

ACCOUNTABILITY, FLOW OF FUNDS, AND FINANCING OF COMMUNITY-DRIVEN DEVELOPMENT

The Global Experience

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The LCDD vision dates back to South Asia in the 1950s

- Local and community development should be planned and managed by local citizens, their communities, and their local governments
- Within a clearly defined decentralized framework
- That devolves real power and resources to local governments and communities
- Capacity support provided by technical institutions and sectors, and NGOs

For 40 years, all over the World, implementation reverted to centralization and disempowerment of local governments and communities

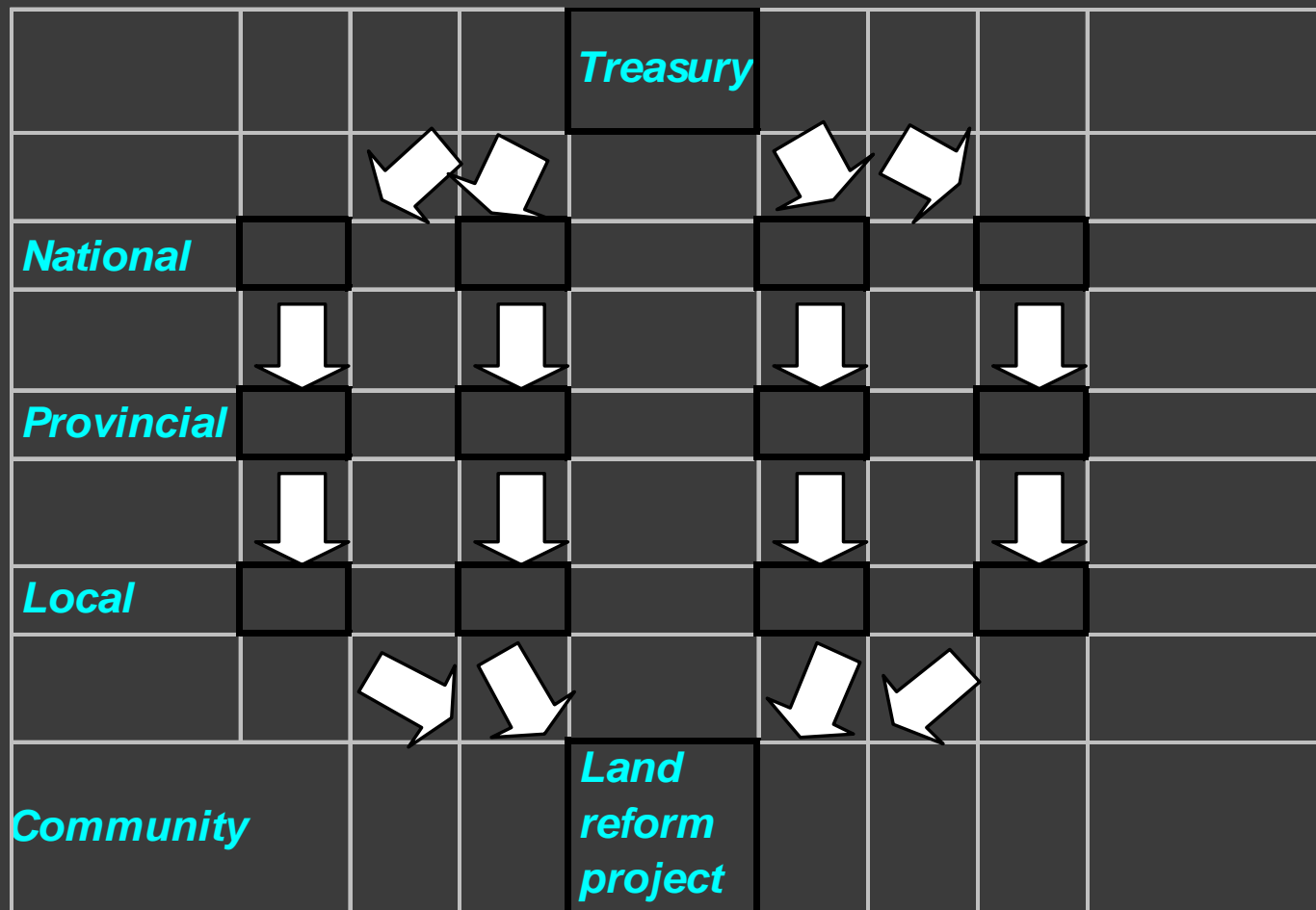
The dis-functional implementation architecture of early Rural Development Programs

