

**CARIBBEAN DEVELOPMENT BANK**



**SPECIAL DEVELOPMENT FUND (UNIFIED)**

**BASIC NEEDS TRUST FUND PROGRAMME**

**NEW GOVERNANCE STRUCTURE AND IMPLEMENTATION MODALITY**

**MAY 2016**

## ABBREVIATIONS

AMT	-	Advisory Management Team
BAB	-	Basic Needs Trust Fund Advisory Board
BNTF	-	Basic Needs Trust Fund
BNTF 7	-	Basic Needs Trust Fund Seventh Programme
BNTF 8	-	Basic Needs Trust Fund Eighth Programme
CMDG	-	Caribbean Millennium Development Goal
CDB	-	Caribbean Development Bank
CSR	-	Corporate Social Responsibility
CTCS	-	Caribbean Technological Consultancy Services
IA	-	Implementing Agency
IFI	-	International Financial Institutions
M&E	-	Monitoring and Evaluation
mn	-	million
PC	-	Participating Country
PPMS	-	Project Preparation and Monitoring System
PRAP	-	Poverty Reduction Action Plan
REEE	-	Renewable Energy/Energy Efficiency
SDF	-	Special Development Fund

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## 1. INTRODUCTION

### **Background**

1.01 The Basic Needs Trust Fund (BNTF) Programme is the main vehicle of the Caribbean Development Bank (CDB) for pursuing poverty reduction in the region, providing basic infrastructure and improving the livelihoods of beneficiaries in ten participating countries (PCs)<sup>1</sup>. Projects are implemented through grant financing, mainly from the Bank's Special Development Fund [Unified] [SDF (U)] and Government counterpart contributions. The BNTF has much to be proud of in its nearly 40 year history. The Bank has approved more than 2,600 BNTF sub-projects. Over \$100 million (mn) has been disbursed to implement poverty-alleviating sub-projects with an average project size of \$200,000. The Programme has touched the lives of some 2mn people in the Caribbean.

1.02 Since its inception more than three and a half decades ago, several reviews of the BNTF Programme have been undertaken. The latest evaluations highlighted that there is confidence that the ongoing sub-projects in the Seventh and Eighth Cycles of the Programme (BNTF 7 and 8) will deliver on the expectations set, having a significant impact on community development and alleviating poverty, particularly through the increased emphasis on human resource development. The evaluations note that time lags in the approval process, in-county capacity and limited authority and autonomy of the PCs in the process are major concerns. The Mid-Term Review of SDF (U) Cycle 8 (2015) also concluded that the Programme structure and systems are cumbersome. BNTF's control and accountability systems have been highly detailed and centralised. In the current cycle, procedures have been clarified although not necessarily simplified. The BNTF Programme structure and systems are still cumbersome. Only a major simplification and decentralisation (grants to community organisations, accountable advances and payment for results, and risk-based audits) is likely to greatly improve the rate of commitment and disbursement of funds. In addition to changing the BNTF business model it may be necessary to restructure some of the implementing agencies (IAs). Recent Institutional and Organizational Assessments (2014) found major deficiencies in personnel and leadership (six of the ten IAs rated weak) and weaknesses in systems and practices (three of ten IAs).

1.03 In November 2015, consultants were engaged to assist CDB in reviewing the governance structure and implementation modality and to identify a framework that would address the concerns and challenges. During the exercise, extensive consultations were undertaken with stakeholders in both the Bank and the PCs. Presentations on the assessment and the proposed options for a new model for the BNTF Programme were made to management and staff of the Bank; a workshop was held with representatives from all ten PCs and visits were made to five PCs: Belize, Grenada, Guyana, Jamaica and St Kitts and Nevis. Four options were extensively reviewed and the one selected reflected changes in the project cycle, financial management and the delivery mechanism with pilot efforts in launching livelihoods support activities.

1.04 This report outlines the selected option. It details the proposed governance structure and implementation modality considered to be most favourable for achieving development outcomes of the Programme.

