

AGRICULTURE INVESTMENT NOTE

COMMUNITY-DRIVEN DEVELOPMENT FOR INCREASED AGRICULTURAL INCOME

Community-driven development (CDD) investments use a variety of mechanisms to empower communities to define priorities and take charge of their own development investments. Typically, CDD programs provide resources, often through cash grants, to enable communities to undertake local development activities. Initial community projects frequently involve small-scale infrastructure, but increasingly productive projects become a priority to address poverty and income issues. Agricultural projects are potentially an important element of the subproject portfolio, though experience to date offers limited guidance on how to maximize sustainable impact on agricultural production systems with CDD investments. Supporting income-generating activities (IGAs) without introducing unsustainable subsidies and market distortions is a challenge to be addressed in future analyses of CDD investments.

CDD is an approach to poverty reduction that seeks to empower communities and local governments with resources and decisionmaking powers so that they can take charge of their own development. “Empowerment” refers to increasing the assets and capabilities of poor people to participate in, negotiate with, and hold accountable the institutions that affect their lives. Achieving empowerment means promoting a stronger voice, access to information, social inclusion, accountability, and organizational strength. CDD is an established corporate priority of the World Bank and a key design principle in an increasing number of projects in rural areas. At present, approximately 45 percent of the lending to the agriculture sector uses some variant of the CDD approach—a proportion that is likely to increase in future.

Typically, the CDD approach gives communities access to funds to implement subprojects of their choice. Local investment funds are often, but not always, provided in the form of matching grants, whereby participating communities are expected to make a contribution in cash or in kind. To the extent that rural communities consider food security and income from agricultural sources as their priority needs, projects using the CDD approach are expected to promote agricultural development.

POLICY AND IMPLEMENTATION ISSUES

Local investment that is explicitly guided by community priorities and, in most cases, implemented by communities themselves, is the hallmark of the CDD approach. In order to respect the diverse needs of the poor, eligibility criteria for selection of subprojects are typically kept fairly open, either using a negative list of things that may *not* be financed (for example, religious structures or investments with potential negative environmental impacts); or a broad positive list of eligible subprojects for project financing (for example, social and economic infrastructure, natural resource management). Most World Bank lending using the CDD approach over the past decade has focused on infrastructure and social services, but other options are increasingly being explored, such as IGAs and natural resource management (NRM). Community choices are conditioned by several factors:

MEETING THE MOST BASIC NEEDS. When CDD projects target the poorest, beneficiaries usually lack basic needs, such as safe drinking water and access to health services. When presented with the opportunity to improve critical services, those priorities prevail. Once those needs are met, communities will address secondary needs.

DEFINING THE COMMUNITY. Subproject choice often depends on the working definition of “community.” If defined narrowly as a water-users organization, for example, it would not be surprising to find demands for irrigation pumps

Box 11.18 Typology of community organizations in World Bank operations

- Common property resource groups. Water user or forestry management associations.
- Producer organizations. Groups that engage in crop and livestock production, forest and forest products, fish production, postharvest and processing activities.
- Multisector functional committees. Village or municipal development committees.
- Single-sector functional committees. Health or education committees (common in Social Fund projects).
- Microcredit institutions. Community savings and loan groups or revolving credit accounts.

Source: Parmesh Shah, personal communication.

Box 11.19 Brazil: Hives of income-generating activity

Throughout the State of Piauí in Brazil, 17 beekeeping sub-projects financed by the Rural Poverty Alleviation Project have generated an estimated total incremental income R\$348,000, or R\$660 per beneficiary family. Total estimated production of honey is 189 tons (17 percent of state production). The subproject package for beekeeping financed honey-bees, fumigation equipment, centrifuge, honey filters/decanter, beehives and other materials and equipment. CEFAS, a nongovernmental organization, provided technical assistance. In one example 30 families formed the Association of Small Bee Keepers in the Floriano Region. Previously, only four of those families were producing honey with a total yearly output of 320 kilograms. The 30 families now produce 9,000 kilograms annually. Average family income from honey increased from R\$18 to R\$510 per year. The association obtained financing from Banco do Brasil for the construction of additional infrastructure to store the honey.