- ❑ Rural development interventions involve many sector interventions
- ❑ The classic architecture had each sector deliver or disburse against its own component in a silo approach
- ❑ The different silos could not be coordinated at local and community levels
- ❑ All accountability was upwards to the line agencies

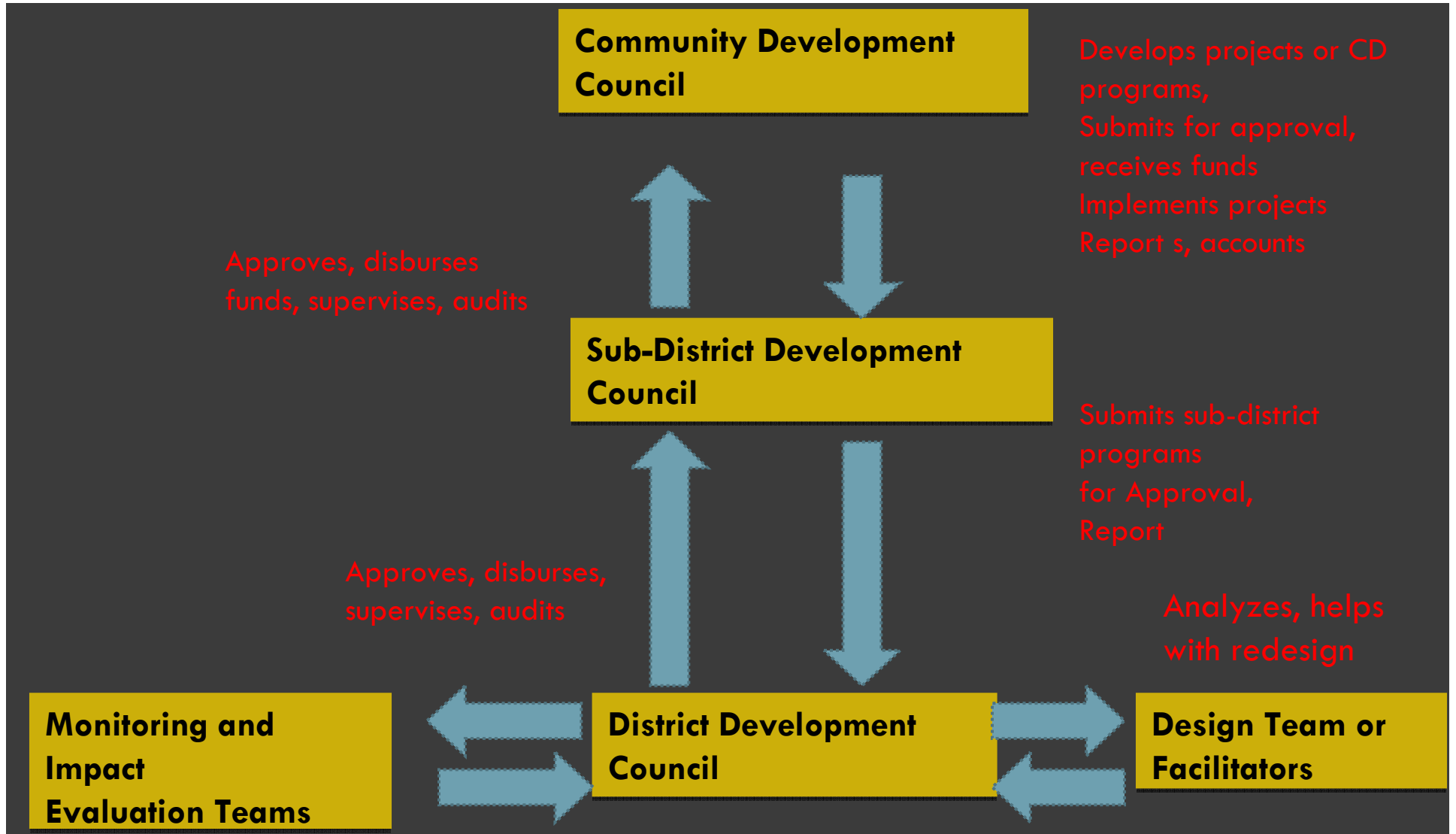
The dis-functional silo approach

Example of South Africa land reform

Implementation and flow of funds via line ministries



The LCCD architecture is decentralized and participatory



Progress on participation was slow

- **The community consultation model:** Government or NGOs consult communities, but operate as direct service providers, using their own staff.
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 - ▣ **If service providers are accountable to community this model is appropriate for health care, education, and other complex services**
- **The community participation model.** Government or NGOs invites participation from communities in choosing development priorities and project design, co-financing the investments, and operating the investments, once they are completed.
 - ▣ **Is appropriate for large investments, such as canal irrigation**
 - ▣ **Still practiced far too often for community investments, e.g. in South Africa, with very poor results**
- **The community empowerment model:** The implementation responsibility for projects is entirely devolved to communities, along with the funds for implementation.
 - ▣ **Originated in Mexico in 1990, and in Aga Khan Foundation. Now practiced in CDD projects all over the world**

Critical innovations for direct disbursement from Latin America for CDD

1. *Legal ownership by the community of the funds*: Funds transferred to communities were considered matching **grants** and therefore *became the property of the communities*.
2. *Replacing detailed accounting for the funds by a contract with the community*: It is a four to six page document with a cover page for signatures. At the end of the implementation, the community signs a *certificate of completion* of the project that serves for accounting purposes for the grant.
3. *Direct transfer of the matching grants into the accounts of the community*. This is usually done in tranches, the first of which followed the signature of the contract, and the second or third of which depend on demonstrating progress

More critical innovations

4. *Transparency and accountability at the community level:*

Communities elect finance committees. Checks must be signed by at least two members of the finance committee. The committee has to present all accounts to the general assembly in the local language.

4. *Local shopping for both goods and services:* This implies the suppression of the traditional distinction between services and goods in the community procurement rules. Communities obtain offers from three suppliers, and chooses from these three offers.

6. *Purchase of technical support by the community:* The community can use a portion of the matching grant to pay for the technical services, making service providers accountable to the community.

