

Community-based Contracting: A Review of Stakeholder Experience

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Community Contracting: A Review of Stakeholder Experiences

World Bank projects increasingly attempt to hand over responsibility of development activities to local communities. Consequently, communities are increasingly being involved in procurement and disbursement activities during project implementation. Despite this trend, however, there has been little effort to document the experiences with implementing these community-managed projects.

In an effort to identify strengths and weaknesses of community contracting, this paper reviews the findings of a series of consultations with World Bank task teams, project and social fund staff, community representatives, local government officials, service providers (suppliers, NGOs, etc.), and contractors who work on community-managed projects. What follows is a synthesis of lessons learned, good practice procedures, constraints and possible solutions.

This paper is the result of only a very preliminary investigation of community contracting as it is conducted in the Bank. In order to better understand it and to draw useful conclusions in the long term, it will be important to undertake a larger, more systematic study—one that investigates whether community-managed projects have increased project sustainability more than centrally-managed projects.

I. Background

Over the past few years, the approach to rural development has fundamentally changed as countries have adopted new decentralization and participatory policies. In response, the Bank began supporting a new breed of participatory, demand-responsive, community-driven projects, usually through social funds, rural development projects and sector-specific interventions. In these projects, communities have taken lead roles in planning, organizing, contributing and selecting their preferred subproject. However, in many of these projects, the participatory approach often stops short when it comes to contracting. Government agencies and project staff often control the contracting process by hiring the supply agencies that provide the goods and services to the communities. As a result, suppliers become accountable to the project rather than to the communities, even though the communities are ultimately responsible for owning and managing subprojects.

The Bank's procurement and disbursement procedures were originally prepared for large investment projects and provide little guidance for these new types of investments that include hundreds and sometimes thousands of community-level subprojects. At the same time, some pioneering work has been done to simplify community-based contracting procedures and allow effective and speedy implementation of these numerous small localized subprojects. In addition, although many task teams are interested in designing new projects with community contracting, very few of the lessons and experiences on this topic have been analyzed or disseminated across

the Bank. In fact, many are surprised to find out that contracting procedures do allow for much greater flexibility than expected.

This review represents a joint effort of members of the thematic groups on social funds, rural water supply and sanitation, community-based rural development, and the Procurement Sector. In an effort to collect and synthesize experiences with community contracting, the study team conducted interviews with task team members and field personnel with experience in direct financing of communities. They held a clinic on community contracting during Human Development week which brought together many headquarters' and field personnel as well as social fund and project staff. Clinics were also held with rural water supply staff. Two field studies were conducted to gather local stakeholder perspectives on community contracting in Brazil (N.E. Brazil Poverty Alleviation Project) and Malawi (Social Action Fund). See Boxes 1 and 2.

Teams conducting the field studies visited several subprojects which had used community contracting. Subprojects visited included two water supply and sanitation projects, a school, and health center in Malawi, a rural electrification project, water supply system, cassava processing plant, a communal irrigation system, and a corn mill in Brazil. Local stakeholders were identified as community members, elected community project management committee members, suppliers, contractors, local government, as well as project and Bank staff. Workshops brought together contractors, service providers, and community representatives and identified various stakeholder issues. Workshop findings were cross-checked during in-depth field visits to communities.

Annex 1 shows a list of activities for the various stakeholders throughout the project cycle. Annex 2 provides a list of the guidelines used in the field studies. Annex 3 provides a list of all task managers and field personnel who were interviewed in this study.

II. Overview of Community Contracting

A. What is Community Contracting?

Community contracting has been defined as procurement by or on behalf of a community.¹ A community includes groups of individuals living in close proximity to each other and/or other social groups, grassroots entrepreneurs or associations able to identify a need and come together to access project funds². The size of the community varies depending on the type of subproject and includes people from all areas that make direct use of the subproject.

In discussions with task team leaders and team members, it became obvious that within the Bank there is a range of community contracting models.

¹ Steen Jorgensen, "Community Contracting in Demand Driven Projects", presentation made at Community Contracting clinic on February 24, 1999.

² Jean-Jacque Raoul, "Bank Rules on Community Contracting" presentation made at Rural Water and Sanitation clinic on November 16, 1998.

- Funds are channeled to and managed entirely by the community (Malawi Social Action Fund, Zambia Social Recovery Project, Peru FONCODES, Bolivia Social Fund and RWS Project, PROSABAR).
- The community participates in all phases of identifying and selecting a contractor but funds are channeled from the project account to the contractor (Yemen Social Fund for Development, India UP RWS Project).
- An intermediary agency such as a voluntary organization working closely with a grassroots community submits a proposal on behalf of the community, and the social fund enters into a financing agreement with the intermediary as well as an elected community project management committee (Ethiopia Social Rehabilitation and Development Fund).
- A combination of approaches is used depending on the institutional capacity of the community (Eritrea Community Development Fund).

It is important to note that this paper deals with both Bank-funded sectoral projects and social funds. Thus, when we refer to a “project management unit”, we refer to both sectoral project management units as well as social fund project management units.

