

# Community-driven development decision tools for rural development programmes



Enabling poor rural people to overcome poverty



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# Acronyms

AIA	Appropriations-in-Aid
AIE	Authority to Incur Expenditure
AWP&B	Annual Work Plan and Budget
Cbanks	Community-Based Microfinance Institution
CAO	Chief Accounting Officer
CBO	Community-Based Organization
CDA	Community Development Association
CDD	Community-Driven Development
CI	Cooperating Institution
CIG	Common Interest Group
CSO	Civil Society Organization
DMP	District Master Plan
FAO	Food and Agriculture Organization of the United Nations
GA	General Assembly
IFI	International Financial Institution
IGA	Income-Generating Activities
IGFT	Inter-Governmental Financial Transfer
ISIAO	Istituto Italiano per l’Africa e l’Oriente
KSF	Key Success Factors
M&E	Monitoring and Evaluation
MAT	Management Assessment Template
MC	Management Committee
MFI	Microfinance Institution
MICO	Mutuelle d’Investissement et Credit Oasienne
MTR	Mid-term Review
NGO	Non-Governmental Organization
NRM	National Resource Management
O&M	Organization and Management
OED	Operation Evaluation Department
PCU	Project/Programme Coordination Unit
PIM	Project Implementation Manual
PLPR	Programme de Lutte contre la Pauvrete Rurale
PPSC	Project Policy Steering Committee
PRA	Participatory Rural Appraisal
RIMS	Results and Impact Management System
SDF	Social Development Fund
SIP	Social Infrastructure Project
SWOT	Strengths, weaknesses, opportunities and threats
UA	Users’ Association
UCCA	Unified Consolidated Current Account
VA	Village Assembly
VDC	Village Development Committee
WCA	West and Central Africa
WFP	World Food Programme



# Foreword

The CDD Decision Tools is the final outcome of a series of studies conducted from 2003-08 by IFAD on the CDD activities and approaches it sponsors in a number of countries in Western and Central Africa (WCA). The objective of these studies, including this CDD Tools document, was to improve the effectiveness of the approaches and operational methods used to design and implement community-driven development (CDD) investment programmes as a way to further enabling rural poor people to overcome poverty in WCA.

The review of CDD interventions in WCA began by studying five community-based projects to review their design, policy and performance.<sup>1</sup> This study was extensively discussed within IFAD's WCA Division and subsequently presented in a shorter version<sup>2</sup> at a workshop held in Rome (3-4 June 2004), "Lessons Learned with Community-Driven Development (CDD) in Western and Central Africa and Elsewhere". These discussions focused on the outline of a coherent approach, strategy and policy for CDD and on tools and skills required to improve design and implementation support for CDD operations.

As a result of that experience, the Division decided to broaden the discussion and to prepare a Decision Tool document on CDD. The broader discussion was comprised of three initiatives:

- a one-month electronic conference, held in October-November 2005, to mobilize as large an audience as possible, including IFAD staff, project operators and consultants, representatives of member countries' governments, and representatives of other international and bilateral organizations;
- a conference in Accra, Ghana in March 2006, in which many officers of IFAD-funded projects, central and local government representatives, farmer organizations and staff of international and bilateral organizations participated;
- a study to investigate the opinions of actual and potential beneficiaries of a selected sample of IFAD CDD projects. This work was concluded in 2008.<sup>3</sup>

This Decision Tools document is thus the final outcome of five years of studies, debates and workshop discussions. These Tools will prove useful to Governments, development practitioners and field technical staff that are financing, designing or implementing CDD projects for rural poverty reduction.

I would like to thank Romano Pantanali, who led the preparation of a previous version of this document, and all the IFAD projects, staff and external partners who have been supporting the Division in its effort to improve its policy and methods of CDD project design and implementation. From the Division, I would particularly like to extend my appreciation to Mohamed Manssouri and Cristiana Sparacino, who have led this long-lasting exercise, for their dedication and their strategic and intellectual contributions, along with Caroline Bidault and Norman Messer for their valuable inputs.

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1 [www.fidafrique.net](http://www.fidafrique.net).

2 IFAD Approach to Community-Driven Development in the West Africa Region, May 2004.

3 Enquête sur les partenaires locaux des projets CDD-FIDA., ISIAO Report, 2008.





# Introduction

## What is CDD?

A definition of community-driven development (CDD) that reflects IFAD's rural poverty alleviation objectives emerged from a workshop organized by IFAD's Western and Central African Division (the Division) in the spring of 2004. It is presented in Box 1.

CDD appreciates

- the role that community-based organizations (CBOs) play in decisions about the economic and social development processes that directly affect the livelihood of their members;
- the development of a culture within public administration that views communities as subjects of change and development partners in their own right, rather than as mere receivers of the benefits of public expenditure.

According to this definition, CDD refers more to the way a policy or a project is designed and implemented than to the content of a policy or to the components of an investment project or programme.

## Definition of a community

CDD deals with communities, but what is a community? It is important for IFAD to work with a pragmatic concept of the rural community as a social reality of operational significance, which can be easily identified in practice. A version of such a pragmatic concept is shown in Box 2.

## CDD objectives

The overall objective of CDD for IFAD is to enable rural poor people to overcome poverty sustainably, more equitably and with more efficient use of resources. This may be achieved by

- establishing an enabling institutional environment for the emergence of dynamic community organizations;
- developing community-level rural infrastructure;
- fostering the local economy at the community level;
- diversifying the sources of external support for CBOs.

## The importance of the institutional environment and CBOs

Emerging, robust CBOs are important for growth at the community level. CDD is concerned with the enabling instruments and mechanisms that encourage CBOs to emerge, operate, grow and establish effective and sustainable linkages with the public administration, civil society and commercial sector. In particular, CDD aims to clarify the authority, autonomy, responsibilities and accountability of the CBOs, their higher-level partnerships and the different levels of public administration.

### Box 1 Definition of CDD

CDD is a way to design and implement development policy and projects that facilitates access to social human and physical capital assets for the rural poor by creating the conditions for

- transforming rural development agents from top-down planners into client-oriented service providers;
- empowering rural communities to take

initiative for their own socio-economic development (i.e. building on community assets);

- enabling community-level organizations – especially those of the rural poor – to play a role in designing and implementing policies and programmes that affect their livelihoods;
- enhancing the impact of public expenditure on the local economy at the community level.

CBOs' effectiveness depends on their leaders' initiative and capacity to establish linkages and networks well beyond the frontier of the community. These linkages and networks enable community organizations to moderate the adverse effects of market failures and insufficient government outreach on the livelihoods of their members.

Leaders of CBOs, however, cannot fully exploit their potential without an enabling institutional environment, which is most often not in place. CDD envisages changes in the institutional system in and around the communities that make it possible for the CBOs to play a role in each of the five components of service provision: regulation, planning, production, delivery and financing.

Sustainable income and non-income poverty reduction for rural people are closely linked with the institutional development of their own organizations. The word "institutions," as used in this document, refers to the set of working rules in a society which determine "who is eligible to make decisions in some arenas, what actions are allowed or constrained, what procedures must be followed, and what costs and payoffs are allowed to individuals as a result of their action"<sup>4</sup>. The working rules may or may not coincide with the formal rules embodied in legislation, administrative regulations or court rulings.

### **Developing community level rural infrastructure**

An important objective of CDD is to respond to demands for social and production infrastructure that the communities can operate and maintain with their own resources. The statement of this objective is intentionally different from one which might say, "the objective is to build social and production infrastructure for the rural community" in that the demand-driven and sustainability aspects (e.g. autonomous decisions, willingness to raise resources and technical capacity for organization and management) are emphasized.

### **Fostering the local economy at the community level**

IFAD projects are concerned with directly improving the livelihoods of poor households living in rural communities. The chances of achieving this objective are enhanced when project interventions have a strong impact on the local economy at the community level.

The extent to which IFAD CDD projects are successful in achieving strong impact depends very much on whether the system of incentives (see box 3) encourages community members to make investment decisions aimed at increasing production, productivity, the long-term conservation of natural resources and the overall well-being of the community. IFAD's experience is that rural communities respond very rationally when consulted or deciding through their own participatory

#### **Box 2 Definition of "community"**

The locus where all members of a group of people, having some form of collective claim over a territory and recognizing some form of collective governance, can be given the opportunity to influence decisions in matters of public choice that affect their livelihood.

That is, the locus where participatory democracy is a concrete possibility.

#### **Box 3 The system of incentives**

The system of incentives is the set of rewards and penalties (e.g. financial, social, political or administrative) that governs the demand for and the production and distribution of goods and services.

Rewards might include prices, profit, power, status, promotion or winning elections and penalties may include costs, bankruptcy, shame, demotion, marginalization, transfer to posts with no career prospects or losing elections.

<sup>4</sup> E. Ostrom, *Crafting Institutions in Self Government Irrigation Systems*, 1992. In the common language the word "institution" has two meanings: one refers to "the rules" and the other is synonymous with the word "organization". Organizations are groups of individuals who come together for a common purpose and establish rules which must be respected by the members of the group. Some authors define institutions as those organizations which establish rules that ought to be respected by everybody, not only by the members of the organization. Thus, governments and the Central Bank are institutions, while a cooperative and a private company are organizations.

mechanisms on a list of priority needs and selected investments for the welfare of the entire community. They generally place basic social needs at the top of the list, followed by income-generating activities (e.g. production and marketing).

When this kind of behaviour is not witnessed, it is the likely result of the existing system of incentives. This system is in turn the outcome of market and public policy failures which must be corrected in order to change the factors that influence communities' rational priority setting. Such corrections are necessary for achieving strong impact on the local economy at the community level.

### **Diversifying the sources of support for rural communities**

IFAD projects finance activities that mobilize public resources in support of rural communities. However, CDD projects are also concerned with

- supporting governments to re-focus their activities on the public administration's comparative advantage;
- mobilizing the private sector to provide the services which are outside the sphere of public administration;
- broadening beyond the public sector the sources of support that poor rural communities should be capable of mobilizing to help themselves.

IFAD's policy of involving the private sector, often non-governmental organizations (NGOs), as providers of specialized services to communities is relevant in this respect. This policy has broader objectives than seeking agents often believed to be more efficient, more effective and more specialized than government agencies. Properly selected and adequately monitored NGOs

- are capable of establishing strong links with communities by entering in mutually supportive partnerships and collaboration with CBOs;
- activate themselves to mobilize incremental non-government resources for their own activities on behalf of the communities;
- help build a culture within communities through which it is accepted that governments cannot exclusively resolve all community problems;
- facilitate the mobilization of the communities' own resources to deal with the private commercial sector, allowing communities to pursue more cost-effective service delivery.

Over the years, IFAD also has made special effort to help interested governments develop national Civil Society Organizations (CSOs) of public utility, which have been supported in several countries to service projects aimed at a high degree of CDD content.<sup>5</sup> In Western Africa, for example, several models have been developed in Cape Verde, Mali and Mauritania. In Cape Verde and Mauritania, governments have introduced legislation to rationalize public support for this type of approach.

#### **Box 4 What does "empowerment" of poor people mean?**

"The expansion of freedom of choice and action, of assets and capabilities to participate in, negotiate with, influence, control and hold accountable institutions that affect their lives."

Source: World Bank Empowerment Sourcebook 2002<sup>6</sup>

### **The definition of empowerment**

A key concept underlying CDD is the idea of empowerment, an expression widely used in development literature, but not often defined. The definition used in this document follows that of the World Bank's "Empowerment Sourcebook" and refers directly to people who are of interest to IFAD.

<sup>5</sup> For a more detailed discussion of CSOs, see Chapter V.

<sup>6</sup> World Bank. 2002. *Empowerment and Poverty Reduction: A Sourcebook-PREM*. D. Naryan ed. World Bank.

The IFAD paper “Access to Governance and Policy Processes”<sup>7</sup> identifies *having access to the structures of governance as the primary challenge of empowering poor people*. This is what IFAD CDD projects have attempted to promote in many countries of the developing world during the last fifteen years with varying degrees of success. One key lesson of the experience is that this is a process that seldom can be implemented fully in the span of a single project; it normally develops over time in successive waves of advances and setbacks and develops in countries differently, reflecting their socio-political structures and history. Accordingly, it seems prudent to talk about degrees of CDD.

## **Degrees of CDD**

In practice, CDD is very often implemented in degrees. At a bare minimum, decision-makers responsible for planning, producing and delivering community services must have (a) the tools to ascertain the demand of the communities for their services, and (b) the willingness to provide services that respond to the demand of the communities. At the other end of the continuum, CBOs are fully trained to contract for the services they require and capable of autonomously planning and implementing their own microprojects with a minimum of outside support, drawing resources from their own members as well as from government and private sources.

Different types of projects can have different CDD contents. For example, a social development fund (SDF) project may have a very low CDD content if it is run with most decisions being made by service providers external to the communities and reflecting the SDF managers’ priorities rather than those of the communities. Conversely, it may have a very large CDD content if the communities play a major role in deciding which infrastructure should be built, in contracting and supervising the construction of the facilities and eventually in managing their operations.

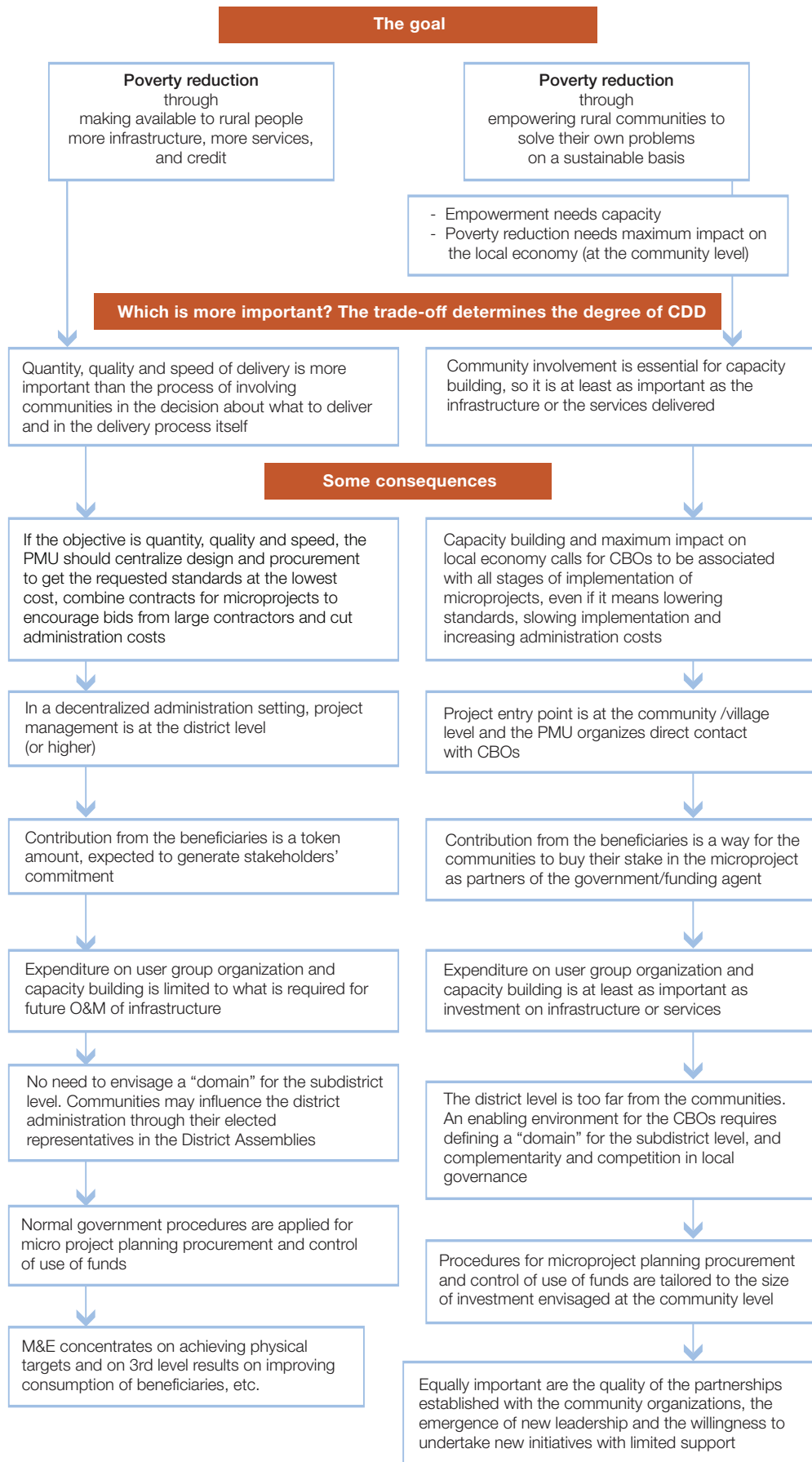
Similarly, an income-generating project that finances no social infrastructure may have a very high CDD content if it is operated by community-level microfinance associations using resources mobilized from community members, or it may have a light CDD content if it is operated by an outside financial institution that does not depend on local savings mobilization and is not ultimately controllable at the community level.

Finally, an agricultural research and technology transfer project would have a good CDD content when the ultimate users of research results participate in decisions about the research agenda, are full partners of applied research efforts and have their experiments on technological innovations taken into account and when innovative farmers, rather than government officers, are used as vehicles for spreading knowledge among their neighbors. When farmers have a voice in setting the research agenda, but minimal involvement in on-farm technology generation and testing, the degree of CDD is naturally much less.

Figure 1 presents an example of how selecting a particular approach can result in different degrees of CDD.

7 A. Summer, A. Mejia Acosta, L. Cabral, R. Kapur, A. Bahadur, S. Bobde, K. Hussein, A-S Brouillet. “Access to Governance and Policy Processes: What enables the participation of the poor?”, background paper prepared for IFAD Rural Poverty Review of 2009.

**Figure 1**  
**Example of decision tree on CDD goal and objectives**



Part A.  
Policy and cross-cutting issues



# CDD's emphasis on communities and CBOs

## Focusing on the communities or CBOs

While CDD approaches often focus on the lower levels of a decentralized public administration (e.g. the district level or occasionally the level immediately below the district), the focus of IFAD's CDD approach is the rural community, the village or a small cluster of villages, depending on the activity envisaged by the community organizations and on the subsidiarity principle.<sup>8</sup>

### Box 5 Social Capital

Social capital includes the norms, social relations and organizations that enable people in a society to coordinate action to achieve their objectives.

Social capital can have positive or negative values, depending on the objectives of people that get together in an organization.

For example, self-help groups with philanthropic or production objectives have social capital with positive value, whereas criminal organizations have social capital with negative value.

CBOs organize community action. They represent the building blocks of rural communities' social capital and they help develop the community members' potential for social and economic development. CBOs' capacity for aggregation at higher levels represents further potential social capital assets for the communities. Improving access to social capital is one of the pillars of IFAD's poverty reduction strategy. Accordingly, IFAD's CDD approach focuses on how best to promote and strengthen pro-poor CBOs.

## Roles for CBOs

A CDD objective is to develop strong CBOs rather than use them merely to facilitate access to services for rural people and reduce the cost to government of providing services. CBOs are part of civil society organizations with the potential for cultural, social and economic change in their own right. IFAD's policy is to help develop this potential in a pro-poor direction, supporting the roles that CBOs can and should play in local governance.

### Box 6 Community organizations

**Community-based organization (CBO):** a generic term for all organizations controlled by the members of a community.

**Village Development Committee (VDC):** the organization of community collective governance responsible for development at the village level.

**Common Interest Group (CIG):** the organization of some members of the community that get together to achieve a common purpose.

**Users Association (UA):** a CIG established to operate and maintain, with resources mobilized from the membership, an infrastructure or service created with public or private funds.

**Community bank (Cbank):** a CIG that mobilizes savings and makes loans in a community or cluster of communities that can establish business relationships with the formal banking system. In this paper, "Cbanks" are different from microfinance institutions (MFIs) controlled by agents external to the communities that specialize in making microloans to rural clients. These are not CBOs.

**Management Committee (MC):** the small group of people elected to implement, operate and maintain a community-sponsored microproject.

**Networks of CBOs:** groups that may bring together VDCs or CIGs. Associations and federations of CIGs of various types are often classified as "Professional Associations".

<sup>8</sup> "Subsidiarity is the principle which states that matters ought to be handled by the lowest competent authority. Normally it is defined as the idea that a central authority should... perform only those tasks which cannot be performed effectively at a more...local level". Hans Bjorn Olsen (2007). Concept Paper on Decentralisation and Local Governance, page 5.

Box 6 provides some basic definitions and suggests a schematic typology of CBOs for CDD projects. In practice, of course, there are many different forms and names for each of the types shown in the box. There might be formal or informal organizations, some might be part of a decentralized government and others might be civil society organizations. Nevertheless, all of them can be grouped according to their main functions which broadly correspond to one of the definitions shown in the box.

The typology suggests that CBOs generally fall into two broad categories: (a) the Village Development Committees (VDCs) that have “public” functions at the community level, and (b) the Common Interest Groups (CIGs) that have “private” functions. There are many types of CIGs, two of which are defined in Box 6. Unions and federations of CIGs (e.g. those that may bring together Users’ Associations [UAs], community banks [Cbanks], or producers’ associations) advocate for the general interests of their members (e.g. the users of irrigation water or water supply networks, the clients of community banks, the rice growers) and therefore they perform “public” functions as well.

In some countries, if a CIG cannot qualify under current regulations (e.g. because of the complexities of acquiring formal status), formally established community organizations may address interventions demanded by a community. This is the case in IFAD projects in Cape Verde and Mauritania, where the village organization plans and manages, even if managing is actually performed by the informal CIG responsible for the microproject.

## Communities and autonomy

CDD is centred on the concept of autonomous community decision-making. But to what extent are communities really free to choose what they want to undertake for their own development and to decide how they want to run their own development affairs? The answer to the first question depends largely on the activities that external development agencies (e.g. government, international development agencies and NGOs) are willing to support and on the terms of such support.

### Box 7 Questions about VDCs and the conduct of the village assemblies

- Are village general assemblies regularly held?
- How many people participate (i.e. what approximate percentage of households)?
- Have people been asked to discuss and approve the rules that establish functions, power and responsibilities of their VDC and of the village assembly?
- Are people satisfied with the way the President handles the discussion?
- Do the poor participate and voice their opinions?
- Do the poor think that the VDC can do something useful for them?
- How many candidates run for President of the VDC? For members of the VDC?
- How many members of the VDC are not members of the old council of elders or other traditional governance institutions of the village?

- How many VDC members are not known as village “notables”?
- How many women candidates are eligible for membership in the VDC?
- How many women are actually elected?
- How many youth candidates are there for membership in the VDC?
- How many youth are actually elected?
- Are people adequately informed about the implications (e.g. costs and benefits) of the options they are expected to approve or disapprove?
- Are people actually informed of the reasons why requests to fund initiatives approved by them have been rejected by the funding agent?

### Decisions for designing the CDD project’s M&E system

- Should these questions be included in the routine mandate of the “self-evaluation” meetings?
- Should the project conduct annual surveys to get responses to the above questions?

The answer to the second question is more complex. Community elections for VDCs and Management Committees (MCs) of CIGs typically are influenced by line agencies and local political intermediaries. It is almost inevitable that this will occur at the beginning of a CDD process. But this initial arrangement must be made to evolve over time. The policy issue is to identify a mechanism that can be put in place to monitor the evolution towards community autonomy and democratic governance.

## Building capacity

IFAD's emphasis on CBOs has important implications for the design of projects' capacity-building components. If CBOs are only facilitators of the benefits received by their members, the range of capabilities they require is less than if the objective is to develop CBOs as promoters and managers of socio-economic change.

All CDD projects have sizeable capacity-building components. Capacity-building may be

- limited to the community service providers (i.e. essentially government units);
- extended to CBOs to enable them to operate and manage infrastructure facilities constructed for them;
- focused on making the CBOs capable of fully participating in the design, contracting, supervision and management of social and productive infrastructure and other development activities (including rural financial services) that they may want to undertake for themselves.

The last of these options represents the approach that has the greatest CDD content and is the closest to IFAD's corporate objectives and strategies.

## Costs of building capacity

Adequately trained CBOs are essential for CDD. Since the cost of capacity-building at the community level is far from negligible, governments tend to halt initiatives that support developing administrative and technical capabilities below the district level. This attitude is supported by evidence that decentralization at the district level costs much more than originally forecast by the designers of administrative reforms.

The cost of capacity-building for CBOs is affected by the functions that CBOs are expected to perform and the complexity of the procedures required to plan, finance, implement and operate a microproject. Therefore, simplifying procedures can improve the cost-effectiveness of the capacity-building components of CDD projects. There are many relevant issues regarding procedures (e.g. the conditions needed to grant legal status to a CBO and microproject design, approval, procurement and disbursement practices) which can make a

### Box 8 Cost advantages of implementing community microprojects by CBOs

Entrusting small public works (e.g. building a school, water supply or microirrigation scheme) to grass-roots community organizations has been done by the Social Investment Funds projects in many Latin America countries with positive results.

Whenever a democratically-elected community organization participates in the design of a

microproject, it freely chooses the technicians and artisans, purchases the materials and is responsible for construction. In the great majority of cases, the result is a cheaper product, promptly and largely cofinanced by the users and designed with the contribution of the potential beneficiaries. It is also much more sustainable than when the product is designed and constructed by highly-qualified enterprises external to the community.

Source: R. Haudry de Soucy. Personal communication to the IFAD 2005 e-conference on CDD.

big difference in the CDD content of a project and in the cost of training. These are discussed in Part II.

Even if some of the procedural hurdles are overcome, however, capacity-building for CBOs is costly in the short and medium term. Training community-level MCs is time consuming and more costly than supplying CBOs with a turn-key job, produced and delivered by a well-qualified external commercial supplier. This does not mean, however, that the total cost of the delivery is necessarily more, as suggested in Box 8.

