Communities Taking the Lead

A Handbook on Direct Financing of Community Subprojects

Samantha de Silva

Cover art: A community's development needs as drawn by children of Vieux Fort, St. Lucia.

This handbook has benefited from the guidance of several Bank staff: Julie van Domelen (HDNSP), Philippe Dongier (SASEI), Luis Coirolo (LCSER), Sunil Bhattacharya (ECSCS), Jacomina de Regt (AFTES), Robert Saum (SARFM), Manvinder Mamak (SARFM), Prasad C. Mohan (AFTQK), Wendy Wakeman (PRMGE) and Murphy Kajumi (Malawi Social Action Fund).

In developing this handbook, the author has relied heavily on the operational manuals, implementation methods, and experiences of many community-driven development projects primarily the Malawi Social Action Fund, Tanzania Social Action Fund, Romania Social Development Fund, Sri Lanka Village Self-help Learning Initiative, Nigeria Local Empowerment and Environmental Management Project, Yemen Social Fund for Development, and the St. Lucia Poverty Reduction Fund. This handbook is envisaged as a living document. It will be updated and changed periodically reflecting the experiences of community-driven projects and task teams.

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I. OVERVIEW

1. Background

Over the past few years, the World Bank has begun supporting a new breed of participatory, demand responsive projects. These projects aim to achieve sustainability of services at the local level by incorporating institutional mechanisms that ensure community control of decisions and resources during all stages of the subproject cycle. These projects can be broadly classified as local infrastructure (e.g., schools, health centers, water supply and sanitation, electrification, local roads, small bridges), social services (e.g., day care centers, orphanages, schools, health posts) and productive subprojects (e.g., small-scale community agro-processing, communal tractors, minor irrigation schemes).

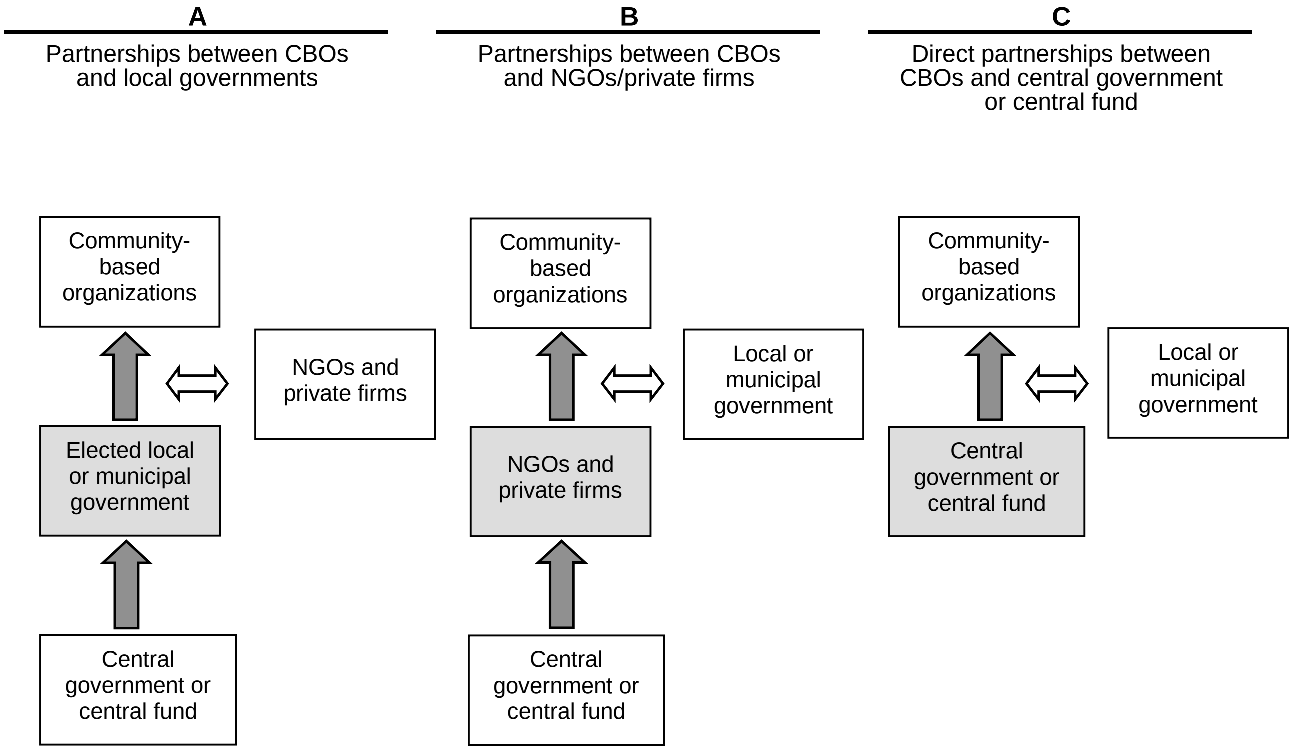
This handbook for practitioners focuses on the design of programs providing direct financing to communities. It describes one particular set of arrangements — those where the responsibilities for managing financial resources and contracting service providers is vested in community organizations or committees. Given the varying governance structures between countries (as well as the different types of community institutions and capacities even within one country), project design must be context specific. However, some basic principles and lessons learned from relevant projects may be of value.

The handbook is divided into three main sections. Key guiding principles and definitions of the direct financing approach are presented in the first section. The second part provides guidance on overall project design — beneficiary consultation, criteria for project appraisal, designing the operational manual, etc. The final section provides descriptions of activities to be undertaken at each stage of the subproject cycle: preparation of the community proposal, appraisal and approval, subproject implementation, monitoring and evaluation, and completion of the subproject. The handbook also identifies key tools and resources that can be used at each stage.

2. What is direct financing of communities?

Direct financing of communities is a process by which a funding agency (e.g., social fund, sector line agency, or local government) provides funds directly to communities responsible for managing the implementation of subprojects. 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 funds 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. The community is usually represented by some form of community-based organization or local project committee. Therefore it is not the "community" per se that enters into a contract with the funding agency, but the group representing that community.

Governments may use a range of institutional options to support and provide funding to community-based organizations — including local or municipal government, the private sector, civil society, and central government or central funds. While there are many variations regarding the exact role of each player and fund flows, support to communities can be mapped using the broad description below:[1]



Note: In each diagram, the flow of funds is represented by shaded arrows, with the primary Funding Agency shown shaded.

As noted above, this handbook focuses primarily on the partnership between the funding agency and the community. In this model, communities receive funds directly from a funding agency (central government, elected local government, or nongovernmental organization [NGO]), procure materials, hire contractors and consultants/technical experts, employ labor (skilled and unskilled), and ultimately manage the overall implementation of the subproject. The handbook provides a basic framework for designing and implementing a project through direct financing of communities. More specifically, it discusses the activities to be carried out at each stage of the project cycle, as well as provides a description of the various types of procurement and disbursement methods that can be used for such projects.

It is important to note that this handbook is intended to complement "Community-Based Contracting: A Review of Stakeholder Experiences," which is a synthesis of lessons learned from projects that have used this approach. This handbook attempts to answer many of the questions that arose after the community-based contracting paper's publication, and to provide step-by-step guidance on the design and implementation of these types of projects.