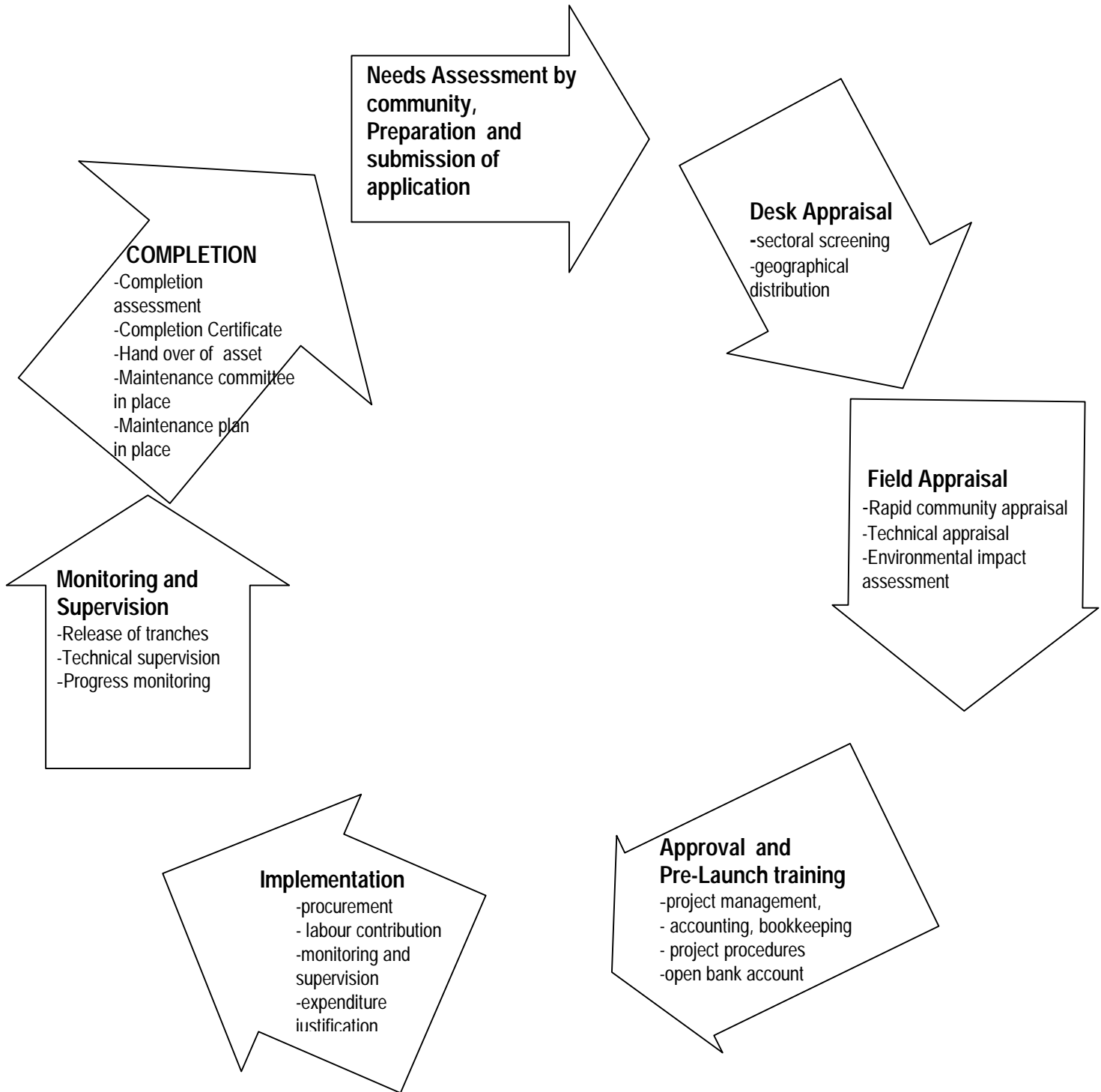
B. What are its Main Characteristics?

While there are many different models of community contracting, they all share certain key characteristics and goals.

- Community members are involved in identifying needs and selecting a subproject.
- Community participation is encouraged throughout subproject identification, preparation, implementation, operations and maintenance, and is usually done through an elected community project management committee.
- Communities provide contributions in the form of labour, cash and/or materials. Their contributions promote community ownership and hopefully eventual subproject sustainability.

Figure 1 shows the subproject cycle for community contracting.

Figure 1
Subproject Cycle for Community Contracting



C. How Can it Contribute to Decentralization?

The interaction of demand-driven projects³ with local government institutions is a two-way process; it has supported as well as been strengthened by the decentralization process. For example, the Northeast Brazil Poverty Alleviation Project has three different delivery mechanisms which distinguish how subprojects are approved and financed. Each sub-component represents a greater degree of decentralization of decision-making and resource allocation responsibilities.

- *State Community Schemes (PAC)*. Under PAC, rural communities submit their subproject investment proposals directly to the state project coordinating unit. The unit screens, approves and releases funds for subprojects, interacting directly with the beneficiary community.
- *Municipal Community Schemes (FUMAC)*. In FUMAC decision making on subproject approval is delegated by the state to municipal councils, composed of community members and representatives of civil society and municipal authority. The municipal councils prioritize the demands presented by rural communities through local consensus-building and approve subprojects within an annual budget for financing under the project coordinating unit.
- *Pilot Municipal Community Funds (FUMAC-P)*. In this new sub-component, selected municipal councils prioritize and approve subprojects submitted by rural communities and then finance them within the context of an annual budget. The project coordinating unit delegates the budget to the municipal councils to manage themselves.

Control over project investment planning becomes increasingly decentralized and rural communities gain greater voice through representation on the municipal council as well as by participating in council decisions. This institutionalization of the participatory process protects it from undue political influence. It is hoped this will lead to stronger partnerships between communities and municipal councils and their respective municipal governments in determining the use of public resources.

The Community Action Project (CAP) in Zimbabwe attempts to strengthen the government's decentralization process by working closely with the Rural District Councils (RDC). The project has established a close relationship with the RDC's Capacity Building Program and strengthens the Rural District Councils and district technical services by providing training and through involvement in CAP activities. In addition, local government development structures and government functionaries at district level play a major role in the implementation of CAP activities. For example, village community workers under the Ministry of National Affairs, Employment Creation Co-operatives, Village and Ward Development Committees and traditional structures play an active role in community mobilization. CAP funds program-related expenses for these partners as well as special training programs.

³ A demand-driven project is one that responds to a community's economic demand and, therefore, expects that communities are willing and able to pay at least part of the cost of the subproject.

BOX 1. MALAWI SOCIAL ACTION FUND

The assessment of local stakeholder perspectives of community contracting in the Malawi Social Action Fund (MASAF) was conducted in May 1999.

Background: The Community Subprojects Component (CSP) is the largest component of the Malawi Social Action Fund. Its design is based largely on information gathered during a Systematic Client Consultation undertaken during preparation of the project. The consultation was undertaken primarily to assess the potential at community level to implement subprojects under a direct community financing arrangement. As such, the CSP component is a community-driven program which funds community-initiated projects. Communities are responsible for implementing the subprojects as well as operating and maintaining the subproject asset/output.

Financing of subprojects is done by channeling funds directly into project committee bank accounts. Disbursement of funds is done in tranches of 30, 40, 20 and 10 percent. An elected project management committee manages the implementation of the subproject. Communities provide counterpart funding in the form of labour, cash or materials. While MASAF provides funding for subprojects, other actors such as local government, NGOs, and private sector organizations all play a role in the subproject cycle, as facilitators, appraisers, supervisors, contractors, and partners in co-financing arrangements.