Funding is accompanied by rules and training

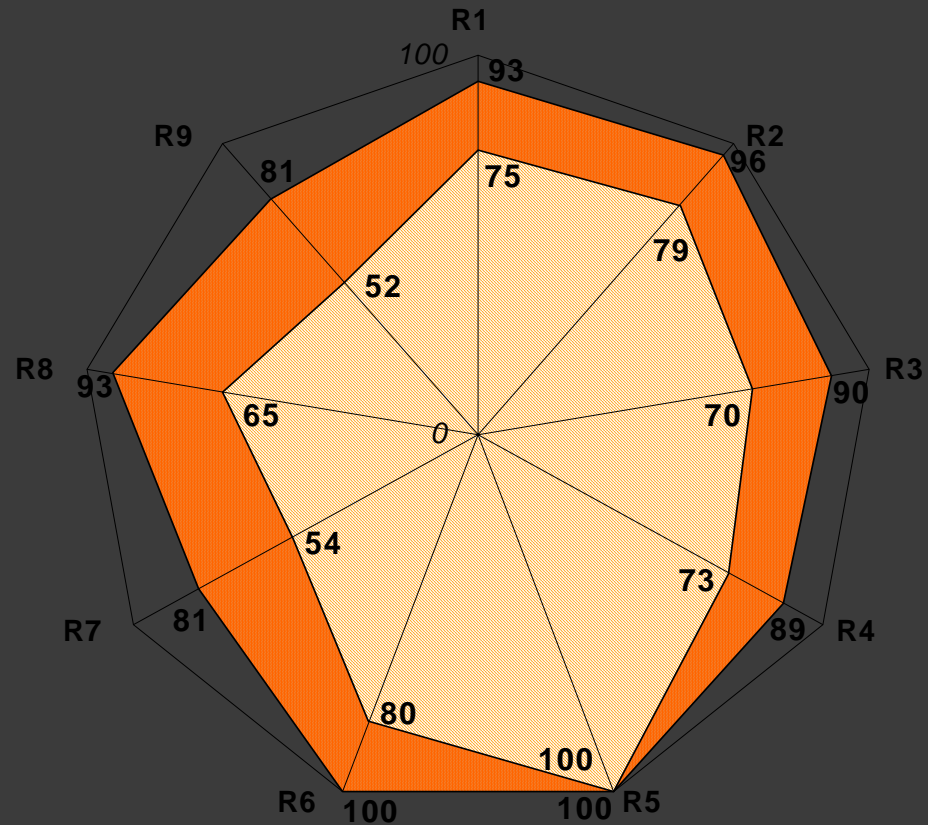
- To ensure wide local participation;
- To promote transparency and accountability;
- To prevent fraud and misuse;
- To avoid elite capture and social exclusion;
- To ensure local resource generation, so that the community can maintain the asset

Direct financing of communities

- Funds should preferably be untied:
 - ▣ provide an open menu of options,
 - ▣ except for a negative list of what the money may not be used for: churches, guns.....salaries
 - ▣ Earmarking only for exceptional circumstances where gaps in knowledge or stigma prevent allocation of resources by communities to important national priorities, such as HIV/AIDS.

2005 QUALITY ASSURANCE REVIEW OF 298 WORLD BANK SOCIAL FUND/CDD OPERATIONS

- R1 = Strategic Relevance and Approach
 - R2 = Technical, Financial and Economic Aspects
 - R3 = Poverty and Social Aspects
 - R4 = Environmental Aspects
 - R5 = Fiduciary Aspects
 - R6 = Policy and Institutional Aspects
 - R7 = Implementation Arrangements
 - R8 = Risk Assessment
 - R9 = Bank Inputs and Processes
- MS= Marginally Satisfactory Sat= Satisfactory