[1] Community Driven Development, Sourcebook for Poverty Reduction Strategy Paper. 2001

3. Role of the Funding Agency

When communities are responsible for implementing subprojects, the role of the funding agency changes significantly *vis-à-vis* the beneficiaries; it becomes a facilitator providing not just funds but also technical support and guidance to the community throughout the project cycle[2]. Communities remain firmly in the driver's seat, making decisions, administering funds, and managing implementation. Activities undertaken by the funding agency may include:

- Preparation phase: The funding agency develops an information and education campaign to provide key messages to communities and other stakeholders throughout the implementation process. (Key messages include information about the project, rules of the game, technical options, technical advice to communities on managing construction, recurrent costs, maintenance, etc.);
- Facilitation: The funding agency employs teams of field workers or contracts the services of NGOs who facilitate the local planning process and promote community access to information and resources.
- The subproject appraisal: Appraisal of community subprojects is carried out at two levels: desk and field. The desk appraisal involves a basic review of the community application to ensure that it is in line with the scope and objectives of the project, and that it meets the guidelines and criteria set out by the funding agency. The field appraisal involves assessing the technical, social, and environmental aspects of the proposed subproject, as well as the "readiness" of the community to implement it. This would also include assessing the community's ability to account for and report on the subproject funds. Appraisal of subprojects must be done using objective and transparent criteria.
- Financing: Once a subproject application is approved, the funding agency enters into a contract (financing agreement) with the community. Usually the community is responsible for all aspects of subproject implementation, including procuring goods, hiring contractors, overseeing construction, and, as necessary, hiring technical experts/consultants to assist in these activities. Funds to the community are released on a tranche basis and depend on the size of the grant, length of implementation period, and capacity of the community.
- Implementation: The funding agency trains communities in all aspects of subproject implementation, including accounting and bookkeeping, procuring labor and materials, operation and maintenance, and ensuring transparency and instilling accountability in the activities of the community project management committee.
- Monitoring and evaluation: The funding agency develops a monitoring and evaluation plan and completes participatory financial audits of community accounts to ensure proper usage of funds, transparency, and accountability. It also

[2] It must be noted that a funding agency may decide to contract NGOs or other organizations to carry out some or all of these tasks. However, for the purposes of this paper when we refer to "funding agency" we mean the organization that provides the funds as well as support to the community throughout the implementation process.

performs technical audits to ensure subproject quality, carries out systematic beneficiary assessments to gather feedback and monitor levels of beneficiary satisfaction with the subproject, ensures that the community develops its own monitoring and evaluation plan, and monitors day-to-day progress.

4. Institutional Arrangements

Support to communities throughout the implementation process can be provided by a number of actors (e.g., funding agency, district technical teams, NGOs). However, it is important to define the institutional arrangements from the start, taking into account the institutions to be involved, activities to be undertaken by each, and functional linkages (their relationship to the community as well as to the funding agency support structure to the communities). What follows is a description of these arrangements.

INSTITUTIONAL ARRANGEMENTS AND ACTIVITIES FOR STAKEHOLDERS

KEY CYCLE STAGE	**INSTITUTION AND ACTIVITIES UNDERTAKEN**			
	Community	**Implementing Entity (Project Management Committee)**	**Local Government (if it is not the funding agency)**	**Funding Agency**
Preparation	Identify and prioritise needs Elect project management committee	Plan project and prepare application including maintenance plan	Raise awareness among local leaders/communities Assist community with preparing project	Develop overall information and education campaign targeting key stakeholders including contractors/suppliers and local leaders
	Agree on community contribution and project plans	Develop community contribution plan	Agree on local govt. contribution and maintenance plan	Develop annual program of support to communities Develop procedures and policies for implementation of subprojects
	Confirm understanding of project costs/benefits	Submit application for funding	Conduct desk appraisal/Coordinate with local development plans	Facilitate technical review of subproject proposals (desk/field)
	Participate in field appraisal	Present project plan at field appraisal	Participate in field appraisal Approve subproject proposal	Final approval of subproject proposal
Implementation	Mobilize community contribution	Monitor community contribution	Provide capacity building and training for community/local leaders	Develop and implement capacity building and training for key stakeholders.
	Attend project launch ceremony	Organize project launch ceremony Sign financing agreement	Participate in project launch ceremony	Sign financing agreement
	Attend subproject meetings. Monitor project mgmt. committee Monitor subproject implementation	Manage and supervise project implementation	Train project management committee members	Facilitate procurement of goods/services at community level (maintain unit cost database, list of pre-qualified contractors, develop standard designs)
	Monitor accounting of subproject funds		Monitor project implementation	Verify subproject expenditures

KEY CYCLE STAGE	INSTITUTION AND ACTIVITIES UNDERTAKEN			
	Community	**Implementing Entity (Project Management Committee)**	**Local Government (if it is not the funding agency)**	**Funding Agency**
	Monitor procurement of materials/services Ensure that audits (internal/external) are conducted	Handle accounting of subproject funds Engage auditors (internal or external) for audit review of financial reports	Provide technical supervision	Facilitate timely financial disbursements to communities Provide/Coordinate technical supervision visits Oversee procurement of materials/services
		Procure materials/services	Resolve conflicts as necessary	Monitor operations against targets
		Contract independent technical supervision	Foster effective working relationship between communities and local level institutions	Appraise and monitor subprojects/review progress reports
		Contract labor (skilled and unskilled)		Carry out internal audits/contract external audits
		Report to community, local government, and funding agency		Up date relevant implementation manuals
		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 inauguration ceremony	Organize inauguration ceremony	Certify completed projects	Certification of completed project
	Maintain project assets after completion (ensure maintenance committee/fund is in place)	Sign off on completed projects	Sign off on completed projects	Sign off on completed projects Ensure maintenance committee/fund is in place)

II. OVERALL PROJECT DESIGN: MAIN STEPS

This section describes some of the key issues that need to be addressed during the design phase of the overall project.

1. Identifying Experience with Community-Managed Projects

A beneficiary consultation during the design phase of a community driven development project provides a wealth of useful information. Such information includes social networks and community values, organizational and decision-making dynamics within the community, and existing community organizations, as well as views of outside actors such as NGOs and local government units (and the role they play within the community). The design of projects with direct financing should also benefit from detailed knowledge of how communities in the target areas manage their own development. Issues to be considered in the assessment include:

- Past experience with community-managed projects (what has worked? what has not and why?);
- How have community assets been operated and maintained?
- How are community funds (own or from external sources) managed and accounts kept?
- What accountability/transparency measures are there at the community level?
- How does the community contribute labor, cash, and materials?
- Do they have experience with hiring and managing contractors?
- Audit reports of previous projects, if conducted, may provide valuable information, and lessons learnt may be addressed in the new project.

This information can allow task teams to better design implementation arrangements for the project, and to put in place adequate training and capacity building efforts to meet the needs of the potential beneficiaries. Policy and Human Resource Development (PHRD) and other project preparation funds can be used to finance an in-depth participatory assessment of the target beneficiaries during project preparation.

Tool
The Nigeria Local Empowerment and Environmental Management Project developed Terms of Reference for a comprehensive beneficiary consultation that looked at these issues. See Annex 1.

2. Appraising the Project

As with all other aspects of project design, the Project Appraisal Document must provide an accurate reflection of the project's fiduciary arrangements. Such arrangements for community-driven development projects must be guided by the principles of simplicity, efficiency, transparency, accountability, sustainability, and cost-effectiveness. Similarly, procurement procedures should be fair, transparent, and efficient. Such procedures for financing of community subprojects are generally governed by Paragraph 3.15 of the Bank's Procurement Guidelines, which allows for flexible procurement arrangements[3].

Procurement arrangements must be clearly articulated in the Project Appraisal Document and in the project operational manual. Communities, too, must have a clear understanding of the principles and procedures of efficient procurement. (See Box 1, What Communities Need to Know about Procurement.) Because it is difficult to determine up front what communities will need to procure, the Project Appraisal Document/Development Credit Agreement should refer to (i) "grants of subprojects" instead of the standard goods/works/services in the description of procurement arrangements and disbursement categories, and (ii) instead of a procurement plan, a methodology for procurement should be described in the project operational manual. In the same way, the legal agreement must clearly document the criteria for financing subprojects such that it is obvious what expenditures are eligible under the Grants category.

It must be noted that the above only applies to the category for subprojects (funds managed at the community level). For operational costs of the funding agency — items such as computers, vehicles, etc.— a standard procurement plan must be developed.[4]

A common mistake made when describing procurement/disbursement procedures for the funding agency is including general rules for procurement copied directly from the Bank's Procurement Guidelines. The methodology described in the operational manual must be context specific and an accurate reflection of what is possible to implement in the country.

<u>Prior and Ex-Post Review Thresholds</u>. Prior review thresholds for financing community subprojects must be set at levels corresponding to the expected contract amounts or the fixed price or lump-sum financing agreement, and should aim at reviewing only the larger contracts. Post review is made on a sample basis.

[3] Provision 3.15 reads "Where in the interest of project sustainability or to achieve certain specific social objectives of the project, it is desirable in selected project components to (i) call for the participation of local communities and/or non-governmental organizations (NGOs), or (ii) increase the utilization of local know-how and materials, or (iii) employ labor intensive and other appropriate technologies, the procurement procedures, specifications, and contract packaging shall be suitably adapted to reflect these considerations, provided they are efficient. The procedures proposed shall be outlined in the Staff Appraisal Report, the President's Report, and the Loan Agreement."

