I. Abstract

In 1995 the World Bank and the Government of Brazil (GOB) jointly initiated the Rural Poverty Alleviation Program (RPAP) in an attempt to reduce the poverty levels in the northeast region of Brazil. The program financed small-scale demand-driven community sub-projects in order to provide infrastructure, employment and income-generating opportunities to the rural poor in the region. FUMAC (Fundo Municipal de Apoio Comunitario) or Municipal Fund for Community Support was the primary delivery mechanism under RPAP. Under FUMAC, decision-making on sub-project approval was delegated from the state to project municipal councils that comprised 80 percent membership of potential beneficiary associations and civil society.

Community participation was encouraged at each stage of the project, from project identification to implementation and maintenance. The community project groups were free to select and contract with needed technical assistance for preparing the proposal and while executing and operating the investment. Access to standardized and popular technical designs of projects, model terms of reference for technical contractors, project guidelines and so forth were provided through an operational manual, contributing to effective sub-project execution. A strong monitoring and evaluation system helped enforce accountability in sub-project proceedings.

FUMAC supported the implementation of more than 11,000 social, productive, and infrastructure community projects that substantially contributed to improving the standard of living of the beneficiaries. Most of the projects had high sustainability rates and reported good quality levels, although some discrepancies were found in the provision of technical assistance among the targeted communities.

II. Background

The Northeast Region of Brazil has long constituted the single largest area of rural poverty in Latin America. In order to reduce the poverty levels, several rural development initiatives have been undertaken since 1970s. Among them was the Northeast Rural Development Program (NRDP), jointly initiated by the World Bank and the Government of Brazil in 1985. However, only the community-driven development (CDD) component of the program, which promoted community organization and participation in identification, financing, and implementation of projects, was successful. Following the establishment of the new Brazilian Federal Constitution in 1988, efforts were made to increase the decentralization of financial resources, priority setting, and implementation from the federal government to the state, municipal and local levels. This led to the transformation of NRDP into a ‘community-based development’ program in 1993. The emphasis shifted from a set of rural and agricultural development objectives to poverty alleviation objectives based on decentralization, matching grants, participation, and ownership. Beginning in

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1995, projects exclusively focused on CDD approach were initiated in eight northeastern states of Brazil, namely Bahia, Ceará, Sergipe, Pernambuco, Rio Grande do Norte, Piauí, Maranhão and Paraíba. The projects, primarily funded by the World Bank, together constituted the Rural Poverty Alleviation Program (RPAP). The main objectives of RPAP were as follows:

- To provide basic social and economic infrastructure, employment and income-generating opportunities for the rural poor
- To decentralize resource allocation and decision-making to local levels by supporting community-based municipal councils and beneficiary associations in investment planning and implementation
- To provide a safety net for the rural poor during a period of macroeconomic reform and fiscal arrangement
- To leverage resources mobilized at the community and municipal levels.

Consistent with the above objectives, RPAP financed community-identified small-scale sub-projects (less than US$50,000). They were broadly classified into the following categories:

- **Productive**: small-scale agro-processing, small dams, small-scale irrigation, tractors for communal use, brick-making, clothes making
- **Social**: community water supply, sanitation, school or health post rehabilitation
- **Infrastructure**: electricity supply connections, local road improvements, small bridges or fords.

These projects were initially approved and financed through PAC (State Community Schemes) mechanism, wherein communities submitted sub-projects for approval to the state government, specifically the State Technical Units (STUs). However, as a result of the decentralization efforts of the Government, FUMAC (Municipal Community Schemes) soon became a dominant feature under RPAP and accounted for 80 percent of the total community sub-project costs. Under this mechanism, the municipal level government became in charge of project approval and supervision.

The municipalities for project execution under FUMAC were selected based on poverty levels and other characteristics such as population size, education, wages of heads of household, and availability of water and sanitation facilities. Each municipality was represented by a Municipal Council (MC)—an elected body with 80 percent civil society membership comprising of representatives from NGOs, religious groups, unions, and rural committees. The remaining 20 percent was represented by municipal authorities—typically mayors and representatives of local public agencies. Within these municipalities, rural communities with less than 7,500 inhabitants were targeted and the most vulnerable groups were identified. The project was promoted through a statewide information campaign encouraging community participation, along with private sector and NGO involvement in the project.