■ %MS or Better ■ %Sat or Better N=24

In terms of fiduciary requirements

all projects performed satisfactorily

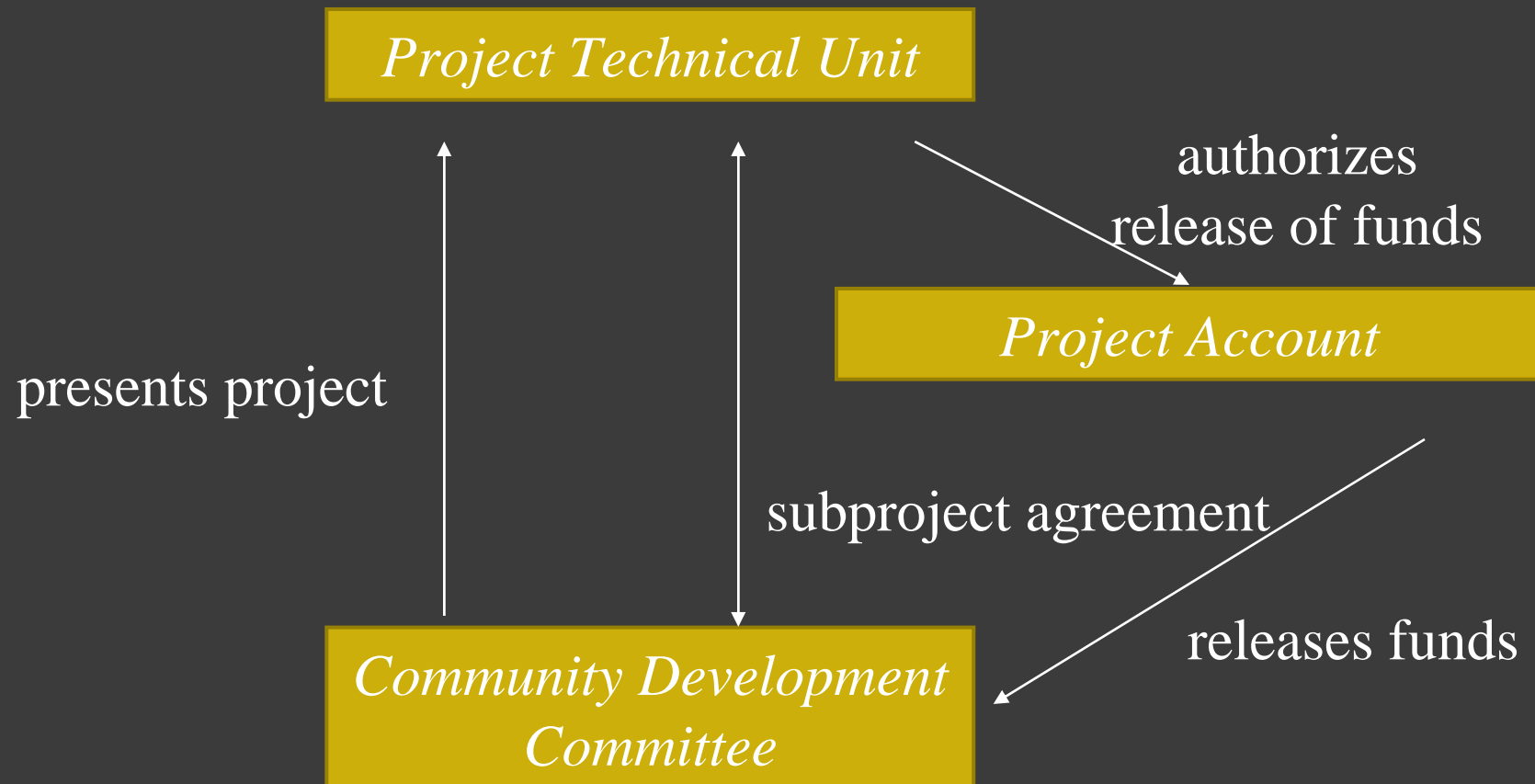
Flow of funds and accountability

There are many options with widely different implications for empowerment of communities and local governments