[4] Electronic communication: Mr. Jean-Jacques Raoul, Manager, OCSPR, Oct. 14, 2000

Legalization of the Community Group. Although the Bank does not require legalization of the community group, local laws and regulations may require that in order to receive public funds a community group must be registered as an independent entity. The benefits and risks of registration should be assessed when designing/negotiating the overall project. Registered community groups may have more legal rights and may be able to more easily enter into contracts, take legal action, open their own bank accounts, and own assets created by the project. On the other hand, legal registration could take significant time and effort. If communities are familiar with working together in an informal manner, imposing registration may be neither necessary nor culturally appropriate. (See Legalization of the Project Management Committee in Section III for a more detailed discussion of procedures required for registering community groups.)

Tools

For more information on financial management, procurement, and disbursement arrangements, please see Fiduciary Management for Community Driven Development Projects. Interim Reference Guide. http://opcs/P/ppp3.html

Jorge Cavero's paper, "Guide for Task Teams on Procurement Procedures Used in Social Funds," is available from the Social Protection Advisory Service. www.worldbank.org/sp

Box 1
What Communities Need to Know about Procurement

- Communities are responsible for procuring goods related to the subproject. They will receive guidance and support from the funding agency.
- Communities should understand their responsibility to provide their contribution on time.
- Form a procurement committee (usually about four people).
- Plan what needs to be procured. Develop procurement plan for the entire subproject (what is to be purchased, when it is to be done, and by whom).
- Follow the schedule of materials in order to develop a procurement plan.
- Plan shopping trips in advance.
- Include transport costs for transporting materials when pricing the materials (it may be cheaper to buy from a local supplier).
- Always try to get the best prices and best value for the money. Getting at least three quotations allows you to compare and choose the best quality for the price.
- Make sure that you have all the materials needed for each phase of construction.
- Get input from the project technical supervisor before using alternate materials from those listed on the schedule.
- Get receipts from vendors for all purchased goods.

3. Developing an Operational Manual

The next step is to develop an operational manual for the project/funding agency. The operational manual should be prepared at the preparation stage of the project and finalized by appraisal. The operational manual is a key document that describes the procedures to be used to prepare and implement subprojects financed by the funding agency. The main reason for needing an operational manual is that in a demand-driven mechanism, specific investments are not identified up front. An operational manual therefore provides all the guidelines that will be used in preparing, screening, and implementing subprojects.

The operational manual is also a focal point of bank approval, to assess, among other things, the adequacy of the framework for community-driven investments and the procedures to be used. The operational manual of a project must provide guidelines for subproject implementation and indicate clearly the steps/activities in the subproject cycle, persons responsible, and time line for completion of each activity. In addition, handbooks may be developed on key issues such as financial management, procurement and disbursement, Management Information Systems, etc., which provide more detailed information on these various aspects. It is important that the operational manual reflect the fund flow as well as procurement arrangements and thresholds established in the Project Appraisal Document/Development Credit Agreement.

Tool

"Operating Instructions Included: A Review of Social Investment Fund Operations Manuals" by Juliana Weissman , available from Social Protection Advisory Service, at www.worldbank.org/sp proposes a set of guidelines for addressing core issues in the preparation of social fund operations manuals.

4. Developing a Community Handbook

In addition to the operational manual, which is targeted to staff of the funding agency, developing a handbook for communities describing the various stages of implementation and activities to be undertaken by the community at each stage can be a very useful tool. The community handbook must target both the community project management committee (i.e., implementation and reporting issues) and the larger community (monitoring and sustainability issues). The handbook must be written in simple language and use illustrations to facilitate easy access by the community. (Box 2 provides a description of what needs to be included in the community handbook.)

Box 2
What needs to be included in a community handbook?

Identifying the main stakeholders of the community subproject and their roles
Organizing the project management committee
Procurement and disbursement procedures
Operating the project bank account
Understanding the project budget
Maintaining project accounts
Audits (technical and financial)
Planning implementation of the subproject (steps)
Assessing environmental impacts/mitigation measures
Managing project labor
Transportation
Storage of materials
Completing project reports (financial and physical progress reports)
Legal implications
Project cancellation
Developing a maintenance plan
Forming a maintenance committee
Completion of the subproject

Figure 1
SUBPROJECT CYCLE

Preparation

Funding Agency:

- Informs stakeholders
- Facilitates communities
- Assesses capacity of communities
- Develops simple technical designs
- Appraises subproject (Desk/Field)

Community:

- Elects Project Management Committee
- Prepares/submits subproject application and budget

Approval and Launch

Funding Agency:

- Trains community
- Prepares financing agreement
- Hands over first check at launch

Community:

- Mobilizes community contribution
- Plans launch ceremony
- Signs Financial Agreement

Implementation

Funding Agency:

- Provides technical support
- Oversees implementation/financial management

Community:

- Procures materials and services
- Supervises construction
- Manages labor contribution
- Prepares progress reports
- Manages funds

Monitoring and Evaluation

Funding Agency:

- Releases funds
- Conducts participatory technical/financial audits
- Beneficiary assessments

Community:

- Develops own indicators/M&E plan
- Provides day-to-day oversight
- Conducts audits

Completion

Funding Agency:

- Conducts completion assessment
- Provides completion certificate

Community:

- Takes over operation and maintenance of asset

III. PREPARATION OF COMMUNITY SUBPROJECTS

1. Designing the Subproject Cycle

One way of organizing the operational manual is to follow the logical sequence of the project cycle, explaining key processes and procedures to be followed by the funding agency, its partner organizations, and the community at each stage of the cycle. Community-driven approaches suggest that community participation should be sought at every stage of the subproject cycle — from needs identification and prioritization, preparation, appraisal (desk and field), implementation, supervision, monitoring, and evaluation all the way to completion. Activities to be undertaken by each of the stakeholders and the timeline for completing the steps in the subproject cycle must be determined by the funding agency. These should be based on the general capacity of targeted communities and the capacity of the funding agency to oversee overall implementation of the project.

2. Informing Stakeholders

In order to promote successful project management by communities, several specific interventions must be planned throughout the project cycle to raise community awareness, and to provide communities with the necessary training and guidance — including regarding program rules.

An Information, Education, and Communication strategy plays an important role in projects with high levels of community participation. Such a campaign seeks to provide equal access to information about the project — key design principles, participatory planning processes, subproject menu, criteria for funding, etc. — to all stakeholders, including communities, local government functionaries, politicians, contractors, suppliers, NGOs, etc. This will ensure transparent functioning of the project.

Finding the most appropriate medium for reaching target audiences can sometimes be difficult, and the beneficiary assessment is a useful tool for getting information on methods of communication used by relevant stakeholders. In the same way, a variety of messages need to be developed taking into account the different capacities that exist at the community level. For example, town criers, songs, and plays may be more appropriate for poorer communities where the majority is not able to read and write.

The Malawi Social Action Fund has designed an information, education and communication strategy that communicates messages to all stakeholders throughout the subproject cycle by using radio plays, television dramas, community theater groups, etc. In addition to providing general information about the project, specific messages are developed to guide communities on the importance of transparency and accountability at the community level, how to manage a contractor, how to follow procurement procedures, etc. Messages aimed at suppliers/contractors/NGOs inform them how to interact with communities in a manner ensuring transparency and accountability.

As part of the information, education and communication campaign, the funding agency must develop information kits and distribute them to all communities interested in applying for funding. The kit provides communities with all necessary information for working with the funding agency — relevant information about project procedures, community application forms, guidelines that describe the types of acceptable subprojects, subproject selection criteria, registration forms for committees, etc. The kit and the handbook should be easily accessible to communities and can be made available through the local government offices, relevant ministries, NGOs, and other facilitators. As much as possible, information provided must be in the local languages and use easy to understand examples.

Tool
The Role of Information, Education and Communication in the Malawi Social Action Fund: Social Funds Innovations Update. Vol.1 No.3 December 31, 2001 Please see social funds web site at www.worldbank.org/sp click on social funds.