### **Scope of Change**

1.05 The scope of change encompasses:

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<sup>1</sup> BNTF Participating Countries are Belize; the Commonwealth of Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia; St. Vincent and the Grenadines and Turks and Caicos Islands

- (a) A core focus on streamlining and improving the BNTF project cycle, the BNTF IAs and delivery mechanism, and aspects of overall BNTF financial management, leading to a more agile Programme with faster disbursements.
- (b) Some experimental changes in supporting livelihoods and entrepreneurship projects in addition to the well-established local social and economic infrastructure sub-projects funded by the BNTF (e.g. improved access roads, schools, electricity supply, potable water and other infrastructural facilities). Opening up support for livelihoods is a major undertaking which implies dealing with some additional beneficiaries (individuals, informal work groups, micro-enterprises) as well as working with more partners such as Chambers of Commerce, training institutes and corporations and their corporate social responsibility (CSR) programmes.
- (c) Co-financing of interventions using BNTF funds and additional private and public financing so that more sub-projects can be executed.

1.06 As the BNTF Programme is embedded within the CDB's main operating structure, some of the proposed changes in the Programme would require modifications to some of the operational processes, such as the approval authority for sub-project funding, and in organisational structures (both the BNTF Unit in the Bank and the IAs). A new implementation modality which involves mobilising and channeling partner funds for sub-projects will also have implications for the financial management function. The details of this scope of change and the core operational features are outlined in Section 2 of this report.

## **2. THE NEW BNTF**

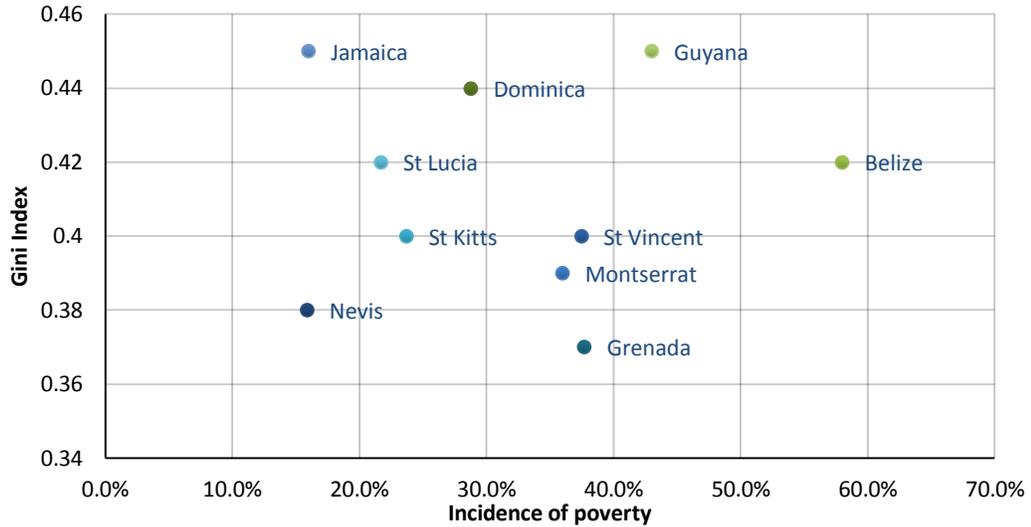
### **Poverty and targets**

2.01 Despite economic growth and countries being classified as middle-income at aggregate macro levels, poverty still affected 15-55% of the population in the BNTF PCs, with an unweighted average being around 25-30%. As stated in the SDF 8 Mid-Term Review "with the exception of Haiti, poverty rates have not fallen in the Caribbean over the past decade and the Caribbean Millennium Development Goals (CMDGs) target for income poverty reduction by 2015 will not be met. Nevertheless, the BNTF seems to have been a bright spot within the broadly unsatisfactory context of stubborn poverty. There are indications that poverty has been reduced more in BNTF eligible countries than in other Borrowing Member Countries". However, poverty remains unacceptably high in PCs, and the measure of this challenge will increase substantially if Suriname joins the BNTF. While an official poverty measure for Suriname has not been established, statistics generated through the Oxford Poverty and Human Development Initiative indicate that roughly 7.6% of the population is experiencing multidimensional poverty<sup>2</sup>.