To what extent is the higher cost of project administration justified? Does it represent an investment that will pay handsome dividends, even if only in the long run? The answers to these questions will depend on whether the primary objective of the project is the capability of the CBOs or the delivery of goods and services to the communities.

# CDD and local governance

## Definition of governance

CDD is closely related to the issue of governance at the community level. The definitions of governance are provided in Box 9.

A study sponsored by the World Bank<sup>9</sup> mentions these six dimensions of governance:

- voice and accountability (e.g. political, civil, and human rights);
- political stability and absence of violence;
- government effectiveness (i.e. competence of the bureaucracy);
- regulatory quality (i.e. existence of market-friendly policies);
- rule of law (i.e. the quality of the police and the judiciary);
- control of corruption (i.e. the abuse of public power for private gain).

## The quality of governance

Equitable and participatory rural development and rural poverty alleviation cannot be successfully promoted in a poor governance environment. There is broad consensus today that improving local governance is a major development task and a condition to making targeted initiatives effective and sustainable.

Governance can be assessed on the basis of its quality and on the extent to which governance objectives are actually achieved. "Good governance" is a value-laden concept used in this paper to indicate improvements in the quality of governance (e.g. more responsiveness, more transparency, more accountability) and progress in achieving its key objectives (e.g. stability, growth, equity, sustainability and efficient use of resources).

Box 11 indicates that one feature of the quality of governance is the accountability of a governing body to those who are governed. But what does this mean? Two aspects are important: answerability (i.e. accountable actors must explain and publicly justify their decisions) and enforceability (i.e. accountable persons must bear the consequences of their decisions, including the possibility of incurring negative sanctions).<sup>10</sup>

A pluralist governance system envisages the development of strong CSOs and private enterprises and the creation of competitive markets for goods and services. This establishes multiple centres with the power to make and implement decisions in the political, social and economic fields.

### Box 9

#### What is "governance"?

**Governance** is the system of values, policies and institutions by which a society manages its economic, political and social affairs through interactions within and among the state, civil society and private sector (UNDP, Human Development Report, 2004).

**Collective governance** implies having accepted endogenous rules, and community and organizational institutions responsible for applying those rules and collective actions of interest to the members of the community.

**Good governance** is a system of collective governance that

- operates in a transparent manner;
- is responsive and accountable to the members of the community;
- manages collective affairs in such a way as to enhance development opportunities for all, improve efficiency and equity in using common resources, and resolve potential conflicts among community members peacefully.

<sup>9</sup> Kaufmann et al., 2005, quoted in "Access to Governance and Policy Processes", cit.

<sup>10</sup> Schedler A. (1999). "Conceptualizing accountability", in *The self-restraining state: power and accountability in new democracies* quoted in *Access to governance and policy processes*, IFAD 2008, op. cit. page 8.

Within a pluralistic governance system, several forms of participatory democracy are possible. Participatory democracy attempts to directly involve citizens in making the decisions that affect them (see Box 11). Institutions of participatory democracy at the community level are the ones that IFAD is interested in helping through CDD projects.

## CDD and governance

Worldwide experience shows that it is possible to design measures to foster equitable and sustainable rural growth by developing rural communities using the energies and resources of poor community members for their own benefit. In addressing the question of how to do it, two options emerge which require key policy decisions. The first option involves mechanisms that strengthen the public administration's capacity to respond to the needs and priorities of rural communities. In this option, the district administration is generally the recipient of financial resources, training and technical assistance. This option supports representative democracy, and the relationships between district government and CBOs are governed by the principle of hierarchy.

The other option envisages a more complex system to reach the communities. This system substitutes the principle of partnership for the principle of hierarchy in the relationships among rural community organizations, other CSOs engaged in local development and the local government administration. The concept of partnership implies that different parties act jointly to achieve a common objective, sharing responsibilities, costs and benefits in accordance with a pre-determined pattern agreed upon by all. This option supports participatory democracy and is governed by the principle of subsidiarity, which is not always politically acceptable. Even if this approach is taken at the central government level, it can only be gradually internalized at the lower levels of public administration. CDD projects may work towards developing such a system, with success dependent on the effectiveness of communications and policy dialogue initiated by the project.

These two options, while implying different visions of pluralistic governance, are not mutually exclusive and may complement one another under favorable circumstances. In both cases, the key institutional question that IFAD's CDD projects must address concerns the different types of services for which the two levels (i.e. the "district" and the "village") should be responsible in applying the subsidiarity principle. Roles assigned to the two levels can be complementary rather than conflicting.

## The importance of institutional analysis

CDD projects are implemented within the existing institutions in a country. Understanding the current situation requires having appropriate analytic instruments that can determine the extent to which the current institutions are enabling CDD, the possibilities for modifying any disabling institutions, the actors who can introduce changes to enable CDD and how an external donor can assist actors to enhance the potential for developing the CBOs.

IFAD is interested in the way institutions actually work in practice, not only in the formal way their rules, relationships and behaviours are defined by law or governmental regulations. It is important to understand the relationships between rural

### Box 10 Quality and objectives of governance

The quality of governance depends on the extent to which those who govern

- represent those who are governed;
- operate in a transparent manner;
- are responsive and accountable to those who are governed.

The objectives of good governance are to achieve societal goals such as stability, growth, equity, sustainability and efficient use of resources.

### Box 11 Participatory democracy

A political system whereby decisions on collective action that affect the livelihood of all members of a community can be discussed and made by all the members of a community.

communities and local governance in matters of rural development. Identifying ways to improve communication and the capacity to communicate are necessary to improve the institutional environment of poor rural communities, which are often isolated and deprived of access to key information.

At the level of the community, institutional analysis helps to

- identify and understand the community's own institutions (i.e. the "rules of the game" accepted by the members of the community) and how these can be used to devise self-targeting instruments in favor of the poor;
- acquire insights about factors influencing change and identify those changes that determine community preferences and effective demand;
- monitor the inclusion/exclusion of the poor and women in community public affairs and the impact of inclusiveness on the role of the poor and women in managing community public affairs;
- understand issues of elite dominance and assess the risk of local elite capture of the benefits of an intervention.

This information is essential to design project interventions that maximize the autonomous development of the CBOs and contribute to poverty reduction.

Equally important is analysing relationships between the communities and the outside forces that influence their opportunities and development. This process includes:

- identifying who in the local system of governance has the power to make decisions about providing specific services to communities;
- assessing the mandates of the different levels of local government;
- determining the scope for autonomous initiatives at the community level;

#### Box 12

##### Addressing the learning process: how can institutional analysis help?

Because governance issues are important in formulating CDD policy and projects, there is a need for tools to help better understand the environment within which a CDD approach is applied, to assess CDD's chances of success, to identify the themes and the proper venue for policy dialogue and to design implementation strategies.

Methods of institutional analysis can greatly improve the learning process by helping to

- understand the institutional and political system within and around the communities;

- map the institutional architecture and the roles and functions of organizations;
- assess strengths, weaknesses and capacity-building needs;
- identify enabling and disabling agencies and actors in the public sector and among CSOs and commercial operators;
- assess the constraints to empowering the rural poor;
- map policy and project implementation arenas;
- streamline project organization and management arrangements, including the crucial area of implementation procedures.

#### Box 13

##### Examples of enabling instruments

- improved tools to understand power in and around the rural communities;
- monitoring and evaluation (M&E) systems that track governance results;
- institutions that recognize the public utility functions of CSOs working for pro-poor rural development and instruments for transferring public resources to them;
- more flexible planning methods;
- highly simplified procedures to approve CBO-initiated projects, release public funds for them, procure goods and services and exercise control over the use of funds;
- improved communication.

- comparing the priorities of higher levels of government with those of the community level;
- assessing the possibility of mobilizing CSOs that are recognized as being “of public utility” to reach the communities and enhance their autonomy in making decisions.

A major theme of institutional assessment concerns the rules that govern community credit and savings operations. A CDD approach in rural finance may be impossible if central banks’ regulations regarding lending and accepting deposits are impossible for CBOs to meet. Too often rules in these matters focus on large institutions and have a negative impact on community-level financing operations. Institutional assessment can help identify actors who can work towards formulating rules to support, rather than impede, the development of decentralized, sustainable rural financial services and markets.





# Poverty focus of CDD

## IFAD's special poverty focus

Although all development agencies claim that their CDD interventions focus on poverty, IFAD places considerable emphasis on distributional aspects and related targeting issues. Other agencies tend to disregard these aspects; they may, for example, assume that targeting rural areas is a sufficient focus on poverty because “rural” is synonymous with “poor”. They may also believe that poverty reduction is better achieved by the trickle-down effects of financing the production of public goods and measures generally aimed at income and productivity growth.

For IFAD the matter is more complex because of its specific mandate. Since CDD entrusts the communities with decisions about development interventions, the questions for IFAD are as follows: how targetable is CDD? What mechanisms would ensure that decisions made at the community level do not sideline the interests of the lowest social strata of the community and do not exclude them from a fair share of the opportunities from project interventions?

To address this question, IFAD projects often focus on how to

- select poor communities within an area of intervention;
- reach the poor within the selected communities without jeopardizing the CDD principle that empowers the communities to set the agenda of the interventions.

## Selecting poor villages

Poor villages can be selected using transparent parameters. An example of one such parameter is food security. (Data on village food security are collected by some governments with the assistance of specialized UN agencies, such as the Food and Agriculture Organization of the United Nations [FAO] and the World Food Programme [WFP], although they usually aggregate data at the district or subdistrict level). This parameter provides a first approximation for poor villages and is widely used, but it has serious drawbacks. For example, a village that produces few food crops but whose inhabitants derive their livelihood from cash crops or handicraft activities would not be classified as food secure, however, it is not necessarily poor; on the contrary, a wealthy village often achieves food security through trade.

While more sophisticated indices of poverty can be constructed at a cost, data on poverty indices are seldom available at the village level. Even if they could be estimated for a single point in time, keeping the data updated is not practically possible. As a result, the selection of poor villages is often made using food security criteria, taking into account the most obvious cases where alternative or complementary sources of livelihood are available to the village.<sup>11</sup>

IFAD projects tend to fund successive phases of development in the same project area. This provides information about a village's performance under a previous IFAD project<sup>12</sup>, which can be used to fine-tune the assessment about the village and to adjust the project design based on the experience in the area.

## Assessing community needs and assets

A needs assessment process has traditionally been used to identify communities eligible for assistance. This process formally identifies the gaps between the basic services that should be available to members of a community according to government policy and those that are actually accessible to them. In accordance with the principle of providing equal services to all,

<sup>11</sup> FAO's definition of food security takes into account the quantity of food produced, the stability of production and the access to purchase food to meet local deficiencies.

<sup>12</sup> See Senegal IFAD Projet d'organisation et gestion villageoise, second phase (POGV II).

government has a responsibility to take measures to fill those gaps and it requests external assistance to help fund those measures.

The needs assessment process has evolved over time. Communities have been asked to identify and prioritize those gaps and to suggest needs that might be overlooked by government policy. In the more participatory and comprehensive methods, community assets are assessed and seen as building blocks in the socio-economic development of the communities.

An approach widely adopted by IFAD in Latin America<sup>13</sup> aims to “build policies and design activities directly based on the capacities, abilities and assets of the poor and of their institutions”. In this approach, community assets are individuals and private, public and voluntary organizations and associations of all types including economic, educational, social, religious and recreational. The objective of the approach is to enhance the capacity of those actors to establish agendas aimed at solving development problems by building relationships among people, organizations and institutions. The vision is a fully participatory, strong civil society which creates opportunities and enhances resilience at the community level. This approach is a positive alternative to the approach based on needs, which “leads participants in development to see themselves as consumers of services, with little incentive to become producers of goods and services,”<sup>14</sup> and to become dependent on government.

## **Community effective demand**

Once a list of eligible villages is established, a decision must be made as to which villages should be served first and which may not be served at all because of limited project resources. This will be influenced by whether the project’s approach is based on satisfying needs or on building the assets of the poor. The project has two options:

- The Project/Programme Coordination Unit (PCU) decides each year how many villages the project can cover, selects the villages from the eligible list on the basis of operational expediencies or other criteria and avoids advertising in the other villages. This option makes project implementation easier for the PCU, limits the demand-driven character of the project and gives excessive power to the PCU as it deprives the communities of a meaningful role in village selection.
- The other option is to advertise the project in all villages on the list, relying on other mechanisms to ration the excess demand for project services that will invariably be generated.

Community demand in excess of project resources is not necessarily a negative result. It actually signals that a key objective of CDD has been fulfilled: the project has been a catalyst in mobilizing community initiatives vis-à-vis potential sources of support. Rationing such demand requires objective, rigorous and transparent decision mechanisms.

These mechanisms are based on the principle of effective demand. Effective demand is an economic term that means “willingness to pay”, which may be motivated by a variety of reasons (e.g. priority, solidarity, utility, moral suasion, available resources, etc.) and which need not be examined when accepting a request. Effective community demand for a service is distinct from the community’s need for the service. While a list of needs are prioritized, effective demand is the result of the trade-off between the expected benefits of satisfying a need and the cost to the beneficiaries of implementing the intervention that satisfies that need. The distinction between “need” and “effective demand” is evidenced in a CDD project by the community paying the required share of the cost of the intervention. That share is understood to be the community’s fee to be in partnership with the service provider.

13 “Towards an Approach Based on the Assets of the Poor”, presentation by Dario Pulgar to the 2006 IFAD Accra Workshop on CDD.

14 Ibidem.

The way that partnership is negotiated is very important. It establishes the duties and rights of the partners. The community must feel that it is they who demand the goods or service and not that the project wants to spend resources at all costs. The community's fee is a means to acquire the right to use the good or service (i.e. the community is buying the good or service). With this right comes the responsibility of adequately operating and maintaining the goods and services acquired with their own hard-earned and saved resources. Project service providers have rights as well (e.g. to inspect how the community is using the goods or services that the project cofinances).

The effectiveness of the arrangement depends on three conditions:

- the share of the cost borne by the communities must be at a level that is significantly more than a token amount;
- the cost must include a meaningful (even if small) amount of cash;
- the cash must be paid in advance. The conditions are strengthened if services are withheld from the community until the cash portion of the fee has been paid.

These arrangements are transparent, non-discriminatory and leave no room for favoring one community over another. They encourage self-selection of project participants and help in equilibrating demand to supply. They also have the advantage of screening out communities that have become totally state-transfer dependent and for that reason offer no credible basis upon which to launch sustainable development activities.

Are these arrangements inequitable; that is, can only wealthy communities meet these conditions? If the pre-selection of eligible communities is based on relevant, properly estimated poverty indicators, then the key factor becomes fine-tuning the communities' expected share, which must not exceed what poor community members can be reasonably expected to afford. It is important for adequate methods to be developed and objectively applied to determine what a poor community's fair contribution should be. Projects should also encourage intra-community solidarity and traditional reciprocity institutions to devise a progressive way of allocating the community share among community members. A system that compensates for income disparities among community members and facilitates the participation of the very poor is desirable. It is very important that all members carry a burden proportionate to their means, lest those who do not are excluded from the benefits. This point is well illustrated by the experience of the FODESA project in Mali, which is described in Box 14.

#### **Box 14** **The importance of the community contribution**

A village requested that the IFAD FODESA project in Mali finance the construction of a "boutique villageoise". When the time came for FODESA staff to collect the village contribution, the community members felt they were too poor to mobilize the share of costs requested by the project. Without informing FODESA, the people of the village struck a deal with a wealthy resident merchant, who offered to pay the entire community contribution himself. When the boutique was constructed, the merchant seized the exclusive right to manage the infrastructure on the strength of his financial contribution and appointed all the members of the management committee. After a while, the business was

mismanaged, with sales revenue misappropriated to the advantage of the merchant, who considered himself the only shareholder of the enterprise.

The village complained to FODESA, requesting an intervention to help put the business back on a sustainable basis for the benefit of all the members of the community. The instrument to implement this policy was the collection of the village's share of costs, which was paid to the merchant to reimburse his initial contribution on condition that he withdraw his participation in the management of the boutique. This time the community members met with no difficulty in mobilizing their contribution and were free to elect their own trusted members of the management committee.

Source: Kady Diallo. Communication to IFAD 2005 e-conference on CDD.

## **Dealing with excess demand**

These partnership conditions often meet with resistance. Community spokesmen try to bargain for reducing or eliminating the effort required from them on the grounds that they do not have the resources, particularly cash. This claim is often supported by government and PCU staff. It is important to resist claims that may stem from the desire of government or project staff to retain the power of selecting beneficiary communities in a subjective way rather than through a system based on objective criteria which significantly cuts opportunities for rent-seeking and patronage.

As long as the effective demand of eligible communities that are ready to pay their partnership fee exceeds the capacity of the project to supply, giving in to these requests for bargains would lead to an inequitable use of project funds. Doing so would create unjustified privileged positions and would reduce the resources available for serving equally poor communities that show stakeholders' commitment and understand the concept of partnership.

Insisting upon a cash down payment generally reduces the effective demand from the level it would be if based purely on "felt needs". Nevertheless, the effective demand may still be in excess of available resources. This can be a welcome result that sets in motion a number of favorable dynamics. For an external donor, it would accelerate disbursement of its own commitment in the area. For the service providers that assist the communities, it would generate pressure to seek additional funding from private donors and other development agencies. Government may be hard pressed to come up with incremental local counterpart funds to match the accelerated disbursement of external loans. However, this may not be a serious problem in very poor countries, particularly in Africa, where the government contribution is often only the forfeited tax revenue on project expenditure. In less poor countries, where government is committed to invest some real resources in CDD projects, the political pressure that will result may help shift resources from lower priority services or increase revenue collection.

## **Deepening the focus within a poor community: exclusion vs. non-exclusion**

Another question is whether targeting poor communities is sufficient, or whether targeting should be extended to specific social strata within a community. The conventional interpretation of IFAD's mandate is that specific social strata should be targeted, which raises the related question of who should be excluded and of how to deal with exclusion.

If a group were to be excluded, it would be the community elite, which consists of relatively wealthy households that are not part of IFAD's target group. The concern is that these people may influence community decisions about development priorities in such a way as to obtain a disproportionate share of project benefits for themselves and that their role would tend to exclude marginalized social strata (e.g. women, youth, landless) from decisions regarding development affairs. The issue has different connotations depending on the type of development activities the project supports. However, excluding the dominant group from the project will generally have negative effects on the community's response and on its social cohesion.

Many IFAD CDD projects are designed using non-exclusion principles, in an attempt to mobilize the dominant elite's potentially positive role in the community. To reach the desired social strata within the community, self-targeting mechanisms aimed at proactive inclusiveness are used. Experience in Western Africa shows that non-exclusion helps mobilize people and facilitates the formation and operation of CBOs. The importance of beneficiaries' involvement in project design and execution is well highlighted by the 2006 IFAD "Annual Report on Project Result and Impact", which states that the highest project performance was recorded in a CDD project in Colombia, where beneficiaries' participation was very active. The worst performance was in Mali, where beneficiaries' participation was marginal.

## Risk of elite capture

Non-exclusion carries the risk of elite capture of project benefits. CDD projects may be subject to several types of elite capture:

- elite capture at the community level;
- elite capture by project bureaucrats and service providers;
- elite capture by local, professional, political intermediaries.

Elite capture at the community level can be defined as either

1. the appropriation, by people who enjoy a dominant position in a community, of a share of the benefits of a collective action significantly larger than their contribution to the collective action; or
2. the exclusion of collective actions from expressed community preferences that are specifically or particularly beneficial to the poor members of the community.

The risk of elite capture at the community level is generally low when community preferences are for projects that generate non-privatizable benefits (i.e. the “public goods”). On the other hand, the risk is real with community preferences for projects that produce private goods, since dominant members may become rent seekers, excluding the poor from project support or minimizing benefits to poor members if they cannot be excluded.

The probability of elite capture of benefits at the community level does not necessarily increase with local economic inequality. The capacity of the poor within a heterogeneous community to build their own social capital is an important factor that can balance the influence of dominant groups and counter a potential tendency for elite dominance to capture benefits. Whether this will occur is the central bet of all pro-poor community development projects. Success will depend on the effectiveness of the measures of external support for the poor.

It is necessary to determine what constitutes an acceptable level of elite dominance; that is, what is the “fair” share of project benefits that remunerates the elite for their function in facilitating project activities, beyond which elite capture occurs. IFAD CDD projects should decide what would signal unacceptable levels of elite dominance and undue capture of benefits and install the mechanisms required to record such signals so that corrective action can be taken in time.

To determine the existence and impact of elite capture that may result from a village management group’s role in handling community microprojects, 383 interviews were conducted with the rural villagers targeted by IFAD CDD projects in Mali, Mauritania, Guinea Conakry and Cape Verde.

### Box 15 Subtle forms of elite capture at the community level

There are many ways in which dominant families can turn external support to their advantage. An interesting example of how a project can generate rent positions without intending to do so is the land tenure issue in swamp land reclaimed for irrigation.

The traditional institutions of rural Western and Central Africa attribute a right of use on part of the reclaimed land to those who provide the labor for the reclamation. The balance of the land is confirmed to the family originally entitled

to use of the swamp, invariably a wealthy family with a consistent herd of cattle. However, the land use rights acquired through supplying labor are lost if the labor is actually paid for in cash.

Project managers’ failure to properly work with the traditional institutions led to the expropriation of the labor rights by the families originally in control of the swamp. Under pressure to disburse funds for swamp reclamation, project managers decided to pay cash wages to the laborers, ignoring the possibility that unwillingness to work was caused by disagreements about land allocation between rich and poor villagers.

Box 16 summarizes the results of those interviews. Questions asked included:

- Who decides which microproject is to be selected for implementation on behalf of the community?;
- Does the traditional elite manage selected projects?;
- Do traditional elites benefit more than other members of the community?;
- If elites do benefit more, does this represent an acceptable way to remunerate the services rendered by the elite to the community?

## Elite capture by agents outside the communities

In the literature on CDD, the issue of elite capture is invariably discussed in terms of the impact of the dominant elite within a community. There are, however, serious risks of other types of elite capture, some of which are certainties due to project design.

Capture of CDD benefits by project administration and by connected government bureaucracy may occur when project officers disregard the participatory process with the communities and impose their own preferences in matters related to community institutions, public choice, implementation procedures and type of contractors. Shifting power from community-level partners to administrators can encourage adopting technical solutions to implement community microprojects that are beyond the capacity of community-level suppliers and imposing prequalification criteria that cannot be met by community-based contractors. This, in turn, shifts benefits from community-level artisans to contractors who are external to the communities, allocates a disproportionate amount of project funds to consultant studies of little relevance to the livelihood of the community members, and reduces the resources originally allocated to help CBOs learn how to design and operate their own, more modest enterprises. On grounds of efficiency, contracts are lumped together to cover several communities. Then the size and complexity of those contracts are used to justify non-transparency and non-accountability to the community partners.

A side effect of this process is that bureaucrats may award contracts as patronage, opening the door to possible malpractice even when formal safeguard procedures are officially followed. Consultants' reports are written in languages that may not be mastered by community members and often are not made available to the expected beneficiaries of the intervention. In the end, CBOs are deprived of opportunities to learn how to identify, design and implement their own projects, design and negotiate contracts with suppliers, and learn how to monitor their performance.

### Box 16 Results of opinion survey regarding instances of elite capture

In Mauritania, respondents confirmed that traditional leaders were running the affairs of the community, but said that they did not benefit more than other people. This response seems biased, since IFAD has evidence of local leaders' lack of cooperation in recovering loans made by the Mutuelles d'Investissement et Credit Oasiennes (MICOs).

In Mali, 41 per cent of the respondents in Segou and 10 per cent in Kolokany said that traditional leaders benefited more than other people. In Guinea, only 3 per cent of the respondents said that traditional leaders were running the village associations. None

declared that the local elite benefited more than other people. In Cape Verde, 15 per cent of the responding members of the CDA thought that CDA leaders do benefit more than they deserve, whereas 65 per cent declared that this was not the case and 20 per cent said that they would not know.

Interestingly, more than 80 per cent of the interviewees in all the areas investigated approved the investment decisions made by their leaders' committee, irrespective of the social strata to which the interviewees belonged. However, only 40 per cent to 45 per cent of the respondents knew that the people in the management committees are not compensated.

Sources: for Mauritania, Mali and Guinea: Enquête sur les partenaires locaux des projets CDD-FIDA, Draft Report, 2008.

Elite capture by local, professional, political intermediaries occurs when they seek to exploit the project resources to enhance their own influence in the local government administration and their career opportunities within the national political organization. To do this, they may seek to ensure that project benefits reach their constituency communities even when they do not fully meet the project partnership conditions. In extreme cases, this type of capture may even divert funds to provide benefits to people who have little to do with the rural communities.

## **CDD and proactive inclusiveness**

One of IFAD's key concerns is to ensure that poor and marginalized people have the chance to make their voices heard in community affairs that affect their livelihood. To this end, all IFAD projects envisage special opportunities for women, poor households and other marginalized people to have a role in managing community affairs and to participate in making informed decisions about activities of common interest. CDD projects usually include a quota for women in the VDCs and in the MC of any CIG established by the community.

The *Enquête sur les partenaires locaux des projets CDD-FIDA* did not report any women members on the MC in Mauritania. In Mali, no women have been elected to the VDCs in the two areas investigated by the same survey. In one of these areas, Segou, the project management team worked exclusively with male representatives of the traditional village chief organizations to whom the people delegated the power to make decisions. In Kolokani, the people had much more control over the activities of the VDC. Forty per cent of the interviewees in Cape Verde and 51 per cent in Guinea declared that women participate in the management structure of their community planning organization.