Methodology: The assessment of local stakeholder perspectives was conducted as a follow-up to work that has already been undertaken in collecting and synthesizing experiences from Bank task teams. Information was collected from communities that have implemented projects using community contracting and focused on three types of micro-projects—water supply and sanitation, school, and health center.

Workshops were conducted with several service providers (i.e., owners of local hardware stores) and contractors who had worked on MASAF projects in the Lilongwe district. Focus group discussions were held to identify issues from different stakeholder perspectives. This was followed by more in-depth visits to communities. Meetings were also held with a range of local government officials.

Project sites: The team visited four project sites: School Project (Mchesi, Lilongwe district), borehole project (Magombo village, Lilongwe), health clinic (Mayani, Dedza district), school/borehole project (Ching'ombe, Kasungu district). Interviews were conducted with project management committee members, local leaders, contractors/suppliers who had provided services to the community, and community members.

The Malawi field study was carried out by Christine Kamwendo, MASAF Zone Manager, George T. Sikazwe (AFMMW) and Samantha de Silva (HDNSP). A detailed report of the study was completed by Christine Kamwendo and is available upon request.

BOX 2. NORTHEAST BRAZIL POVERTY ALLEVIATION PROJECT

The assessment of local stakeholder perspectives of community contracting Rural Poverty Alleviation Project (RPAP) in Paraíba, Northeast Brazil was conducted in June 1999.

Background: The project provides matching grants to rural community associations to finance small-scale subprojects identified as priority investments that improve community well-being and generate employment opportunities. Beneficiaries provide a minimum of 10 percent of total costs of community-managed subprojects in labour, kind or cash.

The identification, preparation, contracting, implementation and maintenance of all subproject investments are the responsibility of the beneficiary rural communities. In order to receive funds, these communities must be legally organized into civil associations. Subproject selection is demand-driven and based on community preferences elected in the community assembly.

Methodology: Members of seven communities benefited by the project were interviewed. These communities have in average 80 families comprising about 200 to 800 people (30 percent of whom are children attending primary school). They are representative of the poor communities targeted by the project.

Subproject cycle: The associations promote community meetings to discuss and screen their priorities. Once the priority is elected, it is converted into a subproject proposal which is sent to the project coordinating unit or to the respective municipal council. After the subproject analysis and approval by the project coordinating unit or by the council, the association signs an agreement with the project coordinating unit or the municipal council and, then, the funds are released to their respective bank checking account. For each approved subproject, the association has to nominate a local supervisory committee—composed of three or four community members not belonging to the Association Directorate—whose function is to supervise the entire subproject execution including the contracting procedures.

Conclusions: The survey showed that: i) all stakeholders agreed that the contracting done by the associations is more efficient, more transparent, and gets lower prices than centralized-bidding; ii) community contracting encourages a sense of ownership among beneficiary communities, therefore, assuring better operation and maintenance; iii) information with the simplification of the procedures facilitates the process and increases social control; iv) the discretionary use by the community of the savings obtained by purchasing at lower price than estimated at subproject appraisal provides an incentive to associations to look for lower prices and improve contracting practices.

In spite of the points above, it was also verified that community contracting has its own limits. The communities are more efficient when the subprojects are simpler. When the project is more complex, such as a reservoir or a irrigation system, the community needs support, mainly with respect to technical specifications, drawing and cost estimates, and environmental protection.

The Brazil field study was managed by Raimundo Caminha (task manager) and carried out by Ana Maria Goncalves (consultant). A detailed report of the study was completed by Ana Maria Goncalves and is available upon request.

III. Lessons Learned and Good Practices

The following lessons and good practice procedures emerged during consultations and field interviews with stakeholders. Although they are only preliminary, the conclusions reflect what we do know from the Bank's experience to date with community contracting.

A. Project Planning and Preparation

A community assessment as part of project preparation should be used to assess local capacity for community contracting. The assessment should be a key to developing mechanisms of support and capacity-building to enable effective community contracting. According to Gita Gopal in World Bank Discussion Paper 312, the institutional capacity of communities can be assessed by examining the following:

- *Organizational capacity of the community.* Are there formal or informal community organizations? Is there homogeneity with the benefiting group? Is interaction and joint action possible? Are existing groups representative of community interests?
- *Technical skills.* What do they produce? How do they procure goods or works? Is there surplus labour?
- *Financial and accounting skills.* Are there mechanisms for ensuring accountability within the community? If not, can they be designed? Who will monitor the proper use of funds?
- *Role of intermediaries.* Are there intermediaries operating within the community? Do such intermediaries have a close relationship with the community?
- *Cost-benefit analysis.* What are the costs of involving communities? Training costs? What are the additional risks? What are the benefits of involving communities? Increased sustainability? Will such involvement result in more effective use, operation and maintenance of facility? Is cost-sharing possible?
- *Beneficiary contribution.* Can communities contribute? If so, how?

The Guatemala Reconstruction and Local Development Project used a Policy and Human Resources Development Grant (PHRD) to finance an in-depth participatory assessment of the target beneficiaries during project preparation. Project staff conducted extensive interviews and consultations with nearly 60 percent of beneficiaries and their local governments including problem diagnosis and needs assessments. This provided a wealth of information on social networks and community values, organizational and decision-making dynamics within the communities, existing community organizations and their capacity to manage/administer funds, the degree of participation and ownership of community-managed projects, as well as views on outside actors such as NGOs, local government units, and the role they play within the community. The outcome of the assessment not only determined the institutional arrangements of the project and the types of projects to be funded, but it also defined the nature of capacity-building and institutional strengthening activities to be carried out.

During project preparation the Information, Education and Communication (IEC) campaign should conduct research to identify the medium that best reaches the target beneficiaries. It is

important to examine and evaluate several different types of media (radio, television, newspapers, community theatre etc.) during this process.

IEC messages should educate communities throughout the project cycle. Many projects, particularly social funds, invest in an IEC campaign to effectively promote issues such as project objectives, funding procedures, and selection criteria. Although IEC campaigns primarily target new communities interested in accessing social fund resources, it is critical they also provide information to communities throughout the project cycle through IEC. In Malawi, for example, the study found that communities would like more technical assistance on issues such as recruiting and managing contractors, and procuring goods throughout the project.

