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Gita Gopal
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FOREWORD

The nature and extent of community participation in Bank-financed social sector projects has changed significantly over the years. While initially, community participation was limited to provision of voluntary labor by communities, or participation of Non-Governmental Organizations in capacity building exercises, it now actively involves communities in the design and implementation of projects. Consequently, communities are increasingly involved in procurement related activities as actual recipients and controllers of project funds. As a reflection of this increasing empowerment of communities and devolution of financial control to the community level, the recently issued World Bank Procurement Guidelines (1995) explicitly permit more flexible procurement mechanisms in social sector projects with community participation.

Designing procurement and disbursement mechanisms in projects with community participation is, however, a complex task. Committees associated with World Bank social sector projects often live in remote and rural areas. They have weak institutional and financial capacities. They do not use banking facilities and operate in micro scales of economies. How do such community groups enter into contracts? How does the project disburse funds when community groups cannot access bank facilities? Further, increased flexibility in the use of funds clearly denotes the need for increased accountability. How does the project ensure the joint liability of a community group for the use of funds? In these circumstances, project designers need guidance on mechanisms for community participation. This Manual provides a preliminary tool for project designers wishing to involve communities in procurement. It not only identifies issues commonly faced by project designers, but actually takes a project designer through the important steps in procurement planning.

While the Africa Technical Department initiated the preparation of this Manual, it has been developed in close coordination with the Regional Procurement Advisor's Office and the Africa Disbursements Division of the Loan Department. A number of World Bank staff have also contributed, sharing experiences and providing detailed comments. We would like to thank them for their valuable inputs.

Kevin Cleaver
Director
Technical Department
Africa Region
ABSTRACT

Commonly used procedures for procurement and disbursement in World Bank-financed projects are more suited for large investment projects and are not always appropriate for the increasing number of projects with community participation. This Manual provides project designers with pointers and guidance as to how procurement and disbursement procedures may be adapted in projects with community participation. It illustrates how issues, including those relating to simplification of procurement procedures and accountability for proper use of funds, have been dealt with in project design. The Annex also provides sample documents that may be adapted for use in such projects.
ACKNOWLEDGMENTS

This Manual was prepared by Ms. Gita Gopol. Mr. R. Gopalkrishnan (AFTCB) was the Task Manager. It incorporates information from a number of World Bank studies but in particular the Discussion Paper, *World Bank-Financed Projects with Community Participation: Procurement and Disbursement*. The extensive guidance and detailed comments provided by Mr. JJ. Raoul (AFRSA) and Mr. Sengamalay (LOAAF) are gratefully acknowledged. Detailed comments are also acknowledged from Mr. A. Marc (EC4HR), Mr. R. Sullivan (AFTCB), Mr. J. Roman (AF6DR), Mr. P. Vandenheede (LOAAF), Ms. Dominque Sjamsubahri (AFRSA) and Mr. J. Riverson (AF2EI). The Manual has benefited from the guidance of an Advisory Committee comprising of: C. Cook (AF1DR); M. Bradley (AF1PH); A. Ryba (AF1IE); JJ. Dailly (AF1CO); J. Riverson (AF2EI); Q. Khan (AF3PH); S. Singh (AF4AG); S. Jorgensen (AF6PH); A. Williams (OPRPG); A.S. Drabo (AFTHR); A. Marc (EC4HR); P. Pease (OPRPR); J. Roman (AF6DR); and P.C. Mohan (AFTDR). Useful comments from external reviewers Peter Niessen, Lucy Dunway, and Joe Muwonge are acknowledged. Proofread and processed by Ellen Thorington.
GLOSSARY AND ACRONYMS

Communities: used to refer only to the following persons or entities:

- individuals or groups of beneficiaries;
- community groups with no legal status;
- associations or groups with legal status, with or without separate legal personality as a group;
- small-scale artisans and other local or small commercial organizations and guilds; and
- small and local level organizations, particularly NGOs which support and facilitate the flow of Bank funds to individuals.

CRD: Community-Related Disbursement; disbursements to or by a community.

CRP: Community-Related Procurement; procurement by, on behalf of, or from a community.

Bank Guidelines: Bank Policy on Procurement including "Guidelines: Procurement under IBRD Loans and IDA Credits (May 1985) and ODs 11.00 - 11.10."

NCB: National Competitive Bidding (earlier referred to as Local Competitive Bidding)

NGOs: Non-Governmental organizations refers only to small and local level NGOs and does not refer to national or international NGOs.

OD: Operational Directive

PU: a generic acronym used for all project implementing units/agencies.

Sub-projects: a small project under a larger Bank-financed project;

Suppliers: communities or groups participating as suppliers of goods, works or services required for project related activities.
EXECUTIVE SUMMARY

Experience has shown that the active and informed participation of disadvantaged communities in the design and implementation of social sector projects can contribute significantly to the sustainability of development activities through increased community ownership, strengthening of the legitimacy of community institutions, and to the more effective use of grassroots facilities and services. Projects are increasingly attempting to hand over responsibility of development activities to local communities after establishing frameworks for grassroots management and operation. Consequently, communities are increasingly being involved in procurement and disbursement related aspects of project implementation.

Designing procurement, disbursement and accounting mechanisms at the grassroots level is, however, not easy. While Bank policies are flexible, there is very little guidance on mechanisms suited for procurement of goods, works or services by disadvantaged community groups and entities who are commercially unsophisticated. In many of the borrowing countries, community-related procurement and disbursement being a recent practice, regulatory and legal frameworks are unsuitable or not yet developed. Commercially established standards for accounting are also inappropriate when applied to grassroots communities.

This Manual attempts to provide guidance to project designers on designing procurement, disbursement and accounting mechanisms for Bank-financed projects with community participation in Africa. After providing a checklist of all issues and steps in designing procurement and disbursement in a project with community or beneficiary participation, Part I of this Manual provides a brief introduction to community participation and procurement, and describes the different procurement methods permissible under existing Bank policies and regulations. Part II describes the key steps involved in designing such projects, providing guidelines with references, wherever possible, to Bank-financed projects in the Africa Region. It addresses issues commonly encountered by Task Managers, discusses project arrangements and mechanisms for increasing accountability, examines the role of the Bank and the Borrower, and briefly describes the limited mechanisms possible for ensuring quicker disbursements. Part II also provides a number of checklists in important areas affecting project design. Part III consists of a series of Annexes providing sample documents for procurement and disbursement when communities are involved.

This Manual can only assist as a preliminary tool for identifying and addressing procurement and disbursement issues commonly faced by Task Managers in the preparation and design of Bank-financed projects with community participation. Actual project design must be evolved in close consultation with the Borrower, Bank procurement, disbursement and accounting specialists, and legal counsel.
PART I: INTRODUCTION

CHAPTER 1: COMMUNITY PARTICIPATION IN WORLD BANK-FINANCED PROJECTS IN AFRICA

Poverty alleviation is an objective of more than half of the projects financed by the World Bank (the “Bank”) in the Africa Region for which credit or loan agreements were signed after January 1, 1992. Such projects attempt poverty alleviation through programs intended to promote autonomous and self-sustainable development, increase employment and income of rural poor, develop human resources and build capacity at the grassroots level, provide priority health programs for vulnerable groups especially women and children, provide clean drinking water supply, afford incentives to poor parents to send their daughters to schools and so on.

Experience has shown that the participation of benefiting communities in the design and implementation of such projects is highly desirable (The World Bank and Participation, OPD, September 1994). Community participation enhances project sustainability. It increases community ownership and ensures the reflection of community priorities and needs in development planning. It encourages cost sharing of developmental activities and motivates communities into maintaining and operating such activities/facilities. Consequently, many Bank policies require community participation in project design and implementation (See Annex A).

Over the years, the nature and extent of community participation has undergone significant change. Initially, participation was limited to communities providing voluntary labor, or to non-governmental organizations (NGOs) assisting in capacity building exercises among benefiting communities. Now, communities are increasingly playing a more direct and active role, ranging from determining the nature of project activities to acting as implementing agencies. As a result, communities are becoming the ultimate users or receivers of significant amounts of project funds, and are becoming active participants in procurement-related activities. For example, community groups acting as implementing agencies procure works or goods, necessary for implementation of sub-projects from other local contractors or suppliers under terms and conditions agreed with the PU (Ethiopian Social Rehabilitation Fund Project). Or community level artisans and entrepreneurs are encouraged and supported through capacity building activities to supply goods or materials required for project or sub-project implementation (roofing tiles and furniture in the Malawi Education Sector Projects).

A survey of Bank-financed projects indicates a number of benefits in involving communities in procurement. These include:

a. enhancing community ownership and sustainability of the project;
b. increasing the economy and speed of procurement, by reducing transport costs and by providing the goods or materials at point of use;
c. increasing the capacity and skills of the community;
d. generating employment and economic opportunities within the community;
e. reducing the burden of centralized procurement on the PU; and
f. facilitating the achievement of desired project objectives.

1 One hundred and six out of a total of 172. Information obtained from the World Bank Legal Operations Data base. In the Lending Operations Data base, 153 out of 267 projects in Africa had poverty alleviation as one of their objectives. (July 12, 1994)

2 A component of the Ethiopian Emergency Recovery and Reconstruction Project)
When project design did not involve direct receipt or handling of project funds by communities, there were no clear rules or well-defined processes for such participation, permitting project designers to examine social and cultural traditions and introduce mechanisms suitable to each community. But, once communities were involved in actual procurement and disbursement, this was no longer possible. Communities were actually end users of foreign credit. This signaled the need for a different type of responsibility. Communities could handle funds only if they could account for the use of such funds, either directly or through an intermediary. World Bank policies could not differentiate between commercial stakeholders and community stakeholders. Proper use of funds and financial accountability, thus, became key issues. For project designers, this posed a challenge. Designing projects which would ensure the proper use of funds by communities became a challenging task for a variety of reasons, three of which are discussed here.

One, given the nature of social sector projects, community stakeholders are normally economically and socially vulnerable. They are poorly educated, often illiterate. In many cases, communities consist of heterogeneous groups without organizational structures or decision-making capabilities. Sometimes, they operate in economies where receipts for purchases or sales are not common. They have little or no access to banking systems, and where they do, banks rarely cater to their needs. Ensuring the economic and efficient use of funds by such communities becomes difficult.

Two, community participation in development activities being a recent phenomenon, legal and regulatory frameworks in many borrowing countries are not suitable for grassroots participation. Designing CRP in such countries then raises another set of issues that designers have to address within the scope of project design. Issues include: the right to participate in the design and implementation of development projects; the ability of communities to organize effectively for participation in developmental activities; the right to relevant and meaningful information; and the lack of simple, inexpensive, and effective dispute resolution processes.

Three, while Bank policies relating to procurement, in particular Procurement Guidelines (World Bank 1995), are flexible enough to permit new and innovative mechanisms for CRP, currently used procurement, accounting and disbursement mechanisms and practices have developed in response to the needs of large investment projects. These procedures are not well-suited to the needs of small sub-projects implemented by communities in remote areas and spaced over time. Further, a new genre of Bank-financed projects - a series of community-initiated sub-projects, the nature and requirements of which are determined only during implementation, add to the complexity of applying the Procurement Guidelines to projects with community participation.