3. Facilitating Communities

Facilitation and social mobilization needs may differ from subproject to subproject, and also from community to community. For example, a community requiring funds to build a simple trench may require much less facilitation than a water supply project. In the same way, some sectoral projects (e.g., rural water supply and sanitation) prefer to select communities up front and provide intensive facilitation before subproject implementation. For other types of projects, such as education/health, mobilization of the community is done once a community has identified a priority, submitted an application, and received initial funding. Yet in others, particularly when trying to target very poor communities with little capacity, up front facilitation may be provided to help the community identify priorities and prepare a proposal. The information obtained at this stage feeds into the capacity assessment, taking into account their needs for technical assistance from preparation to implementation stages.

One of the main objectives of the facilitation process is to ensure that all community members, including women and marginalized groups, have been consulted. Facilitators use a variety of participatory techniques to mobilize the community, help them identify and prioritize needs, and develop a comprehensive plan for mitigating identified problems. Facilitators can comprise a range of actors, including NGOs that work closely with the community, staff or consultants working for central or local government, and/or community leaders who have been trained by the project.

Depending on the context, the process can last anywhere from one week to several months and may result in a community development agenda. During this process, communities — together with community leaders and facilitators — provide concrete suggestions as to how the problems in their community can be overcome and how much financial and non-financial support they will require. The participatory process ensures that dissenting voices are heard and that consensus is built around the plan.

Tool

The Romania Social Development Fund (RSDF) has developed a comprehensive facilitation strategy for targeting the poorest districts/communities. The strategy described in the RSDF operational manual also includes indicators to measure the performance of the facilitation process. Available from the social fund web site. www.worldbank.org/sp click on social funds.

4. Assessing the Capacity of Communities

A simple capacity assessment of sample communities in the target areas allows the funding agency to understand the strengths and weaknesses of the intended beneficiaries and to design a suitable training program for them. The assessment may constitute a simple set of questions included in the subproject application form about technical capacity[5] (literacy rates, bookkeeping skills, carpenters, masons, etc.) available in the community. If the proposal is funded, the funding agency field officer working with the community can use this information to determine what types of training/skill building will be needed. The funding agency may also develop varying levels of training packages and, based on the level of skills available at the community, determine which level of training package to implement, i.e., a community with weak capacity may receive an in-depth training package lasting several weeks.

The capacity assessment also allows the funding agency to put-in-place mechanisms to address identified capacity gaps in the community. For example, if the community lacks necessary accounting skills, the Romania Social Development Fund allows it to hire a qualified accountant on a part-time basis using project funds. The accountant answers to the elected treasurer/project management committee, which is accountable to the community and to the funding agency.

In the Malawi Social Action Fund, if the elected treasurer cannot read or write, the project allows the community to hire a literate person from the community such as a student to keep subproject accounts. Again, the accounts keeper answers to the elected treasurer and project management committee.

5. Electing the Project Management Committee

Often there are several community organizations and committees operating at the community level, and sometimes there is conflict and tension among these various groups. Programs can either work with existing organizations or help form new groups and committees. This decision needs to be context-specific, ideally decided by the community itself, (if appropriate) with the help of a facilitator, and (if possible) through a process involving a general community assembly.

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[5]Technical capacity at the community level does not include technical skills necessary for design of infrastructure projects, which are usually outsourced by the funding agency.

The project management committee must be elected by the community. This must be done at a formal meeting with the majority of the adults in the community present. (Minutes of this meeting with signatures/thumbprints of all those present must be attached to the subproject proposal submitted to the funding agency.) Positions in the project management committee should include a chairperson, vice chairperson, treasurer, financial secretary, secretary, and assistant secretary. The composition of the committee must be standard in all communities undertaking direct financing. The functions of the committee must include, but not be limited to, overseeing implementation of subprojects, mobilizing community members, collecting community contributions, and reporting (financial and physical progress). The officials elected to the project management committee must be fully aware of their functions and responsibilities for subprojects financed under the project.

Unless there are specific mechanisms put in place to ensure that membership in the project management committee is representative, it is possible that it becomes exclusive to one sex, caste, ethnic or religious group. Some projects have addressed this by assigning quotas for the number of women to be included on the committee, for example.

6. Legalization of the Project Management Committee

Although the Bank does not require legalization of the community group, local laws and regulations may require that in order to receive public funds a community group must be legalized as an independent entity. The benefits and risks of registration should be assessed when designing/negotiating the overall project.

Usually, legalization of the community group is a simple procedure and involves registering the committee with the relevant government authority. For example, in the Ethiopia Social Development Fund, minutes of the meeting reporting the formation of a user committee are sufficient for gaining legal status, opening a bank account in the name of the committee, and becoming eligible to receive public funds. In Romania, the law passed to establish the Romania Social Development Fund states that if a community elects a project management committee, and the committee registers with the mayor’s office, the project management committee has legal status in relation to the social fund. Or, in Peru, the law creating the Peruvian Social Fund confers legal status on local project committees created to implement subprojects and enter into contracts with FONCODES, so each individual committee does not have to go through the legal process. The local country laws, customs must be taken into account when determining if the group/project management committee is to be registered.

7. Preparing and Submitting the Subproject Application and Budget

The project management committee plans the subproject in consultation with the community. The facilitator should provide guidance on procedures and proposal writing and ensure that there is full community participation in the process. The plan or proposal must address issues of: subproject components, subproject site, community contribution, size of subproject, long-term commitment to maintenance, environmental impact, etc.

The application also includes a budget for the subproject that needs to be completed by the community with assistance, if necessary, from the facilitator. A sample budget must be included in the information kit and provide the project management committee with information on basic line items (cost of materials, labor, travel, transportation, administration, etc.) that need to be included. The plan and budget must be simple and self-explanatory. In some cases the budget may be developed by the funding agency based on standard unit costs. But in such cases, the budget must be discussed and agreed with the community/project management committee.

Once endorsed by the community, the project management committee will formally submit the application to the funding agency. Two copies of the application must be completed. One copy will be submitted to the funding agency while the other copy will be kept by the community. If necessary, additional copies may be provided to relevant ministries or local government departments.

Tool
Please see Annex 2 for sample subproject application forms.

8. Appraising the Community Subproject (Desk and Field Appraisal)

Appraisal — desk and field — of the community application is conducted by the funding agency. Some appraisal criteria are generic while others are sector-specific, because some sectors need to take into account unique environmental or institutional issues to ensure lasting operation and maintenance. For example, the Honduras Social Fund has a sector-specific tool to appraise water and sanitation subprojects to make sure that it supports only subprojects that have been well prepared from a sustainability point of view (i.e., sufficient tariffs to pay recurrent operation and maintenance costs, tariff collection system, water source protection, quality of technical design, etc.)

a. Desk Appraisal

The purpose of the desk appraisal is first to determine whether all relevant information requested by the funding agency regarding the subproject has been provided by the community. The desk appraisal may be conducted by the funding agency staff or by contracted consultants, with active participation of ministry line agency or local government staff depending on the institutional arrangements within a particular program. The community application or proposal must meet transparent criteria that is known to the community and that limits the discretionary power of the funding agency. Some sample criteria:

- Is the application consistent with the funding agency objectives?
- Is there a need for the type of subproject requested?
- Is the community committed to the subproject? Have any community contributions been collected? What has the community already done to solve the problem?
- Is there evidence that the majority of adults in the community participated in the application process? (Minutes of meetings may be submitted.)
- Is there a plan for maintenance and upkeep of the assets? (Has the community done anything to maintain already existing community assets? Or taken actions to mitigate natural resource degradation?)
- Will the subproject benefit the poor and vulnerable? (Compare the cost to the likely benefits and the likely beneficiaries.)
- Does the subproject require an environmental impact assessment?
- If it has been classified as "A" or "B," has an environmental impact assessment been done? Is there a timetable for doing the environmental assessment? Have mitigation measures been identified? (If it is a category "A," funding agency support may be accessed.)

Once the proposal passes desk appraisal, the community is notified and a date is set to conduct the field appraisal.

b. Field Appraisal

The field appraisal is carried out to check the information contained in the application and confirm the community's commitment to the activity. The field appraisal is conducted by the funding agency technical staff, line agency personnel, and/or local government staff, with participation from all relevant stakeholders such as community members, community leaders, NGOs, etc. The appraisal has two parts, social and technical, and should be done using a transparent scoring procedure to assess the following:

Social

- Did the community participate fully in needs identification? Is this a priority for the entire community?
- Were women and vulnerable groups sufficiently involved in the decisionmaking process?
- Was the project management committee popularly elected?
- Has the project management committee been registered?
- Has a suitable commercial bank been identified for the subproject checking account?