IEC messages should target specific stakeholders that directly affect project implementation. Stakeholders to be targeted include groups such as suppliers, contractors, etc. The messages should provide them with useful information about project procedures and good practices for interacting with communities.

The IEC campaign should stress the non-political nature of project. If the project is introduced to the community by a politician, the project frequently becomes associated with that particular party or politician, often deterring full community participation. The IEC campaign can be used as an effective tool through which to inform communities and the general public that the project is non-political.

B. Subproject Implementation

1. Participation and Accountability

The project should ensure participation of the greater community through out subproject cycle. Unless specifically addressed, participation by the larger community is much greater during the identification and planning phases than during implementation. It is primarily the project management committee and not the greater community that is involved in contracting and procuring as well as supervising during subproject implementation. Ensure that mechanisms exist such as regularly scheduled meetings for community leaders to report and share information with their communities.

The project should ensure participation of women and socially marginalized groups. This is especially important in cases where local leadership is not representative of or sensitive to the very poor. The project needs to allow the voices of these groups to be heard by community leaders.

The project management committee must be accountable to the community. The project management committee should see it as an integral part of their duties to inform the community/leaders about subproject status. The community and its leaders should see themselves as providing oversight to the project management committee. In Malawi, for example, while project management committees were aware of all subproject costs, procurement plans, etc., the larger community including the village chiefs were unaware even of the total grant that had been awarded to the community. In such instances, the project management committee may be seen as an elite group having a monopoly over the subproject as well as subproject funds. Training for the

project management committee as well as the community could include a component on providing feedback and listening to the wider community.

The project should elect a supervisory committee. In addition to the community association that is responsible for implementing the subproject, communities in Brazil also elect a local supervisory committee that oversees implementation as well as contracting and procurement. This additional elected committee provides added supervision to the project. In general, a supervisory committee should consist of people with the appropriate skills and technical know how. They should also see it as their responsibility to ensure community participation throughout implementation. Since they possess particular technical skills and take on important responsibilities on behalf of the project, it may be necessary to compensate them for their time and work.

Community contributions—cash or materials (bricks, sand etc.)—should be collected up front. This is important because once a project is funded, it becomes difficult to maintain a high level of community contribution throughout the project cycle. In order to collect contributions up front, however, communities must make arrangements for storage and security services to guard against theft or loss of materials. The Ching’ombe village in Malawi, for example, hired a store clerk and a security guard and rented a used tobacco shed which could be padlocked to ensure safety of goods.

2. Disbursement Issues

Disbursing funds to community accounts in tranches based on work completed allows for greater control and oversight. In Malawi and Brazil, for example, transfers to community accounts are made in tranches based on work completed. In Malawi the project disburses in four tranches (30, 40, 20, 10 percent) while in Brazil the project disburses in two equal tranches.

Disbursement in tranches is seen both as a negative and positive feature by communities. While some communities noted that it allowed them to gradually build their expertise in handling large sums of money, others considered it a burden saying that delays in project implementation were most often linked to late disbursements. Although reducing the number of tranches minimizes administrative burdens, it also limits the oversight and control that the tranches provide. It may be worthwhile to look into offering communities different financing packages based on their capacities to implement subprojects.

Disbursement of subproject funds to communities should be done on a timely basis. Delays in releasing tranches often means that subproject implementation comes to a halt for long periods of time. Contractors and wage labourers as a result lose both interest and money. Inflation is also more likely to affect subprojects that are experiencing long lapses in implementation. For example, in the Ching’ombe village in Malawi work on the subproject came to a complete standstill for nearly three months until justification reports were reconciled. (Justification reports substantiate each tranche of funding that has been given to a community. The community provides regular justification reports throughout the project cycle.)

Tranches are usually delayed either because of poor financial reporting by communities or delays in processing financial reports at the project management level. Therefore, the communities

should receive intensive training on how to complete and substantiate expenses in justification reports. Developing a simple procurement and disbursement manual, such as the user-friendly Zambia Project Implementation Handbook, as well as providing regular training for communities will help ensure fewer complications related to disbursements. Instead of providing generalized training programs, sessions should be modified so that they address specific project-related issues.

Contracts should allow communities to pay contractors in tranches according to work completed. Many communities prefer to pay contractors in tranches because by doing so they manage smaller sums of money. Tranches also provide a way to assess the work completed before paying the contractor. In Malawi, for example, a technical supervisor certifies each stage of work before the contractor is paid.

Subprojects should be funded as bundled packages by tranches. Contracts for goods, works, and consulting services can be included within one subproject envelope. Transfers to community accounts should be made in tranches based on work completed.

Projects may consider vouchers when banking systems are underdeveloped. Vouchers (i.e., payment promise notes) issued by the project management unit or social fund or central-level transit accounts can be used in situations where local banking branch networks are undeveloped, or where the banking system is distrusted by communities. Voucher systems have been used successfully by NGOs. For example in remote areas of Nepal⁴, vouchers are issued by NGOs, with the official seal of the NGO and signature of their manager, promising to pay suppliers in exchange for the voucher. There were vouchers of 100, 1000, and 10,000 rupees. Communities received vouchers from the NGOs when their proposals were approved, corresponding to the value of the project proposal.

Communities may need support in gaining access to banks and working with formal banking procedures. A letter, for example, introducing the project and project management committee to members of the bank signed by the executive director of the social fund or project can often help to facilitate the relationship between the bank and community members who may lack experience with formal banking procedures.

Communities should work closely with local government or project staff and have the authority to sign off on all payment requests and participate in all procurement decisions. This should be the case even when communities do not directly handle subproject funds.

3. Procurement of Goods and Services

The process of project planning should result in a project design that reflects the skills and needs of communities as well as economic and efficient procurement. Procurement planning should take into account: what will be procured; who will procure it; when it will be procured; and how it will be procured. What will be procured can be further separated into goods, works, and services.

⁴ NGOs CECI, SAPPROS and CSD (a Canadian and two Nepalese NGOs) were using this system successfully in 1990-1993 in remote districts of Nepal.