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<sup>2</sup> Oxford Poverty and Human Development Initiative (2015). "Suriname Country Briefing", Multidimensional Poverty Index Data Bank. OPHI, University of Oxford, December. Multidimensional poverty measurement considers overlapping deprivations. According to the Indexmundi data portal, (<http://www.indexmundi.com/map/?v=69>), 70% of the population in Suriname is below the poverty line (2002).

**FIGURE 2.1** **Inequality and poverty in selected Caribbean States<sup>3</sup>**



Source: BNTF Poverty Reduction Action Plans (PRAPs; 2014) and CDB estimates (2015). It is possible that poverty has worsened as a result of the global recession since these data were compiled.

2.02 Poverty reduction through inclusive and sustainable economic growth is an overarching objective of CDB as articulated in the Strategic Plan 2015-2019. BNTF has played a key role in delivering this mandate and in light of the stubbornly high poverty levels in the region, a scaled-up BNTF Programme, albeit, with a leaner governance and implementation structure can accelerate disbursements and the delivery of development benefits to poor communities in PCs. Also, additional resources puts the Programme in a stronger position to help PCs meet the Sustainable Development Goal No.1 - End poverty in all its forms everywhere by 2030.

2.03 The proposed changes to the BNTF Programme are summarised in this section.

### **Vision & Mission**

2.04 The BNTF Programme aims to be *transformational with an expanded poverty reduction mandate that provides benefits beyond the implementation of sub-projects; that is efficient and effective and sustainable; and that places partnerships, intermediaries and compliance at the core.*

2.05 This vision addresses the interests of three major stakeholder groups:

- (a) Beneficiaries, which may be community groups, individuals and work groups (see paragraph 2.10 below).
- (b) Partners who seek impact and value from their contributions; and operating partners, who seek to enhance and improve their own activities by partnering with BNTF.

<sup>3</sup> Country Poverty Assessments Belize 2009, Montserrat 2008/9, SVG 2007/8, St Kitts and Nevis 2008, St Lucia 2005, Dominica 2009, Grenada 2008; Jamaica 2004/10, Guyana 2008/11.

- (c) Governments, who wish to reduce poverty as part of their broader economic and social objectives and policies.

2.06 Achieving this vision requires a number of core values which are captured in the current ‘vision wheel’:

**FIGURE 2.2: The BNTF Vision Wheel**



- (a) Co-operation is at the heart of the new model, where greater decentralisation and partnerships requires structured, controlled and smooth cooperation with third parties.
- (b) Community participation (individuals and groups) remains essential in order to enhance the relevance and effectiveness of projects.
- (c) Empowerment, which continues to be needed so that individuals and groups realise that reducing poverty is not about handouts but requires them to be proactive in shaping a better future.
- (d) Transformational, which reinforces focusing on outcomes that are sustainable: such as the ‘classic’ examples that it is not simply providing infrastructure but using it effectively to achieve better education, better health, more mobility and so on. Helping communities to emerge out of poverty and to be less vulnerable over time, stemming intergenerational poverty.
- (e) Generating more rigorous evidence on where and how the BNTF has had most impact on people’s lives in low-income communities, and communicating results.