With respect to the role of women in the CBOs, over 75 per cent of the interviewees in the four survey areas reported that women attend association meetings and that more than 85 per cent of the women participants are ready to speak. Women comprise 60 per cent of the participants in CBO general assembly meetings in Guinea, 64 per cent in Kolokany and 22 per cent in Segou. In Guinea, 51 per cent of CSO members are women and 92 per cent of women members attend general assembly meetings.

Generally speaking, a majority of interviewees stated that access to project benefits has been equitable. There were some curious differences, which cannot be fully explained, in the responses between different implementation regions of the same project:

- In Mauritania, 57 per cent of the respondents in the Assaba region said that access to benefits was equitable compared with 80 per cent in the Adrar.
- In Mali, the positive responses ranged from 78 per cent in Segou to 98 per cent in Kolokany.
- In Guinea, 100 per cent of the people claimed that everybody benefited, the likely reflection of the fact that the public goods funded were available to everybody.
- In Cape Verde, 81 per cent of respondents in Santiago and 85 per cent in São Nicolau Island declared that access to benefits for rural poor and women was equitable.

## Lessons learned about targeting

The IFAD study entitled “Innovative Approaches to Targeting in Demand-driven Projects”, issued at the end of 2004, reviewed targeting in four CDD demand-driven projects in Cape Verde, India, Nicaragua and Peru.<sup>15</sup> The study analysed the lessons learned in seven areas:

- general lessons;
- enabling and proactive measures;
- empowering measures;
- impact and procedural issues;
- menu-based measures;
- direct or exclusionary measures;
- geographic targeting.

A summary of the main points discussed in four of these areas is shown in Box 17.

**Table 1**  
Results of interviews regarding women’s roles

Country	Mauritania (PDDO) a/	Mali (FODESA) b/	Guinea Conakry (PACV) c/	Cape Verde (PLPR) d/
<b>Women’s participation and role</b>				
Women regularly attend and speak at GA and CSO meetings	n.r.	83%; 94%	92%	70%
Women participate in CBOs’ general meetings.	78%; 76%	22%; 64%	60%	n.r
Women are members of the VDC or of the MC of CSO	n.r.	0	51%	40%
<b>Did the poor and women benefit adequately?</b>				
Access to benefits is equitable	80%; 57%	78%; 98%	100%	81% 84%
Access to benefits is not equitable or is unknown	10%; 23%	22%; 2%	0	16% 19%
The poor and women benefit less than other people.	17%	22%	0	n.r

a/ Projet de Développement Durable des Oasis. Coverage: 5 oases in Adrar and 5 in Assaba region.

b/ Fond de Développement en Zone Sahélienne. Coverage: 6 villages in Segou and 6 in Kolokany district.

c/ Programme d’appui aux Communautés Villageoises. Coverage: 5 villages in Kindia, 3 villages in Mamou, and 2 villages in Faranah.

d/ Programme de Lutte contre la Pauvreté Rurale. Coverage: islands of Fogo and Sao Nicolau, and municipalities of Tarrafal and Sao Miguel in the island of Santiago.

Note: Two figures indicate responses in two areas.

Sources for Guinea, Mali and Mauritania: Enquête sur les partenaires de projets CDD-FIDA, op. cit.

15 India Chattisgarh Tribal Development Project, Capo Verde Programa de Luta contra a Pobreza Rural, Nicaragua National Programme of Agricultural Technology: Technical Assistance Fund and Peru Management of Natural Resources in the Southern Highlands.



**Box 17**  
**Lessons learned about targeting**

**General lessons**

- Targeting under demand-driven mechanisms is challenging and requires a comprehensive and flexible approach.
- Broad targeting measures are easier to apply and ultimately more effective than narrow measures based on eligibility criteria.
- Defining a targeting strategy is important but should not be expected to be implemented exactly as designed.
- Poor people benefit, but less poor people tend to benefit proportionally more.
- Direct targeting of women is easy to set up, but building capacity, confidence and self esteem is necessary for them to benefit equally.
- Attention should be paid to “actual” versus “apparent” access to benefits.
- Risks of benefit capture always exist but can be minimized.

**Enabling and proactive measures**

- Enabling and proactive measures are intended to create a policy and institutional environment which supports targeting.
- Mainstreaming a pro-poor perspective

might be necessary among project staff and government partners.

**Empowering measures**

- Communication support is essential.
- The project provides information and promotes communication.
- Separate the roles of providing information and providing services.
- Intended beneficiaries must participate in defining their needs.
- The criteria used to establish groups are important.
- Self-selection of members is not a guarantee against exclusion of the poor.

**Menu-based measures**

- A major factor in determining who will benefit is the menu of goods and services that will be potentially available and under what financial conditions.
- The types of goods offered exert a stronger influence than the size of the grant.
- The correspondence between provided goods and services and the interests and livelihoods of the intended beneficiaries is important.
- Matching contributions can act against including the poor.

Source: IFAD. Innovative Approaches to Targeting in Demand-Driven Projects, November 2004.

# Poverty, fragile states and CDD

## The fragility of the modern state in poor countries

Most political scientists would agree that strong central governments that enjoy widespread support from society are in a much better position than weak governments to reform public administration, particularly when that reform involves decentralization that favors provincial and district governments. Most of the poorest developing countries are not run by strong (as opposed to authoritarian) governments and this adds to widespread “tragedy of the commons”<sup>16</sup> that is the source of violent conflicts and poverty. Pluralistic governance systems that include adequate checks and balances, transparency and accountability cannot be developed when there is an unwillingness and inability to decentralize and build consensus at the grass-roots level. These factors contribute to state fragility and poor resilience against shocks in the civil society.

Many poor countries where IFAD operates are fragile states and have been affected by violent conflicts to different degrees. In many cases, particularly in Africa, a legacy of colonial administration is at the root of the states’ fragility. At the time of independence, the organizations of the modern state were built in a sociopolitical and ideological vacuum. That is, public organizations that were run by institutions not shared by the people lacked essential mechanisms to build consensus. They never seriously addressed the relationships between state and citizens because the majority of the colonies’ inhabitants were “native subjects”, not “citizens”, of the colonial power. The elites who inherited the responsibility of running the new independent governments faced a double challenge: (a) devising effective ways to anchor their vision of a free country into the sea of basic values common to different groups of people, without being fully aware of the complexity involved in doing so, and (b) concurrently running the state apparatus, providing services to people and managing the economy with extremely limited skills and generally no experience.

The challenge of CDD from an institutional development point of view is to help close the gap between the people and different levels of government and between state institutions and grass-root institutions, within the context of fragile states run by weak governments. It is a formidable challenge which requires the coordinated effort of all donors to support the sections of government and civil society that work to improve governance. Their work can enhance people’s resilience and teach them to resolve potential conflicts peacefully, keeping the engine of development running.

### Box 18

#### Features of state fragility

- poor administrative capacity (i.e. the state cannot guarantee delivery of basic services, including justice);
- lack of effective institutional channels for political participation (e.g. high levels of centralization, little control over the executive, instability, state authority used to pursue private wealth and power);
- weak and non-transparent public finance management;
- explicit commitments to improve human welfare not reflected in actions and outcomes;
- exclusion of particular social groups or components of the national population;
- adoption of repressive polities;
- incapacity to improve governance and reduce poverty.

<sup>16</sup> The expression describes a situation in which lobbies (i.e. local pressure groups and powerful individuals) have power to get allocations of public funds to implement their preferred projects in excess of what is socially optimal.

## Poverty and poor resilience against shocks

Two types of shocks generate crises that have lasting negative impact on the livelihood of IFAD's target groups:

- shocks due to natural disasters (e.g. earthquakes, tsunamis, floods, droughts and pandemics);
- outbreaks of violence due to intra-state political conflicts that the institutional system does not manage to resolve peacefully.

It is now widely recognized that natural hazards and violent conflicts cannot be treated independently from the general problems of economic, human and institutional development. Poor countries are prone to both types of crises to a much larger extent than rich countries.<sup>17</sup> Crises in poor countries put the economic development process in reverse for many years. The severity of the impact of a shock is correlated with the degree of resilience of a country, which in turn depends on the strength of the central and local governments and community-level organizations. Interventions aimed at preventing and moderating the impact of crises are therefore justified on humanitarian grounds and as part of economic development strategies.

Violent conflicts and major natural hazards adversely affect IFAD's ability to carry out its core mission of reducing rural poverty. Negative effects include the following

- the inability of the state to deliver services, including those connected with essential public goods such as security, justice, healthcare and education;
- disequilibria in the social fabric and in its institutional setting that upsets social cohesion and grass-roots organizations;
- changes in the structure of the target group, with a larger share of vulnerable households, women-headed households, orphans and people affected by pandemics;
- destruction of productive assets and disruption in production and trading activities;
- interruption of key projects, loss of valuable trained personnel and damage to facilities, infrastructure and other assets of ongoing projects.

## The influence of non-income poverty factors

Non-income causes of poverty (e.g. exclusion, discrimination, indignity and insecurity) contribute more to the weak resilience of rural societies in poor countries than income poverty (i.e. consumption below a given amount for an acceptable minimum standard of living). Non-income poverty originates in unfavorable institutional settings which deny the lower strata of society access to social capital, proactive participation in public life and equitable sharing of human development opportunities. These are well known risk factors of political instability.

CBOs provide an important buffer that mitigates the impact of crises. They are generally built on traditional societies' principles that govern their collective coping strategies. When they are non-exclusive and adequately supported in acting proactively for the human, social and economic development of their membership, CBOs remove some of the key causes of non-income poverty, contribute significantly to improving governance and provide checks and stability in the local sociopolitical setting.

IFAD-supported CBOs have played important roles in crisis situations (e.g. by filling a vacuum caused by the disruption of government services, opposing the spread of violent groups in rural areas and within communities and providing transparent and effective channels for recovery assistance to reach the intended beneficiaries). An outstanding example of the role of

17 A. Donovan, M. Smart, M. Moreno-Torres, J. Ole Kiso, and G. Zachariah. Countries at Risk of Instability: Risk Factors and Dynamics of Instability, 2005.

IFAD-supported CBOs in checking the spread of violence comes from the highlands of Peru, which is summarized in Box 19. There are other similar examples from IFAD projects in Africa (e.g. Burundi, India, Sierra Leone and Sudan, among others), Asia and the Middle East.

Strong community organizations have also been instrumental in reaching victims of major natural disasters. CBOs supported by IFAD projects have contributed to organizing the distribution of emergency assistance, providing

- an effective complement to government services unable to cope with the greater demands of temporarily increased workloads;
- transparent and equitable behaviour that administrations under stress are not always able to provide.

**Box 19**  
**Community development helps check the spread of violence in Peru**

The years between 1981 and 1993 were the most violent in Peru's recent history. The civil war initiated by the terrorist group *Sendero Luminoso* (Shining Path) and brutally repressed by the Army caused 70 000 people to die or disappear. Of these casualties, 80 per cent were rural dwellers and three quarters spoke *Quechua*. There were fewer outbreaks of violence in areas where the rural communities were better organized and had a tradition of struggling for their rights and undertaking common development action.

IFAD projects in the Sierra suffered considerable loss of life and equipment and destruction of infrastructure from the violence, but people learned how to survive and apply interventions that were continuously adapted to changes in the conflict (e.g. transferring

responsibilities to CBOs, using local language for communication and emphasizing the values of the local rural culture). Some project areas were forced to suspend operations for some time, but other areas, such as Cajamarca, Cusco and Puno, operated efficiently through the entire period and built strong CBOs, which developed quickly as soon as the violence ceased.

IFAD's approach in Peru has clearly shown that strong rural institutions, based on self-determination and local leadership, are effective barriers against the spread of violence and are equally effective springboards for economic and human development once adequate security and normal governance is restored. The government of Peru adopted many features of the IFAD projects in its national policies of pacification, reconstruction and development of the Andean areas.

Source: Communication by R. Haudry de Soucy, IFAD Latin America Division.

# CDD and local development

## The demand for goods and services

CDD is about providing goods and services to rural communities (e.g. primary education, basic health care, technical know-how for simple production activities, small rural infrastructure such as irrigation and water supply, connections to secondary roads, facilitating access to markets, communications, storage facilities, production inputs, market outlets and a variety of financial products). There are two major sources of demand for goods and services:

- the demand determined by market forces;
- the demand determined through institutional channels.

Government intervention affects the consumption of goods and services that are of public utility. Government intervenes to correct situations in which market failures distort the optimal allocation of resources (e.g. as a result of asymmetric information, monopolistic control of supply or demand, poor infrastructure or lack of financial services) and to generate supply-induced demand for public goods consistent with basic principles of good governance. Whenever such principles are not respected (i.e. when the supply generates an inequitable distribution of public goods that excludes certain citizens), government failures occur that need correcting.

The public utility nature of a good or service justifies it being provided to the public. The questions to address include the following:

- when and to what extent should public administrations produce and deliver, or only finance, public utility services?
- which level of public administration should be involved in financing? In production and delivery?
- what are the possibilities for improving the financial sustainability for providing the services?

The answers depend on the specific features of each good or service and on the stage of economic development of the country or region within a country.

## The delivery system

The organizations that provide goods and services are generally referred to as the “delivery system”. There are five components of the delivery system: regulation, planning, production, delivery and financing. They are defined in Box 21.

Centralized governments tend to concentrate responsibility for providing public utility services in one provider: the public administration with its different ministries. Decentralized approaches seek the appropriate actor to take responsibility for implementing one or several of the components, depending on circumstances, objectives and the nature of the good or service. The extent to which multiple agents share authority and responsibility for planning, producing, delivering and financing private and public services is an important feature of a pluralistic governance system.

The government controls the regulatory function. This function sets and controls the regulations that govern the other components, in accordance with the general objectives of central government policy which, in a democratic society, is responsible to the people. CSOs are also sources of rules which democratic governments must

### Box 20 Goods and services of public utility

These are goods and services that, for a variety of reasons, society decides should be produced in different quantities, in a different mix, made available to a different set of consumers, or sold at different prices, than would result from the play of market forces.

Source: Musgrave, *The Theory of Public Finance*.

respect. For the political setting to be stable, the regulatory function must be exercised with consensus between government and civil society.

## Key actors and their roles in the delivery system

CDD projects typically involve four kinds of actors:

- agencies of the public administration;
- CSOs and CBOs;
- NGOs;
- commercial agents of the public and private sectors.

Project implementation is affected by the nature of these different actors and by the mechanisms that regulate the relationships between them which determine their respective roles (e.g. as delivery agents, enabling agents or users' agents).<sup>18</sup>

Agents of the public administration are officially part of government, albeit at different levels and with different mandates. They are enabling agents because they facilitate implementing projects and achieving project objectives by enacting regulations and conforming to appropriate organizational behaviour. Public administration agents also perform the role of delivery agents when they act as service providers.

Private organizations may serve overlapping functions in rural development. While they are generally engaged as production and delivery agents (e.g. civil works contractors that build infrastructure), NGOs can provide public goods on behalf of the government administration (e.g. community animation and facilitation services or functional literacy training). NGOs also lobby to mobilize public or private resources on behalf of the communities with which they work. Projects commonly recruit NGOs that are experienced in working at the village level.

The CDD content of a project depends on the roles assigned to the actors that operate in the local development arena. IFAD strategy aims to foster local development through CBOs by making use of resources that must be channeled through the central government and that require formal institutional instruments to reach the community level effectively. These instruments must establish relationships between the CBOs and the levels of the public administration that are nearest to the communities. The basic principles of domain, subsidiarity, jurisdictional spillover and specialization are used in assigning roles. In applying these principles in CDD policy, four areas are relevant:

### Box 21 The components of service provision

**Regulation** includes defining and enforcing domains, responsibilities, instruments of delegation and/or devolution, instruments of resource transfer, instruments of technical and financial control and standards.

**Planning** concerns formulating and approving medium-term plans for rural development and the related annual plans and budgets of the agencies that implement the plans.

**Production** includes contracting, supervising and paying service providers for the production

of a service (e.g. preparing training materials, conducting agricultural research, spreading information about new agricultural practices or market opportunities, animating rural communities, constructing rural infrastructure or running functional literacy training).

**Delivery** includes delivering a good or service by actors who are not the same as those who produce the goods and services.

**Financing** includes approving resource transfers, releasing funds to service providers and controlling the technical and financial performance of service providers.

<sup>18</sup> See Guidance Notes for Institutional Analysis in Rural Development Programmes, IFAD WCA division, 2009, for a discussion of the different types of agents and their roles and relationships in the institutional system.

- identifying the type and nature of development activities for which planning and implementation can be devolved to the CBOs at the village level (or at a level of aggregation of villages that can be controlled easily by community members);
- identifying which activities “belong” to the communities and which “belong” to the district level of the public administration;
- specifying the operational interface between CBOs and public authorities at the subdistrict and district levels;
- defining services that must be provided by agents with specialized skills (e.g. technology development and transfer, engineering and construction, training, management of financial services, contracting, animation and communications).

### The role of CSOs

Government can also contract with CSOs to carry out specific tasks on its behalf (including the PCU of an IFAD project, which is part of the public administration). CSOs can be given the function of autonomously planning interventions of public utility, subject to certain conditions. This arrangement requires a specific ruling by the government that formally recognizes the public utility of a CSO. Such a ruling sets the conditions that the CSO must respect, including the nature and objectives of the CSO, the extent of its autonomy and the means of accessing public funding.

CSOs of public utility can play an important role in CDD. They provide a flexible instrument to operate at the community level. They are factors of pluralistic governance. They can effectively advocate for the interests of the communities with which they work and may become effective channels to mobilize external resources for the communities. This kind of arrangement significantly increases the CDD content of a project. In West and Central Africa (WCA), IFAD has experimented with this arrangement in Cape Verde, Mali and Mauritania with different degrees of success.

The role that government is prepared to recognize for CSOs in local development is influenced by two different views about private service providers. One view is that a private party (i.e. an enterprise, NGO or CSO) is essentially a contractor, irrespective of its statutory objectives. As such, CSOs can be responsible for implementing development actions supported with public funds only if the relevant level of public administration plans these actions and delegates their implementation

with a contract that specifies what the contractor is going to do. A corollary of this view is that any activity that is not included in a government plan cannot be delegated because it is outside the responsibility of the public administration and therefore not eligible for public funding. Such activities can only be implemented with private financial support.

Another view is that CSOs can be given the responsibility, authority and public financial resources to plan and implement actions to reach the objectives they have in common with the government, as long as

- they perform functions of public utility in general compliance with the objectives of government policy;
- they operate in full partnership with the people they intend to serve;
- they respect the basic principles of sound, transparent and accountable administrative practices.

Government funding of these CSOs introduces an element of competition with the public administration, which ought to improve the effectiveness and efficiency of governance at the local level.

#### Box 22

#### What is a CSO of “public utility”?

Government may recognize the public utility functions of a CSO when

- the independently established, core objectives of the CSO coincide with key government objectives;
- the CSO possesses the capacity to effectively manage government contributions to fund medium-term programmes on a joint-financing basis.

Source: FAO. Draft Decentralization Manual, 1999, by Prof. L. Smith.

IFAD's CDD projects do not need government to share the second view about CSOs of public utility. Nevertheless, this view is of particular interest to IFAD as it facilitates CBOs' role as partners of public utility CSOs. This may be a particularly effective way to enhance the participation and empowerment of the Fund's target group in the development process. IFAD projects have been instrumental in several countries in forming CSOs with a strong community basis, establishing partnerships between CBOs and NGOs with strong public utility functions, and negotiating the formal recognition of their "public utility" in the countries' legislation.<sup>19</sup>

### Partnerships between CBOs and NGOs

Would supporting strong partnerships between CBOs and NGOs weaken or strengthen the local government? There are two views on this matter.

One argues that developing autonomous organizations which bypass the local government is often contrary to the constitutional decentralization measures enacted by government and weakens the process of implementing such measures because it diverts resources that should be used to increase the capacity of the local administration. Accordingly, publicly-funded CDD should be carried out through and by the local government administration, not in competition with it.

The other view maintains that complementarity and healthy competition, promoted by distinguishing roles and mandates, does ultimately strengthen decentralization and enhances the emergence of effective local governments. This happens because

- the local government's limited resources are focused on the areas which are its mandate, increasing the chances of good performance (e.g. enforcing rules about standards, preparing master plans and implementing the larger public investments of the master plans, rather than making investment decisions on small projects at the community level);
- competition forces better performance and more responsiveness from the local government than does a monopolistic position.

### Assigning roles through devolution and delegation

Roles are assigned by central governments through delegation and devolution. The form and content of these instruments are very relevant to the design of CDD projects.

Many public administration reforms carried out since the mid-1990s in developing countries have devolved to the district level matters that affect agriculture and rural development, including responsibility for rural roads, irrigation, water supply, local market infrastructures, primary education and basic healthcare facilities. District governments have been given different degrees of decision-making power in those fields and different forms of resource transfers have been introduced to enable the districts to carry out their responsibilities.

Experience with the impact of district-level decentralization on rural poverty is far from conclusive. Central government's genuine goals may be to reduce income disparities, improve gender equality and ensure household food security for all. However, measures to implement government policies may conflict with the interests of groups at local levels that have a claim on using public resources transferred to decentralized administrations and that have the political power to seize those resources.

District governments face significant problems in providing services that must be delivered at a level higher than the village, so they place low priority on the community level. Rural roads, health centres and piped water supplies are examples of investments that are higher priorities for District Assemblies than village access tracks, village wells, microirrigation and functional literacy.

The greater the number of villages in a territory, the greater "distance" between the district administrators and the communities and the more likely it is that the administrators are political

<sup>19</sup> See, for example, the case of the Programme de Développement Durable des Oasis in Mauritania and of the Programme de Lutte Contre la Pauvreté Rurale in Cape Verde.



intermediaries, rather than members of local communities directly accountable to their electorate. Devolution to the district level does not automatically resolve problems at the grass-roots level. Some students of CDD have suggested that central authorities may need to defend the village level against the district level.<sup>20</sup> Devolution policies can have positive or negative effects at the community level, depending on who is in a better position to exploit the opportunities offered by the local administration's autonomy. In assessing a local situation, it is useful to keep in mind that devolution may achieve government policy objectives if and when

- those who manage the devolved organization and the policy's target group have the same constituency;
- the constituency is motivated to improve its own living standards and is not influenced by other factors (e.g. political affiliations, ethnic or religious allegiances, fear of criminal organizations or cultural prejudices).

When government policy aims to diversify local governance and the delivery system to achieve more equity and participation in rural development, it may extend beyond devolution to the district government and mobilize CSOs of public utility, entrusting them with achieving common objectives autonomously. The arguments in favor of this option are that CSOs of public utility

- can be selected in such a way as to guarantee that they work exclusively to achieve the objectives shared with the devolving central government;
- may work with greater efficiency than the district administration;
- may mobilize private resources to complement government resources.

## **District master plans and community plans**

An important CDD issue concerns the relationship between the district master plan (DMP) and the community plans. District governments often prepare master plans for the main areas of responsibility and authority that have been devolved to them by the central government. There is a master plan for water supply, one for roads, one for primary schools, and one for health centres. These plans provide the technical solutions to the problems of supplying public services to all citizens in accordance with the standards set by the central government. The inventory of technically feasible solutions is then translated into a list of priority investments aimed at achieving an equitable and optimal distribution of infrastructure over the territory. The priority investments are phased in accordance with the district government policy objectives prevailing at the time that the DMPs are formulated.

From the point of view of CDD, a major problem with DMPs is that they are formulated by technicians and vetted and approved by the politicians that control the District Assemblies. This process tends to ignore the village level, often bypassing the subdistrict units of the local government even when they are formally included in the process of creating the DMP. As a result, communities of users have limited opportunity to express their preferences for the type of services they wish to receive. For example, in the case of water supply, the public administration may prefer to invest in piped water networks for reasons of health and hygiene, whereas communities may prefer tubewells and hand-pumps because they can control their operation and maintenance without needing interventions from the district water authorities who may be difficult to reach or unable to respond to requests.

DMPs can help determine which investment projects fall in the district's domain or the community's domain. For example, in applying the principles of subsidiarity and jurisdictional spillover, all piped water supply networks longer than the minimum length of the conveyance system would fall in the domain of the district, while the very small networks would fall in the

20 M. Das Gupta, H. Grandvoinnet, M. Romani. Fostering Community-Driven Development: What Role for the State? World Bank Policy Research Working Paper 2969, 2003.

domain of a community or a small cluster of neighboring communities that can be served by the micro-network. Tubewells, open shallow wells and dispensaries would be in the community's domain; health centres would be in the district's domain.

## **Funding channels for different levels**

Traditionally, community-level development activities devolved to district authorities in a decentralized government are funded by the district budget, which is created by the district administration and approved by the District Assembly. For CDD, one important implication of splitting responsibility between the district and the communities is the need to establish two different funds for transferring public resources (i.e. the government's and official donors' resources) to the two levels. This arrangement would raise the following questions:

- Should the use of the funds dedicated to the community level be subject to the ex ante authorization of the district authorities?
- Should the interface between district plans and community plans be limited to an exchange of information?
- Should there be mechanisms to ensure community-level participation in creating the DMPs?

In matters devolved to the district, district authorities would normally maintain that they must approve items in the community plans. The community plans are expected to reflect the DMP and the government's standards for activities funded with public monies. For example, community plans must refrain from developing tubewells in the villages that the district is planning to serve with a piped water network, or in areas that the DMP declares unsuitable for exploiting deep ground water resources. District authorities must coordinate plans to avoid duplication of efforts and sub-optimal allocation of resources.

In principle, it is difficult to disagree with this objective, however, in practice matters are not as straightforward. Conclusions may be different once time and other factors are taken into account. Including a water supply network in a DMP does not mean that it will be constructed in the near future or that once constructed, it will be operated in a sustainable manner. Many developing countries, particularly in Africa, have many water supply networks that do not work because of wrong design, poor management, failure to collect water charges from water users and government's lack of resources to compensate for the shortfall in the networks' revenue. Under those circumstances, development designers must address whether the central government should finance the tubewells included in a community plan, or refuse to do it because the district envisages serving the area differently in the future.