Build in incentives for efficiency in procurement. It is useful to provide communities with a given budget within which the subproject must be implemented. For example, while the operational manual provides detailed rules and procedures for procurement, in Brazil the project allows communities to keep whatever money is saved during subproject implementation and use it for any purpose they see fit. This provides an incentive to further reduce costs. To ensure that communities do not inflate prices in the subproject proposal, costs are cross-checked against standard technical designs and unit cost data at the project management level.

Local shopping enables greater savings at the community level. In Malawi and Brazil, purchases are made on the basis of estimates sought from at least three suppliers and strict eligibility criteria are followed. Communities ask for three quotations and justify their purchase based on the quality of goods, availability, and price. Communities say they prefer local shopping because they can use it as a bargaining tool with suppliers to get a better price. They also are sometimes able to negotiate with a supplier to provide free delivery of goods, minimizing transport costs.

Local shopping may be used for hiring skilled labour such as foremen, carpenters, bricklayers, painters, electricians, and plumbers. In Malawi communities hang advertisements on trees and nearby buildings to attract bids from skilled contractors. They seek three quotations and hire a contractor only after interviewing all potential candidates. Interviews are conducted by the project committee together with village leaders and the technical supervisor employed by the social fund. Again, communities prefer local shopping because it gives them greater choice and bargaining power to get the best deal.

Local contractors should be involved whenever possible. Experience shows that communities had a much better working relationship with contractors who were hired locally. Local contractors were also much cheaper, more flexible, and more aware of the community's problems. However, local contractors may not have the means or know how to market their services to other communities. It may be useful to create databases at district level of local contractors recommended by communities which other communities could access when searching for a contractor.

Small, local suppliers may be unable to compete with larger suppliers who can offer better deals to communities. In Malawi larger suppliers not only provide free delivery of goods, but also provide free board and lodging to community members who come long distances to purchase supplies. These additional costs are not transferred to the client because a unit cost database is

used to ensure that prices remain competitive. Community members also prefer larger suppliers who were able to provide a greater selection of goods and faster service.

Communities should request references for contractors. This helps ensure quality of the work. In the Riacho Fundo community in Brazil, for example, communities require references of previous work before a decision is made to hire a contractor.

Rotating procurement schedules are used to provide greater oversight. Project management committees are charged with procuring all goods necessary for project implementation. Some

communities have set up rotational procurement schedules within the committee to ensure that no cliques form and that the committee adheres to procurement procedures.

Construction materials are purchased in stages. This is done for several reasons: i) to monitor procurement of goods as well as use of funds; ii) to simplify reporting by the community to the project or social fund; and iii) to ensure that adequate storage facilities and security arrangements are in place for protecting the goods.

The projects should ensure transparency of procurement. Steps to this end include: i) developing a simple procurement plan for the *entire* project endorsed by the committee as well as the community leaders and/or village chief, and ii) informing community leaders whenever goods are procured and delivered and iii) reporting problems not only to the project management committee but also to community leaders. In Malawi the chairman of the project management committee is not a signatory to the subproject bank account but is responsible for sanctioning procurement and ensuring that procurement is done according to plan.

Transport issues must be addressed and costs included in the subproject proposal. Transport is usually an expensive and an important part of the subproject budget, particularly in rural communities. Most subproject budgets, however, only cover costs associated with transportation of materials from the shop to the project site, and do not account for back and forth travel to meet with suppliers before the goods are actually purchased. Furthermore, communities may not be familiar with transporting large quantities of goods and may need training on how to select an appropriate method of transport, to negotiate a hire agreement, and to make best use of local transport. Other transport options should be discussed. For example, hiring tractors and trailers, ox-carts, or small trucks depending on the goods to be transported may be much cheaper than hiring trucks, particularly in rural areas.

Active support on prices and quality need to be provided to communities to assist them in negotiating with suppliers. Information on performance and prices available from various suppliers can be kept up to date in a central or district level supplier database. In Malawi communities use reference price lists developed by the social fund when procuring goods. In addition to the price lists, communities must have a thorough understanding of the stages of construction and materials needed for each stage to ensure that the right quantities of goods are purchased at the right time, without exceeding the given price limits.

In some instances, suppliers can pre-qualify, reducing community options to a short list of suppliers with whom prices and quality standards have been negotiated for different service level options. In Brazil communities are provided with a list of preferred suppliers and service providers which facilitates the procurement process. These data bases must be updated regularly.

Very simple contracting procedures such as requests for quotations or shopping should be used when possible. It is usually difficult for communities to obtain competitive proposals using a formal competitive bidding process. If Bank procurement policies require a system of prior reviews (prior review of contracting documents before disbursing), a sample approach of 10 percent or less of subprojects is usually acceptable.

4. Legal Issues

The legal status of community user organizations is considered essential; however, organizations do not necessarily need formal registration. Most project managers consider it very important that community user organizations obtain legal status. Rules and regulations to do so, however, do not have to be complex. For example, in Ethiopia and several other countries, meeting minutes which report the formation of a user committee are a sufficient basis for gaining legal status, opening a bank account in the name of the committee, and eligibility to receive public funds for community projects.

A joint community contracting model may be used when communities lack legal status. Joint contracts often take place with NGOs, local government organizations, or even the project management unit. Cooperation often includes joint project bank accounts, with signatories from both the community organization and joining organization, such as in the India Uttar Pradesh Water and Sanitation Project.

More research needs to focus on legal issues related to contractual obligations. Since community contracting remains relatively new, few have focused on the important legal issues related to subproject contracting. For example, a contractor who is hired to complete a subproject within a given time frame may be unable to do so if the community contribution of materials is not delivered on time. This also means that the contractor has lost out on other potential work contracts. Can the contractor then sue the community, project, or social fund for breach of contract or opportunity costs? Some basic guidelines and training packages on this topic need to be developed for all stakeholders.

The project should use simple standard contracts for hiring of skilled labour. The contracts should include: what the work consists of; how much the person will be paid for the work; how long the work should take; who decides if the work is acceptable; at what times the person gets paid; how to settle disputes; and details of any retainer. In Brazil communities use a standard contract developed by the project coordination unit and feel that it minimizes fraud and ensures that the contract is processed according to project guidelines.