First three examples of what not to do
Followed by good practices

The undesirable project approach to flow of funds and accountability

Example: Many donor projects in Africa

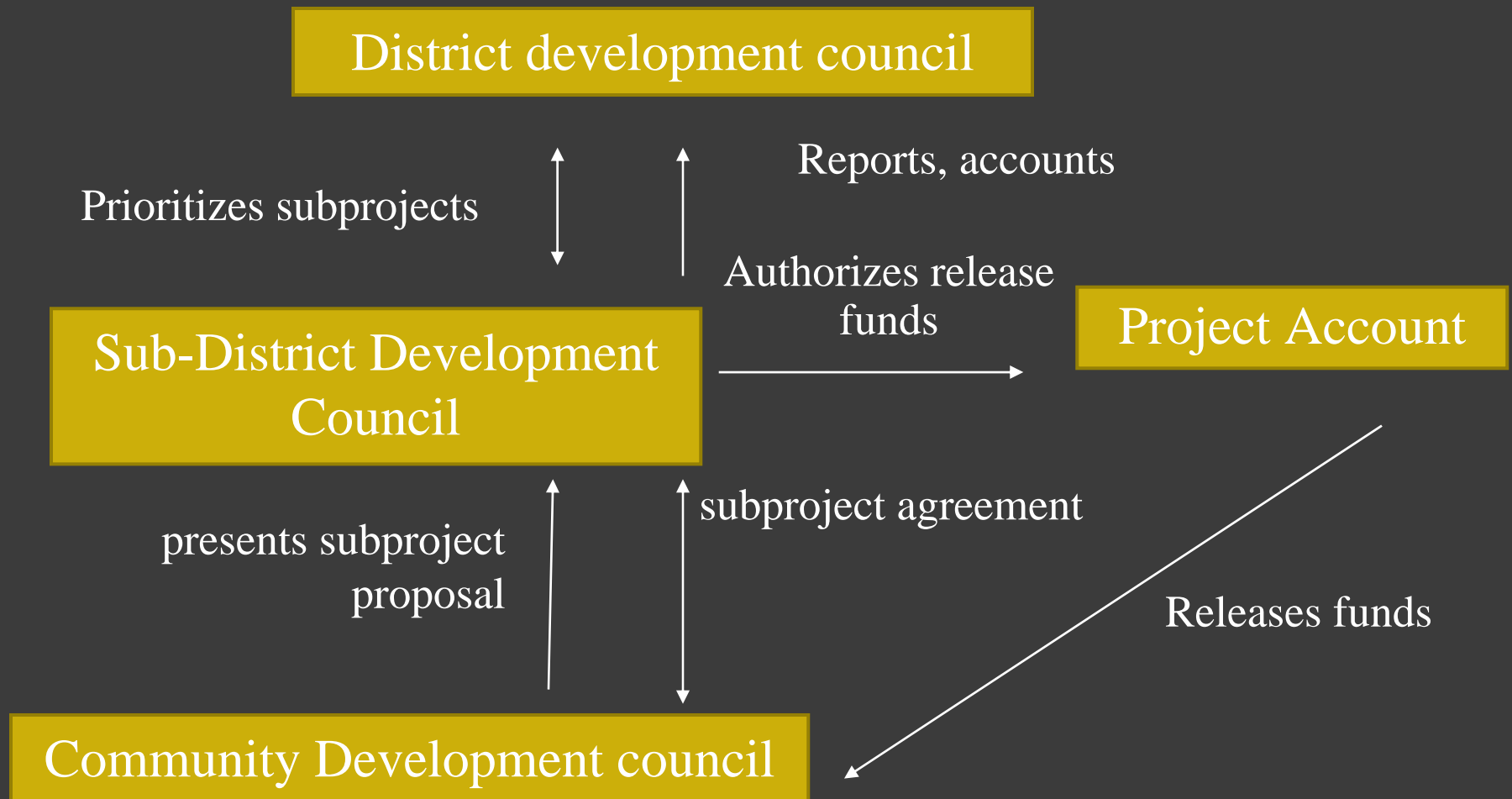


Channeling Money through NGOs is no longer recommended

- It is an example of the community facilitation approach: dis-empowers communities
- High staff costs of NGOs makes approach difficult to scale up
- It stands in the way of the coordination and supervision functions of local government

NGOs are better used as facilitators of community processes, and for technical support