- What additional training does the community/project management committee need to carry out the assigned tasks?
- Does the community understand and agree to mobilize the community contribution?
- Has the community agreed on an acceptable plan for settling disputes and has it identified a suitable local arbitrator?

Technical

- Is the subproject technically viable?
- Are the cost estimates accurate?
- Is the selected site technically viable and socially acceptable?
- Is there a realistic maintenance plan?
- What is the environmental impact of the subproject?
- Have appropriate steps been taken to mitigate negative environmental impacts?

Tool

Please see Annex 3 for Desk and Field Appraisal Forms and Annex 4 for Environmental Checklist for Public Buildings developed by the Tanzania Social Action Fund.

In addition to poverty indicators, the funding agency may also establish weights for scoring appraisal criteria for each type of intervention. The indicators/weights described below were developed by the Romania Social Development Fund.

Criteria	**Weight (small infrastructure)**
1. Technical quality	15
2. Economic and financial soundness	10
3. Expected benefits	10
4. Implementation capacity of community	20
5. Beneficiary participation	10
6. Sustainability	25
7. Environmental sustainability	10

Subproject costing: — On the basis of information gathered during the field appraisal it will be possible for funding agency staff to verify the cost of each component against standards for materials, labor, transport, and other costs. Bills of quantities with costs and drawings for each component must be completed after the field appraisal.

Tool

Please see Annex 5 sample Standard Material Schedule and Cost Summary.

IV. APPROVAL AND LAUNCH OF THE SUBPROJECT

Once a proposal has been approved for funding, the funding agency will prepare an approval letter that will be sent to the project management committee chairperson. The letter will specify the steps that must be taken by the community before the start of subproject implementation. These include:

- Training for the project management committee.
- Opening a checking account in the name of the project management committee with at least three signatories.
- Mobilizing community contributions. Part of the community contribution can be collected before external funding begins (contributions can be in the form of materials, cash, and/or labor for the clearing of a site, for example).
- Planning the subproject launch ceremony.

1. Training the Project Management Committee

The funding agency will provide training in all aspects of subproject implementation to the project management committee. Specifically, training will cover such aspects as, procurement methods and rules; contracting issues including hiring transport, contractors and labor; safe storage of materials; procedures for assessing environmental impacts; bookkeeping; operating a bank account; recording minutes of meetings; and reporting. It must also cover issues having to do with transparency and involvement of the greater community. The length of the training will depend on the capacity of the community and how much training is needed.

A suitable training package can be developed either by the funding agency or can be contracted to a local NGO familiar with funding agency objectives and local conditions.

2. Opening a Bank Account

Once the community has sufficient knowledge of formal banking procedures, the funding agency may provide a bank introduction letter to help facilitate the community's interaction with the formal banking sector. This letter will introduce the funding agency as well as the project management committee to the bank chosen by the community. It will inform the bank that the community subproject has been approved for project funding and request their assistance in establishing the subproject checking account. It must be noted that only one community bank account should be opened per subproject.

The account should be jointly operated by at least three elected signatories from the project management committee. This gives the community direct control over the signatories as well as the account. In order to monitor the community account, some projects include the name of a project staff member as a signatory. However, it must then stipulate that the staff member's signature is required only to withdraw a very large sum of money and not to conduct day-to-day transactions related to the community subproject.

Despite having to travel great distances to open and operate a bank account, community members still prefer to manage their own funds. Furthermore, once the account has been opened, the use of checks eliminates the need for travel to and from the Bank.

It must noted that not all projects require community groups to open bank accounts. Vouchers (i.e., payment promise notes) issued by the funding agency or central-level transit accounts can be used in situations where local banking branch networks are underdeveloped, or where the banking system is distrusted by communities. Depending on the size of the project and the amounts concerned, the funding agency may also explore informal methods used by the community to administer funds. Informal methods may, however, increase the risk to the "keepers" of the funds as well as encourage mismanagement unless clear and transparent rules are in place.

Tool
Please see Annex 6 sample bank introduction letter from the Malawi Social Action Fund.

3. Mobilizing Community Contributions

Communities can provide contributions in kind (sand, bricks), cash, or labor. The community must decide who should contribute, how, and when. In order to ensure smooth implementation of the subproject, it is important that community contributions are managed properly and are made available on time. If the contribution is in kind, it is necessary to establish how it will be valued. At the level of the funding agency, it is best if the evaluation is done using an output based (e.g., land is cleared) rather than an input-based (e.g., number of days of labor) approach, because measuring the latter becomes quite difficult. At the level of the community, the accounting for the beneficiary contributions may need to be based on inputs (e.g., man-days of labor) or agreed unit costs of work done (e.g., per kilometer of drain dug up) to provide a realistic value of the expenditure incurred.

Communities need to maintain meticulous accounts (register) to record cash contributions (if any) and issue receipts (pre-numbered) for the cash received. Cash collections should be deposited in the community bank account as soon as possible.

4. Preparing the Subproject Financing Agreement

The financing agreement represents the contract between the funding agency and the community and is a complete statement of the obligations and responsibilities of the parties to the contract. It includes the estimated amount that the funding agency has agreed to contribute, and provides a detailed description of the key activities undertaken by the different parties, as well as a time line of when activities are to be completed. The financing agreement is signed by the community representatives and the funding agency staff.

The funding agency contribution should ideally be a lump-sum contribution for specified deliverables, and must indicate payment terms/tranches. A tranche is released when a specific milestone is reached and can be disbursed against progress reports/certificates. The funding agency contribution must be set so that shortfalls in the budget can only be met by increasing community contributions or reducing subproject scope. A contingency amount is set so that small unforeseen modifications can be taken into account. However, when there are savings at the end of the project, it is best to allow communities to use these funds to increase the scope of the subproject without having to undergo a process of formal approval. Allowing communities to keep the savings promotes cost efficiency and provides an incentive for communities to negotiate better contracts and prices.

It is essential that the contract be kept as simple as possible and be easy to understand. Before the financing agreement is signed, it must be explained to and understood by the community members. The financing agreement forms the contract or the basis of payment to the community.

The agreement should specify the following:

- Scope of activities to be covered/time frame
- Amount of funding
- Legal status of the community
- Estimated amount and timeline for community contributions
- Reporting requirements (financial/physical)
- Funding agency's (or representatives of the agency's) right to inspect the site, work, materials, relevant records, and documents
- Terms and conditions of payments (for lump-sum payments – a set amount will be paid to the community based on output)
- Financial management requirements
- Payment schedules (linked to activity schedules under the lump-sum contracting arrangements)
- Statement that if the financing is on a lump-sum basis, the community accepts the responsibility for the agreed-on output, bearing the cost of overruns and accounting for the use of any surplus;
- Simple procurement plan
- Roles and responsibilities of all parties
- Dispute resolution process
- Remedial actions, sanctions
- Funding agency's right to suspend or terminate the use of funds allocated to the subproject in cases of negligence and mismanagement
- Funding agency's right to review whether possible environmental impacts have been assessed, whether an environmental impact assessment has been carried out where necessary, and to assess the adequacy of mitigation measures proposed before funds are released

- Any attachments, including bills of quantities (for materials, equipment, furniture, administration), material transport cost schedules, labor cost schedule, community contribution cost schedule, basic price list, works schedule
- Clear specification of who owns the infrastructure after completion and which parties are responsible for operation and maintenance and how resources will be mobilized for such activities.

Funding agency field staff working with the community must ensure that the contents of the financing agreement are understood by the project management committee and the community before subproject implementation.

Once the funding agency confirms the community's readiness to carry out the necessary requirements, a launch date is set with the community's input.

Tool
Please see Annex 6 sample Financing Agreement.

5. Holding the Launch Ceremony

Holding a launch ceremony is highly advisable. Because there are often several months between the presentation and approval of a proposal and the initiation of activity at the community level, the launch ceremony provides an opportunity to review implementation arrangements. The launch ceremony is attended by the project management committee, community leaders and the greater community, relevant government officials and funding agency staff. At this ceremony, the funding agency staff should once again review all of the key messages before the entire audience. The community must be made aware that the project management committee is accountable to it. As part of the launch ceremony, the funding agency staff and project management committee members will sign the financing agreement. The community will also be presented with a check for the first tranche of funding. (The check presented here need not be a genuine one; the funds can be transferred from funding agency to the community bank account directly.)