Contracts should include warranty and penalty clauses. It is important to ensure that communities fully understand the conditions laid down in the agreement signed between the community and contractor/implementor. For example, in Malawi many communities did not understand the full implications of a warranty and did not demand that free services be provided to them during the warranty period. Modifications that were made, for the most part, depended on the good will of the contractor. Contractors interviewed in the Lusa Engenharia community in Brazil agreed that inclusion of a penalty clause in the contract would help protect the community against poor workmanship.

Contracts should include clear and simple guidelines for arbitration of disputes. The contract must take into account community input when designing an easily accessible, amicable settlement and adjudication process, and when determining who arbitrates disputes—whether the arbitrator is a traditional leader, local government authority or some other party.

5. Maintenance and Recurrent Costs

Subproject proposals should offer a plan to cover maintenance and recurrent costs once the subproject is completed. While some communities prefer to set aside money for maintenance and other recurrent costs early on during project preparation, others elect a committee to ensure collection of user fees or contributions on an as needed basis. In Brazil the Riacho Fundo community hired a person specifically to provide operations and maintenance services for the water system and to collect user fees.

Communities need information and training on follow-up and maintenance. In particular, they need to know where to go for goods and services after the project is completed and to be linked to appropriate government agencies for technical assistance. This is especially true for rural water supply projects where technical assistance is not readily available. To this end, communities in Malawi participate in a four-day community based management training program for water projects which cover such topics as village-level operation and maintenance of the water facility, sanitation and hygiene education, and community fundraising.

Communities benefit from manuals to assist them in supervising building and maintenance activities. For example, the Zambia Project Implementation Manual uses cartoons and simple instructions to provide communities with information on how to manage each stage of construction, from clearing the site to painting the finished building. It also includes chapters on rehabilitation, roads, wells, and pit latrines.

Maintenance committees should be elected during project planning. Frequently, a project management committee can become a maintenance committee. If it does not, however, it is critical that the community specifies at the outset the individuals who will take responsibility for this task.

The possibility of providing insurance coverage needs to be explored. Minor repairs may be taken care of through community contribution and user fees. However, large damages to the structure may be too expensive to be covered, and therefore, the structure remains unrepaired and unused. Can subproject assets be insured against potential harm from fire or any other unexpected calamity? In the same way that banking services have been “pulled down” to the community level as a result of demand, it may be useful to explore ways to provide insurance services to communities.

C. Capacity-building

1. Areas for Capacity-building

Specific capacities need to be developed for all stakeholders in order to successfully implement projects with community contracting. These capacities are as follows for each of the different stakeholders.

Communities

- Accountability of community or user group leadership. This can be developed during committee formation, involving the entire community in the process and raising awareness of the role and importance of the user committee.
- Planning, accounting, administration, monitoring and control
- Familiarity with the formal sector (bank accounts, large suppliers)
- Technical skills required to oversee contractors
- Training to achieve effective use and sustained use (i.e., hygiene education for rural water supply and operation and maintenance).

Local Governments

- Reviewing, selecting and monitoring subprojects using participatory techniques. Local government leaders should be involved in project selection and monitoring to build on-the-job capacity.

Private Intermediary Providers (NGOs, small contractors, firms)

- Private intermediaries often play a key role in strengthening the capacity of community organizations. However, they also often require extensive capacity-building in the following areas: user committee formation, capacity-building of community organizations, community management, contracting, and technical skills.
- Small contractors may also need training in technical skills as well as management of small businesses, accounting, etc.

Project Management Unit/Social Fund

- Appraising, funding, monitoring subprojects
- Developing/maintaining a central supplier database
- Developing/managing standard unit costs for each region, model contracts, simple designs
- Process facilitation
- Awareness/buy-in of benefits and principles of community contracting model

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- Increased funds and time for project preparation: It is critical to invest resources and time up front to adequately assess community needs (contractors, labourers, inputs, etc.) and design capacity-building accordingly.
- Legal issues: Lawyer and procurement specialists must be involved in the early stages of project design.
- Knowledge transfer: The Legal Network and Procurement Network should focus on knowledge transfer within and across regions.

2. Managing Community Capacity-building

Capacity-building activities should be tied to project delivery. They should not be viewed as a separate set of activities to be completed before subproject implementation. In addition, skills development—as opposed to initial capacity-building—can be contracted by communities directly as part of the bundle of contracts funded by the subproject grant.

Private agencies (NGOs, firms, etc.) should be contracted by the project to carry out initial capacity-building of community organizations. This includes activities such as awareness raising and committee formation. Community capacity is critical for community contracting, and as a result, capacity-building must be managed very effectively.

Community-based knowledge sharing can become a very important tool for success. For example, successful community project management committees and community leaders can help train newer committees. This can be a very successful tool for community-based learning and knowledge sharing.

Competition and strong performance incentives such as tying growth in agency use to performance in strengthening community capacity can be introduced to manage private agencies. Private agencies can be either NGOs or firms who conduct capacity-building activities for the project.

D. Monitoring and Evaluation of Subprojects

Frequent participatory audits should be conducted. Technical, financial, and social audits should assess the performance of capacity-building agencies and of community organizations, and drive further funding decisions. In addition, they should be followed by timely ex-post reviews to adjust overall design and procedures.

It is critical to evaluate the process by which communities identify, plan and manage subprojects. This is particularly important in projects with the specific objective of strengthening community capacity.

Properly designed internal auditing procedures can provide useful information to all relevant departments including management, financial, and program staff. At present, in Malawi, the internal auditing process does not gather any qualitative information. All of the MASAF Zone Managers interviewed felt that qualitative information, as gathered in this survey, would greatly assist them in identifying community problems and providing more targeted assistance.

IV. Risks and Pre-Conditions

A. What are the Risks Associated with Community Contracting?

Poor technical execution and manipulation by contractors. This can occur when community leadership is not sufficiently accountable to users, community leaders lack experience with business transactions in urban areas, or communities do not have access to relevant technical skills. Capacity-building and active support to communities must compensate for these risks.

Ignoring the interests of marginalized groups. Local leadership is sometimes insensitive or does not sufficiently represent interests of the very poor, women and indigenous groups. Active pre-investment and user committee formation support by community facilitators can be used to help

mitigate this risk.

Bias in favor of small, community-level projects. Often communities tend to select simple projects that fit the community contracting criteria in order to retain control of management and contracting. This bias may decrease when external agencies such as grassroots NGOs and local government units demonstrate a positive track record in managing larger and more complex projects on a community's behalf.