### **Project Themes and Strategic Focus Areas**

2.07 In order to achieve its Vision, the Programme will need to broaden the types of sub-projects it supports. Two Country Project themes are envisaged:

- (a) Community infrastructure (investment projects)
  - (i) Water & sanitation

- (ii) Access roads
  - (iii) Schools
  - (iv) Renewable energy
- (b) Livelihoods (assets, capabilities, self-efficacy, training, legislation)
- (i) Asset distribution interventions
  - (ii) Technical skills training, life skills, counselling
  - (iii) Entrepreneurship, market skills and access to credit (and collaborating with the Caribbean Technological Consultancy Services [CTCS] where appropriate)
  - (iv) Improving the ‘doing business’ environment for the most vulnerable

2.08 Several points should be noted:

- (a) First, these two Project themes and strategic focus areas are not all equal in terms of size of activities. At the outset, the livelihoods theme which is to be made more explicit is initially smaller with an experimental ‘pilot’ element. It is unlikely that initially this theme will account for more than about a third of the BNTF’s activities. Therefore, BNTF will still be heavily focused on community infrastructure at the outset. These pilots could be implemented in two or more countries (namely Belize, St. Lucia, Jamaica) and span more than one theme, promoting broader experience.
- (b) Second, livelihoods is not a new theme to the Programme. Cooperatives and SMEs have benefited from BNTF support but on a smaller scale relative to the infrastructure support. However, there is scope to have a more explicit approach to addressing livelihoods which directly acknowledges those who own few or no assets and the urgency to break the multi-generational nature of poverty. Instead of one-off skills and other training, the Programme will focus more on the development of income sources and assets, and helping individuals and groups to graduate into sustainable livelihoods.
- (c) Third, each sub-group can be designed to achieve any number of key ‘themes’ – most prominently gender dimensions, women’s empowerment, youth-focused sub-projects and interventions that benefit the environment.
- (d) Fourth, BNTF will not be expected to do all of this alone. The expansion of support to two Project themes calls for more use of partnerships, both to enhance capability as well as enhance capacity. International Financial Institutions (IFIs), corporations, civil society groups, business associations and training institutes will be amongst the expanded partners working with BNTF. Specific arrangements for co-financing and partnerships are being explored by the Bank, existing country partners and private sector groups.

### **Beneficiaries**

2.09 The two enhanced areas of strategic focus imply more types of entities benefiting from BNTF support. BNTF beneficiaries are already wide-ranging, with interventions targeted primarily at vulnerable groups such as unemployed youth, older persons, persons with disabilities, indigenous groups, and children.

A targeted approach is an inherent feature of the Programme and more concerted efforts will be made to fund more interventions that assist specific groups and individuals to achieve desired livelihoods and rights. BNTF beneficiaries are summarised in Table 2.1:

**TABLE 2.1: BNTF Beneficiaries**

<b>PROJECT THEME/STRATEGIC FOCUS AREA</b>	<b>BENEFICIARIES</b>
1. Community Infrastructure	Community groups e.g. Parent Teachers Associations, student body, Neighbourhood associations, Village Councils, Housing associations (for water, renewable energy/energy efficiency (REEE)).
2. Livelihoods	<ul style="list-style-type: none"> <li>• Individuals (e.g. youth, possibly delinquents or minor offenders, single parents, women).</li> <li>• Work groups (formal e.g. cooperatives, or informal e.g. a group of seamstresses working together).</li> <li>• Community groups (e.g. environmental groups, community tourism groups).</li> </ul>

## **Structure & Governance**

### Strategic Oversight and Management

2.10 Delegation of more responsibility and accountability to IAs requires a more autonomous BNTF management structure. The main governance (oversight) entities and reporting obligations are:

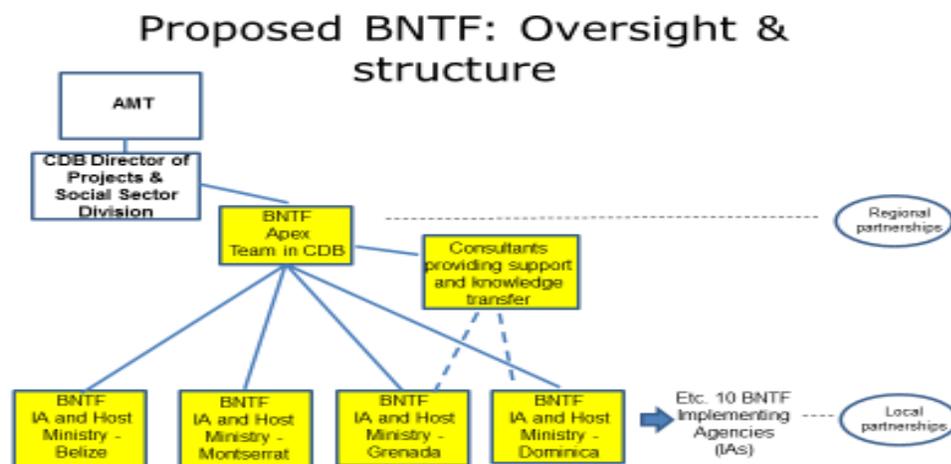
- (a) CDB Board, which continues to be the ultimate management authority over the ‘new BNTF’ setting strategy, reviewing performance and taking decisions on big grants according to delegated approval authorities;
- (b) Advisory Management Team (AMT), which, as previously, has a management interest over the BNTF; and
- (c) Director, Projects Department.

2.11 The BNTF ‘apex’ team at the Bank will continue to function as the Bank’s main executing unit for the Programme. The BNTF IA will be transformed with permanent staff in specialist areas (as outlined in paragraphs 2.18 and 2.19 below). Teams of independent consultants will be brought on board as needed to assist the IAs mainly with the Project preparation and implementation. Their volume of work and periods of assignment will vary. A system based on performance-based contracts will be carefully established allowing for consultants to respond relatively quickly to requests for support. Inputs will be scheduled based on agreed IA work plans. Knowledge transfer to clients and a structured approach to working in a collaborative manner will be emphasised. CDB will promote continuous sharing of good practice, peer learning and mentoring.

2.12 The role and composition of a national oversight body for each country Project is being determined. The existing Boards of the Social Investment/Development Funds will continue to be recognised as the oversight entities. A regional forum on BNTF will be held bi-annually, using technology for virtual participation on some occasions. Its role is to allow the country Project leads and senior officials who are close to the Project (e.g. Financial Secretary) to discuss and review performance, the trajectory of the Programme and regional poverty reduction and development strategies. This will also help to promote a more collaborative learning culture.

2.13 The composition and roles of these operational teams are described in detail in successive sections. Structurally, the reporting links are as follows:

**FIGURE 2.3: Proposed BNTF Oversight and Structure**



2.14 CDB's oversight of the country Project's will be enhanced with the support of consultants who will be tasked with verifying that all IAs are in compliance with all BNTF Policies and Guiding Framework requirements.

### **Delivery Channels**

2.15 The two principal delivery channels will be the restructured BNTF IAs and sub-projects implemented through pre-selected and vetted partners<sup>4</sup>. Other delivery channels may be established as the need arises.

2.16 The **apex team at CDB** will be required to have additional sets of skills in response to the changes in the tasks and new roles. It is expected the team will continue to appraise sub-projects and monitor the Project, but do less backstopping of the IAs activities. The team will focus on more partnership building, facilitating and monitoring the mobilisation of additional funding, and promoting the creation of a blending framework in the Programme. The team will play a lead role in promoting the key strategic areas of focus in alignment with the Bank's corporate priorities and the Sustainable Development Goals.

<sup>4</sup> BNTF could use a simplified version of the seven pillar system used by the EU to qualify partner institutions.

2.17 The restructured **BNTF IAs** should be relocated to the Ministry of Finance or where there are strong reasons, there could be another ‘neutral’ location (not specific to a sector) such as a Ministry of Planning or the Prime Minister’s Office. Close working relationships with other key Ministries will be maintained. The IA will play a key role in identifying target partners in private sector (i.e. businesses, corporations, Non-Governmental Organisations, Community Based Organisations) and IFIs

2.18 The Programme will meet the cost of core positions in the IA. These will include the BNTF Project Manager, Project Engineer, Monitoring and Evaluation (M&E) Officer, Finance Officer and Partnership/Community Liaison Officer.