V. IMPLEMENTATION OF THE COMMUNITY SUBPROJECT

In the direct financing model, there are many aspects to be considered during subproject implementation: developing standard technical designs, disbursing to communities, procurement and financial management at the community level; monitoring and evaluation; and reporting by the community.

1. Developing Standard Technical Designs

The use of appropriate simple standard designs helps maintain acceptable technical standards in community-managed projects. In addition to using sectoral ministry standards and designs, input of community members should be sought when developing/refining these models so that use of local materials, technology, and expertise within the community can be maximized. This is important as the infrastructure subprojects to be managed at the community level must be designed so that they are in line with a community's technical, managerial, and financial capacity.

2. Disbursing to Communities

For projects that finance a large number of small projects, the preferred method for financing communities is by using the lump-sum method. Essentially, the community is treated as a contractor and the financing agreement between the funding agency and community is based on a fixed-price or lump-sum. The financing agreement is seen as a contract between the funding agency and the community against which disbursements will be made, usually in tranches and on the basis of physical progress. The review of the subproject focuses on the delivery of the end product described in the financing agreement. Activities at the community level include contributions of labor and/or material, as well as subcontracting and/or procurement of goods and skilled labor. Such subcontracting must comply with the financing agreement, and thus with the procurement procedures and financial management requirements set forth in the project operational manual.

As noted above the lump-sum method is the preferred and most commonly used method for transferring funds to communities. However, it is also possible to finance communities using other methods such as the actual-cost method, whereby communities are financed according to actual costs incurred. The actual-cost method is often used for large value, more technically complex subprojects (e.g., water supply in cities), or when costs are difficult to estimate. It is possible also to use a combination of the two methods depending on the type of subproject to be funded. All disbursement methods to be used by communities must be clearly described in the funding agency's operational manual.

In lump-sum contracts, funds to communities are released in tranches based on physical progress. Each tranche is a percentage of total subproject costs. The initial payment is based on the approved subproject proposal and is made in line with the provisions of the financing agreement. Progress based payments are not considered advances because they are payments made against physical progress.

In lump-sum contracts, subsequent payments are made based on physical progress reports and not on financial progress[6]. Physical progress is certified by an agreed agency (funding agency, local governments, district agencies, local units of the funding agency or third party agencies). Even though release of tranches is not based on financial progress, the project management committee should be required to submit regular (monthly) financial reports in order to demonstrate good accounting practice at the community level. The reports should summarize receipts and expenditures and should be submitted to the funding agency on a monthly basis accompanied by bank statements. In many community-driven development projects, the regular submission of financial statements are monitored by the funding agency and the next tranche of payment is not released (even in lump-sum contracts) until the financial reports are up-to-date. These reports need not necessarily be accompanied by supporting documentation.

3. Procurement at the Community Level

Because funds for implementation of the community subproject are disbursed directly to the community, the project management committee is primarily responsible for procuring materials, transport, and labor. Much of the procurement relating to community-identified subprojects is usually for contracts and materials below US$______ (this figure should reflect the threshold amount established in the Project Appraisal Document and the operational manual) and is therefore carried out through direct purchase or local shopping by the communities themselves.

A simple procurement plan for the overall subproject should be developed by the community with help from the funding agency staff. The plan must take into account who will purchase goods, what will be purchased, and how. The plan should be shared with community leaders who will oversee purchases made by the project management committee as well as the community at large.

[6] In the actual cost method, however, where financing is based on actual expenditures, the utilization of a percentage of the earlier tranche may be adequate to trigger the release of the next instalment.

Box 3
Guidelines for the Procurement Committee

These guidelines were developed by the beneficiary communities of the Sri Lanka Village Self-Help Learning Initiative.

Forming a Procurement Committee

The community/project management committee is responsible for setting up a procurement committee consisting of at least four members (of whom two should be women) for procuring goods and material. The members of the committee should be well-respected members of the community, honest and willing to undertake the responsibility.

The members of the procurement committee should not be related to the chairperson or secretary or treasurer of the project management committee. It is the responsibility of the members of the procurement committee to ensure that procurement principles and guidelines are followed and that all procurement is guided by the principles of economy, efficiency, equal opportunity, and transparency.

Steps that should be taken when procuring goods:

Step 1: Works Subcommittee gives list of required items/supplies based on estimate to Procurement Committee.
Step 2: Procurement committee discusses and prepares a list of materials by quantity and by subproject (Procurement committee meets only if there is a request. All four members must be present)
Step 3: Procurement committee requests quotations from suppliers
Step 4: Quotations are discussed and best quotation is selected based on price and quality.
Step 5: Letter with selected quotation is supplied to management committee ("*mulika*"). All quotations are filed.
Step 6: The procurement committee should keep a log of goods and services procured with the name and address of authorized dealers, consultants, contractors, actual costs, quantity, quality of work, etc.
Step 7: The treasurer gives cash to the procurement committee based on the signature of the chair of the procurement committee. No cash is kept overnight. The treasurer takes the money out of the bank and hands it over to the chair of the procurement committee. The goods are purchased on the same day.
Step 8: Goods are purchased in stages depending on construction needs. Goods are checked for quality and counted before being purchased.
Step 9: Goods are handed over to works sub committee. The subcommittee signs and ensures quantity and quality before taking over the goods.

a. Procuring Materials

All materials required for each subproject are detailed in the bill of quantities attached to the financing agreement. The thresholds for each method of procurement must be established by the funding agency based on local realities.

The community financial records must clearly indicate the exact materials purchased during subproject implementation. The project management committee must balance the need to buy materials in advance so as not to disrupt subproject implementation, but also take into account the need for proper storage of perishable items such as cement. The following methods are frequently used by communities for purchasing materials:

Local shopping: — At least three quotations are obtained from suppliers and the best buy is selected based on cost, quality, availability, and transport costs. Most supplies for community subprojects are procured through local shopping. This method requires that communities obtain three quotations/bids for the purchase of materials in order to compare costs. All pro forma invoices received as a response must be maintained in the community files. Factors such as quality, availability, and transportation costs must be taken into account when comparing costs of potential suppliers. This method may also be used for purchasing materials that communities cannot find within the standard price list. (See Box 4 for a discussion on standard price lists.)

Direct purchase: — Procuring directly from the supplier without getting other quotations when there is only one supplier and/or the amount is small. In order to get the best price possible, communities should check with several sources before purchasing goods. However any supplier is acceptable as long as the price paid is at or below the standard price list effective at the time of purchase. (The unit cost data for the price list will be generated by the Management Information System based on actual prices from subproject expenditure reports, as well as by independent research. The price list will also be used by communities as a guide for procurement and transport of materials, and for hiring vehicles and equipment.)

Force account: — Community implements subproject using its own resources (skilled/unskilled labor, materials, equipment). Communities can also decide to execute part of the subproject using force account (hiring local labor and purchasing construction materials themselves) and subcontract the rest of the work to petty contractors by obtaining three quotations.

b. Procuring Services

Consultant services: — Communities may procure the assistance of NGOs and other consultants to provide technical assistance and help them manage the community project. Procedures put in place must reflect the Bank's Consultant Guidelines. Procedures must ensure competence of the incumbent as well as transparency and simplicity of the process. Clear selection processes must be described in the project operational manual.

Labor: — The needs for skilled labor will be estimated before the start of subproject implementation and included in the subproject financing agreement. The funding agency will provide standard pay rates for labor and these scales should not be exceeded. This information will be periodically updated in the unit cost database. (See Box 4 for a description of a unit cost database.) Communities may decide whether to hire skilled labor for their subproject directly or to hire a contractor who in turn will hire the skilled labor. Regardless of who is hiring the skilled labor, preference must be given first to residents of the subproject community.

Contractors: — In most subprojects the community will hire construction foremen and skilled laborers themselves. If part or all of a subproject is beyond the capacity of the project management committee to manage, a contractor may be hired to manage the work. The community must advertise through local methods (e.g., fliers, community meetings, local newspapers, advertisements hung in public places, etc.) A community must hire a contractor only after receiving three bids. While a contractor's cost estimates are important elements of the selection criteria, selection should not be based solely on the lowest estimate. A contractor's technical experience must also be a key factor in the selection process. Interviews should be conducted by the project management committee together with village leaders and, if necessary, a representative of the funding agency (i.e., a technical supervisor, for example, who can help the community assess the technical quality of the contractor). Local contractors should be hired whenever possible. (See Box 4 for information on performance and prices.)