One view on this issue is that public funds should not be used in such cases, but that communities should mobilize private resources to fill the need in the meantime or to insure themselves against the district governments' failure to supply. Another view holds that the duplication of effort argument is spurious, because

- it is based on the assumption that all the district initiatives included in a DMP will actually materialize and that they will be operated in a financially sustainable way;
- it often represents a way to support monopolistic practices of the district or central government agencies, which eventually lead to greater waste of resources than may be caused by the alleged duplication of facilities;
- it blocks local initiatives and fosters dependency on the central or district government.

Advocates of this view maintain that the central government can legitimately fund the community plan, even at the risk of duplicating investment, provided that

- the community plan projects fall in the community's domain;
- the projects are within the cost levels established for community projects;

- community members have funded their share of the cost at a level that makes credible their commitment to fund future operation and maintenance costs.

The need to avoid investing in microprojects that risk overexploiting a given resource, or tapping into a non-existent resource, is an entirely different matter. Needing a technical feasibility clearance for a microproject (such as boring a tubewell) is much different from determining whether the project fits with the priorities of the public administration. In this respect, the CDD approach requires that special instruments ensure that technical feasibility clearances do not become expedients for enforcing solutions against the will of the service's clients, particularly when the clients invest their own resources to cofinance the solution.

## **Community involvement in setting standards**

Setting and enforcing standards in the regulatory function is the responsibility of the central government. Some government-enforced standards affect everybody's security (e.g. the rules that cars must have lights, adequate braking systems and turning signals, or that medicines and improved varieties of seeds should comply with specifications and provide certification of their effect on users). Other standards involve NRM regulations that protect the use of a critical resource (e.g. technical parameters that must be respected in exploiting a natural forest, diverting water from a river or pumping water from an aquifer). Most of these standards specify conditions valid for everyone and under all circumstances. They must be followed, whether an affected activity is financed with private or public funds. The central government may transfer responsibility to enforce these standards to a local level of government in order to tailor their design to local conditions (e.g. the needs of flood- or earthquake-prone areas or the need to protect certain animal species).

Most of these standards fall outside the concern of CDD. There are some, however, that do not. A clear example is forestry legislation, which too often has been designed with little regard to the rights of native forest-dwelling communities. In these cases, it is legitimate to raise the question of whether the local communities should share the regulatory function and participate in formulating rules and controlling enforcement in their territory.

CDD is concerned with standards regarding the level of services that must be provided to citizens using public funds. In education, health care and water supply, for example, the general principle is to apply equal standards of service for all. However, these kinds of standards are not related to objective conditions; they reflect policy objectives, which are subject to change and negotiation.

Central governments in less-developed countries tend to set reasonably high standards for services, based on the recommendations of international agencies that assess people's needs.<sup>21</sup> Advocating for such high levels of consumption on equity grounds is quite legitimate. It is questionable, however, whether communities in poor rural areas can afford to operate and maintain facilities constructed to satisfy the level of consumption expected, and this has important implications for the financial sustainability of the consumption targets. Furthermore, the time that it may take to provide a service at those levels to the entire population has critical implications for whether the community will obtain the service at all. From the point of view of CDD, a legitimate question is whether local communities should be allowed to play a role in setting the standards for services of priority to them, trading off lower standards for more reliable and faster delivery of services.

CDD would support the principle that informed consensus of client communities should be sought regarding possible derogations from government standards for services that have a bearing on the livelihood of the communities. If this policy is accepted, rules need to be established by the central government as to how such community consensus should be established and through which enabling instrument of governance.

<sup>21</sup> The World Health Organization, for example, exercises strong influence in setting minimum standards such as water supply per head of inhabitant per day, or the maximum distance between a village and health centre.

## Government procedures and CDD

The CDD objective of fostering the local economy at the community level requires measures that maximize the multiplier effect of public expenditure. To achieve this objective

- project expenditures should mobilize community-level suppliers;
- non-discriminatory procurement and disbursement procedures should be used that encourage community-level enterprises to respond to project demands for goods and services.

These points naturally hold within the context of procurement for those goods and services which can be technically delivered by local enterprises (e.g. it is likely that hydroelectric infrastructure cannot be delivered by local enterprises and will require external skills)

As an integral part of creating an enabling environment for CBOs, CDD policy and projects face the challenge of introducing procedures that facilitate CBOs' operations. However, government procedures are generally complicated and repetitive and can be instruments of exclusion, if applied in the wrong context. They are normally designed for handling transactions of an entirely different nature and size than the microprojects CDD wishes to entrust to the rural community. Lengthy and complex procedures are justified for large or medium-size contracts, but certainly inappropriate for small contracts. Adapting large contract procedures to microprojects is regressive because it becomes impossible for small and micro local enterprises to participate in government-funded programmes. The standards applied to government contracts include conditions that are impossible for small community-level contractors to meet (e.g. presenting bank guarantees) and that are generally unnecessary, given the very small amount of cash that the contractor would receive. Another example is the requirements that CBOs must comply with to obtain juridical status and the long process that this normally requires even when the CBO is in a position to comply.

Changing procedures to create opportunities for CBOs requires taking the bold step of devolving decisions closer to the community level. Only at that level is there adequate knowledge about the capability and reliability of local contractors and suppliers. Some IFAD CDD experiences in West Africa moved successfully in this direction as did many Social Fund projects financed by IFAD in Latin America. Other international financial institutions (IFIs) also have experimented in this matter, such as the World Bank with the Borgou project in Benin.

## Analysing procedures

Procedures have purposes and require citizens to complete forms and provide required information. Each bureaucracy of the public administration has its own procedures. As a result, citizens often must follow multiple procedures simultaneously to obtain clearance to undertake even very simple initiatives.

Procedures have transaction costs for the public administration and the ordinary citizen. The more complex the procedures, the higher the transaction costs. With increasingly complex procedures, transaction costs increase much more for citizens than for the administration. The administration's transaction costs are not borne by its officers, whereas ordinary citizens carry the full burden of their share.

### Box 23 Common-sense questions when analysing procedures

- What is the specific purpose of the procedure?
- Is there a valid purpose for this procedure that supports the overall policy objective?
- What does the procedure contribute to achieving the purpose?
- What value is added by the procedure?
- Is the value added commensurate with incremental costs borne by the citizens?
- Is this procedure or information step really needed?

Simple, common-sense questions, such as those in Box 23, can be asked by generalists when formulating policies or projects. To go further, they can consider how to do something more simply by mobilizing specialized expertise in each situation and supporting specific proposals in policy dialogue with the government.

## Analysing processes

The theory behind designing a CDD project is to focus on the process of project implementation more than on planned project actions. Processes are often confused with procedures, however, procedures are only one part of a process. A process is more than “activities” plus “procedures”. A process is a dynamic concept that must be allowed to evolve with experience and should not be perceived as a set of fixed rules, as are procedures. The evolution should be the result of “learning by doing”, which is the outcome of continuous dialogue among all the stakeholders, flexible project implementation, good monitoring and adequate supervision of the substantive aspects of project performance.

Do we have a methodology for monitoring processes? So far, the M&E systems of IFAD’s CDD projects in West Africa have included only attempts at monitoring procedures. More can be done to capture the evolution of project implementation processes by following the questions presented in Boxes 24 and 25.

### Box 24 Monitoring processes

Monitoring processes involves watching over

- the actual decision-makers on each project activity;
- the information upon which decisions are made;
- the criteria governing the scope for decision-making;
- whether the established form has been followed for each decision;
- whether those appointed to approve the decisions are, or fully represent, the relevant stakeholders;
- whether those appointed have exercised their statutory role;
- whether those appointed are given sufficient information to arrive at an adequately informed judgment;
- whether regular reporting is enforced and provides an accurate description of the current situation;
- whether reports reach all stakeholders;
- whether adequate training was conducted to enable all stakeholders to perform the functions and tasks expected of them;
- whether the incentive system encourages decision-makers to make the right decisions;
- whether the incentive system for frontline operators encourages them to implement their task in a way that leads to achieving the CDD objectives;
- whether expected rewards have been obtained by the stakeholders;
- whether penalties should have been enforced and if not, why;
- whether lessons are learned from experience that may suggest changes in procedures or rules, and whether modifications are made as a result.

### Box 25 Relevant questions that may be asked of citizens in assessing the participatory nature of a process

- Was the process fair?
- Was your voice heard?
- Did you get what you asked for?
- If not, did you receive an explanation why not?
- Was the explanation satisfactory?
- Was the delivery timely?
- Was the money well spent?
- Can you make full use of the service provided?
- Was there any corruption?
- Was anyone’s interest harmed?

Part B.  
CDD project design decisions

## The scope of CDD projects

### Key decisions about components

Rural development projects typically finance one or more areas of intervention, including

- training and capacity-building;
- agricultural technology generation;
- micro-business skills and marketing development;
- transport and social infrastructure;
- production and marketing infrastructure;
- rural financial services.

CDD project designers must decide

- which areas of intervention to include;
- how to organize the areas in structuring the project;
- which activities within each area will be project-led and which ones will be demand-driven;
- the extent to which the menu of projects offered to the communities will be open;
- whether there is the need for a pilot phase;
- whether the project should cover a subregion, a region, or the entire country;
- whether rural financial services and microenterprise development should be included in a single project or supported under a separate parallel project;
- to what extent CBOs can be financed;
- whether grants or loans should be used to finance each activity in transferring public funds to the CBOs.

### CDD and technology innovation

Technological innovations affect producers differently. The expected positive performance of a new technology often rests on the assumption that producers sell the largest part of their output in the market for cash and that they operate in areas where there is a marginal risk of crop failure due to climatic vagaries. But IFAD's target group is small-scale farmers for whom such conditions do not always apply. The bulk of their output is for household consumption, while only a relatively small share is sold in the market. Therefore they may not be able to recover the larger recurrent costs of the innovation. The risk of crop failure is often significant for producers who operate very small plots of land that are far from the market in marginal areas and which are often subject to pests and diseases that are difficult to control. In addition, small-scale farmers often have inadequate knowledge about or bargaining power with suppliers of specialized inputs, which tends to increase the cost of purchasing inputs and reduce the chances of selling at good prices. As a result, the advantage of innovative technologies for small-scale farmers may be drastically limited.

It is therefore important that the design of a technological innovation fits the capability of the project's target group. It is necessary to research how specific innovations can improve the potential of the targeted producers and to develop correct estimations of the advantages for the community-level producers. CDD projects have often devoted a component (or part of a sub-component) to this area, but seldom with sufficient attention and determination for success. In practice, technological innovation has either been excluded or dealt with in a very general way during programme design, leaving the definition of a specific action to the implementation phase. This situation has often delayed action, failed to concentrate on research dealing with problems of the target group and generated few effective results.

To link community development and technological innovation, community project designers and managers must design and implement adaptive research to facilitate adoption of the innovation by the target group. Clear thinking, strong determination and the right incentives are required to design and implement research programmes in close association with the ultimate users. A programme should concentrate on how to solve problems that challenge farmers in handling their production schedule and on how to adapt native products and innovative products developed elsewhere to the farmers' land and its resources.

To respond to these problems, a strong effort has been made to discuss and rationalize adapting design technology and participatory research, particularly to reach a specific target group of farmers. IFAD's contribution to this effort includes funding for an exhaustive, three-volume publication entitled "Participatory Research and Development for Sustainable Agriculture and Natural Resource Management",<sup>22</sup> which the reader is strongly advised to consult. Some of the basic questions the document addresses include "Who participates? How? Who decides? Who benefits? Who wins and who loses?". It points out "the complex sociocultural, economic, and political context of research workers" and "that research and development strategies designed together with communities enable a more nuanced understanding of the issues and a transparency that may facilitate change"<sup>23</sup>

Governments and financing agencies are perfectly entitled to focus on research that will generate increases in land productivity regardless of whom it benefits. However, most cases are dependent upon specific producers' potential (e.g. as a result of location, availability of irrigation or good rainfall and fertile land). In such cases, it is important to clarify that the research objectives may be unrelated to improving the livelihood of rural communities, particularly of those that operate in marginal areas. If this point is clarified, it is easier to see that there is also the need to fund research activities aimed at improving the production of a target group which is not operating in the good potential areas of a country and which has problems of survival and growth.

## **Demand-driven vs. project-led activities**

Rural development projects always include activities that are project-led and activities that can be demand-driven. Activities that are predominantly project-led include institutional development (i.e. setting the rules of the game), information and communication, mobilization of people's demand, capacity-building, gender sensitization, scientific research for technology generation and transfer of resources (e.g. funds, goods, technical assistance) from outside the communities. The word "predominantly" is used intentionally, since the CDD content of a project varies to the extent that there is proactive input by the communities in those activities. For example, CDD content is higher if rules are established in consultation with the communities, if communication is a two-way process that improves the capacity of both citizens and the public administration to communicate with one another and if technology generation results from a close dialogue between research outfits and farmers.

CDD requires mechanisms to bring about a proactive encounter of project-led and demand-driven activities. (For example, a certain project includes a women's capacity-building sub-component. Before deciding on how to implement this sub-component, the PCU discusses with the women which capacity-building activities are most important for them, offering them a wide range of open-ended options. The women select functional literacy training and ask that the training be held in the evening, after dinner. The PCU proceeds to implement the sub-component according to the women's choice and needs.) Predominantly demand-driven

22 Volume 1: Understanding Participatory Research and Development, Volume 2: Enabling Participatory research and Development, and Volume 3: Doing Participatory Research and Development. The book is the product of a number of authors coordinated by the International Potato Center - Users' Perspectives with Agricultural Research and Development (CIP-UPWARD) and IFAD.

23 "Participatory research ...", volume 1, page 55.



activities are determined by the perceptions of the community-level project partners about their priority needs and on the factors that shape their schedule of effective demand. A key mechanism of the proactive encounter is the capacity of the communities and governments to make informed decisions; the communities must be informed about the full range of opportunities and constraints that face them and the public administration must be informed about the rationale that community members use to make their decisions.

### **Open-menu vs. limited-menu projects**

The demand-driven rural development projects designed in the mid-1990s have been instrumental in the evolution of CDD. Some of these projects, supported by IFAD, allowed communities to decide project agendas within limits imposed by a short list of non-eligible requests. Other projects limited responses to sector-specific interventions in agriculture, natural resource management, or other fields of particular interest to the central government or the external donor.

Assuming that other conditions are the same (e.g. implementation modalities and approach), an open-menu project is similar to multisector projects that have a higher CDD content. Multisector CDD projects provided opportunities for strengthening community institutional development on a wider basis, but required more complex coordination between the community level and the central or local public administration. They were also more difficult to implement than projects that intervened in a single or very limited number of sectors.

The choice between open- and limited-menu projects is linked with the choice of the main project partner in the central government. Generally, IFAD's entry point in a country is the Ministry of Agriculture. Starting here has sometimes constrained the menu of opportunities offered to the Fund's target group.

### **CDD and social infrastructure**

CDD projects are sometimes perceived by development practitioners and governments to be synonymous with Social Development Fund (SDF) projects and Social Infrastructure Projects (SIP). The SDF projects were spearheaded by the World Bank and supported since the early 1980s by many international cooperation agencies. They aimed to develop rural social and production infrastructure (particularly water supplies), basic healthcare, village access roads, primary schools, small and micro irrigation, storage facilities and other income-generating activities (IGA). The SIP concentrated on social infrastructure, excluding IGA. Many SDF and SIP were designed for disadvantaged remote areas and, in some cases, also generated employment to reduce the negative impact of drastic policy reforms and structural adjustments. SDF projects generally have been administered outside of the national line ministries and decentralized government administration, with project PCUs handling the funds autonomously. SIP implementation generally has been located in the line ministries (e.g. Agriculture, Water, Health, Education and Works).

Initially, SDF and SIP projects had little in common with the CDD approach. Differences were in the areas of community empowerment and capacity-building at the community level. CDD envisages that CBOs have strong influence on public investment decisions, whereas early SDF and SIP did not emphasize such a role. CDD also sees a role for CBOs in the entire process leading to the construction of infrastructure, and not only in taking charge of facilities constructed for them by external agents.

Over time, a number of CDD features were added to SDF and SIP projects, such as the Participatory Rural Appraisal (PRA) methods used to ascertain people's "felt needs" and the focus on users' associations and on building their capacity. In some countries of Latin America, SDF and SIP projects went quite far with the CDD approach, entrusting CBOs with full responsibility for designing and implementing their microprojects, including procuring goods and services from local suppliers.

## **CDD and production and marketing infrastructure**

The most recent generation of CDD projects include components that finance production and marketing infrastructure, in addition to social infrastructure. The expected outcomes of these components (i.e. increased agricultural production and increased value added for agricultural producers) are “private goods”. Marketing infrastructure is generally controlled by local governments and leased out to private individuals, wealthy traders, or a CIG of village traders that assumes responsibility for organization and management (O&M) and normally would not include all the households in the community. IFAD has cofinanced a number of such projects with other donors and has had some difficulty including mechanisms in the project design and the performance monitoring system that would guarantee poor community members access to the infrastructure.

A widespread practice is to fund the construction of irrigation and marketing facilities with grants that cover a large share of the costs. The fact that the government made the grant justifies that the infrastructure is not turned over to the users; the users are compensated for their contribution by having right of use and the responsibility to maintain the infrastructure. Government (generally a local government) may charge a user fee, which generates some revenue for the local administration. Charging a user fee is a rather common practice in building marketing infrastructure and somewhat less so in irrigation projects.

The production and marketing activities, as well as any other IGA, made possible by the facilities are funded by loans, either as part of the financial services component of the project or as part of parallel initiatives to develop rural financial services in the area.

## **CDD, rural financial services and microenterprise development**

Rural financial services and microenterprise development are components of any projects that directly raise the income of community members and foster the economy at the community level. Supporting such activities is an integral part of a community-based approach to poverty reduction. Making decisions about these components involve answering questions that deal with specialization (e.g. Who should provide the services? What can legitimately be funded by government grants and what should be funded with credit in rural financial services?). The answers to these questions must be within the project’s targeting strategy, which determines how to reach eligible communities and the poor within those communities and how to reduce the risk of local elite capture.

Rural financial services are highly specialized activities. Implementing these activities requires functions and skills present in different organizations than those required in other CDD activities, such as developing infrastructure, education, or water supply. The IFAD document entitled “Decision Tools for Rural Financial Services” issued in 2003 provides excellent guidance on how to structure project support for rural financial services. The document emphasizes the importance of sound banking practices and rigorous controls over the use of funds by microfinance institutions, irrespective of who their shareholders are. It also points out bad practices which do not sufficiently take into account the nature and requirements of financial service operations. Examples of such bad practices are rural development project components that entrust public bodies, such as local or central government administration units, with the responsibility of financing private goods by making (and trying to recover) loans to individuals or groups of individuals.

As discussed earlier in this report, there are several ways to design a rural financial services project with different objectives and degrees of community involvement and CDD content. In a conventional view of rural finance, savings collection and microcredit organizations transfer resources to target clients by a development agency whose control is irrelevant to the project objectives. For CDD, the community-level financial organizations (Cbanks) are community-owned and community-controlled institutions that achieve project objectives because they

represent key social capital of their members and are vehicles for transferring financial capital to them. Implementing this approach means establishing financially sustainable associations of micro-savings groups, and networks of such associations, that are capable of mobilizing local savings, attracting capital from outside the community, making loans to their members, recovering debt service from borrowers and providing a differentiated portfolio of products and linkages with the wider national capital market.

A CDD approach to rural financial services helps stimulate competition among service providers. Lack of competition is one of the reasons that financial markets fail to provide adequate services to rural people. Providing rural financial services is operationally very different from expanding existing financial institutions controlled in urban areas to rural communities.

Developing rural financial services through networks of Cbanks requires innovative thinking and a fairly sophisticated mix of skills capable of creating a diversified institutional setting with rules adequate to guarantee transparency and protect people's savings from misappropriation or risky investment. These considerations would suggest that a rural financial services component should not be included in a single multisector CDD project. The same is likely true with micro-business development.

Yet, the desire to respond to the effective demand of the communities would suggest conducting parallel projects to the CDD project to fund social and economic infrastructure at the community level through the creation of community development funds which provide grants. This approach may generate concern that it would create insurmountable problems regarding coordination among the projects. It would naturally be difficult to ensure that parallel projects are effectively coordinated, even in a limited project area. However, coordination does not necessarily mean that the projects must be synchronized. What is important is that community governance organizations are able to channel community demand to the competent service providers of the parallel projects or to any other service provider capable of responding in their area.<sup>24</sup>

## **Degrees of CDD in microcredit and rural financial services projects**

A financial services provider can make important decisions that influence the CDD content of a project, including whether

- loans are made for a specific purpose or for needs unrelated to a specific purpose of the borrower;
- interest rates are influenced or controlled by the government or donors or whether they are set freely by the Cbanks;
- loan decisions are made by agents external or internal to the community;
- savings mobilization is allowed to the Cbanks;
- development of new products takes into account the specific requirements of clients at the community level.

A non-banking factor that determines the CDD content of projects is whether the field-level animation services are recruited to establish only groups of clients, such as cotton growers (this reduces the service provider's transaction costs and risk), or to establish sustainable Cbanks with MCs adequately provided with on-the-job training. Table 2 shows different degrees of CDD in rural financial services projects according to some key features of project design.

<sup>24</sup> There is a tendency by project designers to apply an overly holistic approach in which a single project caters to every requirement of the target group. This may have negative consequences, such as designing projects that are much too complicated to be effectively implemented. It ignores two very important factors: (i) that the project is very rarely the only development agent in the project area, and (ii) that the project interventions, if successful, unleash dynamic factors over time, such as more services being supplied by providers in a competitive environment. For example, other microfinance institutions are established to respond to existing demand, new branches open and new projects are established by other official donors or NGOs).

**Table 2**  
**Degrees of CDD in rural financial services projects**

Project design features	Conventional microcredit projects		Full CDD rural financial services projects
	Very low CDD	Moderate CDD	
<b>Origin and control of the financial service provider &amp; of funds handled</b>	Financial institution or specialized NGO external to the communities		Cbanks = associations of savings groups established by the communities and controlled by the membership
<b>Products</b>			
<b>Loans</b>	Only production loans	More liberal but still purposeful lending	Members are free to borrow for any purpose
<b>Collateral</b>	Mortgage on products financed	- Mortgage on products financed - Group guarantee	- Savings group's guarantee - Accumulated collective savings of the group
<b>Interest rates</b>	Negotiated by government and the service provider; depends on the rate charged by the government loan		Proposed by the loan committee of Cbanks; approved by membership. Must cover all Cbank's costs
<b>Loan-making decision</b>	Local managers of the external service provider		Loan Committee of the Cbanks, i.e. elected members of savings groups
<b>Savings mobilization</b>	Savings collected		If allowed by the Central Bank, members' savings collected
<b>Other products</b>	Depends on the interest of the external service provider or on external donors' initiatives		Depends on the demand of community members
<b>Sources of funds for lending to community members</b>	Government (donors) funding loaned by the Central Bank to the service provider	Government (donors) funding transferred by way of loans plus savings mobilized locally	Government (and donors) funding - transferred by way of loans - possibly with an element of grant  If allowed by the Central Bank: - membership savings - non-members' deposits
<b>Other government (donors) grant support</b>			
<b>Community animation services (CAS)</b>	Often done by the extension service of ministry of agriculture; accountable to project and ministry	Use social workers specialized in clients' group formation; accountable to PCU, ministries, local government	Use social workers with experience in establishing savings and loan associations; accountable to PCU and directly to the Cbanks networks
<b>Market and microfinance feasibility studies</b>	Specialists may not be required if only crop finance envisaged	Specialists are provided directly by the service provider	Financial experts with experience in savings and loans associations cooperate with the social workers
<b>Cost of the staff of the service provider</b>	Initially funded by government		Either benevolent staff used by the Cbanks or paid by the membership
<b>Training of members of the savings groups and of the MCs of the Cbanks</b>	Not relevant	Not relevant	A major project cost if adequately planned and implemented
<b>Performance monitoring and on-the-job training</b>	Performance monitoring is part of M&E system designed to supervise the service provider		Monitoring performance and training of managers of the Cbanks includes combinations of accounting assistance and audit
<b>Audit of the service providers</b>	Independent auditors		

## Impact on the local economy

CDD project formulation or appraisal reports should explain what specific measures are envisaged to maximize the project's impact on the local economy at the community level. A good analysis of these ideas, and of their implications for project management, may throw light on the linkages between project objectives, project design and implementation procedures and may illustrate the need to reconsider important design decisions.

Projects can make a significant impact at the community level with their own direct expenditure. The larger the expenditure on contracts with local micro-suppliers, the greater the impact on the local economy and the CDD content of the project. Further, the total impact will often be much greater than the simple amount contracted locally because of the multiplier effect.

Two key issues confront CDD project designers. One is the extent to which special procurement procedures can be devised and accepted by government and donors to maximize procurement of goods and services from community-level contractors. The other concerns the special arrangements and extra cost involved in negotiating and supervising the larger number of contracts required to seriously pursue a local procurement policy. These issues must be adequately considered at appraisal so that sufficient resources are available to implement the project consistent with its objectives

## Scaling up CDD projects

The success of CDD's initial tests in area-based, small scale pilot projects presents the challenge of "scaling up" to larger, regional and national projects.<sup>25</sup> "Scaling up" is the evolution from a project's boutique phase to mass application. Innovative financial products introduced by development agencies in the late 1990s, such as Flexible Lending Mechanisms (FLM), offer potential for doing this in a phased manner over time.