Loss of economies of scale. Contracting at more central levels may provide greater economies of scale than community contracting. For example, it may provide lower prices because of volume-driven bargaining power such as for drilling and handpump importation. It may also reduce the ability to pay for high quality supervision for technically complex systems.

Difficulty in mobilizing community contributions. Urban communities which have large migratory populations may find it difficult to mobilize community contributions including labour, cash, and materials. Some communities have overcome this by mobilizing private sector donations as part of the community contribution. For example, the Mchesi School Project in Malawi received counterpart funds from the National Bank of Malawi.

B. Under what Circumstances is Community Contracting Appropriate?

Community contracting is appropriate for community-level projects, where users are a clearly identifiable group of households in the same community. It is less relevant in small town projects or in multi-community projects, where community-management would be very complex.

Political will in favor of community-management makes community contracting more relevant. Strong political will is important to help central government agencies shift to a mode of “facilitator of community management” as opposed to “doing and controlling”.

Communities have a clear comparative advantage to do contracting in situations where:

- previous examples of community-managed projects exist
- communities have some degree of social cohesion
- community user-based organizations have legal status
- communities have responsibility for the projects' operations and maintenance
- mechanisms for community capacity-building are available

When community capacity is weak, a joint community contracting model may be used such as with an NGO, the project management unit, or the social fund.

V. Next Steps

In discussions with communities it became clear that selecting, planning and managing the implementation of subprojects had had a profound impact on the community as a whole.⁵ One of the most obvious outcomes was that communities were eager to use the skills they had developed and implement more community-managed projects. Community-based contracting has also promoted innovations in the way that communities implement and manage development projects.

It is important that we build on the strengths of the community-based contracting approach while exercising caution in promoting it as a panacea. Since the approach is relatively new within the Bank, not much research has been done to identify and examine its strengths and weakness and compare it with centrally-managed projects.

This paper represents only a step in the learning and research process. The pros and cons of the approach have not yet been fully identified and evaluated. Legal issues, in particular, pertaining to subprojects need additional research. A more in-depth study than this one would look at issues such as:

- *The nature of participation in community-managed projects.* Who participates? Does participation increase ownership?
- *Cost efficiency.* Are community-managed projects cheaper to implement? Is there less theft and waste?
- *Capacity-building.* Does it build capacity and diversify the skill base of the community or does it create an elite?
- *Social capital.* Does managing a project build trust and social capital within the community? Or do communities with high social capital succeed at managing projects?
- *Impact on sustainability.* Is there more community ownership if a project is implemented by the community? Does it increase sustainability?

The results of such a study would provide a very useful framework for designing projects which promote community-driven development.

⁵ For example, communities interviewed in Brazil stated that in the future they would not agree to implement non-community-managed projects. Furthermore, contractors noted that there was less theft and vandalism in community-managed projects. (Contractors workshop, Brazil.)

Annex 1

Activities for Stakeholders in Community Contracting

	Community	Implementing entity (Project management committee or NGO)	Local government agency	District or regional Project management unit	Central Project Management Unit
Facilitation and Preparation	Identify and prioritize community needs	Plan project and prepare application	Sensitize local leaders/communities	Provide IEC and sensitization of local leaders/communities	Develop IEC campaign targeting key stakeholders including contractors and suppliers
	Elect project management committee and supervisory committee	Submit application for funding	Assist with planning and preparing project proposal	Assist with orientation of local government members	Develop annual program of support to communities
	Agree on self-help contribution and project plans		Agree on contribution and Maintenance plan		Develop procedures and policies for implementation of subprojects
			Desk appraisal of proposals/Coordinate with district development plans	Desk appraisal of project proposal	Facilitate technical review of subproject proposals
	Confirm understanding of project costs/benefits				Develop and implement capacity building and training for key stakeholders, including contractors and service providers
Implementation	Mobilize community contribution	Mobilize community contribution	Approve subproject proposal	Approve subproject proposal	Approve subproject proposal
	Participate in field appraisal	Present project plan at field appraisal	Carry out field appraisal	Carry out field appraisal	Facilitate international procurement
	Attend project launch ceremony	Participate in project launch ceremony	Participate in project launch ceremony	Organize project launch ceremony	Maintain list of pre-qualified contractors
	Attend subproject meetings/monitor PMC	Sign financing agreement	Train PMC members	Facilitate procurement of goods and services	Maintain Unit Cost database
	Monitor subproject implementation	Open bank account		Provide technical know how	Develop and maintain standard designs
	Monitor accounting of subproject funds	Manage and supervise project implementation	Monitor project implementation	Sign financing agreement with community or implementing agency	Verify subproject expenditures

	Monitor procurement of materials/services	Handle accounting for subproject funds	Provide technical supervision	Supervise procurement of materials/services	Facilitate timely financial disbursements to communities
		Procure materials/services	Resolve conflicts as necessary	Supervise subproject implementation	Monitor zone/regional operations against targets
		Contract independent agency for technical supervision when necessary			Appraise and monitor subprojects/review progress reports
		Contract employment of labour		Disburse subproject funds	Carry out internal audits/contract external audits
		Countersign all agreements made on behalf of project management committee when not implementing agency		Foster effective working relationship with district level institutions	Identify technical assistance needs, i.e., BAs
		Report to community and local government		Receive and process subproject reports	Up date relevant implementation manuals
		Prepare and submit reports to project management unit		Provide reports to central management unit	
		Day to day monitoring of project implementation			
Completion	Agree on maintenance plan and fees	Put in place maintenance plan and fees	Ensure implementation of maintenance plan and fees	Ensure implementation of maintenance plan and fees	
	Attend hand-over ceremony	Organize hand-over ceremony	Certification of completed projects	Certification of completed project	
	Maintain project assets after completion	Sign off on completed projects	Sign off on completed projects	Sign off and hand over of completed projects	

Annex 2

Guidelines for Participatory Assessment of Contracting Procedures

Objective

The objectives of the participatory assessment are to:

- identify key characteristics of the community contracting component,
- identify strengths and weaknesses of the approach, and
- identify specific issues, constraints, and possible solutions.

