CARIBBEAN DEVELOPMENT BANK

LENDING POLICIES

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December 2016

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OVERVIEW

This booklet sets out the broad lending policies followed, at present, by the Caribbean Development Bank (CDB) in its ordinary and special operations. Its issue by CDB to a prospective borrower should not be regarded as a loan offer, nor does it bind CDB to make loans only on the terms and conditions specified therein. These policies are subject to change, from time to time, by the Board of Directors of CDB.

Loans can be approved only by CDB's Board of Directors; and the terms and conditions on which the loan is approved by the Board of Directors will be embodied in an appropriate Loan Agreement.

Information on the policies outlined in this booklet as well as other CDB policies may be requested from:

Vice-President (Corporate Services) and Bank Secretary
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LENDING POLICIES

1. GENERAL

Type of Financing

1.01 The Caribbean Development Bank (CDB) contributes to the financing of public sector and private sector projects related directly to economic development in its Borrowing Member Countries (BMCs).

1.02 CDB gives priority to productive enterprises, and infrastructure and services which support productive enterprises and social and community development. CDB may lend for recurrent expenditure in accordance with its Framework for Policy-Based Operations. CDB will not lend money to finance budget deficits (except in accordance with its Framework for Policy-Based Operations) or to finance speculation in shares or the purchase of land and existing enterprises. In very special cases and only where specific funds have been made available by donors for these purposes, CDB will finance balance-of-payments deficits not otherwise eligible for financing in accordance with its Framework for Policy-Based Operations, and the purchase of equities.

1.03 Priority will be given to investments in economic and social infrastructure [transportation, power, water and sanitation, housing (low and lower/middle income) and related social services], education and training (including student loans and training for human resource development), agriculture and rural development, private sector development, environmental management, climate resilience, energy efficiency and renewable energy, and disaster risk management. Special attention is given to ensure that the intervention by CDB promotes social equity and environment protection.

Eligibility

1.04 In evaluating the projects it finances, CDB gives weight to their anticipated contribution to expanding general economic activity in the country concerned; overcoming obstacles to national development; reducing imports or earning foreign exchange; raising productivity through the introduction of new industries, or new technology; increasing employment; and encouraging regional economic cooperation and integration.

1.05 CDB is required by Article 15 (d) of its Charter to pay due regard to the ability of the borrower to obtain financing elsewhere on terms and conditions that CDB considers reasonable for the recipient.

1.06 In accordance with Article 35 of CDB's Charter, only economic considerations relevant to the purpose and functions of CDB shall be brought to bear upon decisions of CDB and its President, Vice-Presidents, Officers and other Staff. All projects for CDB financing must be thoroughly researched taking into account the technical, economic, financial, social, environmental, cost-benefit, legal, organisational and managerial considerations. CDB will not normally participate unless the project is expected to yield economic benefits substantially in excess of costs, when account is taken of indirect benefits, including cost savings and the employment of underutilised resources. CDB is willing to assist applicants for loans to carry out necessary feasibility and economic studies, if it considers the project to be worthy of detailed investigation.

Resources Available

1.07 The operations of CDB are of two kinds: ordinary operations and special operations. Ordinary operations are financed from CDB's share capital, the proceeds of loans raised in capital markets or borrowed or otherwise acquired by CDB for inclusion in its Ordinary Capital Resources (OCR) and its ordinary reserves.

1.08 Special operations are financed from the Special Development Fund (SDF) and Other Special Funds (OSF). Contributions are made to the SDF for on-lending to deserving projects at low rates of interest and extended maturities, taking into account the economic circumstances of the country in which the project is located, as well as the requirements of the project. CDB may also accept contributions or loans for OSF which it may administer on terms agreed with the contributors so long as the purposes are consistent with CDB's purpose and functions. A project may combine aspects financed with OCR and other aspects financed with Special Funds Resources (SFR).

1.09 Article 1 of the Charter requires CDB to have "special and urgent regard to the needs of the less developed members of the region". Accordingly, while CDB's ordinary operations embrace all of its BMCs, the major part of its special operations will continue to be in its Less Developed Member Countries.

Country Groups

1.10 For the purposes of its lending operations, CDB groups BMCs as follows:

- where financing is from the OCR:

Group 1	-	The Bahamas, Barbados, Cayman Islands, Trinidad and Tobago;
Group 2	-	Anguilla, Antigua and Barbuda, British Virgin Islands;
Group 3	-	Belize, Dominica, Grenada, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turks and Caicos Islands;
Group 4	-	Guyana, Suriname, Haiti

where financing is from the Unified SDF and other available interest-free contributions to the SFR:

Group 1[1]	-	Anguilla, Antigua and Barbuda, The Bahamas, Barbados, British Virgin Islands, Cayman Islands, Trinidad and Tobago, Turks and Caicos Islands
Group 2	-	Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Suriname
Group 3[2]	-	Haiti

[1] Eligible for funding from OCR only, unless through a regional project of which the country is a beneficiary.
[2] Currently, Haiti is only eligible for grant resources.