Direct contracting: — This method is usually used where only one supplier/contractor is available locally or when the cost of using a competitive process such as local shopping is likely to be much higher relative to the value of the goods procured directly from the available source. (See section on direct purchase above.)

While different options must be available to suit the varying capacities of communities, it is advisable that the community purchase materials. The contract with the contractor, meanwhile, covers labor, the contractor's fee, and specific services such as transport. The services provided by the contractor should be specified by the project management committee and the breakdown of the cost must be given by the contractor. The funding agency should provide communities with simple standard contracts for hiring skilled labor. In all cases where the community hires contractors/suppliers/consultants, simplified bidding/contracting documents should be used.

Tool
For more information on procurement at the community level and sample bidding documents please see Procurement and Financial Procedures Manual for Use by Community-based Organizations available on the procurement website http://opcs/p/

c. Storage

Theft and waste of materials are common problems that must be addressed when securing storage space. A stock recordkeeping system (including designating persons responsible for stock management, recordkeeping of stocks in storage, and transfers of subproject materials) should be implemented where materials are not kept on site, are stored for more than a day, or are allocated to a contractor.

d. Transport

Communities often do not include transport costs in their subproject budgets. Funding agency field staff working closely at the community level will be able to help communities get an accurate estimate of the size of trucks needed, number of trips and distances to be traveled based on the type of subproject to be implemented. This information may be gathered during the field appraisal and used to provide guidelines on costs for transport of materials.

e. Administrative Costs

It is expected that the community will incur various administrative expenses in carrying out the subproject (e.g., stationery, travel, bank charges, etc.) Reasonable administrative, travel, and subsistence expenses for these purposes must be indicated in the community proposal budget and covered by the project.

f. Insurance

All works once completed and goods acquired should be insured to cover such contingencies as fire, theft, or acts of God. The funding agency must advise the community on appropriate policies and costs of insurance.

Box 4

Unit Cost Database
Unit cost databases play a very important role in monitoring the economy of goods procured at the community level. The database maintained by the funding agency includes costs of nearly all types of items purchased at the community level. It is used as a way of cross-checking prices proposed by communities. At the same time, prices proposed in community budgets are used to update the database regularly. It is very important that the unit cost database be kept up-to-date to take into account price fluctuations. Some projects have district level and national level databases that take into account regional price differences. (Some countries with high inflation find it easier to keep costs in the database in U.S. dollars.)

Reference Price Lists
The funding agency provides communities with reference price lists that include prices for all materials to be purchased. Communities use the price lists to negotiate with suppliers. In addition to the price lists, however, communities must have a thorough understanding of the stages of construction and materials needed at each stage to ensure that right quantities of goods are purchased at the right time, without exceeding the given price limits.

Contractor Database
A database of local contractors (performance/prices/contact info.) that communities could access when searching for a contractor will help communities that do not have prior experience working with contractors. Based on community references, the Brazil Rural Poverty Alleviation Project has a green and black list of contractors denoting good and bad contractors, which is made available to communities.

4. Financial Management at the Community Level

The project management committee must follow procurement and disbursement procedures laid out by the funding agency. Complete documentation must be kept at the community level on all financial transactions. The project management committee must call regular (monthly, at the least) community meetings to present its financial and physical progress reports. The financial report provides details of funds received from the funding agency, expenditures incurred by category, the balance of funds, and supporting documentation. These reports must be available for inspection by any member of the community during the meeting. The project management committee may also wish to display this information on a notice board close to the subproject site. Minutes and attendance records of these meetings must be kept.

The project management committee must undertake the following activities during implementation:

- Open and work with a checking account, check book, and bank statements.
- Maintain a subproject cash book to account for all expenditures by type.
- Maintain receipts, labor registers, returned checks, and other documentation such that all expenses have corresponding documentary evidence.
- Maintain a cash box and a petty cash book for cash expenditures.
- Submit periodic written reports to the funding agency and the community on the current financial and physical status of the subproject.
- Maintain a stock register to record materials kept for more than one or two days before use.
- Maintain a community contribution register to record any contribution (cash, labor, materials, etc.) from the community in the course of subproject implementation.

The project management committee must have a written record of all expenditures to back up the cash book and petty cash book. These may be in the form of receipts, labor registers, cash receipts, or others. (Receipts generated by the community are usually allowed only for expenses made on transport fares where tickets cannot be obtained. These receipts should be signed by three project management committee members, including the chairperson and the recipient of the fares.)

5. Addressing Maintenance Issues

Communities that have managed implementation of a community asset are far more active in maintaining it. Training should be provided to communities, not only in technical maintenance aspects but also in areas such as fundraising (through contributions, user fees, etc.) and social aspects, such as hygiene education.

There are several types of maintenance committees — i.e., some may already be in place, such as local water users associations or Parent Teacher Associations, while others may be new committees formed specifically for this purpose. In the case of infrastructure managed by sectoral ministries, such as schools and health centers, committees should be ratified and accepted by the owners of the infrastructure. For projects in the water sector, where local associations are expected to manage the infrastructure after completion, much more extensive training in administration and fundraising is needed. As discussed in the section on preparation of the subproject, maintenance issues and how to address them must be discussed very early in the project cycle. The subproject proposal must include a realistic financial plan for the next 3-5 years to demonstrate the capacity of the community to collect funds and maintain the assets created. In fact, whether or not a community can manage/maintain the asset after completion should be a key factor in determining whether a subproject proposal is financed.

Key activities in this process are:

- Election and training of a maintenance committee
- Development of a simple maintenance plan
- Setting up of a maintenance fund before completion of the subproject (any savings left over from subproject implementation may be added to the fund and set aside for maintenance purposes.)
- Preparation of a maintenance manual by the funding agency for use by communities.

Tool
The Zambia Social Investment Fund has developed a user-friendly maintenance manual for communities to facilitate participation in maintenance of the subproject. Available from the Social Protection Advisory Service www.worldbank.org/sp

VI. MONITORING AND EVALUATION

The monitoring and evaluation system of the funding agency provides a fact base to link funding decisions to performance of communities. The funding agency must ensure that there are mechanisms by which monitoring and evaluation information feeds into program management decisions in general, and into decisions for payment of partner organizations or communities in particular. Lessons learned and good practice emerging from this exercise should be disseminated widely.

The responsibility for monitoring and evaluation of community subprojects rests with the funding agency, project management committee, community members, and external evaluators**.** Two levels of monitoring are envisioned: 1) monitoring by the funding agency, and 2) monitoring by the community. The funding agency must ensure that all technical, financial, and social audits are conducted in a participatory manner. Involving communities in supervision and monitoring helps make the exercise less of a policing function and allows communities to better understand what is required of them. It also builds community capacity to provide better oversight. The community/project management committee should also be actively involved in overall monitoring of the subproject including engaging auditors (for internal and external audits).

The project management committee must be made to understand that they are accountable not only to the funding agency but also to the community and their local leaders. In the same way, the larger community must be encouraged to play an active role in the monitoring process and be empowered to demand accountability and transparency from their project management committee.

1. Monitoring by the Funding Agency

The funding agency is responsible for the formal monitoring and evaluation of community activities, the performance of communities, and assessment of social and environmental impacts. Reviews must take into account technical aspects (e.g., quality, speed, and cost of construction, consistency with national norms); social aspects (e.g., level of community participation, analysis of who uses the infrastructure); impact on beneficiaries (e.g., numbers involved, reached, or assisted) and financial aspects (e.g., use and accounting of funds).

   a. Financial and Technical Monitoring

Financial and technical monitoring must be linked in order to allow the funding agency to compare the community's expenditure against targets. Reporting formats must therefore combine information on physical and financial progress.

Tranche system of disbursing: — This is a key monitoring tool that allows for greater control and oversight and ensures that funds are accounted for properly and technical quality is maintained throughout the implementation process.

Audits: — Under the lump-sum financing agreements, the community is treated as a contractor and is not normally subject to internal or external audits. However, given the fiduciary risks involved in the wide diffusion of funds, the Bank does encourage the funding agency auditors to conduct sample random audits (typically 10 or 15% of low amount subprojects and 100% of all large amount subprojects)[7].