Background and Methodology

This assessment is being conducted as a follow-up to existing work on community contracting. It focuses on collecting and synthesizing experiences from Bank task teams.

The purpose of the field work will be to assess local stakeholder perceptions on community contracting, using participatory techniques. Local stakeholders will include: community members, providers of goods and services (contractors, NGOs, local shop keepers, etc.), and to the extent possible, local governments and agency staff.

Information will be collected from communities that have already undertaken community contracting and will focus on three types of microprojects—water supply and sanitation, school, and health center. Half day workshops will be organized to bring together contractors, store owners, and community representatives. Focus group discussions will be held to identify issues from different stakeholder perspectives and be followed by more in-depth visits to communities. The assessment will be done according to the guidelines presented below. The result will be quantitative and qualitative information that will be analyzed by community representatives, project staff, procurement specialists, and other Bank staff.

The guidelines are not a blueprint. They will be developed and modified as experience is gathered and taking into account new information that is gathered during the field surveys. A paper will be prepared based on the findings.

Guidelines for the Assessment

Step 1

Identification of Microprojects

Identify microprojects for survey based on:

- use of community contracting model (3 micro projects)
- type of project (rural water supply, school, health center)
- location (sample of rural and urban communities)
- accessibility

Step 2

Stakeholder Consultations—Focus Group Discussions

Three half-day workshops will be held and will bring together contractors, store owners, and community representatives. Focus groups will be held to identify issues from different stakeholder perspectives.

Step 3

Stakeholder Consultations—Focus Group Discussions

Interviews will be conducted with relevant stakeholders, project management committee and community members; suppliers and contractors; social fund and project staff; government officials. The interviews will focus on the following questions and issues.

Project management unit and community

Information and preparation

- Info access (how did you hear about the project?)
- How did you decide on the subproject and why?
- What was the total cost of the project?
- How much community contribution was needed? (cash/in kind)
- Who contributed? How long did it take? What were the problems?
- How long did it take from request to funding of the subproject?

Implementation

- Opening and maintaining bank account? Any problems?
- Who are the signatories? How often do they have to go to the bank?
- Tranche system of funding—benefits/constraints
- Legal issues. How was it done?
- Types of training received and its relevance

Contracting

- How did you advertise for the contractor?
- How did you identify contractor?
- Did you use pre-qualified contractors recommended by project? Why or why not?
- Who wrote the contract? Did you agree with its contents? Were any changes made to the sample contract?
- What was the contractual relationship? penalties?
- How is the contractor paid?

Procurement

- Was an overall procurement plan developed? By whom?
- Who procured goods and services? Who approved them? Who verified them?
- Did you get three quotations?
- Was community informed of these decisions?

- Availability and use of storage facilities
- Quality and availability of materials and services
- Availability of labour
- Who contracted labour? Who determined the wage rate? Was it acceptable?

Supervision

- Who supervised/monitored?
- Did community have technical skills to supervise?
- If not, was someone hired to supervise?

Completion

- After completion were there any changes to be made?
- Were post completion services adequate? Was there a warranty?
- Timeline of subproject implementation

Sustainability

- Operations and maintenance. Who has responsibility? Why?
- Processes to ensure quality and sustainability. What processes ensure sustainability? Maintenance committees? User fees?

Social issues

- Perceptions about community contracting
- Degree of community participation (accountability, transparency issues)
- Perceptions about the implementation committee. How were they chosen? Competent? trustworthy?
- Who is benefiting and how? Is skill base in the community being diversified?
- Conflict resolution. How is it handled?
- Capacity at the community level. Is there prior experience in managing community projects?
- What can be improved?

Suppliers/Contractors

- What services and goods were provided?
- What was the value of good and services provided?
- How did you hear about the project?
- Did you approach the community or community approach you?
- Have you worked on similar projects before? What were they?
- Who decided on the type of subproject?
- Who contracted you? How?
- Did you use standard designs? Was there community input in to design?
- Who monitored and supervised your work? To whom were you accountable?
- Did you use community labour? Availability?
- How was wage rate established?
- What was the community contribution? (cash/labour/ materials)

- Was the contribution useful? Why or why not?
- Agree with having a penalty clause in contract? Why or why not?
- Any changes to design after completion?
- What are the post completion services provided to community?

Social Fund and Project Staff

- What is the social fund role in community contracting?
- Information provided to community
- Specific activities during preparation, implementation, and completion of subprojects
- Role in procuring goods/services
- Accountability to the community? Government? World Bank?
- Relationship with community, committee, contractors, local government
- Communication flows—who talks to whom?
- Services provided to community (i.e., unit cost database, pre-qualification of suppliers)
- Internal audit function for financial supervision
- Mechanisms for technical supervision and quality
- Mechanisms for monitoring and evaluation (i.e., internal audits) of subprojects
- Mechanisms to ensure sustainability of microprojects
- Indicators for judging success

Government officials

- Level of involvement in the project
- Specific role and activities (i.e., identifying contractor/procuring goods/services)
- Communication flows with community and social fund
- Level of coordination with government programs and policies
- Ownership
- Capacity needs and strengths

Step 4

Analysis of Results

Discuss results of consultations with community representatives as well as project staff and procurement specialists.

Step 5

Outputs

- Prepare a paper based on results—constraints, lessons learned and recommendations.
- Develop set of guidelines based on this experience for replicating the study in other countries.

Annex 3

Task Managers and Field Personnel Interviewed

Egypt Social Fund: David Steel

Malawi Social Action Fund: Norbert Mugwagwa

Yemen/Madagascar Social Funds: Qaiser Khan

Argentina Social Fund: Julia van Domelen

Peru FONCODES: Juliana Weissman

Armenia/Georgia Social Funds: Alexandre Marc

Romania Social Development Fund: Ana Maria Sandi

Zambia/Ethiopia Social Funds: Gita Gopal

Ghana Community Water and Sanitation Project: Jennifer Sara

UP Rural Water and Sanitation Project: Parameswaran Iyer

North East Brazil Poverty Alleviation Project: Raimundo Caminha

Guatemala Reconstruction and Local Development Project: Rafael Flores

El Salvador Education Project (EDUCO): Maria Madalena Dos Santos

Burkina Faso Second Agriculture Services Development Project: Pierre Rondot

Guinea Village Communities Support Program: Suzanne Pirou-Sall