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1 The Rural Poverty Alleviation Projects were approved for Bahia, Ceará and Sergipe in June 1995, for Pernambuco, Rio Grande do Norte, and Piauí in December 1996 and for Maranhão and Paraíba in 1997.
2 After 1998, 90 percent of the sub-projects were implemented through the mechanisms of FUMAC and FUMAC-P (Pilot Municipal Community Funds). FUMAC-P is a more decentralized version of FUMAC that was experimented with under the program. The mechanism authorized high performing municipal councils to approve sub-projects within the context of an annual budget and administer the funds directly.
To be eligible for project financing, community members had to organize and legally register themselves as community-based organizations (CBOs). The CBOs identified the most pressing needs and demands of the communities, and prepared sub-project proposals for investment financing. To facilitate this process, the community could access technical assistance from the STU or other agencies such as NGOs, rural trade unions, and so forth. The sub-project proposals were submitted to the municipal councils for approval and were prioritized based on the level of community need. The proposals had to meet the established technical, economic, environmental and sustainability criteria outlined in the operational manual—a detailed document containing project rules and guidelines. The State Technical Unit performed an oversight function and was to be informed on the choices made by the MCs.

After the project approval, resources for sub-project implementation were directly transferred into community’s bank account. Financing was provided through matching grants, disbursed directly by the World Bank through loans to the state government (75 percent of the project costs). The State government contributed up to 15 percent of the costs, with the remaining 10 percent being shared between the community and the municipality. Beneficiary associations contributed to sub-project costs, either in cash, kind or labor, and were responsible for the operation and maintenance (O&M) of the investments. The sub-projects were implemented by contracting with local entrepreneurs or NGOs.

The monitoring of the projects relied to a great extent on the information generated by a comprehensive Management Information System (MIS). Data inputs were provided by the STUs that collected information on the location, community profile, project type, project cost, number of beneficiaries, technical assistance, and subproject status.

### III. Impact/Results

Around 11,172 (56.5 percent) sub-projects were implemented through FUMAC. Table 1 presents the state-wise listing of the number of projects financed under FUMAC, as on April 2001.

Most of the sub-projects listed in the table above belonged to water supply (28.7 percent) and rural electrification (27.2 percent). Others pertained to categories such as rural access road improvement, communal tractors, small bridges, manioc mills, sanitation programs and small irrigation schemes. The quality of life of beneficiary communities has been improved due to the availability of water and electricity, improved roads and bridges, rehabilitation of rural schools and health posts, and the provision of community-owned productive infrastructure such as communal tractors.

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3 In compliance with Brazilian law, beneficiaries must form legally constituted civil associations in order to be eligible to receive financing under the project. Each community can have multiple CBOs and/or one CBO can represent multiple communities.

4 Within subprojects the beneficiary contribution varies between 10 percent to 20 percent (10 percent of social, 15 percent of infrastructure and 20 percent of productive investments).

5 Up to 8 percent of the sub-project costs could be used to hire technical assistance with design or execution, the latter for a period of less than a year. Project savings if any, were retained by the communities.
The social internal rate of return was quite high: greater than 50 percent for productive investments.\[6\]

### Table 1: State-wise Listing of the Number of Projects Financed under FUMAC as of April 2001

<table>
<thead>
<tr>
<th>State</th>
<th>FUMAC (including infrastructure, social and productive sub-projects)</th>
<th>Total projects (PAC, FUMAC and FUMAC-P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bahia</td>
<td>3,278</td>
<td>6,541</td>
</tr>
<tr>
<td>2. Ceará</td>
<td>1,964</td>
<td>2,932</td>
</tr>
<tr>
<td>3. Maranhão</td>
<td>1,854</td>
<td>3,310</td>
</tr>
<tr>
<td>4. Paraiba</td>
<td>261</td>
<td>1,800</td>
</tr>
<tr>
<td>5. Pernambuco</td>
<td>876</td>
<td>1,356</td>
</tr>
<tr>
<td>6. Piaui</td>
<td>628</td>
<td>1,015</td>
</tr>
<tr>
<td>7. Rio Grande do Norte</td>
<td>1,056</td>
<td>1,250</td>
</tr>
<tr>
<td>8. Sergipe</td>
<td>1,255</td>
<td>1,747</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,172</strong></td>
<td><strong>19,771</strong></td>
</tr>
</tbody>
</table>

Source: Project Appraisal Document on a proposed loan in the amount of US$22.5 million to the state of Rio Grande do Norte for a rural poverty reduction project (Brazil rural poverty reduction program).

Some instances of impact (pertaining to RPAP) are highlighted in the text box below.