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3 In order to reiterate this flexibility and to reflect Bank policy of encouraging CRP where it is conducive to project sustainability, the new Procurement Guidelines state as follows:

"Where in the interest of project sustainability, or to achieve certain specific social objectives of the project, it is desirable to (1) call for participation of local communities and/or local non-governmental organizations (NGOs), or (2) increase the utilization of local know-how and materials, or (iii) employ labor-intensive and other appropriate technologies, the procurement procedures and contract packaging shall be suitably adapted to reflect these considerations, provided these are efficient. The procedures proposed shall be outlined in the Staff Appraisal Report, the President's Report and the Loan Agreement."
This Manual attempts to provide guidance to project designers on the basis of the experience in the Africa Region. It alerts them to potential issues and suggests broad courses of action given Bank policies and regulations. Part I provides project designers with a summary checklist of issues that must be addressed if CRP is to support equitable and sustainable development, and also offers a brief overview of procurement policies. Part II discusses the various steps in designing project arrangements for CRP and CRD. It highlights issues that must be considered and suggests possible ways of addressing them. Part III consists of Annexes providing sample contractual documents and other useful information from other Bank-financed projects.
**CHECKLIST FOR TASK MANAGERS**

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<th>Component</th>
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<tr>
<td><strong>Procurement Planning</strong></td>
<td>a. Separate into goods, works and services;</td>
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<td>b. Estimate quantities/nature and Sources of procurement;</td>
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<td>c. Examine Institutional aspects;</td>
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<td></td>
<td>d. Plan schedule for procurement;</td>
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<td>e. Select procurement method; and</td>
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<td>f. Design project arrangements for Procurement.</td>
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<td><strong>Community Contribution</strong></td>
<td>a. Evaluate ability of communities to contribute both physical and financial resources;</td>
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<td>(In consultation with Community)</td>
<td>b. Determine nature of community contribution; and</td>
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<td></td>
<td>c. Designate responsibility for coordination and management of such information.</td>
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<td><strong>Relationship with Govt. or other Agencies</strong></td>
<td>a. Coordinate with Government agencies when necessary for sustainability or maintenance;</td>
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<td>b. Examine Government's experience in conducting ICB.</td>
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<td><strong>Implementation Plan</strong></td>
<td>a. Advise Borrower of need to formulate its implementation plan (during pre-appraisal);</td>
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<td>b. Agree on procurement and disbursement schedule and implementation schedule to be included in implementation plan (during appraisal).</td>
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<td><strong>Studies for Effective Designing</strong></td>
<td>a. Examine availability of information on socioeconomic data of participating communities;</td>
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<td>b. Examine availability of information on regulatory systems affecting community related procurement and disbursement;</td>
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<td>c. Identify areas where further studies may be needed.</td>
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<td><strong>Mechanisms increasing accountability</strong></td>
<td>a. Assess which contracts would need prior review by the Bank;</td>
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<td>b. Examine the possibility of disbursing only for output in the case of infrastructure construction or rehabilitation.;</td>
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<td></td>
<td>c. Examine the need for a procurement and disbursement manual;</td>
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<tr>
<td></td>
<td>d. Examine whether project should call for independent procurement evaluations or assessments;</td>
</tr>
<tr>
<td></td>
<td>e. Develop monitoring indicators suitable for CRP; and</td>
</tr>
<tr>
<td></td>
<td>f. Examine the need to establish a unit cost roster to assess the economy of CRP.</td>
</tr>
<tr>
<td><strong>Quality of Goods, Works or Services</strong></td>
<td>a. Examine need for technical assistance;</td>
</tr>
<tr>
<td></td>
<td>b. Examine need for training and capacity building in matters related to procurement; and</td>
</tr>
<tr>
<td></td>
<td>c. Identify agencies or persons responsible for arranging and providing training.</td>
</tr>
<tr>
<td><strong>Information</strong></td>
<td>a. Examine the adequacy of existing institutional mechanisms for dissemination of information;</td>
</tr>
<tr>
<td></td>
<td>b. Delegate responsibilities for promotional and other related activities;</td>
</tr>
<tr>
<td></td>
<td>c. Determine need to use different modes of advertisement and modes of information dissemination;</td>
</tr>
<tr>
<td></td>
<td>d. Discuss timing for release of such information.</td>
</tr>
<tr>
<td><strong>Contracting Arrangements</strong></td>
<td>a. Examine the types of contract that communities will need to enter into and the scope for drafting standard documents;</td>
</tr>
<tr>
<td></td>
<td>b. Discuss the specific terms and conditions with communities; and</td>
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<tr>
<td></td>
<td>c. If communities are to be involved in NCB, examine scope to draft simplified “model” tender documents and contracts.</td>
</tr>
<tr>
<td>Component</td>
<td>Action or Steps Required</td>
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<tr>
<td>-----------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Dispute Resolution</td>
<td>a. Examine the existence of indigenous dispute resolution process; and</td>
</tr>
<tr>
<td></td>
<td>b. Establish simple process for dispute resolution.</td>
</tr>
<tr>
<td>Training and Capacity Building</td>
<td>a. Evaluate the need for training and capacity building;</td>
</tr>
<tr>
<td></td>
<td>b. Inquire into the availability of trainers and facilities within the country;</td>
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<tr>
<td></td>
<td>c. Inquire into effective methods of capacity building given the socio-cultural characteristics of targeted communities; and</td>
</tr>
<tr>
<td></td>
<td>d. Examine effectiveness of institutional mechanisms to identify and respond to training needs of communities.</td>
</tr>
<tr>
<td>Disbursement (Opening SA account)</td>
<td>a. Examine the suitability and prevalence of banking facilities for disbursement to such communities;</td>
</tr>
<tr>
<td></td>
<td>b. Examine the need for more than one SA;</td>
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<td></td>
<td>c. Discuss the operation of such SA for CRP if project design provides only for a single SA;</td>
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<td></td>
<td>d. Examine the steps for flow of funds from SA to communities;</td>
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<td></td>
<td>e. Discuss the maintenance of records including SOEs for CRP;</td>
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<td></td>
<td>f. Examine the disbursement schedule and the disbursement percentages to ensure they are realistic;</td>
</tr>
<tr>
<td></td>
<td>g. Evaluate the availability of local counterpart funding in a timely and adequate fashion; and</td>
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<tr>
<td></td>
<td>h. Examine the possibility of eliminating Performance Bonds or Guarantees for CRP and introducing alternate forms of guarantees.</td>
</tr>
<tr>
<td>Modified Special Account Procedure</td>
<td>a. Examine the need for funds at decentralized levels;</td>
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<td></td>
<td>b. Examine the capacity of banking facilities and the access of communities to such facilities;</td>
</tr>
<tr>
<td></td>
<td>c. Examine and assess the adequacy of accounting and auditing systems and the need to provide the Borrower with technical assistance to develop them;</td>
</tr>
<tr>
<td></td>
<td>d. Develop necessary documents for financial reporting; and</td>
</tr>
<tr>
<td></td>
<td>e. Establish cycle for preparation of annual work plan.</td>
</tr>
<tr>
<td>Accounting and Auditing</td>
<td>a. Review responsibility of existing accounting and financial management system and build in enhancements where necessary not only for the project but also of NGOs and other participating or implementing agencies;</td>
</tr>
<tr>
<td></td>
<td>b. Review need for technical assistance;</td>
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<td></td>
<td>c. Examine coordination between accounting system and system for management of information;</td>
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<td></td>
<td>d. Review umbrella agreements, bylaws of community groups and other legal documents to ensure accountability of community leaders;</td>
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<td></td>
<td>e. Incorporate provision for conducting annual external audits by independent auditors acceptable to the Bank; and</td>
</tr>
<tr>
<td></td>
<td>f. Assess regular or continuous auditing capacity of the Borrower, participating NGOs.</td>
</tr>
<tr>
<td>Negotiation</td>
<td>a. Ensure that the institutional arrangements and mechanism for community participation are incorporated into the credit agreement and other related documents; and</td>
</tr>
<tr>
<td></td>
<td>b. Finalize Borrower's Implementation Plan.</td>
</tr>
<tr>
<td>Implementation</td>
<td>a. Incorporate relevant training into project launch workshop; and</td>
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<tr>
<td></td>
<td>b. Ensure that training sessions planned relating to CRP and CRD is implemented on schedule.</td>
</tr>
<tr>
<td>Monitoring</td>
<td>a. Ensure that monitoring system in functioning as planned and that indicators are identified and in place.</td>
</tr>
<tr>
<td>Evaluation</td>
<td>a. Examine the achievement of targets and evaluate project results against set indicators.</td>
</tr>
</tbody>
</table>
CHAPTER 2: WORLD BANK POLICIES AND COMMUNITY-RELATED PROCUREMENT: AN OVERVIEW

This chapter provides a brief overview of Bank policies and guidelines applicable or relevant to CRP. Annex 1 provides a matrix of Bank policies with language regarding community participation.

BASIC PRINCIPLES

In order to comply with Bank policies (and the Bank's Articles of Agreement), four basic considerations must inform any Bank-financed procurement. These are:

a. the project must be executed in an economic and efficient manner;
b. all eligible bidders from member countries must be given an opportunity to compete in providing goods and works financed by the Bank;
c. the development of local contractors and manufacturers in the borrowing country must be encouraged; and
d. procurement procedures must be transparent.

The Bank's Articles of Agreement also mandate that the proceeds of a loan must be used only for the purposes which are agreed between the Bank and the Borrower. Such purposes must be clearly specified in the credit/loan agreement.

The *Procurement Guidelines*, read along with OD 11.00 - 11.10, provide guidance to project designers and Borrowers in designing Bank-financed procurement. Consultant services must be contracted in accordance with rules stated in the *Guidelines: Use of Consultant by World Bank and Borrowers and by The World Bank as Executing Agency* (World Bank 1981b). OD 4.15 on "Poverty Reduction" provides that "when projects include social objectives, the procurement procedures should be adapted as appropriate within the framework of the Procurement Guidelines." OD 14.70 states that "[c]ontracts with NGOs may need to reflect the fact that NGOs differ from commercial contractors". Together, these policy statements relating to procurement are referred to as the Bank Guidelines.

The Bank Guidelines require that all Bank-financed procurement must provide:

a. advertisement of availability of funds;
b. fair opportunity for all eligible and qualified contractors;
c. well-defined and transparent selection processes; and
d. accountability in the use of funds.

Procurement Methods

The Bank Guidelines suggest a number of procurement methods, providing guidance on when each method may be used. These are briefly discussed here.
**International Competitive Bidding**

International Competitive Bidding (ICB) with an element of domestic preference is the preferred method of procurement because it can be designed to meet all the preceding considerations. ICB procedures are detailed in the Bank Guidelines. A variety of sample bidding documents are also provided by the Bank. A review of Bank projects shows that communities are not involved when ICB is the preferred method of procurement, given the magnitude and complexity of the bidding process.

**National Competitive Bidding**

Where ICB is not economic or efficient, National Competitive Bidding (NCB) is permissible. While the exact procedure for NCB is not stated in the Bank Guidelines, they are very similar to ICB, including advertisement of tenders and opening of bids in public. Borrower country procedures are normally adopted, if found consistent with the underlying principles of Bank procurement policies. Projects are increasingly attempting to involve small-scale contractors and community-based microenterprises in NCB in order to encourage the development of local contractors.

**Other Procurement Methods**

Where open competitive bidding is not the most economic or efficient method, Bank Guidelines permit the use of other procurement methods. Considerations underlying the design of such procurement practices remain unchanged, and must be guided by considerations of economy and efficiency. Procurement processes must be equitable and transparent with adequate accountability for use of funds. The common alternate methods of procurement are briefly described here.