Financing for Local and External Expenditures

1.11 Article 15 (n) of the Charter permits CDB to provide financing to meet either external or local expenditures in respect of a project being assisted, provided that in its ordinary operations CDB shall provide financing for local expenditures only in exceptional circumstances and to a limited extent. However, in practice, because of the impracticability, in most cases, of distinguishing between local and foreign exchange expenditures and having regard to the economic circumstances of BMCs, the borrower is asked simply to make an appropriate contribution to the cost of the project financed by CDB.

1.12 CDB's ability to finance local expenditures in its special operations is determined, in each case, by the agreement under which the funds are made available to CDB.

Retroactive Financing

1.13 Retroactive financing is the reimbursement by CDB, after the satisfaction of conditions precedent to first disbursement of a loan, of payments made by a borrower prior to the approval of the loan. Retroactive financing is permitted for direct capital projects and loans to financial intermediaries. Retroactive financing for direct capital projects is limited to expenses incurred within 12 months prior to the date of approval of the loan by CDB's Board of Directors, or from the date of the request for the loan to the date of such approval, whichever is shorter. Retroactive financing for loans to financial intermediaries is limited to sub-loans approved by the financial intermediaries for processing from CDB's resources within 12 months prior to the date of approval of the loan by CDB's Board of Directors, or from the date of the request for the loan to the date of such approval, whichever is shorter. In both cases:

(a) the amount of retroactive financing sought and the period over which retroactive financing is sought must be justified;

(b) retroactive financing is limited to 20% of the amount of the loan; and

(c) expenditure for which retroactive financing is sought must meet all eligibility criteria under the loan agreement.

Procurement

1.14 In the ordinary operations of CDB, the proceeds of loans may be spent on goods and services having their source and origin in and procured from Member Countries only, and such other countries as may be permitted under agreements between CDB and its lenders. CDB may permit a margin of preference of 15% or the actual import taxes, levies and duties, whichever is less, for goods manufactured in its BMCs, when bids from those countries are compared with bids from other countries. For goods manufactured in other Regional Member Countries, a margin of preference of 7.5% may be permitted. In the case of goods manufactured in its BMCs, the preference shall apply only to those goods accepted by CDB as eligible for area tariff treatment under Article 14 of the Annex to the Treaty establishing the Caribbean Community. When competing with other contractors, CDB may permit contractors from its BMCs who are not resident in the project country, a margin of preference of 7.5% for civil works.

1.15 In CDB's special operations, the proceeds of loans from the SDF may be spent on goods and services having their source and origin in and procured from Member Countries and those other countries which have contributed substantially to the SDF and, for loans from other OSF, from those countries which are specified as eligible countries in the agreement under which the funds are made available to CDB.

Currency of Repayment

1.16 CDB will accord some priority to sound projects which use goods and services which can be financed wholly or in part from the local currency paid in connection with the subscription of the BMC to shares in CDB.

1.17 In making a loan, CDB will specify in what currencies it must be repaid. These will normally be the currencies which CDB is making available to the borrower. Where, however, SDF resources are used, the currency of repayment is United States dollars.

Equity Investments

1.18 In accordance with Article 13 of the Charter, CDB may, in its ordinary operations, invest in the equity capital of an entity or enterprise subject to such limits as may be imposed by the Board of Governors.

1.19 To the extent that SFR are made available to CDB for investment in equity, CDB will, in its special operations, take equity positions in large national and regional projects in its BMCs, leaving participation in projects eligible for loans from national development banks or other suitable financial institutions in Groups 3 and 4 Countries, to the local development finance institutions. In deciding on priorities for equity investments in Groups 1 and 2 Countries, attention will be paid to the economic and financial situation of the country and the availability locally of other sources of funds for providing equity.

2. PUBLIC BORROWERS

Eligibility

2.01 CDB will make loans directly to Governments for acceptable projects as set out in paragraph 1.02. It will also make loans to national development banks or other suitable financial institutions in order that the latter may finance development projects on terms approved by CDB where the individual financing requirements for such projects are not, in the opinion of CDB, large enough to warrant the direct supervision of CDB. Such loans shall be subject to the rules set out in Chapter 1.

Size of Loan

2.02 The minimum size of loan commitment which CDB will make directly to a public sector borrower is the equivalent of USD200,000. CDB, however, lends to national development banks and other suitable financial institutions for on-lending in smaller amounts to private sector borrowers for agricultural and industrial purposes in appropriate cases.

