applies for re-accreditation in five years' time.

The 7 May 2015 Standard and Poor's Rating Services Report on the CDB recognizes these improvements as well. To quote:

"The Bank has also continued to strengthen its governance structure through the consolidation of its risk management and monitoring framework, as well as through the introduction of new institutional checks and balances".

Financial Integrity:

There are **audited financial** statements done by one of the big four accounting firms based on IFRS for OCR. The two funds (SDF and OSF) are correctly based on stated accounting principles that are more applicable. All are produced by an **accounting system** in use since 2009 and this satisfy the Fiduciary Standards. The **audit committee** of the Board of Directors, referred to as APEC, has a wide mandate and is responsible for overseeing the oversight functions of the CDB. The **internal audit functions** did not meet the Fiduciary Standards at the time the application was submitted and no audit reports were issued since 2012. However, this situation has been corrected with the hiring of a new head of internal audit and other qualified staff. There is now an

audit manual, an annual audit plan and the first three audit reports issued under the new procedures were recently finalized.

The governance, policies, procedures, responsibilities and accountabilities are documented and constitute an **Internal Control Framework** for the CDB. There is an Accounting Policy and Procedure Manual for the Finance and Corporate Planning Department dating from June 2012 which has a banking orientation. The Operational and Policies Procedure Manual is over 700 pages and dated October 2014. It covers the lending and projects life cycle aspects. The **disbursement system** is that of a bank and therefore extensively verified by the external auditors. All project disbursements are verified by staff from the CDB for correctness before they are paid or reimbursed. The CDB has demonstrated its ability to prepare **strategic plans** and the Strategic Plan for 2015–2019 can be found on its website. The application included its administrative **budget** that compares the budgeted amounts to the actual outturn. The bank is **financially solvent**. This conclusion is based on several factors, including management’s own assessment expressed in the notes to the financial statements and the return to the higher credit rating from Standard and Poor’s Rating Services. The rating now stands at “AA/A-1+” and the outlook remains stable.

Requisite Institutional Capacity – Project Management:

The CDB has extensive guidance for the **procurement** of goods, work and consultants that must be adhered to by implementing borrowers and executing entities on projects financed by the Bank. These guidance documents should improve the procurement capacity in the region served by the CDB. The guidance includes extensive feedback in terms of advice and no objection from the Bank. The CDB has demonstrated, through many examples, that it manages these procurement activities of the borrowers. Another control is that CDB verifies all project expenditures before making a payment or re-imburement thereof to executing entities or project contractors. Internal procurement is guided by guidelines dated from 2006 and 2011 and its effectiveness has been demonstrated through several large procurement examples. According to the applicant, these guidelines will be updated in 2015. Procurement disputes are arbitrated using the London Court of International Arbitration (LCIA) Mediation Rules.

CDB has the capability, experience and track record for **project identification and appraisal** whereby they support their borrowers when needed. Appraisal documents include technical, financial, economic, legal aspects as well as the social, environmental considerations in line with its 2009 policy. The application demonstrates proper **project budgeting and disbursement** data for projects including adequate variance analysis. Project appraisals includes an analysis of **project risk** together with mitigating measures.

Extensive thought is given to **project monitoring** at the appraisal stage including for environmental and social aspects. The Operations Manual of the Basic Needs Trust Fund (BNTF), which is a major fund run by the CDB, can be found on the CDB website and is exceptionally user friendly¹. It has good instructions for Implementing and executing Agencies to do monitoring within a results framework. While much of the monitoring is done by the borrowers, annual monitoring visit are made for larger projects by CDB. A substantial part of the monitoring comes through the **non-objection** and approval activities for specific action on projects and the verification of all project invoices before payments or reimbursements are made. According to the bank this verification makes independent project audits unnecessary.

¹ <http://www.caribank.org/BNTFOpsManual/BNTFOperationsManual.html>

The initial material provided with the application revealed many gaps in relation to monitoring and these are being addressed amongst others through:

- Increased managerial attention to monitoring and improving staff capabilities in this area;
- The issuance in October 2014 of a comprehensive Operational and Policies Procedure Manual that also covers the monitoring of social and environmental aspects of the projects; and
- Installing a Project Portfolio Management System (PPMS).

The PPMS was foreseen for the end of 2014 but its implementation, although progressing, is behind schedule.

The recently approved Operational and Policies Procedure Manual contains adequate and solid instructions in place for **project closure**. CDB has made a commitment to its Board to have all **Project Completion Reports** done within two years of its last disbursements. Even though this is still a long time, it is a significant improvement and recent performance measures indicate that this target is being met. The APEC has approved a revised methodology and approach for the quality assurance over the Project Completion Reports by the Evaluation Function that is more relevant than past practices.

There is a state of the art **evaluation policy** dated December 2011 and there are sufficient resources for the evaluation activity. A new Chief was hired externally and started in 2014. Other Evaluation staff is being added and renewed. Except for quality evaluation reports related to Project Completion Reports there were no evaluation reports for several years. The first two evaluation reports since the renewal have been issued and can be found on the CDC web site. Several more reports are being finalized for and should be posted on the web site later this year. The web has several examples of evaluations done of the Basic Needs Trust Fund by consultants which demonstrates a capability to contract for external evaluations. With these reforms the project completion reports and the evaluation activity meet the Fiduciary Standards.

Anti-corruption measures and mechanisms to address environmental and social complaints:

There is a comprehensive **Code of Conduct** which had some rules for dealing with complaints. At the time of the application there were no **anti-fraud** provisions and the receipt, investigation and disposition of allegations was informal and ad hoc. The same was true for a **complaint mechanism related to environmental and social harm**.

Over the last year the applicant has with the assistance of a leading consultant developed: a Strategic Framework for Integrity and Accountability; Terms of Reference for the *Office of Integrity, Compliance and Ethics*; an Integrity and Ethics Policy; a Whistleblower Policy; a Compliance Policy (related to terrorism and money laundering); a Policy for Project Complaints Mechanism (related to environmental and social aspects); and Procedures for dealing with Fraud and Corruption in CDB Financed Projects. These documents have recently been approved by the Board and are linked to the CDB Information Policy of 2011. The CDB is currently staffing the Integrity Office and developing a secure website along the lines of those in use by large multilateral organizations for receiving and registering complaints. As an interim measure CDB placed a notice on its website that enable third parties to lodge complaints.

With the interim measures CDB meets the related Fiduciary Standards and the related aspects of the Environmental and Social Policy of the Adaptation Fund. Once all procedures are in place and running it is expected that CDB will have a state of the art system that can be used as an example for other entities applying to be an implementing entity for the Adaptation fund.

Environmental and Social Safeguards:

The CDB has experience to look at **environmental** aspects since 1994 and added social aspects years later. Its current guidance overlaps the Environmental and Social Principals of the AF. Projects are screened based on these two areas. CDB ensures that environmental and / or social Impact assessments are done as part of project appraisals whenever the risk or legislation requires it. There is consultation with stakeholders. As already mentioned the monitoring and evaluation of these safeguards was insufficient in the past but the applicant has provided sufficient assurances that this has been rectified.

Recommendation:

The Accreditation Panel recommends CDB be accredited as an RIE of the Adaptation Fund.