- **National Shopping**

  Shopping is an appropriate method for procuring readily available off-the-shelf goods or standard commodities in quantities of small value. Shopping does not require formal bidding documents or public opening of quotations. It is carried out by merely requesting written quotations from local (or foreign) suppliers - usually at least three to ensure competition.

- **Direct Contracting**

  This practice is also referred to as "sole source contracting" and is considered appropriate when it is clear that competitive bidding (including local shopping) is not possible or has been attempted and no response was obtained. Bank Guidelines specify limited situations where direct contracting may be employed, none of which would generally be applicable to CRP.

- **Force Account**

  Force Account is procurement of works through the use of the Borrower's own personnel and equipment, and is permitted where it is the only practical method of construction. The use of Force Account may be justified under circumstances including where: (i) quantities of works cannot be defined in advance; (ii) works are small and scattered or in remote locations where mobilization costs for contractors would be unreasonably high; or (iii) where no contractor is interested in carrying out the works.
A hybrid Force Account has developed in some regions permitting project implementing agencies in Bank-financed projects to hire community labor as casual labor for construction of small infrastructure. Such community labor is then included in the Government payrolls and are paid wages. This form of hybrid Force Account is not encouraged in Africa since it is considered neither efficient nor transparent, except when there are proper quality control methods, cost accounting systems, supervisory controls, and payment is made against verification of work executed.

- **Financial Intermediaries**

When the project provides credit to a financial intermediary to on-lend to communities, such a financial intermediary may use or require the community to use commercially established procurement practices in the country acceptable to the Bank. Financial intermediaries are normally required to repay the loan, and it is therefore expected that they will ensure economic and efficient procurement practices. Further, the institutional arrangements of the intermediary are subject to specific scrutiny for capacity and capability (OD 8.30 on Financial Intermediaries).

OD 14.70 which discusses Bank policy on NGO involvement in Bank operations states that an NGO may act as a financial intermediary. However, the OD does not clarify whether an intermediary which is given a grant to on-lend, or provide grants to communities, would also fall under the term "financial intermediary" and does not comment about the applicability of OD 8.30 in such cases.
PART II: DESIGNING PROCUREMENT AND DISBURSEMENT MECHANISMS

CHAPTER 3: PROCUREMENT METHODS

The institutional capacity of communities is key to effective CRP and must be examined a priori when a project designer wishes to involve communities in procurement. Box 1 provides a checklist of preliminary issues that must be addressed in this connection. The checklist assists a project designer in making a prima facie determination whether communities can play a role in procurement. Where communities do not have adequate institutional capacity, they must not be involved directly in procurement and disbursement activities until adequate capacity building exercises are undertaken. In such cases, the possibility of bringing in suitable intermediaries, acceptable to the community, to act on their behalf must be examined.

A preliminary investigation of the institutional capacity of communities also assists in designing CRP that complements community strengths and skills. For example, in an education project, if communities include a number of furniture makers, the possibility of organizing communities to supply furniture for schools can be considered. Or in a health project, if communities produce indigenous medicines, then the possibility of organizing communities to meet some of the local medicinal needs can be explored.

Box 1: Preliminary Checklist: Involvement of Communities in Procurement

Organizational Capacity
- Are there formal or informal community organizations?
- Is there homogeneity within the benefiting group?
- Is interaction and joint action possible?
- Are existing groups representative of community interests?

Technical Skills
- What do they produce?
- How do they procure goods or works?
- Is there surplus labor?

Financial and Accounting Skills
- Are there mechanisms for ensuring accountability within the community? If not, can they be designed?
- Who will monitor the proper use of funds?

Role of Intermediaries
- Are there any intermediaries operating within the community?
- Do such intermediaries have a close relationship with the community?

Cost-Benefit Analysis
- What are the costs of involving communities? Training costs?
- What are the additional risks?
- What are the benefits of involving communities? Increased sustainability?
- Will such involvement result in more effective use, operation and maintenance of facility?
- Is cost sharing possible?

Beneficiary Contribution
- Can communities contribute? If so, how?

In some projects, participating communities cannot be identified clearly prior to implementation. In such cases, it may be useful to conduct rapid appraisals among potential beneficiaries as was conducted for the proposed Ethiopian Social Rehabilitation and Development Fund Project. The terms of reference of such rapid appraisals should require the examination of institutional arrangements within, and capacities of, targeted or potential communities. In many Bank-financed projects, pilot exercises are established to test the economy and efficiency of CRP. Once proved successful, the methodology is then extended with refinements beyond the pilot stage to other social sector projects.
Once a preliminary decision is made to involve communities in procurement, three questions need to be answered in determining procurement methods and finalizing procurement arrangements. These are:

a. what goods, works, or services will be procured under the project?
b. what role will communities play?
c. when will procurement be scheduled?

**WHAT IS TO BE PROCURED?**

Bank policies normally require procurement categories and arrangements to be defined by Board presentation. The Credit Agreement, the Staff Appraisal Report, and the Project Implementation Plan must therefore specify procurement and disbursement arrangements.

Separating procurement needs into goods, works and services can lead to the identification of services, (technical assistance, monitoring and supervision needs, beneficiary assessment, capacity building and training) necessary for efficient CRP. This may affect the decision to involve communities in procurement. For example, if communities require technical assistance in implementing infrastructure sub-projects, the availability of such services is key in determining economy and efficiency.

The source of each category of procurement and the quantities or nature of procurement must then be examined before designing CRP. Communities can supply goods, works, or services only when they are of the type commonly provided or produced by communities. In the Ghana Transport Rehabilitation Project railway sleepers were traditionally produced by local craftsmen. The procurement method was simplified to permit the participation of these craftsmen. Similarly, communities can procure goods, works or services only when they are readily available in markets accessible to them. If the source lies outside their range, then CRP may not be suitable.

Estimating the quantities of goods, or nature of works and services required during Bank-financed projects is an important step. If procurement contracts are expected to be large or complex, CRP may not be economic or efficient. CRP should be planned only when contract values or sizes are appropriate, given the financial and administrative capacity of the targeted communities.

Many social sector projects are demand-based and community-initiated. The nature and quantities of procurement are determined during project implementation through community-initiated sub-projects. In the proposed Ethiopian Social Rehabilitation and Development Fund, the Fund's Operational Manual would define and establish broad procurement guidelines. When the Fund enters into sub-project agreements with community-based implementing agencies, the agreement or contract will state the terms and conditions for procurement, determined in consultation with the implementing agency, based on the guidelines provided in the Manual. This introduces flexibility in the choice of procurement method at the sub-project level. The Procurement Chapter of the proposed Ethiopian Social Rehabilitation and Development Fund Project is provided in Annex 7.
The Zambia Social Recovery Project allocates a specified aggregate amount for 'self-help projects' and permits "local shopping" for contracts below US $30,000. Schedule 4 of the Credit Agreement refers to the implementation program for carrying out self-help projects and describes, among other things, the:

a. eligibility of self-help projects;
b. procedures for processing self-help projects; and
c. terms and conditions of self-help project agreements.

In such a case, the project designer can leave the determination of what to procure to the community, and needs to identify only the total financial allocation for self-help projects. The credit agreement further states that:

"goods, civil works and services to be financed out of the proceeds of the Credit for Self-help sub-projects and Social Services sub-projects shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts thereof, and in the case of services, of their quality and competence of the parties rendering them; and such goods and services shall be used exclusively in the carrying out of such sub-projects."

Estimating financial aggregates for different procurement categories is also difficult in demand-based projects, especially those which set up social funds. The general practice has been to require estimation (however tentative) of types and quantities of as part of project planning and such estimated aggregates are incorporated in the credit agreement. If found necessary, the credit agreement may be amended during project implementation upon request by the Borrower.

WHO WILL PROCURe?

In order to increase ownership and accountability for developmental activities, most projects involve communities in organized groups, with specified individuals acting as group managers accountable to the community group as a whole. Sometimes, the managers are selected by the community themselves to act as an implementing agency. Such group participation has, for example, operated very well in the Pilot Ethiopian Social Rehabilitation Fund Project and the Eritrean Community Development Fund.

Legislation governing the ability of individuals to group together into small and simple associations is important. First, the community can acquire a separate identity at law, permitting the group to enter into contracts. Second, it provides an institutional framework for the community to act and manage finances as a group. Third, it permits the PU, through a contract, to hold the group jointly liable for use of funds. Fourth, in many countries, such formal registration is often an essential prerequisite to receiving or using public funds because such laws automatically impose standard accounting requirements.

The lack of enabling legislation is not necessarily an insurmountable hindrance to community participation. The Zambia Social Recovery Project permits community groups to participate in project activities by opening a bank account in the name of the group. Additional accountability is ensured by making payments to such accounts only in tranches, and for expenditures satisfactorily incurred. In the Ethiopian Social Rehabilitation Fund, in some remote areas with small villages, the community group expresses its interest in the sub-project and elects its managers at a public meeting. The minutes of the meeting are then signed by the members present and the project officer randomly verifies the signatures during a rapid appraisal of the sub-project. In the expanded phase, it has been suggested that the minutes would be notarized by a judicial magistrate, thereby establishing the liability of all who sign them. In all these cases, the community group as a whole would not obtain a separate
identity or status at law, and only the few people who sign the contract or notarized document would remain liable. But such mechanisms serve the purpose of conveying the importance of the agreement to the community and establishing a sense of joint responsibility and liability, even though not at law.

When a group is not registered under a legislation or regulation, the relationship of the members inter se must be addressed. Any group activity must be organized with rules and transparent procedures for decision-making and use of funds. Project designers must examine whether communities have the capacity to organize into informal groups and draft bylaws for internal organization. Where communities need assistance, suitable organizations who can assist them in such organization must be identified. In some projects under preparation, designers are looking into the possibility of providing sample bylaws for group formation and operation to be finalized through community consultation and discussion. Questions that would need to be addressed in such bylaws include:

a. What are the rules for membership into community groups? Do the bylaws establish simple norms for operations? Has this been done in consultation with benefiting communities? Are there mechanisms to ensure such consultation? Who makes the decisions? How are such decisions made?

b. Are the decision makers in the group representative of the community? Is there gender and minority representation? Will the group elect members? Who will this group be accountable to? Is there adequate peer pressure and monitoring?

c. Who is responsible for maintaining accounts? Can a treasurer be appointed? Will such person have necessary skills to maintain elementary accounts in a form acceptable to the PU? Who will have access to such accounts? Is the group required to share such accounts with the benefiting community? Is training required and who will arrange such training? Can beneficiary monitoring be established?

d. What are the existing formal dispute resolution processes available? How will disputes be resolved within the group? With outsiders? With PU? Are there any quicker and simpler indigenous methods of dispute resolution that the community would respect and accept?

Selection of Intermediaries

Where communities have inadequate institutional capacity to receive and handle funds, it becomes necessary, as stated previously, to examine the possibility of using suitable intermediaries or agents to conduct the necessary procurement and account for the use of funds, on behalf of the community. Such agents could be NGOs, private entities or others. For example, in the Zaire Pilot Feeder Roads Project, one of the three implementing agencies is a suitable NGO and implementation is carried out through intensive community participation. However, the NGO takes care of all procurement aspects on behalf of such communities. Where there are no suitable agents to act on behalf of the community, it may be necessary for the PU to act on behalf of the community group or assist the group in CRP at least till adequate grassroots capacity is built up, but this would result in increased administrative costs to the PU. Key issues that arise in relation to agents include the following:

- **Legal Status of Intermediaries**

  The legal status and institutional capacities of intermediary agents are factors which must be examined. Regulations requiring them to pre-register to receive public funds or to function in specific sectors must be
examined. Any project activity undertaken by such intermediaries must be within the scope of both the regulation (if applicable) and their bylaws.