2.03 In its ordinary operations, CDB will lend to a Government for a project up to 70% of the cost of the project in the case of Groups 1 and 2 Countries, and up to 80% in the case of Groups 3 and 4 Countries. A portion of the loan may be made in the currency of the BMC paid in connection with the subscription of the BMC to shares in CDB. Up to 20% of the cost of the project may be made in that currency, subject to availability, and the remainder in other currencies.

2.04 In its special operations, where permissible, CDB will lend to:

(a) Group 1 Countries, up to 80% of the cost of the project; and

(b) Groups 2 and 3 Countries, up to 90% of the cost of the project.

2.05 In projects blending OCR and SFR, the proportion of such resources shall be determined on the basis of the weighted proportion of such resources and the maximum proportion of financing applicable to each.

Government Guarantee

2.06 CDB will normally lend, with Government guarantee, to self-financing public agencies whose statutes require them to raise enough revenue (by sales to the public) to meet all of their financial obligations, for example, agencies responsible for electricity, water and sewerage, ports, housing and marketing.

2.07 CDB may lend, with Government guarantee, to national development banks or other suitable financial institutions (e.g. agricultural credit banks, industrial development corporations) for re-lending to private business for the purposes specified in paragraph 1.02. The constitution, management and operational practices of such banks and agencies must, in the opinion of CDB, be such as to ensure that they are able to recover the loans made by them.

Lending Terms

2.08 CDB's terms for lending vary from time to time. CDB charges a variable interest rate on amounts outstanding in respect of loans from its OCR. The interest rate is reviewed semi-annually to take effect in respect of each such loan on the day following the first date after June 30 and December 31 in each year for payment of interest or on such other date as CDB may specify. Grace periods will be determined on the basis of the project's projected cash flow and the borrower's ability to repay from other sources, but will not exceed five years. The maximum maturity of loans, inclusive of the grace period, will be determined on the same basis, but will not exceed 17 years for Groups 1 and 2 Countries and 22 years for Groups 3 and 4 Countries, except for lines of credit when the maximum maturity will not exceed 3 years longer than the projected weighted average term of the sub-loans to be financed from the resources provided.

2.09 The rate of interest and other terms of loans financed from the Unified SDF and other available interest-free contributions to the SFR are summarised below.

Group	**Maximum Maturity (Including Grace Period) (Years)**	**Maximum Grace Period (Years)**	**Interest Rate Per Annum (%)**	**Upper Lending Limit (%)**
1	20	5	2.5	80
2	25	5	2.5	90
3	30	10	2.0	90

2.10 The interest rate on loans financed from the SDF includes a service charge of 1% per annum.

Commitment Fee

2.11 CDB levies a commitment fee of 1% per annum on the undisbursed portion of a loan from the OCR from a date 60 days after the Loan Agreement has been concluded. In the case of financial intermediaries, a commitment fee of 0.25% per annum is levied on the undisbursed portion of the loan.

Counterpart Contribution

2.12 Governments or governmental agencies of CDB's BMCs are required to contribute to each project such amounts in excess of the loans as are required for the punctual and effective carrying out of the project. In cases where governments or governmental agencies in Groups 2, 3 and 4 Countries are unable to make such contributions from their own resources and to the extent that special funds are made available to CDB for this specific purpose, CDB may in its special operations make loans to assist with the provision of such contributions.

3. PRIVATE BORROWERS

Eligibility

3.01 CDB will make loans for financing enterprises in the private sector. Such loans shall be subject to the rules set out in Chapter 1. In accordance with Article 15 (b) of the Charter, CDB may not finance a project if the Government of the Territory in which such project is located raises an objection to it. In appropriate cases, CDB may also require a Government undertaking to permit the borrower to convert local currency into the foreign currency(ies) needed for servicing CDB's loan.

3.02 In its lending policy, CDB gives priority to the financing of enterprises which are effectively controlled by nationals, Governments or public agencies of its BMCs. Loans may be made to entities other than nationals, Governments or public agencies of its BMCs mainly in special circumstances such as for enterprises which are heavily oriented to the extra-regional export market but are not foreign-controlled enclave industries or mere branch plants of foreign enterprises. Loans may also be made to such entities for enterprises which are not necessarily heavily oriented to extra-regional export markets in the following special circumstances:

(a) where, in the case of companies controlled by such entities, a share of the equity considered reasonable by CDB is held by, or offered to, nationals, governments or public agencies of CDB's BMCs; and arrangements satisfactory to CDB are made for ensuring that majority equity ownership and the control of the company are transferred to nationals, governments or public agencies of CDB's BMCs on the basis of a phased programme within a period considered reasonable to CDB. In deciding on this period, CDB will consider the duration of any fiscal and other incentives granted to the project and the extent to which the benefits of these incentives will be available to local shareholders; and

(b) when there is a substantial use of local raw materials, and/or the transfer of technology and skills to the Region to a significant extent.