A major problem in scaling up is that the pilot projects are generally designed to test methods of achieving results without much attention to financial replicability. Scaling up requires a drastic reduction in the costs of supporting the CBOs, including the costs for training and monitoring their performance. Major donors have often been required to reduce their costs of administering projects. Major bilateral agencies and international development agencies, including leading ones such as the World Bank, have opted to merge their CDD approach with support for administrative reform, which led to concentrating investments at the district level of the local government. Certain projects, such as some in West Africa, were designed at the national level and involved many districts.

In many countries, IFAD has funded area-based projects which supported successive phases of local development over a fairly long period. Through these projects, IFAD has accumulated much experience in addressing the problems of local communities, including incorporating increasing amounts of CDD content in successive phases. In Asia, Latin America and West and Central Africa, experiences have been positive, have helped highlight difficulties in project design and implementation and have identified areas for future interventions and topics for policy dialogue.

An important outcome of this experience is the emerging capacity of CBOs to handle their own development affairs at a fraction of the cost of similar activities undertaken by government or private service providers.<sup>26</sup> If intelligently pursued, this experience may provide an answer to the issue of costs in addressing the subdistrict and community level. Another answer may come from mobilizing private sources of cofinancing through philanthropic NGOs and partnering with cities in developed countries.

<sup>25</sup> See World Bank specialized literature on scaling up, for example Hans Bingswanger & Swaminathan Aiyar. *Scaling up Community-Driven Development*, Draft World Bank document, August 2002.

<sup>26</sup> In WCA, IFAD project implementation experience provides examples of this in Mauritania (PDDO) and Senegal (POGV II).

# Partnership issues in CDD projects

## Definition of partnership

A guiding principle in selecting partners for development is to identify field agents who treat people as partners, not as “beneficiaries”. The principle of partnership is described in Box 26.

Decisions regarding partner selection are critical for the success of a CDD project. For international development agencies, certain partners are mandatory in all countries, while others can be selected during project formulation and appraisal, depending on the nature and content of the project, and on the options offered by the country’s institutional and policy setting.

IFAD’s CDD projects establish partnerships with the central government, as mandated, and with other actors in the public and private sector including

- decentralized administration in the project area (usually the district governments);
- local CBOs and their network organizations;
- NGOs and other private service providers;
- CSOs of public utility, if recognized by the government;
- the Central Bank and financial institutions specialized or interested in developing the rural financial market (for projects that include microfinance).

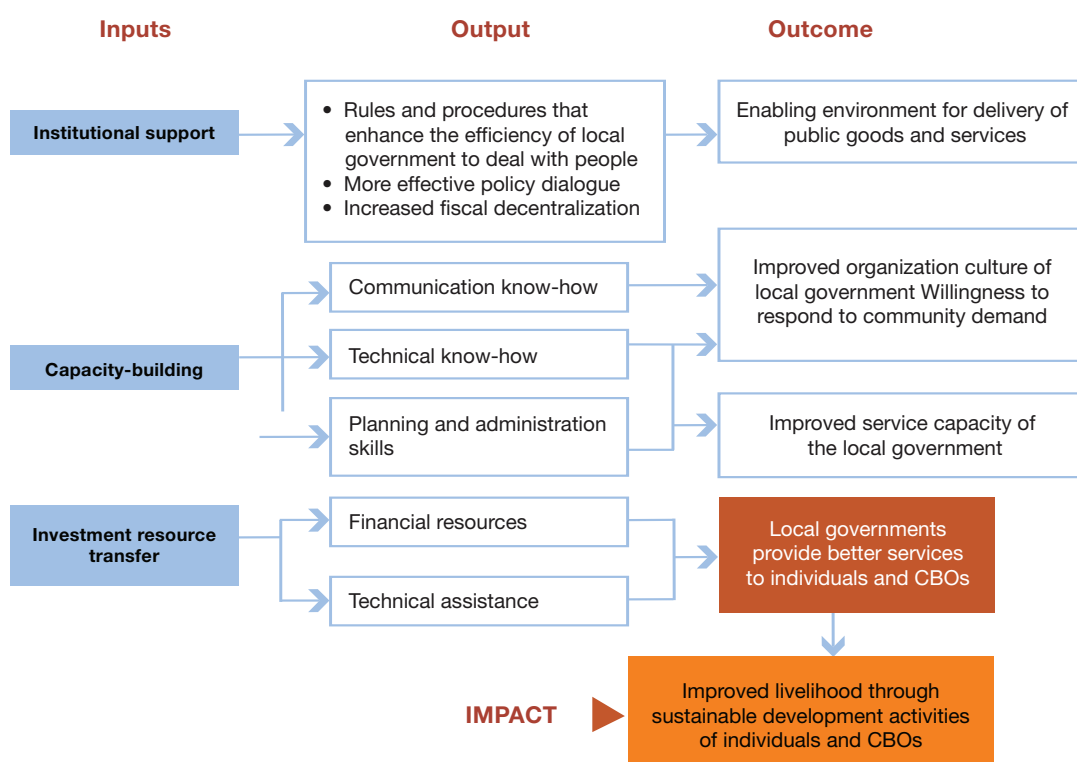
## Two approaches for CDD projects

Two different approaches in CDD policy were pursued by development cooperation agencies from the mid-1990s until about 2006, though the differences that separate them are not very distinct. One approach focuses on decentralizing public administration and the other highlights the role of civil society and promoting strong CBOs. A simplified logical framework of the first approach is shown in Figure 2. In this approach, institution- and

### Box 26 Definition of partnership

In a partnership, two or more stakeholders operate jointly to achieve a common objective, sharing responsibilities, risks, costs and benefits of the common action, in accordance with a pre-determined pattern, agreed upon by all stakeholders.

Figure 2  
CDD focusing on local government administrations



capacity-building address the local government. The expected outcome is a public administration nearer to the people, willing to respond to people's demands and trained to provide better services, either directly or through outsourcing to private service providers. Projects designed using this approach result in a moderate amount of CDD content.

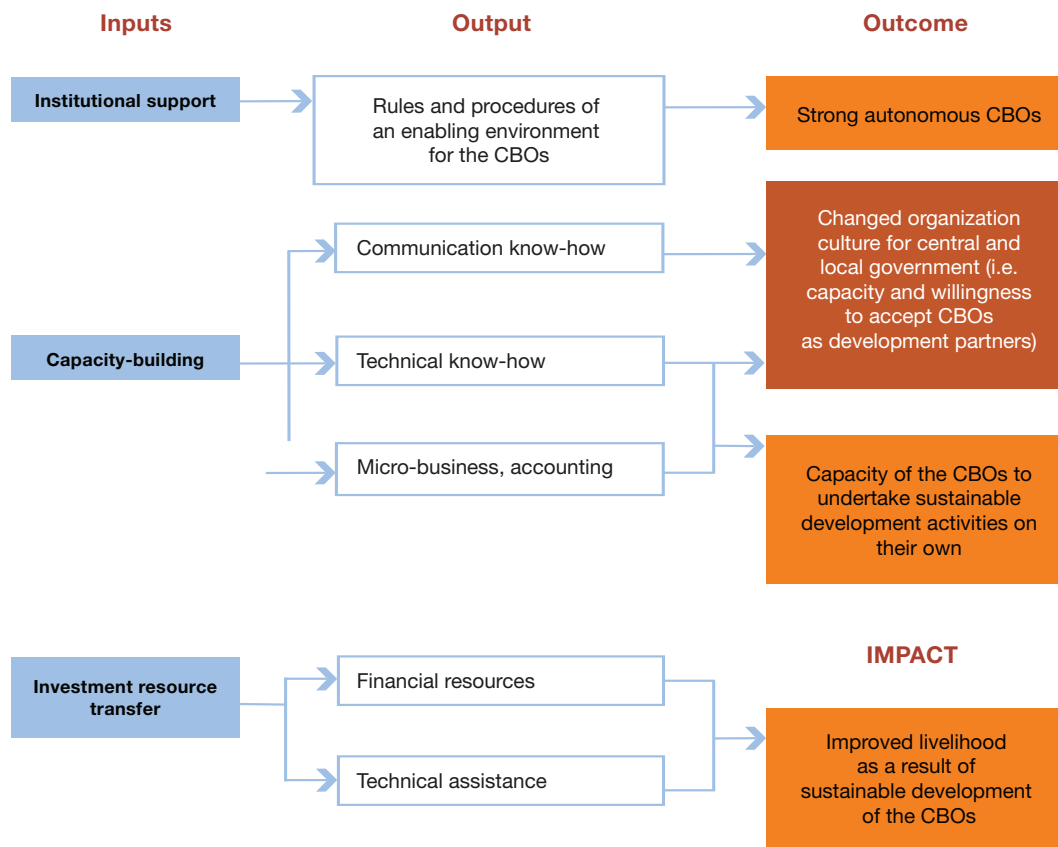
A larger amount of CDD content is achieved by focusing on the interface between citizens (i.e. communities and CBOs) and the local government. It envisages

- institutional support and policy dialogue aimed at introducing rules and procedures to establish an enabling environment for CBOs and for partnerships of CSOs, local governments and CBOs;
- building capacity of the CBOs (i.e. not only of local governments or other external service providers) so that they can undertake sustainable development actions reflecting their own priorities in due course and with limited external support;
- transfer of investment resources (i.e. financial, physical and technical assistance) that enable the CBOs to do what they are trained to do in a new enabling environment.

Figure 3 shows a simplified illustration of this approach.

Even though the approach outlined in Figure 3 results in a higher CDD content, it is not necessarily the one to be used in all cases. CDD can be a powerful instrument of rural poverty

**Figure 3**  
CDD focusing on the CBOs



reduction when there is government determination or political space for policy dialogue regarding the search for

- the best way to promote autonomous rural CBOs and enable them to make and implement decisions that affect their livelihood;
- mechanisms to associate the CSOs' capacity for innovation and motivation with the design and implementation of rural poverty reduction policies;
- ways to encourage a governance system based on complementarity and competition among service providers at the district and subdistrict levels.

Conversely, the CDD approach has little chance of success and is not an adequate development tool when

- government refuses to consider the options indicated above;
- the communities' proactive participation is not relevant (or is only very marginally relevant) to achieving the project objectives.

## **Issues in the partnership with the central government**

It is important to understand a country's policy and institutional environment and to assess the government stakeholders' commitment before deciding the extent to which a multisector project and a CDD approach may be successful. This assessment should begin at the project's inception, deepen during the various design phases and lead to decisions about

- the key project executing agency (whether it should be the Ministry of Agriculture, the Ministry of Local Government, or another Ministry.);
- the role of other involved ministries (e.g. the ministry responsible for water resources or for the environment);
- coordination mechanisms between the different ministries.

Clearly, a technical line ministry is unlikely to be the best choice to take overall responsibility for executing CDD projects focused on improving local governance and addressing multisector development problems.

## **Changes during implementation**

Once a donor and the government are satisfied that a CDD project is in line with government's goals and general policies, a Loan Agreement can be negotiated and drafted on the basis of the final design report. This is, however, only the beginning of a process which often diverges from its expected outcomes over time. Divergence may be quite significant for many reasons:

- governments may change policy;
- governments themselves may change;
- policies and attitudes of the public administration change over time, with or without a government change;
- government goals and policies can be interpreted differently by people within the same administration;
- the donor's approach may change.

One of the problems central governments face in honoring their commitment to CDD is changes in government attitudes and policy that may occur during project implementation. The risk of this occurring is greater with a larger number of involved sectors or ministries. Sometimes, government officers responsible for negotiating the project may not believe in CDD; they may support the loan agreements to secure a financial commitment but have a hidden



intention to see the project implemented differently over time. Other changes in attitudes, priorities and policy may stem from changes in the government as a result of elections or other political events. If these situations distort the CDD project to the extent that its objectives are in jeopardy, the external donor must decide whether to invoke the measures envisaged for when the government breaches the Loan Agreement. These range from suspension of disbursement to cancellation of the loan.

While all efforts should be made to avoid reaching that stage, there are cases in which canceling a loan is preferable to continuing with unsatisfactory relations. Cancellation could open the door to reactivating cooperation in a different way (e.g. by formulating a new project in which the CDD features the government does not support are much less important in reaching the poverty reduction objectives). If that option is not practical, cancellation could make resources available to be used more effectively in other countries.

### **The Project Policy Steering Committee**

The central government is expected to intervene appropriately to ensure that the local public administration fully understands the CDD approach. To facilitate uniformity and continuity of interpretation, governments appoint, with the donor's concurrence, a Project Policy Steering Committee (PPSC) to monitor whether the project is implemented consistent with project goals and policies. The central government should support the IFAD project staff's efforts to implement the project correctly through the PPSC and should address potential opposition from local officers or other politically influential agents.<sup>27</sup>

If the PPSC is proactive in monitoring project performance, it can influence outcomes to a considerable extent. However, the composition of the PPSC determines its attitude and behaviour. Governments tend to appoint only high level officers of the central and provincial administrations to the PPSC. They cannot encourage control of the CDD project activities at the field level, which is the only level that really produces results for the target communities. Including representatives of stakeholders in the civil society, CSOs, NGOs and CBOs in the PPSC would help reduce the risk of not having good information about critical aspects of the project. Decisions regarding composing the PPSC to ensure that CDD objectives are properly pursued should be made at appraisal, negotiated with the government and included in the Loan Agreement.

### **Special government commitments**

IFAD's experience seems to suggest that assurances must be designed to protect the specific CDD features of the projects. These may include commitments that

- the project objectives agreed upon during loan negotiations regarding autonomous development of the CBOs (e.g. their capabilities, roles, legal status and relationships with the different levels of the public administration) will be forcefully pursued, and that the PCU will receive any assistance required to fend off administrative or other obstacles to reaching those objectives;
- determined efforts will be made to modify or create new rules, regulations and procedures that may be required to build an enabling environment for the CBOs. These may include instruments agreed upon during loan negotiations for financial transfer of public funds to organizations of the civil society (including CBOs);
- the management appointed to coordinate the CDD project will work in a manner consistent with the project's nature and objectives.

<sup>27</sup> "Higher levels of government can form alliances with communities, putting pressure on local authorities from above and below to improve development outcomes at the local level. These alliances can be very effective in catalyzing collective action at the community level and reducing 'local capture' by vested interests". From abstract of *Fostering Community-Driven Development: What Role for the State?* World Bank Policy Research Working Paper 2969 by M. Das Gupta, H. Grandvoinet, M. Romani, Washington, DC, 2003.

The government ideally should include these commitments in a draft Project Implementation Manual that would be presented to the project design mission as proof of its commitment to the project. This document would then be discussed, amended and finalized during loan negotiations.<sup>28</sup>

### Difficulties for the government during implementation

In an effective partnership between IFAD and the government, public administration agencies would respect the implementation approach throughout the project. Experience shows that central governments face difficulties in respecting such an agreement. The reasons for some of these difficulties are shown in Box 27.

### Developing consensus about the project approach

A key question that is seldom addressed during project design is the extent to which there is consensus among units of the public administration about the project approach. Consensus must be built on adequate information, understanding and full awareness of what is to be done by a project, how it is to be done and why. It is easier to agree about generalities, but that means little; it is important to agree about the details. Building consensus around a complex, multisector project poses formidable communication problems. IFAD is beginning to devise ways to address this communication problem in a professional way.

A good way to build consensus is by involving the stakeholders as much as possible in the design phase of a project and then ensuring continuity between the design and implementation phases.<sup>29</sup> Unfortunately, this is easier said than done. In many countries, local units of government ministries or autonomous provincial or district governments are responsible for rural development and these actors may not be involved in project design. When they are involved, it is often to a limited extent. They very rarely participate in loan negotiations. The logistical complexity and cost of organizing fuller participation explains why the central government usually acts on behalf of all the other public stakeholders. The consequences may include serious failures of communication, which can lead to misunderstandings and inadequate appreciation of the local setting and attitudes and reactions of local officers and political leaders. This can activate potential opposition. Workshops organized during project formulation and appraisal attempt to mitigate the impact of this problem. They are certainly useful, but hardly sufficient (due to insufficient time, limited participation, etc.) for innovative projects with a significant amount of CDD content.

#### Box 27 Difficulties in implementing the CDD approach

Governments face difficulties in implementing the CDD approach in rural development due to

- lack of consensus at different levels of public administration about the role and autonomy of the CBOs;
- inadequate representation of the PPSC (e.g. local partners are excluded, there is little information about what actually goes on at the field level);
- qualifications, attitude and motivations of project coordinators (e.g. there are inadequate incentives to implement a CDD approach, which is normally more complex than other approaches);
- changing government priorities, policies and personnel during project implementation;
- slow progress in reaching physical targets;
- inadequate design for monitoring progress (e.g. lack of agreement on the indicators of grass-roots institutional development).

<sup>28</sup> The practice of requiring governments to draft the Project Implementation Manual (PIM) for review by the project design mission and including the PIM among the loan negotiations documents was introduced in the late 1990s by the World Bank. It was felt that the Government's provision of the PIM was evidence of its commitment to the project for which it is seeking financial support.

<sup>29</sup> The point is one of the conclusions forcefully made in the World Bank Wapenhans Report of the mid-1990s, which led to several adjustments of bank practices regarding project preparation and appraisal and drafting the implementation manual.

Governments that are keen to make CDD work ought to ensure that all levels of public governance collaborate in CDD project formulation and appraisal. Governments and development agencies should make available the time and resources required for institutional assessment and communication development. The time and money spent are investments that are likely to pay handsomely in terms of efficiency, speed and the impact of future project implementation.<sup>30</sup>

Preparing the Project Implementation Manual (PIM) can provide a real opportunity to improve consensus, provided it is done in a participatory manner, involving all stakeholders, the central and local government officers and representatives of the local partners' organizations. This would mean changing the current practice of having consultants produce the PIM in isolation from most stakeholders.

Some IFAD CDD projects have tested preparing the PIM through a participatory process. It takes up to six or seven months and costs considerably more than a single consultant's contract, but it has proven effective in ensuring that most stakeholders, including the newly appointed project coordinator, understand what needs to be done, how it should be done and why. It also helped identify adjustments to local government procedures that later greatly facilitated implementation.

## **Relationship with the district administration**

CDD projects concerned with developing social and production infrastructure involve central government ministries that often operate through de-concentrated units at different levels of government (e.g. region, province, district) or delegated public institutes (e.g. agricultural research institutes) or public enterprises (e.g. water or power companies). Countries that have devolved responsibility for rural development to the district level must regulate the relationship between the de-concentrated units of the central government, the district assembly and the district executive administration. Those relationships and their mandates are seldom clearly regulated and, as a result, conflicts of competence and duplication of functions occur, particularly at the district level.

De-concentrated units of central government ministries responsible for district matters are generally expected to act as advisors to the District Assembly and/or as service providers upon request from the district administration. In practice, de-concentrated units exercise great influence on the decisions made by local governments. They are expected to monitor whether the district administration respects central government standards for providing services. They implement their ministry's activities at the district level, which are planned and controlled at the central level. It is not uncommon for de-concentrated units to carry out activities mandated from the centre before those requested by the districts, particularly when district governments have little technical capacity and even fewer resources to conduct their own priority activities.

District governments that have responsibility for rural development tend to take authority for implementing all projects that affect rural communities in their territory. This may include the exclusive authority to plan social and economic infrastructure at the community level, approve all subprojects supported with public funds in these fields and provide services such as primary education, agricultural extension and basic healthcare through the district's own organization. In such cases, there is a serious risk of excessive centralization at the district level, with negative consequences for the emergence and growth of autonomous CBOs.

CDD project designers can reduce the chances of operational problems during project implementation by clarifying, as soon as possible, the implementation roles for the central ministries' de-concentrated units, the district administration, the subdistrict administration and

<sup>30</sup> This methodology was tested with success by IFAD projects in India and the Philippines.

the CBOs (i.e. VDCs and different types of CIGs). Preferably, these roles should be clarified from the beginning of project design. Postponing decisions to after the project has been approved often leads to unpleasant surprises (i.e. activities cannot be undertaken, or can be done only by agents who have motivations different than achieving the CDD project objectives).

The nature of the partnership that a CDD project may establish with the district administration depends on the extent to which the policy and approach of the project is shared by the district authorities. IFAD's key objective for the partnership would be to improve the interaction between the district administration and the CBOs. This requires that the CBOs and the district administration share views about four main subjects (see Box 28).

Experience shows that an intermediary organization between the community and the district level is essential to enable the community's voice to reach the district level<sup>31</sup> and can help make district plans more advantageous for the communities. If the subdistrict level of the public administration is allowed to bridge gaps between the CBOs, the District Assemblies and the district administration, the partnership between the project and the district administration will be closer. However, its impact can be diluted in the absence of institutional mechanisms that strengthen the role of the subdistrict level, which are seldom in place.

## Integrating the CBOs

CBOs are the most important partners in a CDD project. A central decision in designing projects is how to integrate the CBOs, directly and through their apex organizations, in project implementation. This can be done through the subdistrict and district levels of the local government or through independent, complementary CSOs.

When a new project begins, an apex organization of active CBOs rarely exists (except in "repeater projects areas"). As a result, most of CDD's key partners must be created. This is indeed a crucial issue that raises a number of key questions, such as

- How genuine are the CBOs and their apices that were created for a project?
- How committed are their members?
- What are their motivations for getting together?
- How sustainable are they?
- Who controls them and what is the controllers' true purpose?

### Box 28

#### Improving interaction between district administrations and CBOs

Interactions between district administrators and CBOs can be improved if they share views on these four topics

- which activities the CBOs have autonomous authority to plan and implement with public support;
- which community-planned activities must be reported to the district authorities only for information purposes and which activities must be approved at the district level and with which instruments of approval;
- the mechanisms for financing community-level activities (i.e. whether they should be financed through the district budget or through a separate channel);
- tasks that may be entrusted to the district administration (e.g. technical assistance services, control of security and environmental standards and performance monitoring of the organizations receiving public finance).

<sup>31</sup> The view is confirmed by the experience of the Ghana Village Infrastructure Project (VIP), jointly financed by IFAD, the World Bank and KfW, which undertook a fairly largescale pilot project to activate the Area Councils (the administrative unit below the District in Ghana's decentralized administration) and mobilize about ten villages. This experiment was quite successful in increasing the number of community-level projects which were brought to the attention of the Districts which had in place a system for the selection and financing of social infrastructure projects in their areas of competence.

Experience shows that when district governments are entrusted with promoting the formation of CBOs, “apex organizations” are usually created first, managed by persons with good connections at the District Assembly level. These people may use their positions for purposes that are not always closely related to the interests of the grass-roots CBOs, which they are supposed to represent, but with whom they have no strong links.<sup>32</sup>

The risk of this occurring is less when working through CSOs of public utility, if the CSOs support the spontaneous emergence of CBOs committed to improving the livelihoods of their community members rather than only acting as temporary vehicles for receiving external assistance. In this approach, the CSOs bring together locally-operating NGOs, representatives of the local government and representatives of the communities. The community representatives should include the elected managers of the communities’ autonomous collective governance organization for development (i.e. the VDC) and presidents of active CIGs (e.g. UAs and Cbanks).

IFAD’s experience with this arrangement has been mixed. In some cases, international cooperation assistance has been more effective when the financed projects deal with autonomous private and civil society organizations that support the emergence of new leading classes. In WCA, for example, some IFAD experiments (e.g. the Cape Verde PLCP and Mauritania PDDO) have shown that CDD projects managed by private associations have increased competition and effective service provision, become centres of pluralistic governance in rural areas and enlarged the CBOs’ opportunities to develop linkages with the outside world. Under some conditions, these associations have also enabled the introduction of user-friendly procedures to implement the community’s own initiatives and projects, which in turn has increased the impact of project expenditure on the local economy. Other projects (e.g. Mali FODESA) have not managed as well to develop the CBOs in the villages they served; in those projects the CSOs have provided valuable technical implementation assistance rather than effectively promoting the community’s capacity for self-help.

From an operational point of view, a major logistical problem concerns

- the number of CBOs (i.e. VDCs or CIGs) that may join with locally active NGOs in a public utility CSO to implement a project in a certain area;
- the number of such CSOs required to cover the entire project area.

If there are too few CBOs in a CSO, the project’s overhead cost is increased and the project risks becoming a combination of boutique operations. If there are too many CBOs in the CSO, proactive participation of the CBOs is impractical. In West Africa, a PCU can handle 200-300 communities well, even in fairly remote areas with dispersed settlements.<sup>33</sup> In repeat projects or in more concentrated settlements, up to 400 communities may be included. When the number of effective CBO members exceeds 300, however, consideration should be given to entrusting the project to two public utility CSOs under a single supervisory organization.<sup>34</sup>

## **Partnerships for sustainable financial services in rural communities**

Experiences with rural financial development projects show that they must be entrusted to agents who have the qualifications for the projects’ highly specialized operations and who are free from political interference from central or local government. Project models that are relevant to CDD are cooperative in nature, with community members in control of the policy and operations of the Cbanks through their statutory organs. Some of these models aggregate very small village savings groups, each comprising only a few people, into savings and loans associations for a

<sup>32</sup> The World Bank project PPEAP in Niger is an example of this.

<sup>33</sup> See the Mauritania OASIS II project.

<sup>34</sup> A comparison of experiences with the different arrangements of the IFAD CDD projects in Cape Verde, Mali, and Mauritania leads to this conclusion.

territory that may include several villages. Other models establish a Cbank at the village level that includes village residents as members.

In the medium term, the Cbanks' sustainability rests on their capacity to fully recover the loans they make with capital raised from their members, the government or private donors. In the long run, however, Cbanks' financial sustainability largely depends on their capacity to mobilize local savings and promote the formation and growth of an orderly local financial market. Cbanks can contribute significantly to achieving this if they are adequately supported by government policy and the Central Bank's views regarding their role in savings collection and management.