- **Selection Processes and Criteria for Intermediaries**

  Transparent selection processes and criteria must be established. This would need to be defined in the project context but could include advertisement, provision of information to all interested or potential applicants, shortlisting potential intermediaries based on pre-determined criteria, transparent methods of selection from the short list, and publication of awards. The key criteria must involve ensuring that the intermediary is acceptable to the participating community. Where there are many intermediaries suitable for the task, such processes and criteria should ensure competitive selection. Annex 2 provides a list of criteria that may be applicable in such selection of intermediaries.

  In the Mozambique Rural Restructuring Project, small sub-projects (less than US $ 25,000) may be implemented directly by communities supported by NGOs. NGOs serve as contractors, managers and advisors for project implementation and are hired based on a shortlist. Direct contracting of NGOs must however be approved in advance by the World Bank and will be permitted when an NGO is the only entity capable of carrying out the intended activity.

**WHEN SHOULD PROCUREMENT BE SCHEDULED?**

Procurement specialists advise that the key to effective procurement lies in determining procurement schedules well in advance. This is equally important in projects with significant community-related procurement. When goods or materials required for CRP are to be purchased through competitive bidding, it is important that the initiation of such processes must be attempted as early as possible. It is permitted, for example, under Bank Guidelines to complete initial activities for ICB even before the credit agreement is signed. It may also be possible to provide communities with initial supplies of materials or goods from local sources, even though they may be more expensive, so as to permit the initiation of community-related activities. Procurement steps up to contract signing should then be ready by the time the project is declared effective in order to expedite procurement for the next stage. Sample procurement documents and model contracts suitable to CRP should also be developed during project planning.

**HOW SHOULD IT BE PROCURED?**

Having decided what will be procured and having determined that the communities have the institutional capacity to participate, the next step is to finalize procurement methods. The choice of procurement method should be based on factors of economy and efficiency. The proposed Guidelines would permit more "simplified procurement" in the interest of project sustainability, or to promote participation by local communities. In such cases, procurement arrangements may maximize the use of community labor and materials.

In determining the efficiency of CRP, factors to be considered would include: increased ownership of the sub-project; capacity building of community groups; development of small-scale local contractors; introducing competition at the local level; generating employment at the grassroots level; and poverty alleviation. When goods, works, or services are being procured by communities, the key consideration would be their institutional capacity. When communities act as suppliers, the maintenance of quality standards would also need to be addressed. Further, when there are a number of commercial contractors or suppliers, communities should be brought in as suppliers or contractors of goods or works only under limited circumstances.
These include:

For works:

a. to increase the sustainability of the project either through provision of voluntary or paid community labor or through post-project community management and operation;
b. when the works to be effected are simple and small and of a kind that communities can execute even if it is with minimal technical assistance; and
c. when the works to be effected complement other project objectives.

For goods:

a. when goods are normally produced by community entrepreneurs or craftsmen; or
b. when communities are providing free materials as part of their contribution.

Common procurement methods in Bank-financed projects are discussed subsequently with examples from the Africa Region to illustrate how they have been used. (See also Table 1).

NCB

As stated earlier, NCB is the preferred method of CRP since it affords more transparency, is based on fair participation, results in selection of the most economic and efficient bidder, and assures competition to the extent possible. Further, it injects competition into the local markets, as well as assists in building up the local contracting industry.

Unless commercially sophisticated, communities would almost always need assistance to participate either as suppliers or as procurement agents in NCB. In designing NCB for communities, it must be remembered that as long as the procedures follow certain basic principles, the process can be simplified or streamlined to suit communities. Such basic requirements, though not necessarily applicable, would include:

Box 2: Transport and Storage

<table>
<thead>
<tr>
<th>NCB involves bulk procurement, materials or supplies which need to be transported to communities in scattered and remote locations, increasing the costs of procurement. Access of communities to procured goods stored at centralized locations is also a problem. Women's groups may have relatively greater difficulty in accessing such supplies. Communities will also have to ensure storage space, leading to the need to hire security in some cases when goods and materials are supplied in advance. These and other issues should be addressed in centralized NCB or ICB procurement.</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. approval of draft bidding documents by IDA prior to approval of the first contract;</td>
</tr>
<tr>
<td>b. eligibility of foreign firms to participate in the bidding even though they are not incorporated in the country;</td>
</tr>
<tr>
<td>c. opening of bids in public;</td>
</tr>
<tr>
<td>d. specification of evaluation criteria with sufficient clarity; and</td>
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<tr>
<td>e. award being made to the lowest evaluated bidder (Chad Social Development Program).</td>
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</tbody>
</table>

The Ethiopian Social Rehabilitation Fund is one example where communities have procured through NCB. In Senegal, the Senegal Second Public Works and Employment has set up a special "Agence d'Exécution de Travaux d'Intérêt Public" (AGETIP) and small contractors and communities as well have been encouraged to bid for works through NCB. This has been replicated successfully in other African countries including Niger,
Benin, Burkina Faso, Chad, Mali and Mauritania. The factors that contributed to its success have been identified as the following.

- Flexible Packaging

Bank policy normally encourages the grouping of small contracts into larger contracts to increase economy of procurement. Packaging can however have a negative impact on CRP. When contracts are large in value, small local firms or cottage industries cannot participate as suppliers, given their weak financial and administrative capacities. Neither do community groups have the capacity to procure large quantities of goods or works.

The Staff Appraisal Report (SAR) for the Malawi Second Education Sector Credit states that if NCB was to be used, a variety of community production centers producing roofing tiles would need assistance to participate as suppliers for project activities. In the Ghana Transport Rehabilitation Project, NCB would have eliminated a number of small-scale craftsmen traditionally supplying wooden sleepers for trains and would have increased the unit costs for such sleepers. The Bank therefore reversed to the procurement method used traditionally by the Railway authorities.

In deciding whether to group small contracts into larger packages, factors that must be considered include:

a. economy of procurement;

b. impact on project sustainability if contracts are kept small to involve communities;

c. logistics and costs of transport and storage if larger contracts and therefore centralized procurement is used; and

d. timing of centralized procurement and its consequences for community participation.

Flexible packaging may be adopted when it is believed that community participation in the bidding process would enhance project sustainability. In the Cameroon SDA/Human Resources Project school desks/benches were grouped in small packages suitable for decentralized local tendering through local competitive bidding procedures. However, justifications for avoiding bulk packaging must be clearly documented in the SAR.

Box 3: NCB and Flexible Packaging

A word of caution: Bank experience shows that the utilization of large number of small-scale contractors through flexible packaging of contracts has resulted in burdening the PU's implementing capacity and in delaying project implementation. Project designers must focus on the adequacy of institutional arrangements to handle the increased number of contracts when resorting to flexible packaging.
Simplification of the Competitive Bidding Procedures

NCB involves commercially established methods of bidding, evaluation and selection of successful bidder. It also requires the provision of tender securities and performance bonds. Such requirements inhibit commercially unsophisticated community groups or artisans to participate either as suppliers or providers of goods or works. Consequently, the normal procedures and documents related to NCB have been modified when applied to CRP.

Many projects have simplified tender documents to facilitate use by community contractors, while at the same time maintaining the salient characteristics of competitive bidding. In the Ghana Agricultural Sector Investment Project and in the Ethiopian Social Rehabilitation Fund Project, the respective operational manuals provide simplified procurement documents and contracts for use by village associations, local governments and small-scale contractors for sub-projects below US $150,000. Model bidding documents based on these projects are provided in Annex 4.

In the Ghana Agricultural Sector Project, procedures are detailed in the Implementation Manual. Simplified procurement documents and contracts for use by village community organizations, associations, local government and TSAs on sub-projects below $150,000 and are contained in the Implementation Manual. For contracts of more than $40,000 but less than $150,000, the beneficiaries launch a tender and advertise in local newspapers to ensure wide participation. The lowest responsive bidder are selected. The Technical Support Agencies (TSAs) within the PU assist beneficiaries in evaluation and selection of contractors. The PU verifies the award process before disbursing.

In the Senegal Second Public Works and Employment Project, AGETIP deals with procurement contracts. AGETIP's operational manual provides simple bidding documents for NCB. These procedures are designed to address the problem of employment generation as well as to ensure adequate competition among eligible contractors without requiring them to prepare a complex proposal, including detailed calculations of prices. The core of the procurement procedure is local advertisement among registered contractors of a proposed contract for a given sub-project. All contractors registered in the roster for the category of works and the area concerned by the sub-project are invited to bid. The contract is written in simple language and describes the scope and nature of the works, and proposes reference prices with some straightforward explanations about how they are calculated (unit prices and quantities). Contractors are invited to bid by way of discounts either on the total price or on the unit prices. Among the eligible bidders, the winner is selected on the basis of the proposed discount and other criteria (such as timeliness of performance) - if any is specified in the bidding documents - and invited to sign the proposed contract.

In the Zaire Pilot Feeder Roads Project, there are few local contractors in most of the rural areas covered by the project capable of participating in a bidding process. A traditional, systematic bidding process for the works would have eliminated most of the small businesses, entrepreneurs and NGOs because of their inexperience with bidding procedures even though most were fit to execute the works and subsequent maintenance. NCB is therefore used only when there is potential competition between several entities - including formal contractors - capable of executing the works on a given section of road or bridge or a group of road sections. The contracts are designed by a consultant who establishes a schedule of price. The consultant also drafts a simplified version of contract documents which includes suitable guarantees in the form of bank guarantees valid until the expiration of the warranty period. Bids are solicited whenever possible from potential

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Such institutions have now been established in many other countries including Niger, Mali, Mauritania, Chad, Burkina Faso, Benin, Madagascar, and The Gambia.
executing entities, such as cotton companies, small NGOs and entrepreneurs with the capacity to execute the proposed work and willing to provide the necessary security. Where such bidding is not feasible because of insufficient competition or does not produce acceptable results, negotiated contracts are permitted on the basis of the specified schedule of price. Payments to the executing entities are made monthly on the basis of progress of work. The award procedure for all contracts exceeding the price review threshold is monitored by the World Bank. The execution of works and payments is closely monitored and reported.

- **Tender and Performance Security**

Requirement of tender and performance securities have to be eliminated or minimized if small-scale and local contractors are to be encouraged to participate. In some cases, sub-projects have attempted to return tender security once the process is completed, but this can create administrative burdens when there are a number of small contracts. Where it is considered necessary to avoid the risk of getting non-serious tenders, it may be more efficient to charge a small amount (adequate to cover the production of bidding documents) as a deterrent, but care should be taken to ensure that the fee would not prevent genuine contractors from participating.

Alternate mechanisms also need to be introduced to ensure collateral or security for use of funds by community groups. Payment in tranches with the final tranche conditional upon satisfactory performance may eliminate some of the risks in not requiring security. Retaining a small percent of the amount owed to the contractor at each disbursement assists in keeping the contractor interested in completing the works satisfactorily, as well as developing commercial responsibility.