Internal audits: — As part of the internal control system, internal audits of community accounts may be undertaken periodically by the internal auditor of the funding agency, or trained community members who are independent of the funding agency and the project management committee. The community groups may additionally decide to have their own committee responsible for internal audits (subject to them being trained to do so). In the Village Self-help Learning Initiative project in Sri Lanka, one community group is responsible for auditing the other and vice versa. In the case of the latter, this becomes akin to an ex-post audit.

Ex-post audits[8]: — Ex-post internal audits of community accounts are often linked to the overall monitoring and evaluation of the community subproject and can be conducted by the funding agency or by trained community members. A simple, inexpensive internal ex-post audit of community accounts is conducted to confirm that funds have been spent on the intended purpose and that communities have received value for their money. Community accounts are audited not as part of the Bank's audit requirements but for their own purposes and as part of the project reporting system documented in the financing agreement. Typically, a random sample of low amount subprojects and all high amount subprojects are audited.

External audit: — The scope of the external audit must be adapted to the type of project being audited. If payments to communities are made on a lump-sum basis, then the payment to the community is included in the project accounts and is audited; the community's expenditures, however, are outside the scope of the audit. An external audit is conducted by a qualified auditor and should provide opinions on the overall project financial statements, the overall project internal controls, the Special Account, and the Statements of Expenditure. The standard audit report is accompanied by a Management Letter. Normally, the auditor prepares one annual external audit report for the entire project, regardless of how many subprojects are financed.

Community groups if registered as legal bodies may have their own requirements under the local laws to be audited and to submit the audited financial statements (including management letter) to the statutory bodies. This should not be confused with the external audit of the funding agency which as described above will not include the expenditures of the subproject (except as part of internal management processes), but will be limited to payments/releases to the community groups.

[7] When financing subprojects based on actual expenditures, all of the above will apply. That is to say, the community accounts may be subject to the project's internal, ex-post and external audits.
[8] For a more detailed discussion of audit requirements for CDD projects, please see Fiduciary Management for Community Driven Development Projects. Interim Reference Guide developed by OPCS. http://opcs/P/ppp3.html

b. Key Performance Indicators

Key performance indicators provide a valuable tool with which to monitor progress. Indicators can be divided into process, input, output, and impact or outcome indicators. Below are some examples of indicators:

Process indicators: Number of days between each stage of subproject processing, length of subproject approval process (e.g., number of days between application received and approved), average number of days for subproject implementation, etc.

Input indicators: Funds disbursed, frequency and length of field visits, days of training delivered, etc.

Output indicators: Number of projects completed by sector, number of beneficiaries reached per sector, etc.

Impact indicators: Improved access to health facilities and services, reduced walking distance to safe water sources, improved pupil to teacher ratio, improved school enrolment rates, etc.

c. Management Information System

Management Information System (MIS) is a tool composed of accounting software and a database management system that allows the funding agency to organize both its accounting and non-accounting data. An effective MIS is an important instrument for projects that oversee and manage a large number of small projects in a decentralized manner. It allows users to collect, analyze, store, and disseminate information useful for decisionmaking in a project. An MIS designed for a demand-driven project must be able to collect and synthesize data on a variety of topics including but not limited to targeting criteria, financial management and accounting, stages of the subproject cycle, information on partner organizations, procurement and contracts, reporting, and evaluations.

Tool

DeMIStifying MIS: Guidelines for Management Information Systems in Social Funds. Available from the Social Protection Advisory Service www.worldbank.org/sp

d. Qualitative Monitoring

Given the demand-driven nature of CDD projects, systematic feedback from beneficiaries is an essential evaluation tool and, as such, beneficiary assessments have been used extensively in these types of projects. A beneficiary assessment is a qualitative research tool that is used to get systematic feedback from clients/community members. Its key features are an approach to information gathering that is qualitative, but quantified, systematic but flexible, and targeted to decisionmakers. Usually structured around interviews and group discussions, the objective of the beneficiary assessment is to assess the value of an activity as perceived by project beneficiaries and to integrate these findings into project activities. There is no one standard objective or design of a beneficiary assessment; in fact, the objectives and topics covered should be consistent with the issues at various stages of a project's evaluation.

Tools

Beneficiary Assessment Manual for Social Funds. World Bank, 1999. (This manual provides guidance on designing and implementing a beneficiary assessment.)

Getting an Earful: A Review of Beneficiary Assessments of Social Funds. World Bank, 1998.

Available from the Social Protection Advisory Service www.worldbank.org/sp

In addition to beneficiary assessments, many community-driven development projects use a variety of participatory monitoring and evaluation techniques such as PRA and SARAR to get feedback from clients.[9] Participatory monitoring and evaluation is an open-ended and iterative approach, and to be truly effective it needs to be incorporated into the overall project cycle and undertaken on a continuous basis. Here stakeholders are involved in deciding what will be monitored or evaluated, how and when data will be collected and analyzed, what the data actually mean, and how findings will be shared. Participatory methods most commonly used in this process are maps (to show the location and types of changes in the area being monitored), Venn diagrams (to show changes in relationships between groups, institutions and individuals), flow diagrams (to show direct and indirect impacts of changes and to relate them to causes), diaries (to describe changes in the lives of individuals or groups), photographs (to depict changes through a sequence of images), matrix scoring (to compare people's preferences for a set of options or outcomes), and network diagrams (to show changes in the type and degree of contact between people and services). Participatory monitoring and evaluation techniques may be used in parallel with conventional monitoring and evaluation processes to cross check the findings and foster local-level commitment to action.

[9] Participatory Monitoring and Evaluation: Learning from Change. IDS Policy Briefing. Issue 12. November 1998.

2. Community Involvement in Monitoring

The funding agency must ensure that communities play an important role in monitoring their own projects. These steps include:

- The community developing its own monitoring indicators and describing a monitoring and evaluation plan on the subproject application form
- Requiring all subproject accounting documents to be available for inspection by the community
- Ensuring that audits are performed (community's role includes engaging auditors for internal/external audits).
- Understanding the contents of the financing agreement
- Requiring project management committee to report to communities regularly
- Ensuring that no individual is able to initiate, authorize, execute, or record a transaction without the active involvement of someone else (for example, all withdrawals and transactions should be witnessed and countersigned)
- Posting all financial information regarding the subproject in public places in the community
- Ensuring that mitigation measures are put in place to address possible environmental and social impacts.

The community is also expected to report periodically to the funding agency. (See Annex 7 for sample reporting forms.) This report will include a description of the physical progress of the subproject, a financial review indicating how funds received have been used, and problems encountered and solutions undertaken during the reporting month. The project management committee must notify community leaders and funding agency staff immediately if problems arise that may significantly delay subproject implementation.

VII. COMPLETION OF SUBPROJECT

A subproject is considered complete if the agreed upon targets have been completed satisfactorily and if all the money has been accounted for. It is important that subprojects are completed on a timely basis. Once the subproject is completed, the community will submit a final completion report to the funding agency. This report will include:

- Full description of subproject activities and accomplishments
- Drawings of the completed structure
- Statement of final subproject costs compared to original financial plan
- Statement of construction time compared to original schedule and explanations of any deviations from the original plan
- Analysis of lessons learned
- Actions taken to manage maintenance and recurrent costs.

The verification of physical completion is carried out during a final visit to the project site by the funding agency staff. The visit is performed with the project management committee, community members, contractor, supervisor, etc. Primarily, the funding agency assesses the technical quality of the infrastructure. If adjustments have to be made, a time line is established and the contractor is expected to make all of the necessary adjustments during this period. The completion report is signed only after all changes have been made. In many countries, the closing of the subproject is announced in several public buildings such as the mayor’s office, mosque, church, or community center.

A final bank statement for the subproject checking account must be provided for reconciliation with the final financial report. All funds in the checking account must be accounted for — there should be no excess funds at the end of the subproject. (As mentioned earlier, in the case of lump-sum contracts savings, if any, may be permitted to be used to increase the scope of the work. Alternatively, if the savings are to be used for maintenance of the asset, the funds may be transferred to a separate bank account.) Once the completion report is cleared by the funding agency, a Completion Certificate is issued. The community may decide to have an inauguration ceremony at the end of the completion process.