In many developing countries, the current thinking is that in order to protect people's savings, Cbanks should not be allowed to accept and manage cash deposits; they should only lend government or privately donated funds and secure adequate control of loan delinquencies. This view is influenced by some negative experiences that followed the liberalization of the financial services sector in the mid-1980s, when many private financial services organizations were established in a legislative vacuum and were short-lived. This view holds that corporate organizations of a reasonable size with a solid capital base should engage in microcredit and collect local savings. These organizations are essentially urban and require special skills in dealing with the rural environment. Under this option, Cbanks would at best be contractors working for a local branch of the exogenous institution.

Another view points to the long and successful history of the cooperative movement in many countries. This shows that networks of Cbanks, built from the community level, can be efficient and effective providers of financial services in rural areas and protectors of people's savings<sup>35</sup> if they are allowed to emerge and grow within an orderly, but favourable, institutional environment.

Cbanks (or their first level apex associations) that wish to establish business relations with the commercial banking system must accept the formal controls that satisfy such institutions. Controls must not jeopardize the Cbanks' ability to make autonomous decisions and standards should be attainable by the members of their elected management committees.

IFAD's rural financial services CDD projects must establish some form of partnership with the Central Bank and with the specialized national financial institutions interested in developing rural financial markets. The relationship with the Central Bank should concern creating policies and institutions that create an enabling environment for developing rural financial markets. In such an environment, Cbanks and their first level associations would be allowed to handle an adequate range of products, including savings deposits, and they would have to respect accounting, reporting and other standards that guarantee sound and rigorous use of funds while being within reach of what their MCs can be trained to do.

## Venue for policy dialogue

Civil servants and local political intermediaries do not easily accept, and often oppose, innovations in institution building (even when those innovations are formally accepted by the central government) because they are bound to affect vested interests often well entrenched in public administrations. This opposition may take visible and invisible forms and exercise pressure on PCU staff who are often confused about how to implement the CDD approach. Without strong direction, CDD projects tend to slide back into the pattern of conventional top-down and centrally-run rural development projects and community participation and empowerment are sidelined.<sup>36</sup>

<sup>35</sup> One emblematic example is CAMCUL, the sizeable Cameroon cooperative bank that was the only private or public commercial financial institution to survive two consecutive bankruptcy cycles during the 1990s.

<sup>36</sup> There are many examples of this, such as OASIS I in Mauritania and the Rwanda Umutara projects.

Institutional analysis conducted during project formulation and appraisal should indicate the most effective level and venue for policy dialogue, taking into account the many stakeholders and which ones are enabling or disabling actors at that time.

It may be useful for governments and donors to establish a formal forum to discuss CDD policies. Doing so would be an important indicator of their commitment to building an enabling institutional environment for autonomous CBOs and to changing rules and attitudes when necessary. The objectives of the forum would be to exchange information, reach consensus on the coordination of different approaches and help avoid misunderstandings between national and international agencies about objectives, interests and motivations in rural governance issues.

# Implementation arrangements for CDD projects

## Decisions in designing implementation arrangements

Project implementation arrangements may greatly affect the CDD content of a rural development project. In this regard, the most critical decisions concern

- who is expected to do what;
- the design of the instruments for resource transfer;
- the procedures for actions that involve the CBOs.

A good way to check whether the operational arrangements of a project are consistent with the CDD approach is to answer the questions shown in Box 29. These questions refer more specifically to CDD projects concerned with developing social and production infrastructure at the community level, but they can easily be adjusted to fit other components or types of CDD projects.

## Identifying subprojects

Identifying subprojects of interest to the communities is a key function of community governance organizations. However, the communities' options are limited by the information they have about investment opportunities and by the activities that the projects are prepared to support.

CDD projects may offer a wide or more limited range of investment opportunities. The interventions envisaged are determined based on the Participatory Rural Appraisal (PRAs) conducted during project design to assess the likely pattern of demand from different social strata in the communities. In repeat projects, the PRA information is complemented by the experience of predecessor projects. A good PRA is essential to design the project components, but it can only indicate people's needs at the time it is carried out rather than their effective demand during project implementation.

During implementation, the implementation mechanisms, if adequately designed, become the instruments for assessing the evolution of the community's effective demand, which may differ from the expectations of the PRA. The project design must include an adequate process for eliciting the community's effective demands, specifically indicating how this will be done and under whose responsibility. Project supervisors must then ensure that the process is effectively followed.

In order for a community to formulate its effective demand, it must be able to assess the needs of its members, formulate project ideas that satisfy those needs, debate what resources the community is able and willing to mobilize to undertake the projects and prioritize them into a list of concrete action plans. This means having four key ingredients for direct democracy:

- a Village Development Committee (VDC);
- a Village Assembly (VA), where all resident households have a voice about common development action;

### Box 29

#### Designing CDD implementation arrangements for a community-level social and economic infrastructure project

- Who identifies the community subprojects?
- Who prioritizes the subprojects?
- Who approves the subprojects?
- Who implements the subprojects?
- How do community plans and district master plans interact?
- Who contracts with the service providers?
- To whom are service providers accountable?
- How is the implementation manual formulated?



- regulations that govern decisions of the VA (including the election of the VDC);
- procedures that must be followed to identify and prioritize the projects of interest to the VA.

For CDD projects, work at the community level starts with the animation needed to establish the required organizations and institutional setting.

Organizations do not thrive in an operational vacuum. They only survive and develop if they have something to do which is useful for their members and if they can mobilize sufficient resources to actually do it. Externally funded projects that focus exclusively on building the communities' "capacity to plan", while relying on other sources for the resources to implement the plans, are generally ineffective. Only very few plans get funded and so the capability and energy mobilized around a plan are quickly lost.

Accordingly, a CDD project must begin by communicating about what it can do for the communities and about the conditions the communities have to meet to establish a partnership with the project. To avoid losing momentum, the project should also be able to respond to community requests without excessive delay.

These are major undertakings that require the right calibre of animators and sufficient time for them to spend with their village partners. IFAD's experience points to the need for

- sufficient time and resources budgeted by the project for the initial animation work;
- precise terms of reference (TORs) for the animation service providers that specify their tasks and objectives.

For first-time CDD projects in an area, it is advisable to start with an initial phase of about 3 years, during which the implementation arrangements, institutional setting and performance of service providers are tested and fine-tuned. This can be followed by a "scaling up" phase to cover the entire area ultimately envisaged for the project.<sup>37</sup>

## Prioritizing subprojects

In an open-menu project, the communities' demand is only limited by the list of activities that the project will not support and by the project's specific criteria (e.g. the share of costs borne by the community, ceilings on the investment per community and per direct beneficiary, evidence of the community's commitment and its willingness and capacity to support operations and maintenance). Projects with a lower CDD content direct the communities' demand towards predetermined areas of priority by restricting the menu of interventions from which the communities may choose (e.g. irrigation, NRM and water supply, but not education, healthcare, marketing or transport infrastructure).

### Box 30 The risk of "excess" planning

"Excess" planning generates bureaucracy, even at the community level, and bureaucrats always present their bill for payment, in one currency or another, increasing the risk of local elite capture.

In CDD projects, the animation service encourages the VDCs to implement the actions that do not require external resources and to proceed in order of priority with the actions that do require resources from the project. Initially, most VDCs submit a long wish list and bargain with the project staff. This process lasts until the concept of effective demand is fully understood by the community. At that point, most communities realize that they cannot mobilize sufficient resources to undertake more than one microproject every year. If people wish to conduct a project for more than one community (e.g. a local small water supply network or a minor irrigation scheme), the VDCs are encouraged to submit a joint request.

<sup>37</sup> This is an important lesson drawn from two projects: in the IFAD Umutara project in Rwanda, this initial phase of testing was not planned and in a similar IFAD project in Cape Verde, the initial phase was planned and successfully conducted.

In some CDD projects, such as the IFAD PLPR in Cape Verde, animators help the VDCs formulate a 3-year plan (which includes several development initiatives) and prepare an annual plan (which includes what the community is ready to undertake and finance). Developing the medium-term plan has an important educational dimension and can be useful because it provides the tools for different communities to appreciate the problems, priorities and difficulties of their neighbours in the area. However, it can be costly in human resources and can expand the role of the better educated, wealthy members of the community at the expense of the poor, who are less likely to be interested or capable of contributing.

## Approving subprojects

There are normally several levels of approval for community subprojects. The first is at the community level. In a CDD project, the VA generates and discusses community priorities and makes a final decision about which initiative to request support for. The function of the VDC in this process is to facilitate the community members' discussion and ensure that the implications of each proposal, including the need to mobilize community resources, are fully examined. Once the VA approves a proposal, the process moves to the project implementation agents.

To approve the funding for a community subproject, the responsible operator must be satisfied that

- the project is indeed a community priority (i.e. that it responds to a genuine decision of the VA and that the prioritization process was executed correctly);
- the typology of the subproject is not excluded by the project menu;
- the proposal is technically viable;
- the total cost is within established ceilings (e.g. per project, per village or cluster of villages, per beneficiary household);
- the minimum information is provided (e.g. number of beneficiaries and credibility of the declared responsibility for O&M);
- social and environmental safeguards are respected.

Action then follows on those subprojects when additional conditions are met, such as

- the CIG is established to implement the project and its MC is elected by the membership;
- the down payment for the community's share of the cost is deposited with the project authority.

The operator responsible for funding community projects must

- review all requests submitted by the communities;
- screen out those that do not meet the minimum required conditions and send them back with an explanation;
- decide how to proceed further with those that are likely to be viable, subject to further investigations;
- arrange to collect the missing information (e.g. technical studies) for viable requests.

At this stage, the input of technical service providers is required (e.g. for a preliminary opinion on a micro water supply or irrigation proposal).

Figure 4 shows the steps that lead from identifying community preferences to approving a community subproject for financing. In practice, the flow may be much more complex than shown, depending on the rules that a recipient government must apply and on how these interact with the donor's rules to avoid irregular or illicit use of its resources.

The critical step in this process, approving the community requests, is where control is exercised over the flow of resources from the central government to the rural communities. Several options for handling this critical step are summarized in Box 31.

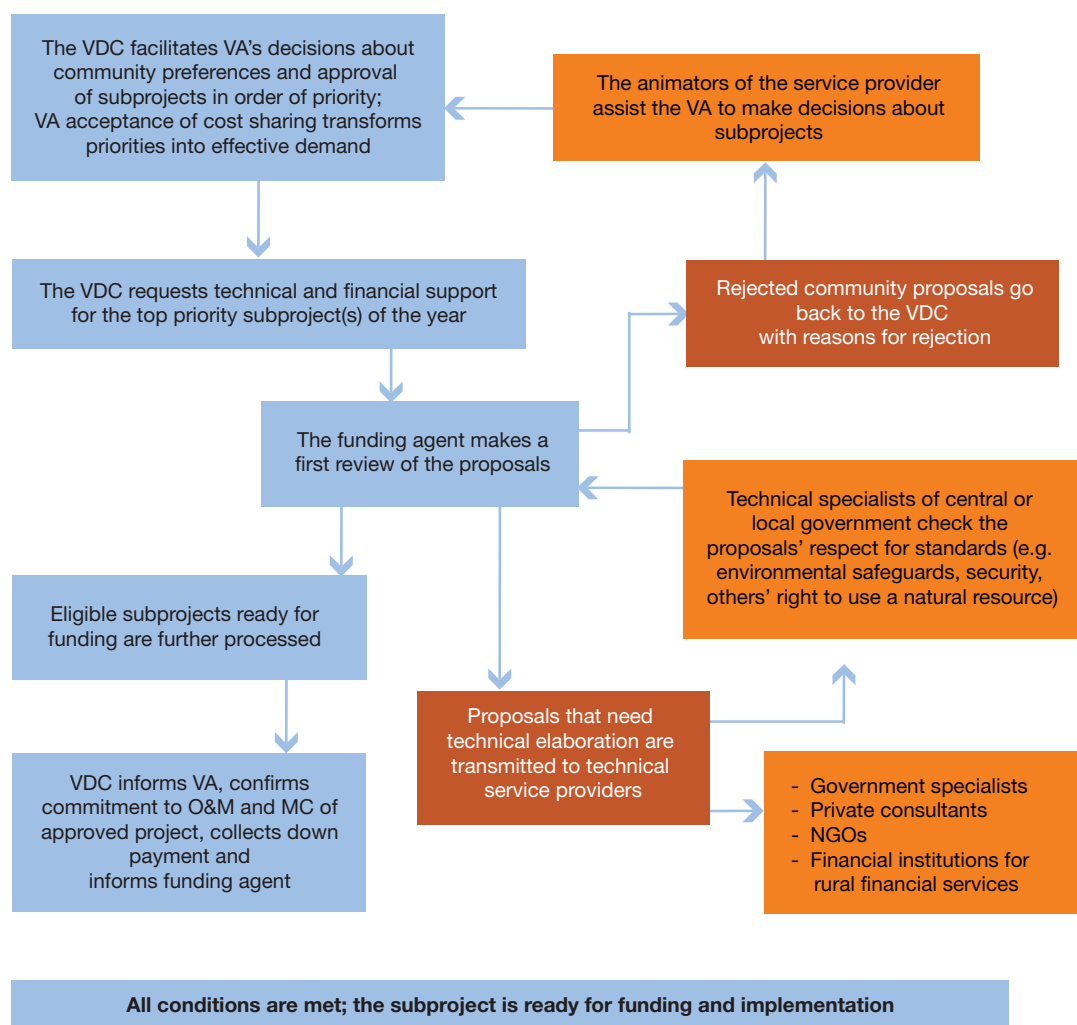
The approval process generally involves more than one agent. When a central government agency or CSO approves a village request, the process involves the selected agent plus the PCU. In countries that have decentralized rural development, the district government also is often involved. Every approval may require multiple procedures, each with a number of steps. There could be as many as 25 steps, as was reported for one IFAD project in WCA.<sup>38</sup>

It is important to find ways of streamlining the process and procedures. It is less evident how to do it in the institutional and political circumstances of a given country or project. The key issue is determining which steps can be skipped (e.g. for subprojects that involve very small amounts of money and have a very limited impact on the territory), which ones need to be maintained and which ones can be done after the community initiative is approved for funding.

In addition to ensuring that the subproject fits the donors' and central government's objectives, the approval process is concerned with three other important matters:

- coordination with the DMP;
- respect of social and environmental safeguards;

**Figure 4**  
From eliciting community priorities to approving a subproject



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- conformance with conditions imposed on the public resource transfer (e.g. ceiling on cost per subproject and per beneficiary household, technical viability, sound financial practices envisaged for procurement, accounting, and reporting on the use of funds).

While district governments must coordinate with the DMP, they can take a minimum amount of time and allocate support to the communities in a way that is compatible with the CDD project objectives and the communities' effective demand. Ensuring compliance with social and environmental safeguards is also a specific government function. However, controls should be exercised throughout the subproject, not just during the project approval phase. It is possible to avoid the need for these kinds of controls before a community initiative is approved for funding by training and advertising (through the animators of the VDCs) the criteria that must be used in the subprojects' design and inspecting ex post the subproject implementation. Matters concerned with conforming to conditions imposed on the public resource transfer also can be treated ex post.

### **Coordinating community plans and district master plans**

A potential conflict may exist between community priorities and district priorities. Rural communities have difficulty in making their voices heard at the district level and in getting their interests addressed. Dedicating funds to community-level initiatives (separate from the funds that support district-level projects) increases the chance that communities' voices and interests will be heard. While this approach distinguishes between the two levels, it should not be seen as creating conflict, but rather accelerating the synergies between the community and the district levels.

CDD projects would be well advised to finance the preparation of the DMPs. This could provide an opportunity to negotiate with the districts about which solutions for providing goods and services in rural areas could be supported and financed under the district investment plan and which ones should be implemented at the community level and funded through a separate channel for community-level projects. Box 32 shows examples of how authority, responsibility and channels of funding would be divided in certain sectors.

Once the roles of the district and community levels have been defined and agreed upon, the CDD project can proceed with funding community subprojects autonomously, as long as the community-level projects are consistent with the DMP.

How does the district administration ensure that its requirements have been met? Several approaches have been tested to accomplish this without jeopardizing autonomous decision-making at the community and district levels. Box 33 summarizes three different solutions tested by the World Bank and IFAD projects in WCA.

#### **Box 31 Approving community requests**

CDD projects envisage the approval of community subprojects by

- the PCU;
- the PPSC;
- a department of the central government ministry responsible for the project;
- the District Development Committee (i.e. organ of the district administration);
- the District Assembly (i.e. elected political representation of the territory);
- the Subdistrict Development Committees (i.e. organs of the local government administration);
- a CSO of public utility with membership including local government and NGOs;
- a CSO of public utility with membership including CBOs, local NGOs and local government representatives.

## Implementing subprojects

If CBOs play a role in implementing their subprojects, there is a greater likelihood that the project will build sustainable CBOs capable of operating on their own when the project assistance comes to an end. There is also a greater chance that the project will influence the multiplier effect of the public investment on the community-level economy. A project with a large CDD content envisages the participation of CBOs in all phases of implementation, not only in the planning phase. Conceptually, this was the difference between CDD and the demand-driven projects of the mid-1990s. What does this mean in terms of operational arrangements?

Table 3 summarizes the evolution of CBOs' participation in the post-planning phases of community subproject implementation. In all cases, the CBOs are expected to assume full responsibility for the operations and maintenance of the facilities constructed with public funds and their MCs are trained to do that. In the demand-driven projects of the 1990s, the CBOs were not expected to become involved in the investment phase; that was done for them by a technical service provider. In a project with moderate CDD content, the MC of the CIG that provided sponsorship and cofinancing in the design stage and supervision of contractors and suppliers generally participates. All the other tasks (e.g. tendering, selecting suppliers, contracting, clearing contractors' bills for payment) are performed by the technical service provider. Payments are the exclusive responsibility of the project PCU.

### Box 32

#### Projects in the domain of the district and of the communities

- **Water supply:** Networks of piped water supplies belong to the district because they serve many communities; open and tube wells are community-level projects because they serve only one community.
- **Irrigation infrastructure:** Medium-size infrastructure belongs to the district; micro and very small schemes serving one or very few neighbouring villages belong to the community level.
- **Roads:** Secondary roads that link several villages to a trunk road or town are district projects; village access tracks are community-level projects.
- **Health:** Health centres are district projects; dispensaries are community affairs.
- **Education:** Primary schools are in the domain of the district; functional literacy and numeracy are community-level activities.

### Box 33

#### Options to check consistency of community-level projects with DMPs

- The VDCs submitted a project proposal to the district administration, requesting clearance within a short period of time (i.e. generally four weeks). In the absence of a negative reply supported by convincing arguments within the time frame, the VDC project was automatically cleared and the funding agent could proceed with making available the required resources to implement the project. (*World Bank Borgu Development Project in Benin*)
- A CSO appointed to manage finance for community projects prepared 3 year indicative investment plans. The district administration could object to the indicative plan when it was discussed with the central government unit responsible for funding the community level. Funds were released to the CSO if its annual indicative investment plan was consistent with the 3-year plan. District administrations were informed of the annual plan and could intervene, if they desired, either in the framework of their participation in the CSO or through the technical services they offered to the CSO to implement the microprojects. (*IFAD PLPR project in Cape Verde*)
- The CSOs entrusted with development at the community level were involved with the formulation and approval of the DMP. (*IFAD PDDO in Mauritania*)

A larger CDD content is achieved by involving the MCs of the subproject in all the steps of project implementation which, in the most advanced cases, includes handling project cash to pay local contractors and suppliers. Only small amounts of cash advances are required and only when the transaction does not involve technologies that are beyond the reach of the MC members (in which case the project procures and directly pays the selected enterprise) – for example technologies that require contracting outside the community, such as for a tubewell, or purchases of imported equipment not readily available in the national market.

While IFAD projects in Africa have not allowed community CBOs to handle cash advances, the practice has been extensively tested in Latin America. The experience suggests that the risk of

**Table 3**  
**Actors perform key tasks for community projects**

	Demand-driven projects	CDD projects		Project exit objectives of large CDD content
Tasks		Moderate CDD content	Large CDD content	
<b>Investment phase:</b>				
<b>MCs of the community subprojects elected</b>	Members of the CIG	Members of the CIG	Members of the CIG	Members of the CIG
<b>Training the MCs</b>	Project recruits service providers	Project recruits service providers	Project recruits service providers	All MCs trained; New CIG knows how to get their MCs trained
<b>Designing infrastructure</b>	Technical service provider; recruited by the project (local government or private)	MCs participate	MCs participate	MCs know how to contract technical advisors  MCs have learned to do it, with the help of advisors if necessary
<b>Tendering for construction</b>		No MCs participate	MCs participate	
<b>Selection and contracting of suppliers</b>		No MCs participate	MCs participate	
<b>Supervision of contractors</b>		MC may participate	MCs participate	
<b>Control of social, safety and environmental safeguards</b>	Government technical officers (district level)			
<b>Clearance of payments to contractors and suppliers</b>	PMU or technical service providers if sub-contracting envisaged		MCs	MCs have learned to undertake it
<b>Payment of contractors and suppliers</b>	The PCU Financial Controller	The PCU Financial Controller	<ul style="list-style-type: none"> <li>CSOs of public utility may be authorized</li> <li>VDCs may be granted authority and transferred small funds</li> </ul>	MCs have learned the procedure  Can be entrusted with the funds
<b>Post-investment phase:</b>				
<b>Management of operation and maintenance</b>	The MC of the CIG sponsoring the project			

allowing CBOs to handle cash advances is marginal, given the small amounts of cash involved and the transparency of the community organizations. Further, the practice greatly facilitates mobilizing local procurement, stimulates adopting local technologies that result in considerably lower costs of small infrastructure construction, accelerates disbursement of project funds, cuts the risk of corruption inherent in large contracts and reduces the cost of project administration. These practices can only be followed if they are accepted government practices or if the borrower and the management of the external financial agency agree.

## **Project exit arrangements**

Project exit arrangements represent an important “acid test” for a project’s CDD approach. At the end of a CDD project, a target number of CBOs should be able to identify their own microproject ideas, mobilize support for designing them, collect local resources to finance implementation, procure the necessary technical advice in the national market and implement, operate and maintain their own microproject. In most developing countries, where the district administration is still weak, the capacity that an advanced CDD project may wish to build at the community level is not yet available at the district level.

Community-level development activities are less complex than those at the district level and generally require much less know-how. Also, procedures at the community level are much easier to master than procedures designed for the higher level. This issue raises the need for having a friendly institutional environment, which was addressed in Chapter II.

The chances of building community-level capacity depends on the extent to which the CBOs have participated in and been responsible for implementing their own projects and have learned by doing and by making mistakes. Given the very limited cost of most community-level projects, the financial risk of allowing CBOs to handle cash advances is usually minimal compared with the likely positive impact on developing the capability of the CBOs.

It is legitimate to ask whether and under what conditions the desired exit arrangements can be effectively established within the time horizon of a single project. At least three conditions are likely to influence this:

- whether the MCs of the CBOs have been involved in all the steps of the project and whether they have been adequately trained to manage small contracts, operate and maintain newly constructed facilities and effectively mobilize the resources required for O&M;
- whether a sufficient number of people in the community have acquired the necessary minimum training and experience. This would probably require that the project fund more than one community-level project in each village, which is not always a practical option in the short time horizon of a single project;
- whether there are private service providers that can help the CBOs design projects requiring a minimum of technology and procure equipment that is available in the national market but not in the communities. In the middle-income countries of Asia and Latin America, there is no scarcity of private technicians who can be contracted by the CBOs. In poorest countries, especially in Africa, this is a condition that generally takes time to develop.

# Sustainable arrangements to finance CDD projects



## Common project funding mechanisms

Under IFAD loans, project funds are disbursed from a special account operated by the PCU. This practice is also used by most international and bilateral cooperation agencies. Under this arrangement, project funds may or may not be included in the budget vote as Appropriations-in-Aid (AIA)<sup>39</sup> but, unlike other government fiscal and non-fiscal revenue, they do not transit through the Unified Consolidated Current Account (UCCA) and are not disbursed by the treasury to the agents involved in project implementation. Instead, the government's share of project costs is disbursed by the treasury into the special account to complement the external donor's funds that are available to the PCU. In practice, the PCU becomes an *ad hoc* agent of government delegated to make financial transfers for the purpose of project implementation.

The procedures envisaged for the handling of funds by the PCU ensure adequate accounting, financial reporting and audit in accordance with internationally accepted practices. Furthermore, in the case of CDD projects, the procedures would be expected to

- maximize the effectiveness and efficiency with which funds are used at the community level;
- ensure that funds are actually used to respond to community demands that comply with the project menu and conditions;
- facilitate the development of effective partnerships between the public administration, rural community organizations and locally active development agents of the private sector and civil society.

The PCU's central role in funding project activities gives the external donor and central government a direct point of intervention in case the PCU, or some of the organizations that receive funding through the PCU, deviate from project objectives.

## Designing funding mechanisms for long-term sustainability

PCUs are *ad hoc* arrangements that end when externally-funded projects close. They are non-sustainable by definition. To support CDD, a country needs permanent funding mechanisms that, over time, can accommodate declining contributions from external public cooperation agencies and increasing contributions from government and non-government sources, including the communities and private philanthropic organizations.<sup>40</sup> A decision should be made during project design as to whether the PCU arrangement can be designed to help establish support mechanisms for the CBOs that will be sustainable after project closure.

Governments finance community-level development with their own resources in addition to using external cooperation assistance. Technically, this requires an allocation for that purpose in the budget vote. The vote may indicate the geographic distribution for the funds to be transferred, as well as other criteria that must be applied for their use. In countries that have devolved responsibility for rural development to the district level this vote should be, in principle, at the disposal of the District Assemblies. The equity objective of the budget policy requires that the transfer of funds from the central to local governments be governed by the principle of "reverse tax capacity". This establishes a "*fonds de péréquation*", whereby the poorest districts of the country receive more support from the centre than the wealthier districts.