- **Capacity Building**

Despite these measures, some communities may still not have adequate institutional capacity to participate in NCB. In such cases, the project may assist in building local capacities and providing assistance to communities in the initial stages. Different mechanisms are possible.

In the Ethiopian Social Rehabilitation Fund, procurement committees with qualified members are formed. A member of the PU, usually the project engineer, and participating NGOs, if any, sit on such a committee and directly provide the necessary assistance to communities. The decision-making is left to the community members, with NGOs and the PU engineer having no voting rights. The additional costs and benefits of capacity building must be factored into determining whether NCB would be an economic method of procurement. In the Comoros Population and Human Resources Project, the Community Development Support Fund assists community contractors in the preparation of bidding documents, bid evaluation contract award and contract management since most executing agencies and local communities lack experience in procurement.

In the Burkina Faso Food Security Project, the beneficiaries hand over the execution of the approved sub-project to FASO BARO, an AGETIP-like agency that acts as executing agency for the labor-intensive public works component. This component has consisted of the construction and maintenance of communal roads, schools, health posts and day-care centers, wells or micro-dams to provide potable or irrigation water through the use of unskilled labor provided by village communities. A sample contract, provided in the Manual, allows the beneficiary to delegate to FASO BARO the rights and obligations relating to the sub-project and in particular: choice of contractor and supervision of preliminary studies, preparation of bidding documents, calling for tenders, selection of contractor, control and acceptance of works and payment of contractors. The representatives of beneficiaries may act as observers under the same contract.
• **Process of Registration**

Where communities are not able to attract qualified contractors or suppliers, some PUs have attempted to develop lists of eligible and qualified contractors. In the Burkina Faso Food Security Project, the operational manual requires FASO BARO to select an initial list of eligible contractors. Applications for registration must be filed by eligible contractors, and must indicate both categories of work and provinces in which the applicants are willing to undertake works using labor intensive technologies. Based on such applications, a roster of contractors is established which stays open during project execution so as to allow additional applications at any time. The procurement procedure then includes advertisement among eligible contractors from the established roster as well as in local newspapers. Through this process, FASO BARO has access to a number of pre-registered contractors in different areas who are willing to use unskilled labor for the implementation of sub-projects.

**National Shopping**

National Shopping may be performed both internationally or locally. There should be more than one contractor providing the types of goods, works or services needed to ensure efficient local shopping. It is normal practice to require three quotes. An analysis of Bank-financed projects in the Africa Regions indicates that Local Shopping - or its variants - is emerging as a popular method of community-related procurement both for works and goods. Consequently, while National Shopping is becoming more formalized, it is in a manner that would keep it simple, yet enhance its competitive nature.

In the Benin Food Security Project, contracts for office space, storage facilities, market rehabilitation, land development, rural works, village feeder roads rehabilitation and maintenance are of a dispersed and modest nature and undertaken with direct community participation. Field operations comprise a broad spectrum of activities to be undertaken with the direct participation of beneficiaries and NGO assistance in order to respond to the poverty alleviation objective of the project. Consequently, small contracts (less than US $ 30,000) would be executed by enterprises, artisans and local communities organized by NGOs on a labor-intensive basis. Contracts are granted on the basis of estimates sought from at least three contractors wherever practicable. Strict eligibility criteria for both sub-projects and NGOs are articulated in the implementation manual. The contract specifies the budget and the working program. The main purchases to be made with the proceeds consist of small equipment, material and supplies, small ruminants for fattening, some construction materials, training and NGOs' operating costs. Small contracts for materials and equipment are procured through local shopping procedures.

In a proposed project in Chad, the Contract Management Agency will be permitted to select qualified NGOs as contractors for carrying out construction programs. These NGOs would be selected through international or local shopping based upon three price quotations (not to exceed an established unit cost per health center), subject to an aggregate that the project would impose.

Advertisement is required in many cases to ensure that all grassroot contractors and suppliers have a fair opportunity to participate in the procurement. In the Ghana Transport Rehabilitation Project, wooden railway sleepers were financed through NCB instead of the railway's usual custom of procuring them from small-scale contractors. This not only excluded small-scale artisans but resulted in the higher prices of sleepers. The Bank took the unusual step of canceling procurement by NCB and using the traditional but simple procedure which had

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5 The 1995 Procurement Guidelines discourages the procurement of works through local shopping. However, given the broad ambit of Para 3.15, it should still be possible in social sector projects so as to increase project sustainability.
been used by the railways. This process is briefly described here. After determining the demand for sleepers and ensuring the availability of funds, Railway Area Officers are required to advertise the need for sleepers in their jurisdictions. All interested suppliers are advised to meet the Chief Civil Engineer along with documented evidence about their past performance record, their present capability to supply sleepers and with a price quotation. Suppliers with adequate capacity are given a supply order by the railways (the Chief Civil Engineer) specifying the quantity of sleepers to be supplied within a specified period. Specifications for the sleepers and conditions of supply form part of the order. A standard contract form is prescribed. This has, according to the procurement specialist, resulted in the involvement of small-scale suppliers and a more efficient and economic way of procurement than through a few large contracts.

In order to monitor the economy of procurement through National Shopping, more recent project designs require the establishment of unit costs databases. In the proposed Social Fund Projects in Ethiopia and Eritrea, unit cost databases are being established both for works and goods, based on the pilot experience. These databases help to monitor the economy of procurement through local shopping, as well as guide in the selection of the final award (see further discussion on “Unit Costs” in Chapter 5).

Direct Contracting

Direct contracting is permitted only in exceptional cases, since it does not encourage competition or afford the same levels of accountability regarding the use of funds. An examination of Bank projects in Africa shows that direct contracting is employed in limited situations: when there is only one contractor or supplier available; or when the project requires community participation to increase project sustainability.

In the Ethiopia Social Fund Project, community groups in remote areas are directly contracted as implementing agencies to execute simple works. The implementing agency hires the necessary labor, purchases the required goods and materials and executes the work, almost like a commercial contractor would do. Under the earlier guidelines, this was not recommended when there were adequate contractors willing to do the work and, such direct contracting was usually limited to remote regions or to works not of a nature or size that would attract contractors. The new Procurement Guidelines permit such direct contracting of implementing agencies if it can be demonstrated to increase project sustainability through the use of community labor or materials. A word of caution is required, however: increased sustainability through direct contracting of community groups must in all cases be weighed against the benefits of encouraging or initiating grassroots commercial activities and competition.

In the Ghana Agricultural Sector Investment Project, beneficiaries would have had difficulty attracting engineers to enter into the bidding process. Direct contracting was the simplest way to hire consultants to work on low-cost sub-projects, but such contracting could lower quality and increase fees. For this reason, the PU launched an annual bidding process to collect information on interested consulting firms, the nature of their services, the regions they covered, their fees and their professional references. A list or roster of acceptable Technical Support Agencies and their fees was developed and maintained. Beneficiaries chose a firm on the list and shared in the costs of the studies.

In the Mali Natural Resource Management Project, some of the civil works relate to bunds, tree planting, torrent correction and watershed management. Such works cannot be executed by competitive bidding and are carried out by the community and supervised by five Technical Support Teams based on criteria and standards that are equally applied to all villages.
In the Burundi Water Supply Project, qualified NGOs were contracted directly to assist communities in the development and construction of 3000 springs scattered throughout the country. However, prior review of such contracts between the PU and the NGOs is required.

**Force Account**

Force Account is permitted only when there are clear mechanisms to ensure accountability for the use of funds. Works to be constructed under Force Account in Africa must have a detailed description of the works; a set of technical specifications; and a supervision team, independent from the management of the Force Account, to carry out control of quality and quantities. Disbursements should then be made only upon certification from the supervisory team that the construction is complete in conformity with pre-determined specifications.

In the Mozambique Rural Restructuring Project, civil works involve the small-scale and labor-intensive rehabilitation and construction of water facilities. Payments are based on pre-estimated unit costs for works with a ceiling of US $ 3,000 per well, and disbursements are against documented expenditure.

The Uganda Northern Reconstruction Project involves rehabilitation or construction with community participation of 266 primary schools. The selection and construction of the schools is executed through Force Account. Payment for work is made using fixed rates for completed production targets, and implementation is monitored by NGOs. Skilled artisans are employed by the Government unit on a long-term basis for supervision and to provide training to communities.

**Financial or Other Intermediaries**

OD 14.70 states that NGOs may act as intermediaries for channeling funds to communities. This provision has been used in many Bank-financed projects. Money is provided on a grant basis to an NGO and then on-lent as credit or transferred as grant to community groups for specific purposes.

Many projects in Africa are increasingly setting up social funds as autonomous or semi-autonomous intermediaries through which funds are on lent or grants passed on to communities. As stated earlier, social funds are not true "financial intermediaries" because they do not borrow the funds they administer, but in most cases are granted funds for administering specific programs. Statutes or directives establishing such social funds normally exempt their operations from the Borrower's procurement and disbursement regulations. Most social funds then establish suitable project-specific procurement and disbursement procedures in an operational manual.

The Uganda Northern Reconstruction Project, for example, establishes a Community Action Program which finances small-scale community-initiated projects in three districts. Applications from communities are evaluated according to an agreed set of criteria by a committee in each district, which includes a technically competent NGO operating in each district. Once approved, the sub-project is executed by the community with the assistance and guidance of the district representative of the line ministry concerned and the NGO. The selection of sub-projects and their implementation is done on the district level, with the Coordination, Monitoring and Evaluation Unit in the Office of the Prime Minister providing overall guidance and control.

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6 For information on social funds see: Schmidt and Marc (1994); Jorgensen, Grosh, and Schacter (1991); Marc (1992).
<table>
<thead>
<tr>
<th>Issues</th>
<th>NCB</th>
<th>LS</th>
<th>DC</th>
<th>FA (Works)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity of Process</td>
<td>Fairly complex and formal</td>
<td>Process of seeking and evaluating quotes</td>
<td>Direct purchase</td>
<td>Capacity of Govt./agency to manage and supervise.</td>
</tr>
<tr>
<td>Institutional Capacity</td>
<td>Required</td>
<td>Who is responsible?</td>
<td>Who is responsible?</td>
<td>NA</td>
</tr>
<tr>
<td>Transparency of Process</td>
<td>High</td>
<td>Moderate</td>
<td>Weak</td>
<td>Disbursement either for salaries, output or for materials</td>
</tr>
<tr>
<td>Accountability</td>
<td>Can be monitored</td>
<td>Review of written quotes</td>
<td>Difficult to monitor</td>
<td>Difficult to monitor except when disbursement is against output</td>
</tr>
<tr>
<td>Disbursement Mechanisms</td>
<td>Most often, payment can be made directly to contractors</td>
<td>Communities may need to be paid directly because of multiplicity of contracts</td>
<td>Communities may need to be paid due to multiplicity of contracts</td>
<td></td>
</tr>
<tr>
<td>Financial Capacity of</td>
<td>Ability to provide performance bonds, tender securities</td>
<td>Need for advance payment</td>
<td>Need for advance payment</td>
<td>Need for advance payment</td>
</tr>
<tr>
<td>Communities</td>
<td>Necessary</td>
<td>Ability to get three quotes and maintain records</td>
<td>Maintain receipts</td>
<td>Disbursements to Govt.</td>
</tr>
<tr>
<td>Knowledge of Commercial</td>
<td>Necessary</td>
<td>At least three necessary</td>
<td>Contract is with the principal.</td>
<td>Contractors must not be available.</td>
</tr>
<tr>
<td>Transactions</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Availability of Contractors</td>
<td>Necessary</td>
<td></td>
<td></td>
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<tr>
<td>or Suppliers</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Issues and Concerns</td>
<td>Inadequate institutional and financial capacity; transportation and storage of goods.</td>
<td>Availability of contractors in local markets; economy; quality of goods or works; transparency; accountability.</td>
<td>Availability of contractors in local markets; accountability; transparency; economy; quality of goods or works.</td>
<td>Govt. deals directly with communities; accountability transparency;</td>
</tr>
</tbody>
</table>
CHAPTER 4: DESIGNING EFFICIENT MECHANISMS FOR COMMUNITY-RELATED PROCUREMENT

In designing efficient CRP, three factors must be considered. These are discussed here and include:

a. availability of information to potential stakeholders;
b. maintaining quality of goods, works or services; and
c. ensuring transparent and equitable processes.