2.19 The **BNTF Partnerships** will comprise two main types:

- (a) IFIs for co-financing of projects focused on community infrastructure sub-projects. The IFI finances a large project with a loan, and BNTF provides a grant blended with the loan for adding a pro-poor component to the project. Examples include rural mini-grids, PV panel-generated electricity for off-grid villages, access by disadvantaged groups and remote communities to high-speed internet, water supply and sanitation in slum areas, waste collection services in poor areas, and many more. Possible IFIs for such arrangements include CDB, the IADB, and European IFIs (European Investment Bank, KfW of Germany, and Agence Francaise de Developpement). Consideration could be given to using BNTF funds to complement initiatives supported by the Caribbean Investment Facility and the UK Caribbean Infrastructure Fund.
- (b) Corporates for their CSR programmes, where BNTF’s target joint activity is employment creation, livelihoods and work skills – though infrastructural sub-projects are not ruled out. BNTF will explore levels of interest for joint sub-projects with the CSR programmes already being identified by the Bank. Some charities and civil society groups like the Rotary may also be approached – focused on livelihoods sub-projects.

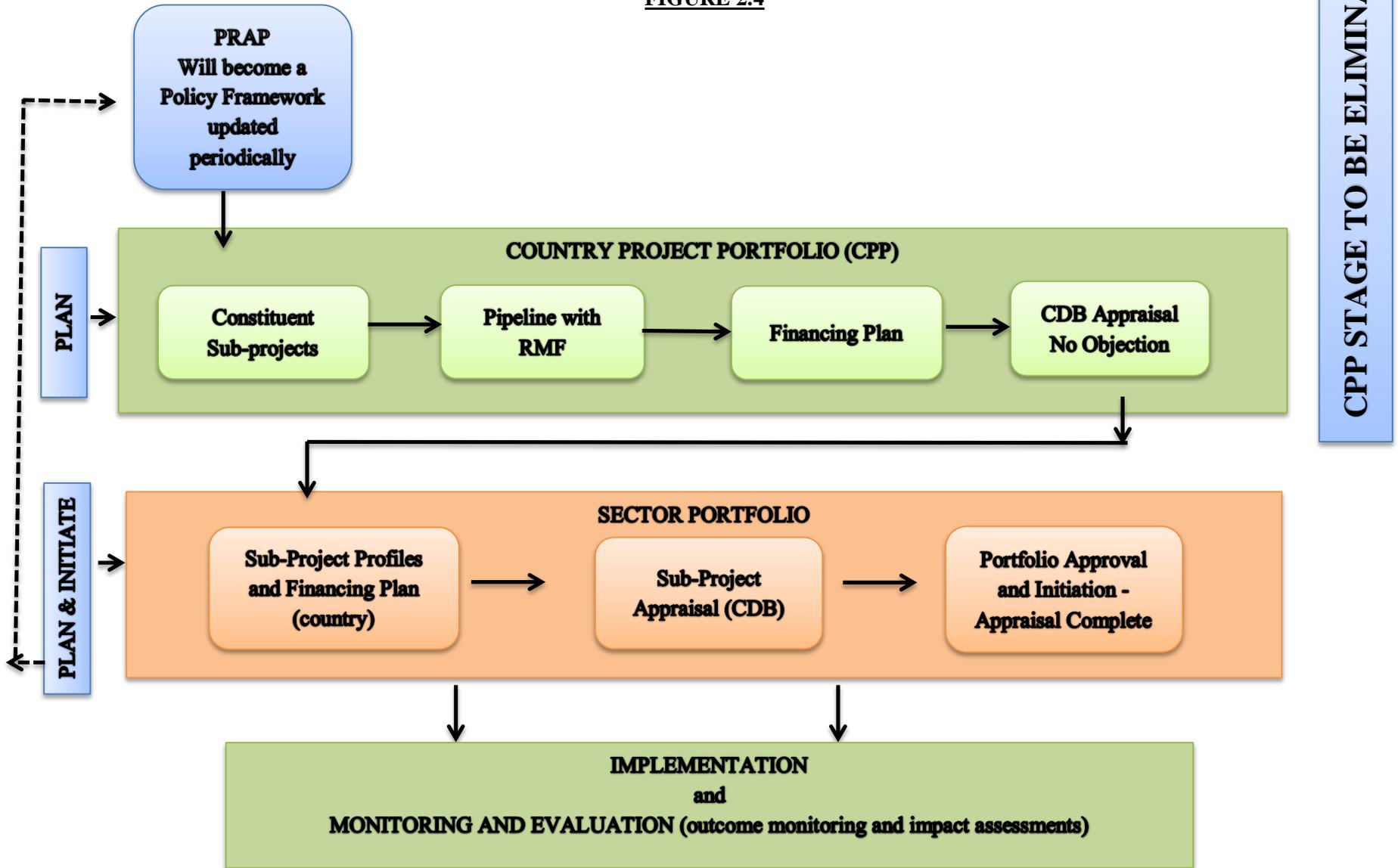
2.20 Formal Memorandum of Understanding will be developed with organisations or partners.