39 For more information about this and other technical expressions and acronyms used in this chapter, see Appendix 1: A Note on Fiscal Decentralization.

40 The reader is reminded that this is one of the specific objectives of the approach highlighted in the introduction.



Funds are transferred to the local governments by the treasury using instruments called Inter-Governmental Financial Transfer (IGFT) which can be unconditional or conditional, depending on the degree of freedom the central government wishes to recognize under the vote. IGFTs are assessed in terms of the qualities shown in Box 34.

IGFT transactions in many countries are not typically characterized by the qualities identified in Box 34. Central government officers and local administrators often have a vested interest in non-transparency because it can facilitate elite capture of the benefits derivable from using the resources transferred by the IGFT. Improving current practices with IGFTs can be a major objective of a CDD project.

**Box 34**  
**Key qualities of IGFTs**

- **Transparency:** a readily understandable statement exists describing the conditions upon which the transfers are made.
- **Predictability:** receiving organizations can rely on the transfer of resources over a period of time, which permits them to strategically plan the use of the resources.
- **Autonomy:** organizations can allocate the funds to their own priorities in an independent and flexible manner.

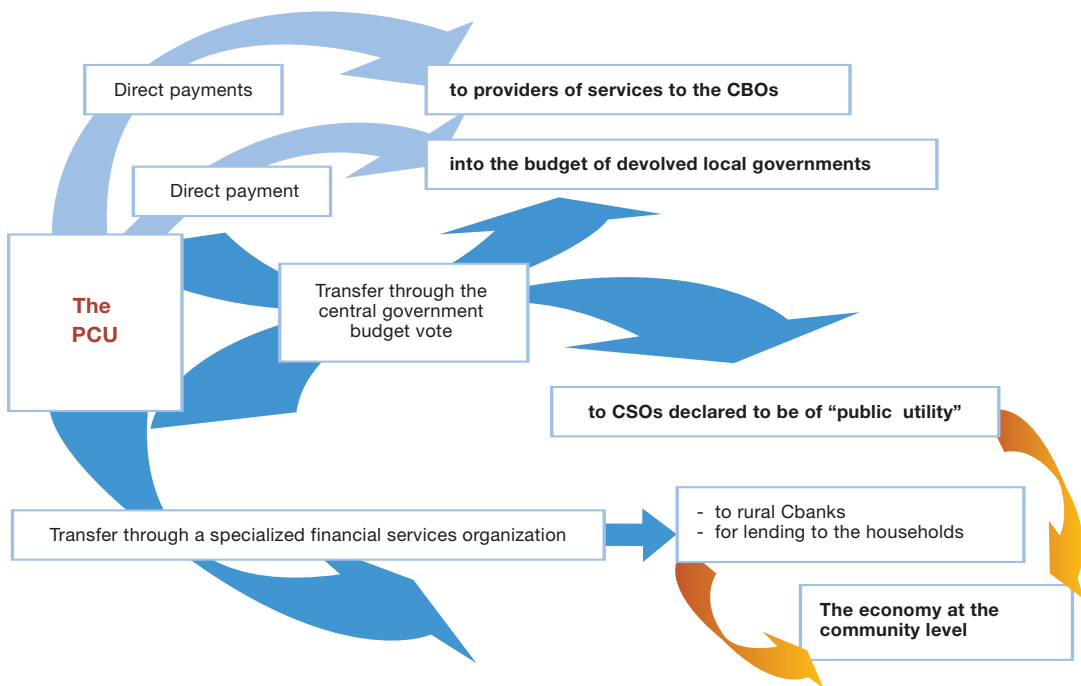
**The flow of funds**

PCUs may support CBOs' initiatives by

- directly funding private or public sector service providers that implement subprojects and activities that respond to community demand;
- channeling funds through the district budget;
- transferring funds to CSOs of public utility that formulate and implement community plans jointly with the CBOs (see Figure 5).

Directly funding service providers is often the preferred approach. It simplifies project supervision and reduces the risk of non-compliance with subproject approval criteria and procurement/disbursement procedures. However, it makes little

**Figure 5**  
**Flow of funds from the PCU**



contribution to building a sustainable system.<sup>41</sup> It is the only option in which government wants to retain tight centralized control over the rural development process.

Channelling funds through the local government merges the resources allocated to support community initiatives with the general budget of the devolved local governments. This approach must use conditional IGFTs that spell out the purpose of the transfer and the conditions for its use. It is good practice for the central government to require the devolved local governments to establish a dedicated “window” to handle these funds and keep separate accounts.

To transfer funds to CSOs of public utility, government establishes a central unit that negotiates with the CSOs, transfers the funds and monitors and evaluates their performance.

Experiences with channelling funds through local governments or transferring funds to CSOs vary with different cooperation agencies around the world. Choosing one or the other is influenced by local conditions and by the preference to either strengthen decentralization of the public administration or to establish a complementary, competitive and diversified delivery system to reach the rural community through networks of CSOs. In several countries of Latin America, municipal budgets have been successfully used by both IFAD and the World Bank to respond to community demand for social and production infrastructure. In India, the World Bank implements its CDD approach to a large extent through national NGOs that operate with a great deal of autonomy at the community level. In WCA, IFAD has experimented with both solutions, channelling funds through local governments in Burkina and Ghana and transferring funds to CSOs in Cape Verde, Mali and Mauritania.

The financial sustainability of either solution depends to a very large extent on the capacity to maintain a steady flow of funding that supports the CBOs. Receiving public funds after the end of an externally financed CDD project depends on the government’s willingness and capacity to negotiate repeater external loans with similar objectives and/or on its priority for using its own fiscal resources.

## Using private funds

In determining arrangements for the flow of funds, CDD project designers tend to focus almost exclusively on public funding. However, this is by no means the only source of sustainability for CDD initiatives. There is potential to attract resources from sources other than government (e.g. the communities and national and foreign private philanthropic organizations). It would be wrong to disregard these opportunities because private contributions may be significant, particularly in small countries. The example described in Box 35 is only one; another is the case where resources were transferred by communities of emigrant workers to areas in northern Mali and Senegal.

Though private funds can be, and actually are occasionally, made available to both public and private organizations, philanthropic organizations may prefer to deal with civil society organizations having similar objectives and culture, if they exist and have a reliable record. It is thus important to find ways of linking the philanthropic organizations with the CSOs of the South.

From an institutional point of view, would the local government channel be more sustainable than a CSO of public utility? It is sometimes argued that sustainability is ensured only by organizations that are formally part of the government. Therefore the only sustainable solution is to establish a public unit at the central, district or provincial level to fund community subprojects. This is a spurious argument because government organizations can be suppressed, left to decay or given different mandates. The same can be said of other options as well. CSOs of public utility that depend exclusively on government funding may be liquidated when

<sup>41</sup> Such a solution may be the only realistic option at the very beginning of the development process (e.g. the IFAD Mauritania OASIS I) but it should be discontinued as soon as there are realistic opportunities to develop more lasting arrangements.

government funding dries up. On the other hand, CSOs may survive and evolve into permanent features of the local setting, even with reduced or no government support, if they are supported by their own resources and other diversified sources.

### Financing projects through the district government budget

When funding for CBO microprojects is channelled through the district budget, the District Assembly and the district administration retain the power to approve the CBOs' requests. In Africa, IFAD's experience with this arrangement has not always achieved the intended objectives of reaching out to the demands of the target group. Establishing a separate account to receive the conditional IGFT to fund the community subprojects provides protection from those funds being used for other purposes.

The district administration's role may include, in order of increasing CDD content, the following key functions:

- the ex ante approval of all community requests before the subprojects are funded from the dedicated account. This gives the district the authority to deny financing a community project if it is not approved by the Assembly based on the recommendation of the local administration;
- the opportunity to determine whether the community subprojects are consistent with the DMP. This information can be given to those managing the dedicated account who must respond to the request for funding (they may approve it nonetheless, request supplementary information or turn it down definitively);
- ensuring compliance with the technical, security and environmental standards. This may be done ex ante, in which case it may stop the approval of a community project, or ex post, in which case it will halt disbursement of funds, if project funding has already begun).

#### Box 35 The Rhein-Palatinat / Rwanda Jumelage Programme

The Rhein-Palatinat/Rwanda *Jumelage* Programme started in 1981 and provides support for investment activities at the *commune* level covering infrastructure, schools and training, agricultural production and handicraft development. The programme includes some original design features that combine official institutions and private initiatives.

The programme promotes the *jumelage* (twinning) of Rwanda *communes* with a partner municipality or other agency in the Rhein-Palatinat Lander in Germany. Once the connection is established, the *commune* in Rwanda makes a request to its counterpart in Germany for assistance to finance a project. The German municipality appraises the request, approves it and collects private contributions to finance the project.

The funds collected are forwarded to the programme administration in Kigali, which opens a revolving fund account in the name of the *commune*. The account is used to transfer funds for payment of work for the approved project. When the work involves private contractors, the contracts are signed by the *burgomaster* (mayor), but subject to the Kigali programme administrator's clearance.

In addition to the administrator and his secretary, the Rhein-Palatinat/Rwanda *Jumelage* Programme has a small staff of Rwandan national engineers who assist the *communes* in contracting and supervising work. The programme has funded projects in 56 *communes* for a total of about USD 60 million from 1982 to 1992 and USD 40 million from 1995 to 1997. These amounts represent over one third of the total amounts disbursed in Rwanda by World Bank projects during a comparable period.

## Financing projects through CSOs of public utility

The option of funding community subprojects through a CSO formally recognized by government as being “of public utility” has been successfully tested by IFAD in some CDD projects in WCA. In this option, the long-term sustainability of the CSOs rests on their dynamism and capacity to mobilize resources from the communities and private philanthropic organizations beyond the initial transfer of public funds. This point is made clear to CSOs from the very beginning, which is an important advantage of this option. This practice helps moderate the risk of the CSOs developing “transfer (aid) dependency”, a widespread disease among local government administrations. A definition of transfer dependency is provided in Box 36.

To fund public utility CSOs in an orderly manner, rather than as an ad hoc arrangement during the implementation of an externally financed project, a country must enact appropriate legislation to license qualified CSOs and to formally introduce instruments to transfer public funds to them. The legislation must specify

- the conditions that a private, non-profit organization must meet to be recognized as being “of public utility”;
- the form of the instruments that the government is authorized to use to transfer public funds to these organizations;
- the criteria that the organizations are expected to apply in using the public funds, including the general principles that must be followed regarding procurement and payment of suppliers.

Box 37 summarizes the main features of these instruments.

### Box 36 Transfer dependency

Transfer dependency is the attitude of local governments to expect that central governments will pay for everything and the corresponding belief of local politicians that the way to get more resources is to lobby more effectively at the central administration.

To reduce the transfer dependency effect, devolution policies insist on local governments raising a share of their budget locally.

In the absence of simple and transparent cost-sharing and regional allocation criteria, the advantages of decentralization are wiped out and the political game that predominates in centralized governments is often quickly re-established.

### Box 37 Financial instruments to transfer funds to CSOs

Instruments of fiscal decentralization can be designed to transfer public funds to CSOs of public utility. These instruments are different from the contracts used in the case of delegation. They incorporate the three features mentioned in Box 34: transparency, predictability and autonomy. Also

- they indicate the reasons and objectives for the partnership between the CSO and the government and the strategy that the CSO commits to adopt to achieve the common objectives;
- they commit funds for a reasonable period

of time (e.g. two or three years) for a development plan submitted by the CSO and subject to the CSO maintaining a good record with respect to agreed indicators of performance and financial discipline (e.g. accounting, reporting and audit);

- funds are released on an annual basis, preferably in successive lump sums, avoiding any links between disbursement and specific projects because that may affect the CSOs’ autonomy in allocating funds among different activities and responding to their members’ demands. It would also further complicate bureaucratic procedures for budget approval and fund disbursement.

## Control ex ante vs. control ex post on using public funds

The normal practice under which public funds are transferred to non-governmental agents is through contracts that obligate the agent to perform an activity (e.g. delivering goods and services) in exchange for a cash payment. These contracts entail detailed ex ante control over the use of the public funds committed under the contract. Each item that the agent is authorized to incur with the funds is specified in the budget and must be approved before any expenditure. Further assurance of budget compliance is exercised at the time the funds are released and at the end of the contract by auditing the accounts.

A very different procedure is used in the case of credit projects. In these, the financial institution entrusted by the government to make loans to eligible clients is trusted to operate in accordance with principles agreed to by the financiers (e.g. IFAD and the government) and no ex ante approval of the lending agent's individual transactions is requested. The external agency and the government retain the right to inspect the lending institution's operations, exercising an ex post control over the use of the public funds. In these cases, the application of ex post control over the use of public funds is due to the nature of the business (i.e. it is impossible to plan all the individual lending operations in an Annual Work Plan and Budget [AWP&B]) and to the nature and purpose of the receiver of the funds. Financial institutions are selected precisely because of their capacity to decide on their own about their lending programme; they are the ultimate judge of the clients' creditworthiness and the viability of the clients' projects.

The general principles used by financial institutions have been used to finance CBO projects through CSOs of public utility. Funds are committed to the CSOs based on the ex ante approval of their investment plan. After the first installment of the annual budget is released as a lump sum to a CSO, close ex post control is maintained to ensure that funds are applied to individual CBO projects that are consistent with the plan and that they use proper procedures for procurement and payment of suppliers.

IFAD's PLPR project in Cape Verde supported the government's innovative legislation to encourage the development of CSOs of public utility in the fight against poverty. The legislation envisages

- investment criteria (e.g. ceilings on the total cost and on the cost per beneficiary of the community microprojects eligible for funding by the CSO);
- the CSO's commitment to verify the technical viability of the microprojects, the certification sources of their design and procurement practices;
- the CSO's autonomous decision-making in planning and budgeting;
- detailed ex post control over the use of funds transferred to the CSO for every microproject.

The CSOs must comply with IFAD and government accounting and financial reporting procedures. Their detailed annual budget remains subject to inspection by the central authorities after the first installment of the annual budget is disbursed to them. The inspection verifies that the detailed allocation of funds to microprojects is in accordance with the approved indicative plan, that the investment criteria are respected and that the agreed procedures for implementation of the microprojects (e.g. design, procurement) have been followed. Failure to comply results in immediate suspension of financial support, affecting the entire investment programme, not just the subproject that may be in default. This creates strong pressure for all the CBOs to respect the criteria.

The system allows maximum flexibility compatible with adequate controls. Community projects can be implemented as they become ready for funding during the financial year. Government inspection takes place twice during the financial year and the CSO accounts are audited by private accountants immediately after the financial year closing. In principle, submitting audited accounts from the previous year should be a condition for releasing the second installment of the current year's budget.

# Managing CDD projects

## Most common difficulties

Table 4 highlights some of the difficulties experienced in implementing IFAD's CDD approach.

**Table 4**  
Most common difficulties in implementing IFAD's CDD approach

Difficulty	Possible causes	Possible remedy
Central government officers do not share the CDD approach and objectives	Inadequate institutional assessment;	Unify management of the different stages of the project cycle;
Relationships and roles for community and district levels of governance are not clarified at appraisal	Approved by government without appreciating how different it is compared with conventional projects	Improve communication, policy dialogue and training of government
Local authorities create obstacles to the CBOs playing the role envisaged for them	Local governments not involved in project formulation and appraisal	Intensify dialogue with local government; Establish good relations with potential opponents
Procedures are too cumbersome for CBOs to get involved	Procedural impediments to CDD are not identified, discussed and remedied from the outset	Prepare implementation manuals before appraisal and in a participatory manner
Project animators limit PRA to one step soliciting community priorities only; fail to help CBO institutional development	Poor training of animators; Inadequate resources for animation service; Failure to specify objectives of contracts with service providers	Improve allocation for training of animators; Link service providers' remuneration to impact rather than outcomes
PCUs prefer to negotiate with large contractors, lump subprojects in big tenders and exclude micro community-level enterprises	Matters not raised at appraisal and not negotiated with government; PCUs underestimate the costs of administering a large number of contracts in a participatory way;	A realistic assessment of the cost of contracting and supervising at the community level; Distinguish purely administrative aspects and training functions
Project staff do not involve the CBOs' MC in the implementation of their microprojects  Funds for training the CBOs are inadequate and participatory M&E is sidelined	The capacity-building dimension is ignored	
Village meetings of "self-evaluation" are seldom held or focus only on physical targets	Insufficient allocations to M&E; "Poor disbursement" syndrome of project supervisors	Revisit system of incentives for project management and their supervisors; Emphasize third-level results and CDD objectives
Project supervisors concerned by slow disbursement accept short cuts on CDD objectives		
Central banks introduce management standards for microfinance institutions (MFIs) that constrain development of community-level MFIs and reserve the field for organizations external to the communities	Rural financial services components are prepared in isolation from financial authorities;  Project supervisors do not follow up on policy dialogue issues	Include policy dialogue on MFIs and Cbanks in all stages of the project cycle;  Ensure that central bank representatives participate in loan negotiations
Mid-term reviews (MTRs) are concerned about slow progress in improving livelihoods and recommend abandoning the project approach and focusing on service providers rather than on CBOs	Failure to intervene before MTRs; IFAD's Cooperating Institution (CI) or cofinanciers are not sharing CDD approach;  Possible change in government's or donor's attitude	Clarify approach from the outset; Formalize commitment of government, cofinanciers and CI.

## Determining commitment to CDD objectives

The points in Box 38 suggest two key questions:

- Does CDD require special project design methodologies that may contribute to reducing the risk of deviating from CDD objectives during implementation?
- What changes should be introduced in the project management performance monitoring system to keep implementation on the right track?

Important factors in CDD projects include the capacity of project officers to stick to CDD objectives in the face of inevitable adverse circumstances and political pressure to deviate from them, along with the extent of public institutions' commitment.<sup>42</sup> Institutional and communication assessments are two useful methodologies in the formulation and appraisal phase that can determine the extent to which CDD objectives are shared by responsible public administration officers. Involving all potential stakeholders in building consensus at all relevant levels is a key component of both institutional and communication assessment. During implementation, it becomes the most delicate task of project coordinators; the coordinators' skill in negotiating enduring consensus is one of their most precious assets for ensuring the success of the project.

A simple method of testing stakeholders' commitment to CDD objectives could be used on field visits during project formulation and appraisal missions. This method would provide a basis for applying the IFAD Results and Impact Management System (RIMS) with its very useful distinction between first, second and third level results (i.e. output, outcomes, impact) during the project's M&E. The method consists of sharing the conceptual steps outlined in Box 41 with the project implementation partners and requesting them to agree, disagree or modify each of the steps proposed by the mission. The procedure would help identify areas of potential difference and the actors who are likely to work for or against the expected third-level results of the project (e.g. development of the CBOs and the related support mechanisms). Once summarized in a SWOT analysis table, the material would provide a clear basis for engaging in policy dialogue, strengthening critical project components and correcting design features with poor chances of having adequate implementation support.

### Box 38 Improving the chances of achieving third-level results in CDD projects

Try the following procedure in project design:

1. Start from the expected third-level results.
2. Formulate corresponding project exit arrangements.
3. Identify the activities that lead to the exit arrangements.
4. Assess which "rules of the game" must change to facilitate implementation of the activities.
5. Identify the partners who can support the changes.
6. Identify forces that may act against changing the rules of the game

7. Establish a dialogue with supportive and opposing forces at the policy and operational levels.
8. Define the project accountability mechanisms.
9. Negotiate the roles of grass-roots stakeholders and their representatives in these mechanisms.

At each step, ask the following questions:

- What is the project doing for the institutional development of the CBOs?
- Do all stakeholders understand it? Agree with it?
- Are sufficient resources allocated by the project to achieve it?

<sup>42</sup> The World Bank OED review of the effectiveness of the bank's CDD projects in 2006 reports that most government officers felt that people's participation is good for development, but they did not think the same of people's empowerment.

## Managing expectations about pace

During the implementation of CDD projects, there is a trade-off between the pace of institutional development of the CBOs, which naturally takes time, and the political objective of quickly achieving the project's physical targets. The result is pressure from the central government to abandon the CDD approach and return to top-down ways of implementing project components that envisage construction work or other similarly "visible" targets. Since slow progress on construction can be a cause of slower than anticipated loan disbursement, project supervisors begin to worry that their own performance will be judged badly. Therefore, support the government pressure for changing the CDD approach.

One way to deal with this problem is to avoid unrealistic projections of physical progress and disbursement of funds on construction activities that depend on the development of the CBOs. Experience suggests that many project designers disregard and insufficiently analyse the linkages between the expected development of the CBOs and the disbursement of funds to construct the physical infrastructure that CBOs should plan, help to construct and finally manage. This leads to misunderstandings and false expectations, with consequent disillusionment and negative reactions.

## Managing expectations of performance

Box 39 presents three quotes from a World Bank study of CDD. They summarize the performance expected from the front line operators of CDD projects and from their employers and supervisors. Front line operators' performance is hard to control, as is the case in all "coping" organizations<sup>43</sup> that are entrusted with performing dispersed field-level tasks. The problem is complicated by the need to use a relatively large number of people recruited from the local village. These are often people with little education, but who have a good understanding of the local setting. They are paid fairly low salaries, but given status and power in the communities that may be well above that of their family of origin and level of income.

People's performance depends on their personal motivations and level of training and on the culture of the organization for which they work (i.e. the system of incentives that confronts them). A system of incentives is comprised of targets and rewards and penalties for achieving or missing the targets. The extent of a donor's and government's commitment to CDD can be understood by analysing the system of incentives for the staff, managers and supervisors of the project, which should be built on performance indicators that properly reflect the special nature of the CDD project.

## The need for special indicators of CDD project performance

Designing a system of incentives oriented towards CDD objectives requires making several decisions, including

- the targets that project managers and other key actors should achieve;

### Box 39 Expected performance level of community facilitators

"Community facilitators are critical actors in building the participatory and targeting process, sometimes negotiating through local elite dominance".

"To act effectively, facilitators must be culturally and politically sensitive, have leadership, organizational and training capacity and be motivated by an enabling system of incentives compatible with the objectives of their tasks".

"Funding agencies must apply patience, endurance, willingness to stick to the ultimate objective, close monitoring of the quality of institutional development progress, acceptance of slow and gradual but steady progress and a strong ethic of learning by doing".

Source: Ghazala Mansuri and Vijayendra Rao. Evaluating community-driven development: A review of the evidence, draft paper February 2003.

43 "Coping Organizations" are well defined and dealt with in J.Q. Wilson's book, "What Government Agencies Do and Why they Do It", 1988.



- ways to make clear that these are the yardsticks against which staff and managers' performance will be measured and evaluated;
- the behaviour that project staff and managers should adopt with their partners at the community and local government levels.

Project targets are rooted in the design of a project. If design reports are vague about the project's CDD objectives, management targets set at the beginning of implementation either will be very general with respect to those objectives or simply ignored. In these cases, implementation practices invariably sideline the more complex objectives (e.g. the institutional development of the CBOs) and concentrate on the easier objectives, which are those connected with achieving physical targets, particularly "visible" infrastructure. Using definitions adopted by IFAD's RIMS, this leads to concentrating the M&E system on the project output, a level far away from third-level results.

It is therefore important that project appraisal reports link the CDD objectives of a project with clearly defined performance indicators and that such indicators be agreed upon during loan negotiations and subsequently used in designing the M&E system of the project. A list of possible indicators is presented in Box 40.

### **M&E systems' ability to monitor progress on CDD objectives**

The function of the M&E system is to monitor the progress of project implementation and its conformity with project objectives. In principle, the design of the system should start from a precise definition of the major indicators of project performance. The RIMS method of constructing project logical frameworks emphasizes the impact of the project (i.e. the "third-level results"). Since the most critical CDD objectives are at the third level of results, the M&E system must be able to focus on project impact in order for M&E activities to be useful in shaping the system of incentives that confronts the key actors in project implementation.

IFAD's experience, which is shared by several other development agencies, is that while M&E units are generally good reporting project output, they are less successful in reporting about outcomes because information on project impact is not always collected. This may be due to the belief, widespread among local M&E officers and not without some justification, that impact is something that can be assessed only at the end of a project. At that point they think it is too late to survey the situation before the project accounts are closed or to have any effect on project

#### **Box 40**

##### **Suggested general indicators of CDD performance**

- the quality of the partnerships established with project support, including the relations between the CBOs, the different layers of the public administration, the civil society and the private sector;
- the institutional development achieved by the communities, in terms of the working of the CBOs' own internal rules;
- roles, attitudes, expectations and motivations of the emergent community leaders (i.e. within their communities and beyond the community, including unions of CBOs, the political arena and CSOs);
- noticeable changes in the culture of the communities that enhance dynamism and self-help;
- changes in the organizational culture of the government and non-governmental organizations with respect to the role of CBOs;
- actual changes in the institutional setting that confronts the CBOs;
- the impact of the CBOs on improving the local governance system;
- evolution in the role of women and other non-dominant members of the communities;
- distribution of project benefits and their impact on the social stratification within the communities;
- achievements of CBOs and unions of CBOs on reducing the impact of market failures that affect the livelihood of their members.

management. In many cases, the methodology for dealing with impact is not very clear to local M&E officers. Actual practices in this area could improve significantly.

CDD projects require innovative ways to assess expected impact and therefore poor performance in assessing impact is particularly serious for these projects. M&E systems are generally designed to focus more on outcomes and impact (e.g. in terms of production, income and poverty) than on institutional development. Key tools for monitoring and evaluating institutional development are typically missing. Monitoring the performance of an input delivery mechanism or the trend in the share of people below the poverty line cannot be conducted with the same analytical tools as those required to monitor the quality of a partnership. Addressing this problem requires refining the instruments of qualitative analysis, but this has not been fully exploited by the M&E system of CDD projects.