PROVISION OF AND ACCESS TO INFORMATION

Access to adequate and relevant information is important for efficient CRP. Lack of adequate information in CRP often limits economic opportunities to the more economically or socially powerful groups among the disadvantaged communities. Thus, for example, when an implementing agency (which may be a community group), is permitted to buy bricks or roofing tiles through local shopping, it is important that all producers of such items in the locality be given an opportunity to provide quotations. Otherwise, producers may be selected by the community leaders using less than transparent methods.

Traditionally, advertisement is only required when competitive bidding methods are used. It would, however, be useful for the project designer to inquire into the need for advertisement in sub-projects where communities procure through methods other than competitive bidding. When the community group seeks to purchase materials or works through local shopping, it would be appropriate to require them to disseminate information on the availability of such opportunities and to permit all interested suppliers and contractors to provide quotations. The following questions must be addressed in designing project features for advertisement and dissemination of information.

Nature and Dissemination of Information

Project design should require community groups to ensure that information is provided to all members of the benefiting community. Only relevant and necessary information must be provided to participating communities with clear guidance as to how they can access further information. Methods of disseminating information are critical. CRP involves small-value contracts, mostly in rural areas, performed normally by small-scale contractors and sometimes grassroots entrepreneurs and craftspeople. Dissemination of information through advertisement in newspapers (common in competitive bidding) would be meaningless unless participating communities and suppliers are literate and in the habit of reading newspapers. While the socio-cultural and economic context of each community would dictate the precise forms of advertisement, the following mechanisms for dissemination of information may be considered in designing CRP:

a. distribution of illustrated brochures (Mexico);
b. promotional workshops and meetings (Ethiopia Social Rehabilitation Fund);
c. radio commercials (Comoros Population and Human Resources);
d. commercials in cinema theaters before the main feature;
e. discussion at community meetings (Lesotho);
f. street plays (India);
g. video films in local languages (or with interpretation) shown in community centers or using mobile vans (proposed in Ethiopia); and
h. wall posters (the Comoros) and community bulletin boards.

**Availability of Information**

Information must be available to all eligible participants. This may require information to be placed in the village or district office, with the village chief or headman, or in some cases with the oldest man in the community. The socio-cultural features of participating communities would be key to determining where such information should be placed. In many traditional societies, for example, women may not frequent public places. Information is then filtered through the male members in the family.

In projects with significant CRP, the institutional responsibilities for advertisement and promotion are important. The factors to be considered include:

a. the need for trained staff in the PU;
b. the need to allocate additional resources for such institutional arrangements;
c. the need to involve community members in such promotion (concept of animators in the Madagascar Food Security and Nutrition Project; concept of facilitators in the proposed Ethiopian Social Rehabilitation and Development Fund).

**Quality of Goods/Works or Service**

When goods or works are procured through CRP, quality has been found to be a significant concern. It must be reiterated that communities must be involved in procurement of goods, works or services that are simple. But even then, methods to ensure standards of goods, works and services must be examined and addressed.

**Technical Assistance**

Qualified intermediaries must be contracted wherever necessary to provide technical assistance to communities during implementation. Such intermediaries must be accountable for the quality of the works or goods that communities perform or supply. In infrastructure sub-projects (for example, building of primary schools or primary health clinics), it may be appropriate to require certification relating to technical standards by Government bureaus or other qualified entities, before final payment of sub-project costs.

In the Somalia Education Rehabilitation Project, the PU sets up "Mobile Building Teams" responsible for training communities in maintaining procedures and simple construction. Small-scale civil works are undertaken by communities providing unskilled labor under the supervision of these teams.
Standard Designs

The provision of standard and approved designs for construction or goods has been useful in CRP. It has helped in maintaining acceptable technical standards and in conducting supplementary training and capacity building exercises. In developing such standard designs, all interested community members must be involved. Absence of such participation has led to reconstruction in some places (Box 4).

The Ghana Secondary Schools Project involves supporting communities in constructing additional facilities in about 140 new senior secondary schools. The community signs an agreement with the funding agency that obliges the community not to deviate from the standard designs. This facilitates the nationwide program for community construction training and orientation program, a project component. In the Uganda Small Towns Water Project, which aims to improve water supply facilities, 350 handpumps of a standard design were procured. These pumps were suitable for community maintenance and would facilitate standardized training.

In the Malawi Second Education Sector Project, standard designs of furniture have been developed, and they are provided along with the contract to local craftspeople.

TRANSPARENCY AND EQUITY

The establishment of transparent and fair procurement practices is important not only to ensure proper use of funds but also to impart confidence among the various stakeholders. In commercially-based procurement, economic forces are key in determining the role that stakeholders ultimately play. While this is also true in CRP, it must not be forgotten that flexible procurement has been permitted by Bank policies to encourage community participation and thus increase project sustainability or achieve specific social objectives. Two factors become important in designing CRP. One, communities must be consulted in designing arrangements for procurement. Two, social and cultural factors that affect efficient CRP must be identified and addressed in project design. These are briefly addressed here.

Systematic Client Consultation

Communities must be party to designing CRP, especially where they are to be in charge of handling and administering procurement activities. It is, therefore, important to ensure Systematic Client Consultation (SCC) in designing arrangements for CRP. SCC can be attempted through a number of mechanisms. In some projects rapid appraisals of targeted communities have been conducted in order to understand how the project should be designed. Extensive field trips and dialogue and discussions with community leaders or credible NGOs with grassroots operations have also proved to be successful in fine-tuning CRP. In many projects, pilots have been established (See Ethiopia, Eritrea, Tanzania) to test innovative methods of community participation and the lessons from such pilots are then used to design expanded phases.
In the Madagascar Food Security and Nutrition Project, 'animators' are hired by participating NGOs to carry out information campaigns in target communities with the help of the regional project team to inform communities on (i) what the project can provide and (ii) what is expected of the communities. This campaign is carried out at three levels. First, local leaders are provided with community nutrition booklets containing relevant project information. Second, they discuss the project with interested communities, and set up community groups. Third, if the community group meets selected criteria, the animator discusses possible activities and training requirements. The community group then identifies its own priorities and signs a contract with the animator.

**Social and Cultural Factors**

The social and cultural characteristics of the community become relevant to the extent they effect the design of efficient CRP. Some issues that project designers would need to address are discussed in the following paras.

- **Right to Participate**

The right to equitable participation in CRP is an important concern in designing projects with community participation. In many communities, disadvantaged but interested persons are inhibited by a number of social and cultural constraints. While this is primarily a question pertaining to project design, at a secondary level it arises in designing procurement arrangements. For example, when project funds are used to generate economic opportunities which are based on applications from interested parties, the project designer must ensure mechanisms to ensure that all interested stakeholders are informed of the opportunities as well as provided with support to avail of the benefits. Women may wish to benefit from the increased opportunities under such projects, but it may be necessary to ensure that the project creates an enabling environment given their social and cultural constraints.

- **Decision-Making within Community Groups**

In many sub-projects, the community plays a role in determining the type of goods or material to be procured. Equitable processes must be established to ensure that all interested stakeholders are given a voice in such determination. For example, in water supply sub-projects, women's priorities and needs must be considered in the choice of pumps and pipes since they are often the primary water collectors and users. Similarly, in the choice of seedlings to plant in a social forestry project, the generation of fodder and fuelwood must be given due emphasis. Or again, in selecting medical supplies in a health project, the concerns and problems facing women must not be bypassed because of the lack of adequate representation.

- **Equitable Community Contribution**

Community contribution is seen as a mechanism for revenue generation and cost-sharing. It also increases community ownership of, and commitment to, the activity. It is normally related closely to CRP, since in most sub-projects, a certain percentage of the total costs are met through community contribution. Community contribution does not always need to be in the form of cash. Communities can provide labor, commonly available goods or materials, or services (supervision, storage of materials, or provision of technical assistance). In many projects, community contribution has been a combination of these inputs.
Community commitment will emanate only from voluntary provision of contribution, not from forced contribution which may occur when communities do not have the economic ability to contribute resources. In some communities, given their socio-economic status, the poorest members of the community or the minorities including women and children may be forced to provide voluntary labor, a common form of community contribution. In such cases, the project designer should incorporate mechanisms to ensure that such arrangements are equitable and voluntary. In economically vulnerable communities, this may require the economically better-off to pay for the services provided by the less advantaged members. Where this is not possible, it may be necessary to examine the feasibility of meeting community contribution through provision of communally owned storage facilities, labor for food or wages, or materials available within the community.

Effective implementation of the sub-project requires designers to pay close attention to arrangements for community contribution including the collection and management of such contribution. For example, where the community is providing part of the materials for construction, but is hiring a labor contractor, it is important to integrate the quantity of materials to be contributed and the schedule for such a contribution into the contract signed between the contractor and the community group. Or when the community is providing the labor, it is important to ensure coordination with the contractor, so that effective sub-project implementation is not hindered by lack of adequate labor at necessary times. Issues that need to be addressed include:

What is the capacity of the community to contribute? How will such contributions be collected and accounted for? Will there be equitable contribution from members of the community without particular sections bearing an undue burden? Are those who are contributing benefiting from the activity?

When community contribution is an integral part of the CRP (either materials, works, or services), has the nature and timing of such contribution been agreed with the community and with members who will actually provide such contribution? Who is responsible for monitoring and supervising the provision of such contribution? Do all parties involved in sub-project implementation (financing agency, community group, contractor or supplier) have a common understanding? (In many projects, a “Framework or Financing Agreement” is signed between the community group and the financing agency recording all these arrangements.

Will the community group need an advance payment to initiate activity under the sub-project? Is this advance requirement small and reasonable? Can the community contribution (if in cash) be collected for initiating activities? Can 50 percent of the community contribution (whether in cash or materials) be made a condition for payment of advance? If so, can schedule for delivery of materials be arranged so as to avoid problems of storage?
CHAPTER 5: FINANCIAL MANAGEMENT AND ACCOUNTABILITY

Given the relatively weaker institutional capacities of communities, the small value of, and multiplicity of contracts, and the scattered location of the sub-projects, ensuring accountability for use of funds is a difficult exercise which needs careful planning. It is essential at an early stage of project design to use the services of specialized Bank personnel in assisting the Borrower to develop an accounting and financial management system suitable for CRP. While matters relating to accountability and financial management are dealt with throughout this Manual in the context of procurement and disbursement, this chapter highlights some of the more important issues relating to financial management and accounting with specific reference to CRP, that will need to be examined in greater depth. It also indicates mechanisms that have been used in existing Bank-financed projects in order to increase proper use of funds. Two broad areas are discussed here: dealing with the development of a suitable accounting system suitable for decentralized level; and mechanisms that have developed in the context of procurement and disbursement which help to increase accountability.