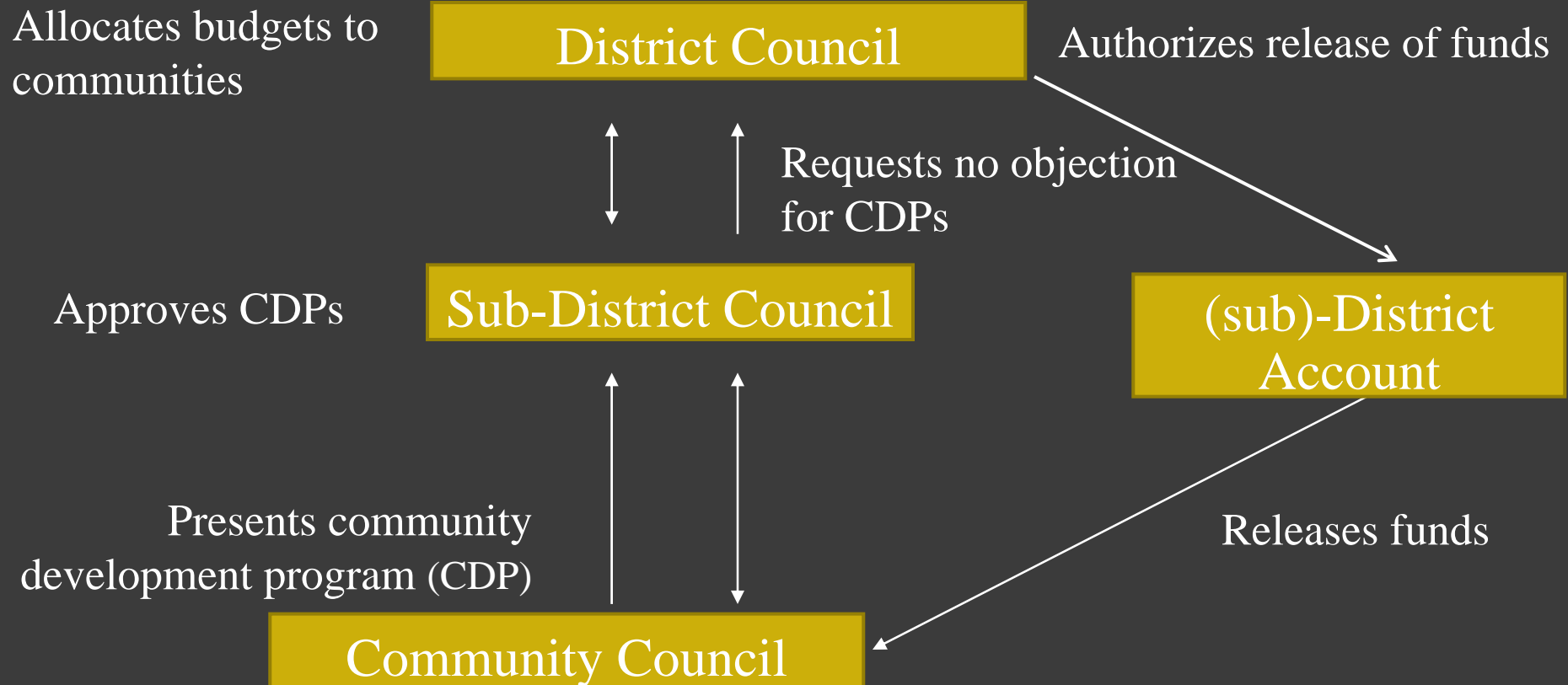
The sub-project approach



Program approach within an intergovernmental fiscal system

National or Provincial Government

Designs budget allocation and co-financing formulas for districts, communities



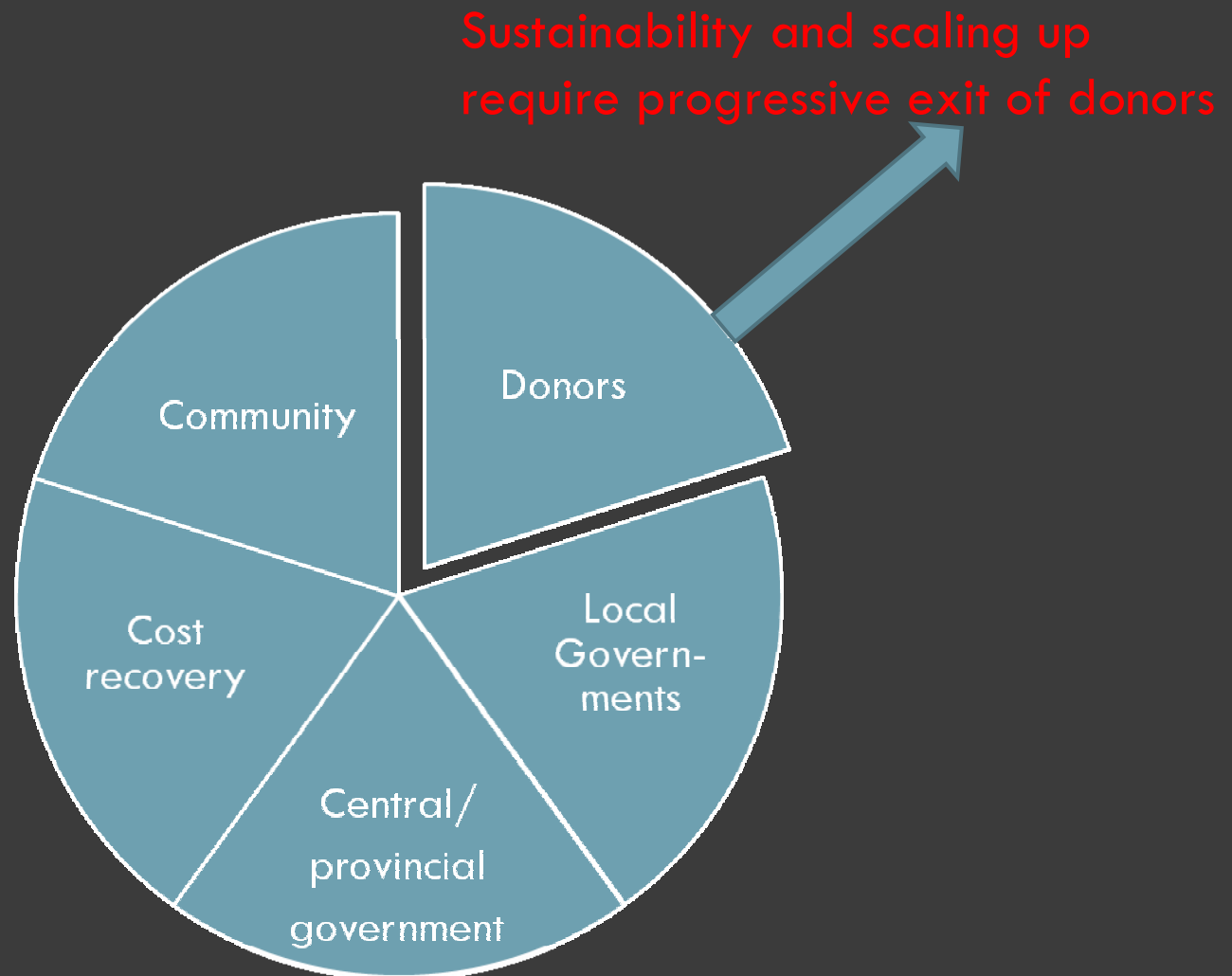
Additional accountability relationships

- Within the community's development committee and from the committee to beneficiaries;
- From facilitating groups (e.g., NGOs) to the community and to the government implementing entity;
- from local politicians or civil servants to their constituents;
- from project staff to the politicians or civil servants;
- from the district government to the central government, and vice versa; and
- from the central government to external donors.

Allocation of funds to communities or sub-districts

- On a project-by project basis: KDP Indonesia, Brazil, the majority of CDD projects financed by the World Bank
- On a formula-driven basis: Sharply increases community empowerment and community co-finance
 - ▣ Since 1990 allocation to Mexican Municipalities according to their poverty index
 - ▣ Municipal infrastructure development grant to municipalities in South Africa since about 2002
 - ▣ Since 2000 allocation to community development plans in Burkina Faso: a fixed amount per person
- There are opportunities to tie increases in budget allocation to performance of community or sub-district

Sources of Funds



Conclusions

- Bold approaches to CDD financing have been used since the 1990
 - Municipal funds, program rather than project funding at community level, formula-based allocation of funds, community based accountability and procurement rules
- The boldest approaches have resulted in greater empowerment of communities and local governments, reduced costs, and increased co-finance

Yet timid approaches are still the norm in many donor and government programs

Let us hope in scaling up CDD, China will be bolder