## **Evaluating the quality of a partnership**

Partnerships are central ingredients of CDD projects. Partnerships may be formally established, but they may not behave as partnerships because of certain factors (e.g. management style, organization culture or the roles of minority or non-dominant members). This raises the question of what method to use to evaluate the quality of a partnership and how to apply it to the relationships between CBOs and the local government administration and among the components of CBO networks. The quality of relationships in both of those areas is one of the key factors in the quality of local governance.

A method to assess the application of the principle of partnership was proposed in an intervention by Samuel Thirion at the IFAD Workshop on CDD in Accra in 2006. This method identifies the key indicator of the quality of a partnership as the extent to which “horizontal relations” are based on dialogue and “vertical” relations are based on the principle of subsidiarity. Thirion used five parameters to arrive at an overall composite indicator of horizontal relations. Each of the five parameters is assessed by a score system that requires responding to a set of questions summarized in Table 5.

## **Local partners’ perceptions**

M&E systems of CDD projects are limited when it comes to using client opinion surveys to record community members’ perceptions of three key aspects of CDD objectives:

- the development of the community institutions and their relations with the local government;
- the issue of intra-community elite capture;
- access of the poor to project benefits.

The absence of reliable evidence about project partners’ views on these topics tends to undermine many of the conclusions of theoretical CDD research which point in different directions, often depending on the research author’s opinions. This is a gap that government and funding agencies should make a special effort to address objectively.

Community members’ perceptions can be captured at relatively low cost by interviewing a sample of households from different socio-economic strata in a number of villages using a questionnaire of no more than 30-40 simple questions that can be readily computerized and analysed. Many client surveys in development projects fail to produce reliable results due to the poor quality of the data collected which does not allow adequate processing.

IFAD’s Western and Central Africa Division has conducted an initial experiment in four projects/counties of West Africa, the main results of which are reported as an annex and in earlier sections of this report. As is the case with opinion polls that assess people’s views about political issues, personalities or products, the survey results cannot provide a deep understanding of the reasons for the responses or of the impact of the project. Nevertheless, the experiment indicated

that survey responses clarify some important points that can help determine what adjustments should be made in project implementation.

The survey recorded the views of the ultimate beneficiaries of the public intervention, which too often are reported through project officers and field workers. Having knowledge about whether village assemblies are held regularly to discuss development priorities, who participates, who runs the village committees and whether women and the poor feel they have a say in the institutions that regulate the community's investment decisions is vital to steer the management of the project. Analysing responses by the socio-economic stratum of the respondents signals in which direction more in-depth surveys should be conducted. If properly done and shielded from

**Table 5**  
**A method to assess the quality of partnerships**

Parameters (i.e. questions)	Scoring
<b>1. Scope for concertation (i.e. discussion and consensus building)</b>	0 = no concertation among stakeholders 1 = only occasional concertation 2 = regular informal meetings 3 = formal partnerships but without specific projects 4 = formal partnerships with specific projects and animation staff
<b>2. Membership</b>	0 = there is no partnership 1 = partnerships only of public agents 2 = public and private partners, but no representation of the poor 3 = public and private partners with representatives of the poor, but no evolution during past 5 years 4 = same as 3, with evolution 5 = same as 4, but open to new members, linkages with outsiders and self-evaluation at least annually
<b>3. Objectives of the dialogue and values attached to them</b>	0 = there is no dialogue 1 = monologue of the dominant partner 2 = same as 2, but with potential for seeking agreement of junior partners 3 = real dialogue with intention to reach consensus on some issues 4 = equity and solidarity seen as common objective of dialogue, but only partially applied 5 = equity and solidarity principles generally applied
<b>4. Dialogue for common decisions or only for information and consultation</b>	0 = dialogue serves only to inform/consult the junior partners 1 = dialogue to arrive at common decisions but only on some sector or issue 2 = dialogue for common decision on general strategy approach 3 = same as 2 with common decisions on main project ideas 4 = dialogue for common decision about implementing small projects and procedures 5 = regular participatory evaluations of the partnership performance
<b>5. Strength of the partners' commitment</b>	0 = there is no explicit commitment 1 = the commitment does not specify roles and responsibilities 2 = commitments specify roles and responsibilities, but there is no control mechanism 3 = same as 2 with a control mechanism, but with poor sense of joint responsibility by all partners 4 = same as 3 with a good sense of joint responsibility

political or project management interference, this type of exercise would have the advantages of being low cost and replicable over time, which would allow for increasing the sample size and improving the ability to make comparisons among projects and countries.

## **Yardsticks to evaluate CDD project management**

Even when the goal of developing sustainable CBOs and its related objectives are clearly specified during project appraisal, progress towards that goal is not automatically ensured<sup>44</sup>; it depends on many factors that can affect project management. Some of these factors are external to the project organization while others can be identified in aspects of the project organization itself.

Project coordinators face power influences at different levels which cause pressure to direct project resources to suit private interests that are not necessarily consistent with project objectives. The PCU must be protected against these interferences. Standard ways of exercising protection include the donor's approval of the AWP&B and items for expenditure over a certain amount and clearing loan withdrawal documents that support requests for replenishment of the Special Account. However, these measures are more concerned with procedures for using funds than with substantive issues regarding the way projects are implemented. Visits by project supervisors, in particular by country portfolio managers, can help address project implementation issues.

Factors internal to the project organization include whether

- the system of incentives for the project has been established;
- the system of incentives is fully understood and agreed to by the key actors affected by it;
- indicators to evaluate the performance of project managers are clearly included in the M&E system;
- performance indicators for project managers are implemented from the beginning of the project.

Simple yardsticks of project management performance can be used to help design the M&E system and to fill the gap between the beginning of a project and when the M&E system is fully operational. These are described in Box 41.

### **Box 41 Yardsticks to assess project staff's performance in achieving CDD objectives**

- effectiveness in promoting the establishment and sustainability of CBOs;
- progress achieved in improving the capabilities of the CBOs;
- progress in establishing an enabling environment for the CBOs (i.e. work towards improved institutions of the central and local government);
- effectiveness in advocating the role of the CBOs in the local governance setting;
- assessment of the quality of the CBOs (i.e. how their institutions work);
- arrangements made to make service providers accountable to the CBOs;
- innovative procedures tested and introduced to handle CBO microprojects;
- measures taken to estimate the impact of project expenditures on the economy at the community level, including mobilizing community-level contractors and suppliers and achieving effective sustainability of CBO subprojects.

44 There is a fair amount of evidence of this in IFAD. The limited sample of six CDD projects in Central and West Africa (Cape Verde, Ghana, Mali, Mauritania, Rwanda and Senegal) suggests that only the Cape Verde and Senegal projects were implemented reasonably in accordance with the policy agreed upon at design. In the other projects, important deviations from expected performance were recorded, requiring significant interventions from IFAD headquarters.



# Appendix 1

# A note on fiscal decentralization

1. Central government budgeting and financial systems are governed by a culture that emphasizes stability. The systems for collecting revenue and releasing funds are geared towards controlling expenditures. To this end, public finance is managed by the principle of the Unified Consolidated Current Account (UCCA), whereby all fiscal revenue (e.g. taxes, levies, duties) and non-fiscal revenue (e.g. fees, charges for services rendered, revenue from other sources) is deposited in a central account at the treasury (i.e. the government bank) and is released from this account to different government agencies. The balance in the UCCA thus represents the current cash flow position of the government. The treasury regulates the release of funds in accordance with the availability of funds during the fiscal year.
2. Public funds are released in accordance with the budget vote of the National Assembly, which empowers the government to collect and spend financial resources. Each ministry, or government agency of similar rank, is headed by an officer (normally the Principal Secretary) who is the Chief Accounting Officer (CAO) of the ministry or agency. The treasury issues to the CAO the Authority to Incur Expenditure (AIE) in accordance with the budget vote, generally on a quarterly basis. The AIE specifies the amounts for each item of expenditure in the approved budget vote. Each CAO then issues subsidiary AIEs (i.e. warrants) to designated officials of the agency authorizing them to incur expenditures up to the limit stated in the AIE. The warrant holding officer is authorized to issue payment vouchers up to the limit stated in the warrant for each authorized item. These vouchers instruct the treasury to make payments to suppliers. AIEs and warrants do not include authority to pay government salaries, which are paid directly by the treasury.
3. De-concentration introduces some changes in these procedures. One change involves Appropriations-in-Aid (AIA) which fall into two categories: (i) non-fiscal revenue (e.g. charges for services rendered or revenue from the sale of goods, such as vaccines) and the occasional sale of equipment, and (ii) funds made available by external loans or grants. De-concentrated units of a central ministry may be allowed to retain AIA. When the non-fiscal revenue component of AIA is not deposited in the UCCA, the treasury tends to release funds to de-concentrated units on a net basis (i.e. assuming that the cash flow requirement is equivalent to the expected expenditure, less the targeted revenue from AIA sources). Failure to collect the targeted revenue by a de-concentrated unit generates a cash shortfall at the local level.
4. Fiscal decentralization deals with the authority and mechanisms to raise and transfer public financial resources. It is one of the aspects of public administration reform that has been widely debated and experimented with in several developing countries during the last decade. Different forms of decentralization imply different forms of authority transfer and instruments for collecting and transferring public funds. Some of these have been used for a long time, while others were introduced in the 1990s.
5. A PCU represents a form of temporary decentralization of some of the functions of the public administration in matters related to the implementation of an externally funded project. Policy and instruments of fiscal decentralization can be quite relevant when designing a PCU's financial arrangements so that project activities may be sustainable after project completion.

6. Government agencies delegated to provide public utilities (e.g. water supply, power and communications) operate commercial enterprises. These enterprises are entitled to retain the non-fiscal revenue of their operations, government funds transferred to them to subsidize the production of goods and services (when this is government policy) and the assets created with the initial government grant and funds raised in the capital market.
7. Other forms of delegation imply contractual arrangements between government and independent agencies of the public, private or voluntary sector, whereby the agent performs specific public functions in exchange for an agreed amount of money. For example, an NGO can be delegated to implement one or several components of a rural development project. Contracts may be for one year or longer and the contractor is required to obtain approval of its annual budgets from the delegating authority. The treasury makes payments to the delegated agent in accordance with procedures agreed upon in the contract.
8. De-concentration of the public administration implies only some changes in procedures, such as the appointments of accounting officers at the local level (e.g. the District Agricultural Officer, responsible for the de-concentrated unit of the ministry of agriculture at the district level) and the establishment of a local officer of the treasury (e.g. the Sub-Accountant). Whereas the budget of the de-concentrated unit is approved at the central level and included in the budget vote, the corresponding AIEs are not issued by the CAO of the ministry (i.e. generally the Principal Secretary); they are issued directly by the treasury to the local accounting officer. Payment vouchers issued by the accounting officer under the AIE are honored locally by the Sub-Accountant.<sup>45</sup>
9. Devolution implies more significant changes, including the elimination of the principle of UCCA. Local governments are given authority to raise and retain local fiscal and non-fiscal revenue, the local part of AIA and private donations that fund activities within the domain of the local government.<sup>46</sup> Local governments in poor countries have very limited capacity to raise revenue for a variety of reasons, including the following:
  - a very poor tax basis;
  - reluctance of local politicians to introduce unpopular measures that tax their electors;
  - difficulty enforcing revenue collection due to low confidence of tax payers that the money will be put to good use;
  - the belief that the "rich" central government should pay for the services provided by the local administration.
10. Devolution policies transfer responsibilities to local governments which have insufficient resources to carry them out. This generates a fiscal gap, which is filled by the central government transferring funds from the treasury to the local governments. This is done using an instrument called an Inter-Governmental Financial Transfer (IGFT). In poor countries, IGFTs represent by far the largest share of the local government budget, but in some cases private donations may represent a very important contribution that is much too often underestimated and undervalued in small countries.
11. IGFTs may transfer financial resources as a lump sum or as a matching grant. Lump sum grants can be unconditional or conditional; they are unconditional when the receiver is free

<sup>45</sup> Normally, these arrangements do not concern payment of salaries to the staff of deconcentrated units, which are handled directly by the treasury.

<sup>46</sup> Under special circumstances (e.g. demonstrated capacity to raise fiscal revenue), local governments may also be allowed to raise loans in the capital market.



to use the money in the way it decides for any activity it can legitimately undertake within its domain. The local government may autonomously decide, for example, how much of the grant will be allocated to schools and to which type of schools, whether any child can be admitted to school, how much parents should pay, how much will be allocated to roads, which type of roads, where they will be built, rehabilitated, maintained and so on.

Unconditional grants provide the maximum flexibility and autonomy to local government administrations and involve minimum control by the central government.

12. Conditional lump sum grants may impose several conditions that local governments must respect. For example, the central government may specify which activities are to be funded and which are not to be funded by the grant. Government may dictate standards for building schools, health posts or roads, and may impose non-discriminatory access to schools. Governments may also require that specific targets be achieved (e.g. for vaccination coverage or condom distribution).
13. Matching grants always include the condition that local governments must fund a portion of the cost of the goods and services provided with the grant money. They also specify which function is to be funded by the grant (e.g. the money can be used for water supply but not for roads, for health centres, but not to pay teachers). They may specify what portions of the funds should be spent on particular activities or may leave that decision to the local government. Other conditions may also be imposed, such as standards to be used or cost recovery measures to be applied.
14. The allocation of IGFTs to local governments in different areas in a country may be guided by the principle of inverse tax capacity, in which local governments of poor areas with a weak tax capacity are allocated a larger share of the total financial requirements than local governments of rich areas with a stronger tax capacity. This principle aims to correct the potential regressive effect of IGFTs on the country's regional fiscal equity.
15. Most central fiscal authorities are responsible for ensuring that the overall balance of public revenue and expenditure remains within planned limits. They generally are not in favor of fiscal decentralization and try to reduce its scope, strongly opposing local governments borrowing funds from the banking system. They tend to introduce tight control procedures and other mechanisms to ensure respect of the budget ceilings, fearing that the overall balance might get out of control. The difficulties in enforcing supervision and accurate financial reporting on a multitude of decentralized spending centres generate tight ex ante control on budgets and prudent (i.e. slow) release of funds. Empirical evidence collected by some authors does suggest, however, that these fears may be exaggerated.<sup>47</sup>
16. For fiscal decentralization to be acceptable to devolved authorities, effective mechanisms must be in place to enforce financial discipline without endangering the capacity of the decentralized units to manage their programs. A major problem caused by local governments that have lukewarm financial discipline is that central governments are ultimately obligated to honor local governments' legally valid documents that commit to payment. Mechanisms acceptable to central authorities include the balanced budget rules, shown in Box A-1, and the "no bail-out condition". The "no bail-out condition" states that (a) the central

47 Anwar Shah, *Fiscal federalism and economic governance: For better or for worse?*, 1997.

government will not rescue local governments that commit to expenditures beyond available resources, and (b) officers responsible for exceeding such limits must face the legal consequences of unsound financial practices. Neither of these conditions are often applied, particularly the second one, which would make the condition more effective.

17. The impact of the IGFT on the development of effective local governments depends on whether they embody the three basic qualities of transparency, predictability and autonomy (already defined in the main text). However, these qualities only establish the conditions necessary for local governments to operate effectively and autonomously. The conditions that ensure that the transferred resources are used to achieve specific CDD objectives need to be further negotiated with the autonomous local governments.

#### **Box A-1**

##### **The Balanced Budget Rules**

- Committed expenditure must not exceed revenue;
- There must be precise limits on borrowing from the financial market;
- There must be full disclosure on the commitment of funds;
- There must be uniform, comprehensive and transparent accounting;
- Reporting on the financial situation must be timely;
- There must be regular bank reconciliation statements;
- Audits must be timely.



## Appendix 2

# Participation of the rural poor in decision making:

## findings from IFAD CDD projects in Mauritania, Mali, Guinea Conakry and Cape Verde

This section reports some of the information collected through interviews of 383 people (216 women and 167 men) who were randomly selected in four Western African countries where IFAD CDD projects are being implemented: Cape Verde, Guinea Conakry, Mali and Mauritania.<sup>48</sup> Key characteristics of the interviewees are outlined in Table B-1.

The interviewees were selected randomly, with no attempt at directing the interviews to people who would necessarily represent the IFAD target group. This approach generated some different results between Cape Verde and the other countries and projects. In Cape Verde, the PLPR is

**Table B-1**  
Key characteristics of the random sample of households interviewed in four IFAD CDD project areas

Country (project)	Total sample	% women	% women illiterate	% poor	% medium income	% "rich"
Mauritania (PDDO) a/	98	55	71	39	43	18
Mali (FODESA) b/	88	36	72	56	20	24
Guinea (PACV) c/	79	58	57	66	28	6
Cape Verde (PLPR) d/	118	71	20	40	40	20
Total numbers	383	219	123	262	92	68

a/ Projet de Développement Durable des Oasis. Coverage: 5 oases in Adrar and 5 in Assaba region.

b/ Fond de Développement en Zone Sahélienne. Coverage: 6 villages in Segou and 6 in Kolokani district.

c/ Programme d'appui aux Communautés Villageoises. Coverage: 5 villages in Kindia, 3 villages in Mamou, and 2 villages in Faranah.

d/ Programme de Lutte Contre la Pauvreté Rurale. Coverage: islands of Fogo and Sao Nicolau, and municipalities of Tarrafal and Sao Miguel in the island of Santiago.

**Table B-2**  
Distribution of the random sample according to their primary employment

Survey area	Farmers	Herders or Fishermen	Traders	Housewives	Other (a)
(Percentage of people interviewed)					
Mauritania	29	16	8	27	10
Mali	70	1	12	14	12
Guinea	24	5	1	57	14
Cape Verde	15	4	7	47	27

(a) includes artisans – over 2/3 of the total, teachers, local traditional doctors, and employees, etc.

48 "Enquête sur les partenaires de projets CDD-FIDA in Cape Verde, Guinée, Mali, et Mauritanie" draft report, 2008.

targeting around 30 per cent of the community members interviewed through the survey whereas in the other countries the target group of the respective projects represents a much larger percentage of the community members participating in the study.

The interviewees' fields of employment are shown in Table B-2.

Overall, the sample reasonably reflects the people expected to be aware of the operations of IFAD's CDD projects in the selected areas. The sample is reasonably homogenous, with the exception of some differences in Cape Verde, where the interviewees included significantly more women than men, and a smaller share of illiterate women compared with the other areas. Another important difference is the share of people primarily engaged in agriculture in the Mali sample (70 per cent) compared with the other countries.

The objective of the interviews was to capture the opinions regarding three key features of the CDD projects being implemented in the selected areas:

- the degree of participation of the target group in the final decisions taken on the activities funded by the IFAD project and the development of community institutions;
- the control of elites and instances of elite capture at the level of the communities;
- the degree to which poor people participate in project benefits.

Of the projects studied in this exercise

- only two projects (Mali and Mauritania) were designed to fund both productive and social community projects in response to community members' demand and without a-priori excluding any member of the targeted communities;
- one project (Guinea) was designed to respond to community members' demand, but finances only those infrastructure facilities which will benefit *all* the members of the community, whereas the Cape Verde project only funds the demands of the poorest community members;
- three projects work with CSOs of public utility (Cape Verde, Mali, and Mauritania) to which the responsibility of responding to the requests of the community level partners is assigned, whereas in the Guinea project the responsibility for decision-making remains with the project management unit
- in Guinea, traditional leaders are in principle excluded by the Government from management and decision making functions at the community level.

In this section we briefly examine the findings obtained from the interviews regarding the participation of the rural poor in decision-making. The analysis of respondents' views regarding the role of women in the development process and the issue of elite capture were already provided in the main CDD tools document.

## **People's participation in public decision making**

- The project management structures are different in Mali and Guinea, but at the village level both projects operate with official organizations of the local government, the Village General Assembly (VGA) and Village Development Committee (VDC).
- In Mali, 78 per cent of the respondents in Segou and 96 per cent in Kolokany report regular participation in the meetings of the VGA, whereas in Guinea, more than 50 per cent report regular participation.
- Seventy-eight percent of the people in Mali are aware of the existence of the VDC while 87 per cent are aware of its existence in Guinea.
- In Mali, only 56 per cent of the Segou sample responded correctly to the question regarding who nominates the members of the VDC, whereas 85 per cent responded correctly in Kolokany. In Guinea 63 per cent responded correctly, and 26 per cent responded that they did not know the answer.

- In Segou, 41 per cent of the interviewees thought that members of the VDC are nominated by the traditional authority, whereas the proportion in Kolokani is as low as 10 per cent.
- Only 41 per cent in Segou know the functions of the VDC versus 91 per cent in Kolokany.

A question posed to interviewees that gave very different results depending on the area where the project was being implemented, asked whether respondents felt that the interests of the community were well represented at the local government levels (i.e. district or prefecture). Eighty-five percent of the interviewees in Segou respond “yes”, whereas in Kolokani only 31 per cent are satisfied. In Guinea, two-thirds of the respondents (66 per cent) say that the interests of the community are well represented at the higher level, while the rest respond “no”, or “I do not know”.

In Mali, the interviews clearly suggest a difference between Segou and Kolokany. In Segou, community members are willing to leave responsibility for decisions-making over the community affairs to a VDC formed by members of the traditional authority, whereas in Kolokany people follow the performance of their VDC much more closely, and are quite critical of the current relationships with the higher level of the public administration. The situation in Guinea is somewhere in the middle between the two diverging positions identified in Mali.

In Mauritania and Cape Verde, legislation enacted during the 1990s clarified the role of the CSOs of public utility with respect to supporting people’s initiatives at community level. This enhanced the policy supported by IFAD, which promoted a diversification of the institutions involved in local development and poverty alleviation at community level. IFAD CDD projects in these two countries were entrusted to CSOs of public utility, representing a significant innovation in the local governance setting. In both countries, membership to the CSOs was expected to include a significant number of the people from the project area, with the aim of having these people becoming the majority in due course.

In the two areas investigated in Mauritania, all respondents to the opinion poll knew of the existence of the local CSO, with actual membership ranging from 61 per cent of the sample in Adrar to 86 per cent in Assaba. People informed of the objectives and functions of the CSOs were 57 per cent and 61 per cent of the sample, respectively, in the two areas. In Cape Verde, 75 per cent of the people interviewed knew of the Community Development Association (CDA) operating in their village or area. Forty-six per cent of the sample reported that they regularly attend regularly the general meetings of the CDA and another 13 per cent irregularly. In addition, 70 per cent of the sample declares that women do attend these meeting and voice their opinions.

In Cape Verde a smaller share of the respondents (34 per cent) declared to be well informed about the functions and responsibilities of the CDA and about the way the directors of the CDA were nominated. This low result may be the consequence of the fact that only around 30 per cent of the random sample were people targeted by the IFAD project and members of the CDA that benefited from the project intervention.

With respect to questions regarding community based organizations (CBOs) dedicated to providing private goods for the benefit of their members, the main results of the study are given in the following box. In Mauritania, the most important CBOs operating in the oases are the MICOs (local microfinance institutions funded by the IFAD project) with 75 per cent of the interviewees being a member and 57 per cent of the sample in the Adrar and 61 per cent in the Assaba being adequately informed of the objectives of the MICOs. Other CBOs (mostly production or service cooperatives, many women’s cooperatives) are also present, but since they cannot qualify for legal registration, they operate through the local CDA. Other CBOs concerned with the maintenance of irrigation infrastructure and various water sources also tend to overlap with the CDAs, in the sense that it is the CDA that maintains the infrastructure and raises the revenue necessary for maintenance from the users.

In both Mali and Guinea, the interviewees reported that there are many CBOs in operation. In Mali, 55 per cent of the interviewees in Segou are members of a CBO, and 76 per cent in Kolokany. In Guinea, 68 per cent of the respondents said they are member of a CBO. Eighteen per cent of people in Mali and 28 per cent in Guinea have not joined a CBO, seemingly due to lack of interest or lack of information. In both countries respondents were well aware (over 90 per cent of the sample) of the conditions required to obtain IFAD project funding for community investments.

In Cape Verde, the study suggests that few CBOs have been established, on either a formal or informal basis<sup>49</sup>, groups of poor farmers are rather organized by the CSO of public utility operating in their respective island.

Despite some shortcomings, the investigations have obtained people's opinions on the impact of IFAD projects at community level, and ascertained IFAD CDD projects' capacity to support community members' ability to get organized, to decide on and undertake activities aimed at improving their situation, whilst including a significant participation of women and young people in shaping community decisions. The share of people not in agreement with the different project interventions, or with specific community decisions, ranging from 20 to 30 per cent of the total sample interviewed, confirms the emergence, after a number of years of project operations, of a lively setting in the project areas, that may provide in due course a change in the leadership of the public institutions responsible for the local welfare.

**Table B-3**  
**Participation in decision making in the Community Based Organizations (CBOs) acting for the exclusive benefit of their members**

Country	Mauritania	Mali	Guinea Conakry	Cape Verde
Per cent of total sample interviewed (two figures show different results in different sampled areas)				
<b>Private organizations of local partners (CBO):</b>				
Are there CBOs in your community?	100	100	96	12
Which is the most important CBO activity funded by the project in your area?	MICOs	several	several	n.a.
Informed of the objectives of the CBOs supported by the IFAD project?	57 - 61			n.a.
How many of you are members of a CBO?	75	55 – 76	68	n.a.
If not a member, why?				
- lack of interest, lack of information, no reply	18		28	n.a.
Do members' meetings take place regularly?	no	yes	yes	
Aware of the conditions required to join IFAD project funding	n.a.	91	90	72-30

49 May be due to the expression used by the interviewers (socio-economic organization) which may well have been misunderstood by the respondents.



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