3.03 In its special operations, CDB normally does not lend directly to private sector borrowers. However, loans are made by CDB from its SFR to national development banks or other suitable financial institutions for the purpose of enabling these banks and institutions to make sub-loans to private sector borrowers (see paragraphs 2.01, 2.02 and 2.07). CDB requires private financial intermediaries in its BMCs to apply the policy outlined in paragraph 3.02, as stringently as CDB, in making sub-loans out of proceeds of CDB loans.

Other Considerations

3.04 In direct lending for a private sector enterprise, whether new or expanding, CDB considers, *inter alia*, the size of the project, the borrower's commitment to the project as evidenced by the borrower's equity, the adequacy and variability of the project's cash flow and the desirability for the borrower to mobilise other financial resources.

Information Requirements

3.05 Prospective borrowers are required to submit full details, including the results of market surveys, estimates of cost, feasibility studies, projections of sales and of cash flows, and any other information bearing on the expected profitability of the project, including development incentives and other concessions from the Government. CDB will also wish to examine title deeds, engineering drawings and construction and insurance contracts and to assure itself of the soundness of the assets or securities which are offered as backing for its financial participation.

Size of Loan

3.06 CDB will normally lend up to 40% of the project cost, and only consider project proposals which have a maximum debt: equity ratio of 1 and a debt service coverage ratio of not less than 2 based on conservative cash flow projections. In the case of an existing enterprise, such level will depend on its performance and its current capital structure, with special reference to the retention and use of earnings. CDB is always willing to assist actively in preparing a financing package on behalf of the borrower by seeking co-financiers. CDB will not provide financing in any one project and/or to any one private sector borrower of less than the equivalent of USD750,000 or more than 3.6% of CDB's available capital[3]. CDB, however lends to private financial intermediaries and other suitable financial institutions for on-lending in smaller amounts to private sector borrowers for agricultural and industrial purposes. CDB may also lend to such institutions for on-lending in larger amounts to private sector borrowers for agricultural and industrial purposes in appropriate cases.

Co-financing

3.07 CDB will lend only in collaboration with established international financial institutions and other major financial institutions for projects with low-gearing ratios and profit-making potential under capable and experienced management. Evidence must be presented on both these scores. CDB will seek well capitalised expansion projects with proven management and established markets.

3.08 CDB will, only in collaboration with established international financial institutions, engage in operations in the private sector in its BMCs where regional projects are involved or where the required loan for a national project is in excess of the maximum available from a national development bank or other suitable financial institution. In the latter case, CDB will consider providing finance for the project in association with the national development bank and/or any other suitable financial institution.

Security

3.09 CDB will require its commitment to be adequately secured. Such security will normally take the form of a first mortgage on land; but other forms of security without prior claim may be accepted in appropriate cases. In addition, where the borrower is a company, CDB reserves the right to attend and speak at meetings of the Company's Board of Directors.

[3] Defined as the sum of CDB's paid-in capital, total reserves, retained earnings after adjustment for derivatives and the currency translation on related borrowings and subscriptions paid in advance, less the General Banking Reserve, subscriptions not yet due or overdue and demand obligations from borrowers.

Procurement

3.10 Article 15 (i) of the Charter requires that "in procuring services, and in facilitating financing for entities or enterprises in the private sector, the Bank shall pay due regard to the need to develop and strengthen undertakings, entities and skills of individuals belonging to the region".

3.11 CDB will permit unrestricted competitive shopping for all private sector projects financed directly by CDB and, in the case of expansion projects, waive the requirement for competitive shopping in instances when compatibility of equipment and the maintenance of established contacts with existing suppliers is considered by CDB important for project viability.

Interest Rate

3.12 In lending to the private sector in CDB's ordinary operations, CDB charges a variable interest rate. The interest rate is reviewed semi-annually to take effect in respect of each such loan on the day following the first due date after June 30 and December 31 in each year for payment of interest or on such other date as CDB may specify. The maximum maturity of loans, inclusive of a grace period not exceeding 5 years, will be determined on the basis of the project's projected cash flow and the borrower's ability to repay from other sources, but will not exceed 14 years. Amortisation schedules will be established on the results of realistic cash flow projections and repayment schedules will be established that take into account the cash flow pattern of the borrower.

Fees

3.13 CDB charges a front-end fee equivalent to up to 1% on all loans made in its ordinary operations to the private sector. One half of the fee, based on the amount of the loan applied for, is payable as a deposit prior to project appraisal and the remainder on loan approval. The deposit is refundable if the loan is not recommended or approved, but is retained by CDB if the loan is approved.

Commitment Fee

3.14 CDB levies a commitment fee of 1% per annum on the undisbursed portion of a loan from a date 60 days after the Loan Agreement has been concluded. In the case of financial intermediaries, a commitment fee of 0.25% per annum is levied on the undisbursed portion of the loan.