SUITABLE ACCOUNTING SYSTEM

The development of a suitable accounting system for use by community or other grassroot entities is essential. Such a system must be adequate to meet the purposes for which it is designed as well as be simple enough so that it can be handled and maintained by community groups with little or no assistance, except perhaps in the initial stage. At the same time such a system must ensure the adequate recording of use of funds maintained in accordance with sound accounting practices, provision of timely and accurate data that can be subject to satisfactory control and verification. Issues that need to be addressed in developing an accounting system for CRP include: (i) community commitment and accountability; (ii) institutional capacity to maintain accurate accounts; and (iii) reporting obligations and financial monitoring. These are discussed subsequently in the context of CRP.

Community Commitment and Accountability

Through the financing agreement and other discussions, communities must be sensitized to the need to maintain accounts for use of funds in a proper and adequate fashion. Community commitment to proper accounting for use of funds is an essential factor.

Ensuring that the benefiting community has access to all financial information increases community commitment as well as generates peer pressure as an additional mechanism to ensure proper accountability in use of funds. It is not adequate to ensure that the benefiting community can access financial information. It is more important to put a positive obligation on the group in charge of maintenance of accounts to disclose information in a comprehensible manner to the community. In the Comoros Population and Human Resources Project, the results of local competitive bidding are published officially to increase transparency. In Ethiopia and Eritrea, the

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7 See Guidelines: Financial Reporting and Auditing of Projects Financed by the World Bank (World Bank 1982). When communities do not have the requisite accounting skills to fulfill these requirement, and it is not possible to support them with requisite capacity building exercises, the possibility of contracting intermediaries who would use the funds in a transparent and well-defined manner, fulfilling all reporting obligations, on behalf of the community would need to be examined.

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proposed social fund projects will require “Community Committees” that implement projects to disclose financial information to the benefiting community. In fact, where possible, such committees will post the information in a provided format in places accessible to the public.

As more and more NGOs are involved in project implementation, there is a clear need to develop rules and regulations for determining the accountability of such NGOs and their managers. Contracts between NGOs and the PU normally define the accountability of the former towards the latter for use of funds. However, such contracts do not usually cover the accountability of NGOs to the communities they serve. The participation of target communities or beneficiaries in project design and implementation and their access to sub-project accounts must be a condition for NGO financing. Since national regulations generally do not deal with this issue (they relate to the accountability of NGOs towards the funding institution), it would be appropriate to have a code of regulations for participating NGOs. Annex 5 provides such a sample code yet to be tested.

Institutional Capacity

The institutional capacity of community groups to maintain accounts must be addressed. Where it is inadequate, it is critical to build into project design adequate capacity building exercises to ensure that communities have minimum skills required for proper accounting and management of procurement. An NGO or a private agency may be hired to develop a simple, but acceptable accounting system for communities, and provide when necessary, capacity building exercises to provide communities with simple book-keeping skills. In fact, in one sub-project in Ethiopia, communities established a proper system of book-keeping, and it was proposed that they be used as trainers for other community groups.

REPORTING AND MONITORING REQUIREMENTS

A suitable accounting system must include mechanisms for monitoring and verifying the proper use of funds. A number of mechanisms have been used in the context of CRP and these are briefly discussed here.

Reporting Requirements

CRP involves the use of small amounts of money by a number of communities in scattered and remote localities. Communities are sometimes illiterate and commercially unsophisticated. Sometimes they function in non-monetary economies or otherwise in transactions where the buyer and seller meet face to face without necessarily documenting the transaction. Traditional forms of receipts and vouchers may not always be feasible. Other mechanisms would need to be devised. Some that have been tested are described here.

In the Zambia Social Recovery Project, the PU enters into prior contracts with suppliers to provide roofing sheets. Vouchers are then distributed to qualified communities who exchange them for supplies. This eliminates the need to maintain receipts or monitor the purchase or quality of materials purchased and monitoring needs to focus only on the proper use of materials. However, vouchers need to be designed very carefully. In one project, vouchers were provided for goods available at retail stores located in the capital city. The system had to be dropped because communities were unable to procure the goods.

Where possible, the transfer of funds directly to the ultimate beneficiary may reduce the need for interim reporting obligations. It may also be possible to design conditions of disbursement that will ensure that the funds
are withdrawn only for proper purposes, and thereby reduce further, if not eliminate, reporting requirements at the grassroots level.

**Beneficiary and Participant Assessments**

Assessments and evaluations involving a number of different stakeholders have been found to be useful and necessary in determining the impact of CRP on communities and in providing feedback necessary to fine-tune CRP. Beneficiary assessment is a key mechanism to ensure accountability in the use of funds. This involves conducting surveys to understand the opinions and views of the beneficiaries about the activities. Such assessments provide useful insight into beneficiary attitudes and in gauging the degrees to which project objectives (sustainability and increased ownership by communities) have been fulfilled.

Successful techniques have been developed and adopted in a number of projects in the African Region since 1991. In the Cote d'Ivoire Human Resources Adjustment Project, beneficiary assessments are conducted to evaluate the quality of delivery services and the impact of policies and programs. Beneficiary assessments are also useful when CRP is planned and designed. In the Guinea Health and Nutrition Project, a first beneficiary assessment was conducted before Board presentation in order to finalize the design of the rehabilitation program.

However, the entity responsible for such assessments would need suitable and rigorous training. Further, the cost of such monitoring and supervision could result in increased project costs which should be factored into determining sub-project costs.

- **Monitoring Indicators**

  The development of monitoring indicators is essential in monitoring financial accountability at the project level. Such indicators should be developed in consultation with communities and should be appropriate in evaluating implementation progress. Sample indicators are provided in Annex 7. It is also essential to ensure that information generated for the project as a whole focuses on use of funds at the community level and feeds into all the financial reports that are required to be provided for the project as a whole.

- **Audit Requirements**

  Every Bank-financed project is audited by an external independent auditor appointed by the Borrower in consultation with the Bank. Normally, such audits do not focus on the use of funds by communities. The terms of reference of such audit must incorporate a random audit of sub-projects even though small in value that deal with communities, unless as suggested here, this is done separately.

  Often, country regulations require that the use of public funds must be audited by the Government’s Auditor-General’s Office. This is not only difficult when funds are used by a large number of small community-level entities, but is also resented by NGOs that perceive this as Government interference in their financial affairs. In Zambia, the Auditor General’s Office delegated the authority to audit to other private entities.

  In projects with community participation, the need for independent technical evaluations of small-scale infrastructure or of independent and regular procurement assessments must be examined. When there are a large number of small-value contracts in scattered and remote locations, and a large percentage of procurement is
conducted through local shopping or direct contracting, it is difficult for the project staff to conduct effective evaluations or assessments of such procurement. In such cases, it may be recommended that procurement evaluations be performed periodically, starting after the first twelve months of project implementation or after disbursement for CRP has reached a pre-determined disbursement level, and continuing till mid-term review when the need for such assessments may be reevaluated. Such assessments should review and evaluate whether:

a. CRP is being conducted through methods that are prescribed in project documents;
b. prescribed procurement methods are resulting in efficient use of funds (increased community ownership, involvement of communities in operation and maintenance of facility, generating economic and employment opportunities within the communities, and so on); and
c. unit cost expenditures are economic.

Thus, while normal audits would focus on financial accountability for use of funds, procurement evaluations would serve as a device that would examine the economy and efficiency of CRP methods and provide feedback necessary both to determine any design modification, as well as to evaluate the impact of CRP on project sustainability. Such an exercise may be more cost-effective if a sample of sub-projects are selected for evaluation.

Given the nature of procurement evaluations which would need beneficiary assessment and auditing of small community groups, regular auditing firms may be unwilling or unable to do perform proper evaluations. It has been suggested that an NGO or private sector entity with experience in community-based activities can be contracted to perform the work under the supervision of the company conducting the financial audit. (A Sample TOR for such evaluations is provided in Annex 9).

In projects where significant resources are allocated for CRP, the need to have an internal audit function must also be examined. Such an internal audit must combine financial assessments, evaluation of procurement methods used, and physical verifications of works in the field using a random but representative sample of sub-projects. In such cases, the role and objectives of the internal auditors, their placement in the PU or otherwise, reporting obligations, desirable qualifications and experience must be discussed and developed by the Borrower in consultation with Bank specialists.

MECHANISMS TO INCREASE ACCOUNTABILITY

A number of mechanisms in relation to procurement and disbursement have also evolved through project design that have attempted to ensure greater accountability in use of funds. These are briefly described here.

Focus on Output

One key mechanism used in many existing projects is to disburse only against specified outputs. In sub-projects involving the construction of small community infrastructure, the PU enters into a contract with the community group to finance the construction. The contract defines the type of infrastructure, cost of construction, and disbursement schedules. Payment (after a preliminary advance where necessary) is made only in tranches corresponding to the percentage of work completed. The completion of the work according to the terms of the contract is certified by the community group, and verified by the PU or an intermediary agency, before any further disbursements are made. Such a mechanism can however be used only when there is a physically
verifiable infrastructure, the construction cost for which can be determined fairly accurately. Thus, it may be applicable in the case of primary schools or small health clinics, but not so in the case of roads whose design and costs vary depending on the terrain.

This arrangement has a number of advantages. Monitoring tasks are limited significantly. The need to monitor the actual purchase of inputs (nails, cement, steel, aluminum and so on) is eliminated, reducing the need to guard against faked justifications. Since the contract specifies the detailed costs of construction including costs of the input, the manner of purchase also need not be monitored. On the other hand, since the community gets a fixed price, there is always an incentive to cut costs and save money. Further, supervision can also be limited to verifying the existence of the infrastructure before disbursement. However, the quality of the infrastructure must be monitored closely, particularly since the community would be able to divert any saved resources to other areas. Consequently, it is advisable to make disbursements at each tranche conditional upon certification that the infrastructure conforms to required standards.

In the case of communities without adequate capacity, the need for technical assistance must be examined. NGOs may be contracted as consultants, to supervise a number of sub-projects within their areas of operation, or to independently verify quality of infrastructure or works. Such arrangements must be made in consultation with the community, so that the community is also convinced about the importance of ensuring appropriate standards.

The Ghana Agricultural Sector Investment Project has followed this approach when beneficiaries carry out the work themselves. The project disburses for physical works completed and certified for quality by a PU-appointed supervising engineer as set out in the detailed design and bill of quantities.

**Unit Costs**

As stated earlier, there seems to be the emergence of a more formal form of local shopping in social sector projects. However, extensive local shopping is almost always supported by the establishment of a unit cost data base, which assists in monitoring the economy of goods or works procured through local shopping. Such a database of costs is developed both as a basis for negotiating contracts with communities and as a comparative sample for ensuring that procurement is economic. It has been suggested if such unit costs databases are to be effective, they should be established with data collected through advertisement for competitive price quotations. The utility of the database is however dependent on periodic updating.