### **Project cycle**

2.21 The full detail of the new BNTF project cycle will be described in the revised Operations Manual. As outlined in Figure 2.4, some steps in the project cycle will be removed and changed, such as the preparation of a Country Project Portfolio and updating the Poverty Reduction Action Plan (PRAP) instead of preparing a new one every four years. While preparing portfolios comprising sub-projects will still be encouraged, a continuous flow of applications and new sub-projects is anticipated. Tools and forms will be simplified and several tasks will be carried out in the Bank’s Project Preparation and Monitoring System (PPMS).

2.22 BNTF will sustain its strong commitment to M&E activities in the project cycle and results-based management, systematically capturing quantitative and qualitative data and longer-term outcomes and impacts.

FIGURE 2.4



### **3. FINANCIAL RESOURCES**

3.01 This report makes a case for changes in both the ‘funding mix’ (financial inflows) and the ‘sub-project mix’ (financial outflows) for the BNTF Programme. Under the new model, to complement the SDF resources, the Programme is expected to draw on multiple funding sources including the CSR Foundations, blending BNTF resources with CDB capital resources and IFI loans (for blending) and possibly approaching donors directly.

3.02 The required financial resources scenarios will be developed further, along with cost benefit analysis.

3.03 The demand for BNTF is premised on:

- (a) The stronger focus on livelihoods theme/sub-projects to the BNTF portfolio could represent a significant draw on BNTF funds. Experience suggests that these types of interventions are relatively inexpensive to deliver. They also represent an immediate, tangible impact on the lives of beneficiaries, and so tend to be highly sought after. The impact of livelihood projects on demand and funding requirements in the short to medium term will inevitably depend on the pace at which these projects are rolled out.
- (b) The expansion of the BNTF mandate and beneficiaries.
- (c) With a medium to large population (by Caribbean standards) and substantial levels of poverty, any expansion to Suriname would require an increase in BNTF financial resources.

### **4. DISBURSEMENT MANAGEMENT**

4.01 The changes to the BNTF governance structure and implementation channels are expected to help improve disbursement and completion rates, allowing funds to reach individuals and groups at a faster pace. Improvements in disbursement performance are expected to result from a number of internal and external changes. These include the operation of BNTF special accounts by the IAs which facilitate float advances, the additional capacity for preparing and implementing country Projects, the restructured IAs and apex team in CDB, and building synergies with other poverty focused instruments which are nimble and flexible.

### **5. RISK AND SUSTAINABILITY**

5.01 The proposed BNTF model is underpinned by a risk-based approach. With increased decentralisation, controls will be scaled up. The Bank will continue to monitor compliance and mitigate risks. Table 5.1 outlines the risk assessment and mitigation for the phasing in of a new governance structure and implementation modality.