Source: Parker 1995.

or carts for produce. If the project works with parent-teacher organizations, then proposals would naturally focus on education. More typically, however, CDD projects work with villages or groups of villages defined by administrative boundaries, physical proximity, and/or social cohesion. Communities comprise numerous constituencies, which given hard budget

choices, face important trade-offs in selecting subprojects from a range of sectors (health, education, water supply, transport, and agriculture; see box 11.18).

APPRAISAL METHODS. Another determinant of subproject choice is the method of community mobilization and planning used. Tools that focus on community problems often come up with priorities such as health and education. Tools that focus on a community's resources and abilities may favor economic development priorities. Planning based on community strengths and opportunities may produce a priority list different from that established by local government (Goldman 2003).

USING MATCHING GRANTS TO GENERATE INCOME. Communities often identify productive activities as priorities, and matching grants have been used successfully to stimulate substantial gains in productivity and income (see box 11.19). Using grants to support IGAs in farm and rural nonfarm activity is controversial, with a growing number of detractors and proponents on both sides.⁷

Detractors argue that grants increase dependency, undermine a culture of financial discipline, and crowd out development of sustainable microfinance institutions. Grants that benefit only a small minority of the population may not support financially viable activities, and are not sustainable because fiscal transfers are insufficient after a project to continue such support.

Proponents argue that, from a social assistance point of view, direct transfers may be justified for poverty reduction, particularly if they target the very poor.⁸ From a rural development perspective, direct support for productive assets may be justified to raise the income-earning potential of the community and "kick-start" the local economy. Others point to positive externalities generated from the associated private sector development. Several rules-of-thumb for use of grants in CDD are included in box 11.20.

7. This section is adapted from a concept note written by Jean Delion and William Steel, Africa Region.

8. Bank guidelines, specifically Operational Policy (OP) 8.30, state that "[s]ubsidies may be an appropriate use of public funds if they are fiscally sustainable and are economically justified or can be shown to be the least-cost way of achieving poverty reduction objectives."

Using grants for IGAs for very poor people as social assistance is well accepted, although these interventions need to be carefully designed when working with the asset poor. In district poverty initiatives in India, project teams have had considerable success funding income generation for the poor who own a plot of land, however small. They have had less success with the absolute poor who have no assets (see box 11.21).

Grants can catalyze the formation of institutions for collective action. These, in turn, become the means for sustainably managing numerous goods and services. Many argue that establishment of viable institutions for collective action is the primary goal of CDD programs. Accordingly, the determining factor in whether or not to use grants may be the institutional outcome envisaged and not the individual goods and services produced, which may only be stepping stones to building institutions for collective action.

LESSONS LEARNED AND RECOMMENDATIONS FOR PRACTITIONERS

The CDD approach may encourage collective action for the purchase of inputs, technical support, and marketing. The logic of collective action is to bring new options to communities that are not open to individuals acting alone. Often collective action is in everyone's interest, but it may not be in any individual's interest to take on the cost of organizing the collective action. Certain investments are often needed to

Box 11.20 Suggested guidelines for providing grants for income generating activities

- Target grant assistance to very poor communities or groups that are beyond the current reach of microfinance institutions. One way is to make the grant amount large enough to be useful to the poorest, but too small to be worthwhile for better-off groups.
- Grants should be combined with training and support to establish local savings and credit associations to capture increased income flows and finance future income generating activities (IGAs).
- IGAs financed must be cost effective, as demonstrated by impact and cost effectiveness indicators.
- The investments should not compete directly with private investment (existing or likely).
- Beneficiaries should contribute to projects, with at least part of the contribution in cash (no less than 5 percent of total project cost). Over generous subsidies create false positive demand, and may jeopardize future maintenance of investments by beneficiaries. Subsidies can be structured so that the poor make lower contributions, but this may have a negative effect on their ability to assert and defend their rights to flow of benefits.
- If the economic returns to a subproject are higher than the financial returns, one can assume that some level of subsidy is justified, the social returns being greater than the private returns.
- If the profile of revenues is skewed so that returns do not accrue for some years after investment (for example, forestry, tree crops), a subsidy to encourage adoption can be justified.
- Subsidies used without tied commitments for repayment, user fees, or maintenance, may create perverse incentives for greater rent-seeking by beneficiaries.