### Text Box 1: Impact Pertaining to RPAP

- A July 2000 impact evaluation study reported the creation of 40,000 permanent jobs and incremental net annual income/savings of US$80 million as a combined effect of the three programs (PAC, FUMAC and FUMAC-P).\[7\]
- As on October 2002, the combined programs under RPAP, i.e. PAC, FUMAC and FUMAC-P, provided 7,000 communities with water systems, operated and maintained by the communities themselves. About 6,00,000 families could gain access to good quality water, as a result of which the incidence of water-borne diseases and infant mortality has reduced.\[8\]
- Around 35,000 hectares of land has been brought under cultivation.
- The targeting mechanisms adopted under RPAP have ensured that the program resources reached the most vulnerable groups of the community. It is estimated that 93 percent of the program resources reached the communities—much higher than the resources reaching the communities under the original NRDP and the earlier rural development programs (40 percent and 20 percent respectively).\[9\]
- Technical evaluations by independent consultants reported that the works executed under the program were technically sound and of good quality. Cost savings under sub-projects were 40 percent cheaper than equivalent works managed by public agencies.\[10\]
- The sub-projects had a high sustainability rate. About 90 percent of the projects that received funding between 1995 to 1997 remain fully operational to date.

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\[^{6}\] Efforts are in progress to find the exact definition of social internal rate of return. (This refers to the socioeconomic benefits that derived by beneficiaries.)

\[^{7}\] Source: Implementation Completion Report, on a loan in the amount of US$24 million to the state of Rio Grande do Norte Brazil for a rural poverty alleviation project.


\[^{9}\] Source: Implementation Completion Report, on a loan in the amount of US$24 million to the state of Rio Grande do Norte Brazil for a rural poverty alleviation project.

\[^{10}\] These figures reflect the savings of the projects executed solely by contractors. Source: http://wbln0018.worldbank.org/LAC/lacinfoclient.nsf/5996dfbf9847f67d85256736005dc67c/8557e6a3d85efa6885256c55005860a1/$FILE/Oct02_NE_Brazil_Pov%20-%20ENG.pdf
IV. Key Elements of Empowerment

Access to information

FUMAC encouraged broad-based community participation in the identification and execution of sub-projects through a state-wide information campaign using media, flyers and public broadcasts. These campaigns, as well as encouraging community, private-sector, and NGO involvement in the sub-projects, publicized the program’s eligibility conditions and rules for application of financing.

To aid in preparation of sub-project applications, an operational manual was made available to all CBOs. The manual contained, among other things, standardized technical designs for the most common type of sub-projects, model terms for reference for consultant contracts, guidelines for environmental assessment, a cost-sharing matrix and cost indicators for typical investments. Communities were also provided with a list of preferred suppliers and service providers, to expedite the procurement process.

Inclusion and Participation

The FUMAC mechanism, following a community-driven development approach, stimulated grassroots participation in sub-project activities.

Prioritization and selection of community needs for sub-project application was undertaken jointly by community members. Council meetings that finalized sub-projects for investment financing were publicly announced and open to broad participation. The CBOs were given complete control over allocation of financial resources and other crucial decisions such as contracting with private firms, NGOs or other agencies to avail technical assistance. All the adult members of the community had the right to be a part of the beneficiary association, and all the members of the association had the power to vote.

Training and capacity-building exercises were carried out to help the communities plan and execute the sub-projects. These exercises saw extensive participation from the beneficiary organizations. Communities also participated in the project activities through labor and cash contributions. This created a ‘sense of ownership’ among the community members.

Accountability

The sub-project applications were filed on the basis of the felt needs and demands of the villagers. Once these applications were sent to the MCs, they were analyzed and considered for approval based on the discussions held in public meetings, thereby ensuring that the selection process was transparent and followed the pre-established eligibility criteria.

Civil society representatives and community members dominated the membership of the MCs. Their participation ensured that the program addressed the needs and demands of the community. A continuous check on the ongoing activities of the sub-project could be maintained. The community organizations were the owners of the
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project and controlled and managed the project funds. They had the right to choose their own technical consultants and contractors for project execution instead of completely relying on the assistance provided by the state technical units.

Community associations, dissatisfied with representation by their MCs, could bypass these councils and apply directly to the STU for funding. Such a step alerted the STUs and the performance of the MCs were audited.[1]

The MIS facilitated the compilation of semi-annual reports and implementation progress reviews, thereby inducing internal accountability in the system. A special committee composed of at least three members of the CBO, not belonging to its administration and freely elected by all members, supervised the sub-project execution. In addition, an annual technical and financial review was conducted for 10 percent of projects by an externally contracted independent audit firm.

**Local Organizational Capacity**

Since the project inception, over 27,000 community associations have prepared and submitted proposals for approval. Working collectively has enhanced the capacity of the communities to identify and prioritize common problems and undertake projects of similar nature in the future. Some community associations have initiated projects by mobilizing the savings from sub-project execution. Steps have been taken to recover costs for establishing community funds for further investment, expanding installed capacity, purchasing or acquisition of equipment for productive purposes and for the operation and maintenance of investments. The text box below elucidates one such example.