5.02 Over the years, staff managing the BNTF Portfolio in the Bank have developed a broad understanding of the risks to which the Programme can be exposed in procurement and construction of local infrastructure. Emphasis has been placed on capacity building in tender procedures to ensure greater scrutiny of consultants’ qualifications and experience, and clearer guidance on evaluation of bids. BNTF was one of the first Programmes in the Bank to introduce a risk assessment and mitigation tool and risk register in the portfolio management. Some staff of the IAs received coaching in the use of the tools with the assistance of an accounting firm in 2014 to 2015.

The Bank's Project Management Cycle training programme will be a vehicle for continuous upgrading of skills of staff in IAs.

5.03 The Bank believes that with the improvements already made in quality assurance (e.g. risk management, gender-sensitive results frameworks) and by reducing some of the steps and requirements in the current BNTF Project preparation, an adequate degree of due diligence can still guarantee sound sub-projects with transformational effects.

**TABLE 5.1: Summary of Risk Assessment and Mitigation**

<b>Risk Type</b>	<b>Description</b>	<b>Mitigation Measures</b>
Implementation	Inertia during the phased approach and change is not fully adopted	Wide consultations and validation process promotes buy-in. The process continues with high level discussions with country partners about the necessary changes.  Progress and results will be reviewed at an appropriate stage before there is broader roll-out.
Operational	Limitations in the private sector and lack of interest in BNTF strategic priorities and blending	Having personnel assigned specifically within both the Bank and the IAs to coordinate and manage partnerships should help to promote a stream of funding opportunities.  Drawing on the CTCS networks and contacts provides an entry point for dialogue on building partnerships around mutual areas of interest in community and sustainable development.
Operational	Financial management in co-financing arrangements are not sufficiently strong	In the event of any significant deviations from policy resulting from lack of country level control or malpractice, the necessary sanctions will be applied. Future allocations could be reduced in order to recover any misappropriated sums.  The Bank has taken a number of recent actions to guarantee the integrity of financial systems of the IAs. During 2014 to 2015, the Bank rolled out a two-phased capacity building for Accounting Officers in the IAs in the ten PCs. All country Projects, including the Grant accounts, are audited annually by independent auditors, meeting the BNTF Programme output of '100% audits completed annually' in 2014 <sup>5</sup> . Key Performance Indicators were introduced which comprise cost management, governance, reporting and risk components.

## **6. IMPACT**

6.01 The BNTF Programme pursues wider community buy-in which has positive impacts on sub-projects that seek broader results, and helps to improve long-term sustainability. Wide ranging impacts are envisaged for different stakeholders. The ultimate beneficiaries are persons and communities that need to emerge out of poverty as they can now access more and broader support to escape poverty and improve overall wellbeing. BNTF can be far-reaching in that it can break the inter-generational cycle of poverty as it addresses issue of deprivation and sustainable livelihoods.

<sup>5</sup> BD101/12 BNTF Seventh Programme - Programme Summary (page ii).

6.02 PCs will benefit from larger country Projects over time, and more grants being channeled into areas of poverty alleviation as additional resources can be leveraged from a wider pool of donors and private sector resources. Through greater delegated control within a framework of ex-post inspections, and a more efficient and effective BNTF Programme and additional resources to stimulate social and economic growth, PCs are able to help promote community development within the context of national development strategies.

6.03 For donors there is the prospect of greater impact of resources and for CDB and BNTF the restructured Programme will provide an opportunity to contribute to development of PCs with a more efficient and higher profile unique Programme.

## **7. NEXT STEPS**

- (a) Consultations will be held with PCs to discuss operationalising the new model. Reporting arrangements with Ministries of Finance and arrangements for staff funding will be confirmed.
- (b) Upon approval of the overall framework, the Operations Manual will be updated and job descriptions and terms of reference prepared.
- (c) In-house resourcing and structures at CDB will be assessed.
- (d) Full financial forecast and cost benefit analysis are to be completed.

## **8. REQUEST**

8.01 Contributors are asked to consider and give guidance on the proposals contained in the Paper.