Source: McKean and Ostrom 1995.

Box 11.21 Income-generating activities for the absolute poor – innovative examples

The design of community driven development projects can address the difficult issue of income generation for beneficiaries with no assets:

- In a current project in India, a group of landless poor applied for a grant from a village fund for poultry. The proposal was not simply to purchase poultry, but to manage a poultry unit in a different way. One group member asked for training to market eggs; another specialized in transport; and another specialized in animal health. This approach proved potentially more profitable than simply asking for a grant to buy poultry.
- In another project, a village received a grant for irrigation. Although not everyone owned land, every member of the community contributed to the subproject and owned water rights. The landless were able to lease their water rights to landowners, thereby generating some income.

Source: Ethel Sennhauser and Philippe Dongier, personal communication.

Box 11.22 Demand-driven agricultural service funds

The demand-driven agriculture services fund is part of support to rural producer organization (PO) capacity in agricultural services projects in Senegal and Burkina Faso. Funds allow POs to access public or private services to improve farming practices or develop off-farm income-generating activities. Key implementation responsibilities are shared as follows.

- Local POs prepare capacity-building subproject proposals on the theme of their choice, requesting funding for training, advisory services, or small productive investments. POs submit proposals to a provincial forum composed solely of PO leaders.
- Facilitating NGOs help POs to form regional forums. The NGOs (i) disseminate information, (ii) help POs select representatives at the village and local level, (iii) assist them to elaborate operating rules, (iv) maintain a database of eligible service providers, (v) train PO leaders and farmers on subproject selection procedures, and (vi) monitor program progress.
- The Project maintains records on subprojects, prepares contracts with POs, transfers funds to their bank accounts, and organizes technical and financial audits of subprojects.

The Burkina Faso project over five years financed approximately 1,250 capacity building subprojects, including 250 demand-driven agricultural extension subprojects. Financial audits have shown that funds were well managed, and demonstrated that POs have the ability to elaborate and implement subprojects. In Senegal, after the first 20 local farmers forums had been in place for less than a year, they had already financed 187 subprojects, 53 percent of which were for training and 38 percent for agricultural innovation testing.

Source: Pierre Rondot, personal communication.

complement the CDD approach. Targeted capacity-building efforts, for example, are needed for participatory appraisal at the grassroots and local government levels to ensure that local development plans are properly articulated (see box 11.22). These may require the use of NGOs or private companies experienced in local development. Public extension services may perform this role, although considerable efforts may be needed to sensitize personnel to participatory techniques and a demand-driven mentality. Technical support services may need to be strengthened to cope with new demand from the CDD program.

Some investments needed to overcome constraints to development may not figure in community proposals, because they are too expensive (large public goods); benefit only individuals (some private goods); or are too long term (natural resource management). Projects may need to consider complementary funding windows for larger infrastructure that needs to be planned and implemented above the community level (see box 11.23).

The CDD approach is not a panacea for agriculture or development in any other sector, but is becoming increasingly important as a way to

Box 11.23 Ethiopia: Funding windows to match needs

The Pastoral Community Development Project in Ethiopia promotes sustainable livelihoods, improved services, and reduced vulnerability to drought by combining the CDD approach with:

- A community investment fund (up to US\$10,000 per community) with an open menu of possible microprojects to support nomadic lifestyles or diversification away from livestock.
- A drought preparedness fund (up to US\$80,000 per district) for local governments to implement larger infrastructure works that help pastoral communities cope with drought.
- A support services component aimed at increasing the capacity of public services (in water supply, animal health, education, and extension) to meet needs of pastoral communities.

Source: World Bank 2003.

channel funds to the grassroots level. It increases the likelihood that such funds are used to meet the real demands of rural communities, and makes resulting investment more sustainable. Designers of projects that use the CDD approach to promote agricultural income generation will need to ensure that the financial instruments are compatible with the existing rural financial sector, and that complementary technical support services are present or provided by the project.

SELECTED READINGS

Asterisk (*) at the end of a reference indicates that it is available on the Web. See the Appendix for a full list of Web sites.

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