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**Text Box 2: Local Organizational Capacity**

One of the projects implemented by the Bom Jesus community association in Rio Grande do Norte was based on the acquisition of sheep and cattle for breeding without the establishment of the customary cost recovery obligations. Subsequently, guided by SEAPAC, a Church-affiliated NGO, the members themselves established a scheme to collect 40 percent of the original acquisition cost of each animal from each member after two years. The funds collected were used to build a ‘solidarity fund’ for small loans to members. The fund balance on March 2003 stands at approximately US$3,500. Loans from the funds have been used by the members to purchase machinery, equipment, seeds, and animal medications and also to supplement the cost of a small-scale reservoir.

The municipal councils have moved on from their restricted roles of discussing the legitimacy of investment proposals and prioritizing them for funding, to becoming full-fledged forums of popular participation, with a wider sense of responsibility for municipal development. Many councils across northeast Brazil now make decisions on priorities for the use of municipal resources—most of them not project-related. For[1]

If the results of the audit report do not reveal any problems with the functioning of MCs, the communities are penalized for bypassing the system. The relevant MC is alerted to the CBO’s direct application and it can deal with the CBO as it sees fit.
instance, the Seridó Regional Sustainable Development Council in the state of Rio Grande do Norte integrates 28 FUMAC Municipal Councils into a “mega-Council” which coordinates works and funding of ongoing public programs that total US$200 million.

V. Issues and Lessons

Critical Issues

Although the overall construction quality in most of the sub-projects was good, shortcomings were detected in a number of sub-projects. For instance, non-adherence to technical criteria led to over-design of projects. Lack of technical assistance by state technical units or other entities in planning and executing projects, albeit in a few communities, acted as additional constraints. As a result of this, discrepancies were noted in investment size and costs per beneficiary for the same types of projects. Perhaps adoption of further stringent measures to monitor the provision of technical assistance in the sub-project communities would reduce these discrepancies.

The technical units found it difficult to process the large number of sub-project proposals and to provide technical assistance for the preparation and implementation of the projects. In some cases, the technical units have forged alliances with NGOs and with the Brazilian agriculture extension agency, EMATER, but response has generally been poor.

There is no evidence to reveal the extent of community participation in the project or external dominance from mayors, contractors or non-governmental organizations. It is estimated that political factors and favoritism may have played a key role in sub-project approval and implementation.

Key Lessons

Under the FUMAC mechanism, decentralization of key project operations to the beneficiary associations reduced administrative bottlenecks such as bureaucracy and lack of transparency in the proceedings. Beneficiary contributions in the form of cash and labour created a strong sense of community ownership for the sub-projects. This in turn increased community willingness to share responsibility for operation and maintenance and led to enhanced project sustainability. An important lesson for countries intending to replicate the project is that centralization of power distances the beneficiaries from the decisionmakers. This gap may hinder smooth project functioning. Increased beneficiary participation and sharing of responsibility overcomes these obstacles and leads to more effective systems that truly reflect community demands.

The communities had access to standardized technical designs for the most common type of sub-projects, guidelines for contracting, details of environment assessment, and so forth through the operational manual. The manual was flexible and incorporated the lessons learned during each year of project implementation.

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12 Source: Implementation Completion Report, on a loan in the amount of US$24.0 million to the state of Rio Grande do Norte Brazil for a rural poverty alleviation project.
Availability of such information to the communities considerably eased the procurement of goods and works, prevented over-design, improved the quality of sub-projects, and also helped reduce bottlenecks in the sub-project cycle. A key lesson here is that standardization of documents, technical designs and unit costs simplify the sub-project preparation and evaluation process. Dissemination of such information reduces the risk of political manipulation, enforces transparency, and stimulates community participation in sub-project activities.

Future poverty alleviation projects such as RPAP that are executed across several states and municipalities need to employ targeting mechanisms that are simple, effective, and easily monitorable. Only when the most vulnerable groups are targeted, and sub-projects are implemented as per their needs and requirements, are poverty alleviation efforts likely to reflect intended results. Another critical factor for project success and sustainability is the level of supervision – both during and after sub-project implementation. It has to be reinforced at every level and to involve entities closest to the communities, such as municipal councils or NGOs.

Outlook

Out of the projects undertaken in the eight RPAP states, projects in six states have been completed. Well-performing FUMAC councils have been promoted to FUMAC-P councils. Although the FUMAC-P mechanism accounts for only 10 percent of the sub-project costs (in states of Bahia, Ceará, Sergipe and Rio Grande do Norte) under RPAP, it is hoped that the mechanism will be expanded in future projects.

VI. Further Information: References and World Wide Web Resources

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