The rehabilitation and construction of local social infrastructures (school, health centers, water supplies) is carried out by communities in the Burundi Social Action Project. The use of community labor depends upon the technical complexity of the work to be undertaken; local practice of using community work; willingness of communities to participate; and the availability of small contractors in the area. A skilled mason supervises the work and the purchase of materials at the local level (using prudent shopping procedures). Communities provide free labor, while the executing agency or NGO provides the wages for the skilled mason. The monitoring unit (MU) provides any materials not locally available. The costs of the masons are reimbursed. Reimbursement for locally purchased equipment is based on receipts checked against standard units costs available at the MU, once the construction is satisfactorily completed. The repayment is subject to a ceiling defined in each sub-project agreement. The unit costs are established for a small range of materials and for the cost of local masons based on
surveys carried out locally by the MU staff and updated every three months. The unit costs have to be acceptable to the World Bank at all times.

In the Ghana Primary School Development Project, small-scale contractors are contracted to build small houses for head teachers in remote and scattered locations on the basis of disclosed cost estimates. The ceiling cost of construction assessed by qualified local quantity surveying consultants and verified by the implementing agency are updated semi-annually and used as a basis for entering into further contracts. Small-scale contractors are selected through local shopping, obtaining three quotations, wherever possible, on the basis of disclosed cost estimates. Works are paid by the project at actual cost not exceeding this estimate on receipt of reports from independent technical auditors certifying full completion in accordance with standard drawings and specifications.

In order to respond to the social objectives of the Rwanda Food Security and Social Action Project, negotiated contracts with NGOs is permissible where NCB fails to provide adequate competition. When negotiated contracts are used: (i) costing is done on a commercial basis; (ii) the standard unit costs similar to those used for contractors are applied; and (iii) payment is made after completion of works and subject to the same controls as for contractors under NCB. Such contracts vary from US $ 20,000 to US $ 60,000.

In the Mali Natural Resource Management Project, a standard unit cost is established for some works. World Bank financing is limited to about 50 percent of the expenditure, based on standard unit costs. In the Ghana Agricultural Sector Investment Project, contracts up to US $ 40,000 constitute the bulk of the contracts. The PU approves financing according to cost estimates and bills of quantity in a detailed engineering study, certified by a PU-appointed engineer. The beneficiaries then engage contractors through local shopping or district tendering procedures.

**Beneficiary Contribution**

Project experience has shown that beneficiary contribution is very effective in increasing accountability. Such contribution can take many forms. This includes: cash payments; labor; provision of materials like sand, stones, gravel; provision of storage facilities; and rendering of services.

In the Ghana Secondary Schools Project, the Government provides each community that first completes the foundation for the proposed infrastructure from their own resources, with a two-thirds matching grant in two installments. The community must demonstrate commitment to provide one-third of the agreed fixed cost of the infrastructure in cash, building materials or labor.

The "School Extension and Rehabilitation" component of the Zambia Education Rehabilitation Project I supports implementation by communities for some of the school rehabilitation work. Such works are undertaken using self-help procedures where the Parent Teachers Association (PTA) purchases materials for rehabilitation at a fair and reasonable price under prescribed procurement rules. The PU assists the PTA with bulk purchases when necessary. The project also pays for skilled labor obtained through local shopping procedures with the PTA arranging for provision of unskilled labor by communities.

In the Ethiopian Social Rehabilitation Fund communities pay according to their capacity. The project officers are expected to assist communities during appraisal in determining the amount and nature of contribution. Provision of community facilities for offices or the storage of supplies can also be part of the community
contributions. Contributions have ranged between 15 - 40 percent of the total cost. In projects which relate to rehabilitation or the construction of health clinics or schools, a prior agreement with the concerned line agency that it will assist in operation of the facility is a prerequisite to approval of project financing.

In the Benin Health Services Development Project, the communities provide 100 percent of the costs to maintain and operate health clinics, and consequently have been able to operate them effectively through the use of peer pressure. Further, the project is so designed that communities are able to determine the types of medicines to be procured and through centralized procurement, obtain medicines at economic prices which are then marked up to generate operating revenue. Despite this mark-up communities are able to get drugs at cheaper costs under the new system.

**Standard Contracts**

Standard contracts are most useful. They reduce the review burden of the PU and the Bank. They ensure that uniform standards and safeguards are followed in all sub-projects. They also buttress arguments for the reduction of prior review requirements. Annexes 3 and 4 provide a checklist for developing standard contracts and sample bidding documents for NCB.

**Implementation/Operational Manuals**

Increasingly, a number of projects establish funds, social programs, or include components that set up small funds or mechanisms. In such projects, the PU is provided with a detailed operational or implementation manual. This Manual clearly defines the operational mechanisms and processes for the implementing agency and assists the Bank during its review to satisfy itself that established procedures have been followed. It also prescribes procurement and disbursement procedures, rules for selection of intermediaries and explains contractual arrangements. Additionally, it also provides sample agreements and model bidding documents. Operational manuals are normally developed by the Borrower in consultation with the Bank and finalized before the Credit Agreement is signed. The Credit Agreement normally specifies that the operational manual cannot be modified by the Borrower or implementing agency without the prior consent of the Bank. Annex 7 provides a basis for the development of such an operational manual.
CHAPTER 6: ROLE OF BANK AND BORROWER IN COMMUNITY-RELATED PROCUREMENT

ROLE OF BORROWER

The Borrower or the PU is primarily responsible for the Bank-financed project and has five important responsibilities in relation to CRP. These are: (i) the monitoring and supervision of project implementation and responding adequately to information obtained from such exercises; (ii) collection of information suitable for use when designing future projects or determining policy decisions; (iii) provision of adequate assistance to weaker communities including through capacity building exercises; (iv) preparation of the Project Implementation Plan; and (v) ensuring compliance with accounting and audit obligations (see earlier Chapter).

Monitoring and Supervision

The PU is responsible for monitoring and supervision of the use of project funds. It is therefore normal practice to establish a monitoring system in all projects. Key issues that must be addressed include the following:

- **Objectives of Monitoring**

  Monitoring and evaluation of CRP must provide PUs with access to physical and financial information about the progress of sub-project activities and assist in the evaluation of the economy and efficiency of the CRP. Further, it must also generate information on the sub-project impact on targeted beneficiaries and provide adequate feedback to modify or fine tune project design. Information must be gathered from each stage in the sub-project cycle, processed manually or by computer, and reported to all relevant entities.

- **Institutional Arrangements for Monitoring**

  Where CRP is not the main component of the project, care should be taken to incorporate elements necessary for monitoring and evaluating CRP into the main system. These would include:

  a. an accounting system which adequately covers financial aspects related to CRP;
  b. a suitable management information system which is in coordination with the accounting system;
  c. regular progress reports focusing on CRP and CRD;
  d. development of suitable monitoring indicators (see Annex 7); and
  e. adequately trained staff or other entities to conduct such monitoring and beneficiary assessments.

Collection and Analysis of Information

The collection of information related to CRP is important not only for effective project intervention but also in designing new projects. For example, the Benin Food Security Project led to the establishment of a data bank which has helped in the preparation of food security and nutrition maps in Benin helping to identify and monitor areas of food risk, as well as set the basis for better planning of future project interventions.
**Capacity Building**

Capacity building must be a necessary component of any project where communities are involved in CRP. Capacity building must target different stakeholders: staff of the project implementing unit as well grassroots participants. In the case of grassroots communities, capacity building exercises need to build on and sharpen their existing skills in order to manage and sustain procurement-related activities. In CRP, such capacity building can lead to training in skilled work, producing better quality goods or materials, better accounting for use of funds, enhancing organizational capacity to do collective and communal activities, and improved operation and maintenance of facilities or activities undertaken.

In the Ghana Primary School Development Project, the project launch workshop dealt with all aspects of project implementation, and concentrated on procurement, disbursements, monitoring and reporting. The workshop was to be followed by nationwide orientation programs for 660 district officials and 6,000 community leaders. In the Mozambique Rural Restructuring Project, courses and seminars are offered to Government officials, NGOs and community leaders about the mechanisms for decentralized community-based rural development.

**Preparation of Project Implementation Plan**

During project preparation, the Borrower is expected to draft a preliminary project plan to guide the implementation phase. Such an implementation plan must include a schedule for procurement actions, including target dates for each step, a schedule for the disbursements for each component, expected Bank financing, Government counterpart funds, and co-financing. It also needs to set out project implementation arrangements and the relationship of the implementing agency with other entities, including project beneficiaries and participation arrangements. During appraisal, the Bank mission is expected to reach agreement with the Government and the Borrower on all aspects of this project implementation plan which is normally annexed to the Staff Appraisal Report.

**ROLE OF BANK**

Bank policies require the Bank to exercise some supervisory control over the use of Bank funds to ensure that the funds are used for purposes stated in the Credit Agreement. The Bank therefore conducts periodic supervision of project activities.

**Prior Review of Contracts**

Prior review of contracts is normally required under Bank policies (OD 11.02) of 80 percent of the value of total project contracts. However, the OD adds that percentages as low as 50 percent may be justified in "exceptional cases." Illustrations of such exceptional circumstances are provided in Para 11 of the OD and include "a large number of similar or repetitive contracts" or "a compensating higher intensity of post review". The degree to which the Borrower is able and willing to accept responsibility for the risk of misprocurement resulting in the cancellation of loan proceeds is also a factor in determining the level of prior review.
Thus, the OD as worded currently would not permit a coverage of lower than 50 percent of the total contract value. Prior review, while a useful mechanism in bigger contracts, sometimes becomes an impediment in the case of small and multiple contracts. A variety of adaptations have been permitted.

In the Mexico Municipal Funds Program, a component of the Mexico Decentralization and Regional Development for Disadvantaged States, no prior review is required. It is substituted for by the random post review of contracts. However, advance payments are made only out of local counterpart funding, and disbursements from the Special Account are made only upon certification of completion of contracts. Thus, while contracts are not reviewed a priori, thereby eliminating some delay, disbursements are made only against completely executed contracts.

In some projects, the 50-80 percent requirement is met by subjecting the larger contracts to prior review but by requiring only limited prior review of contracts with communities. For example, only the first five are reviewed prior to contract. In such cases, standard contracts are formulated for use where possible to ensure consistent and adequate terms and conditions.

Justifications for departure from the norm must be specified in the SAR. Increasingly, however, there is greater flexibility, but such flexibility depends upon the incorporation in project design of adequate accountability mechanisms. Project designers run a risk in avoiding prior review. The Bank still reserves the right to suspend disbursements at any stage upon discovery that procurement procedures unacceptable to the Bank were used. Thus, in cases where there are potential problems, the avoidance of prior review merely delays and possibly aggravates the problem.

Recommendations in designing prior review would include:

a. using standard contracts and bidding documents which have been approved by the Bank in advance;
b. setting the prior review ceiling sufficiently high (given the context of the project and the country) so as to permit a large number of standard contracts with communities to be implemented without prior review;
c. requiring prior review of a fixed number of contracts in the first year (in each sector if applicable) to ensure that any problems are identified and handled up front; and
d. ensuring adequate random post review during supervision mission and through procurement evaluations by external agencies.

Training of Project and Other Staff

Training of project staff to be sensitive to the needs of CRP and CRD is an important factor contributing to effective project implementation. Ignorance about Bank procedures and documentation impedes effective project implementation. Such training should cover a number of facets including: awareness of Bank policies, reasons for such policies, and consequent requirements; skills in communicating with and organizing community groups; sensitivity to gender and other minority concerns; and techniques in monitoring and evaluating sub-project impact.
In the Central African Republic Agricultural Services Project, a seminar on Bank Procurement (and Disbursement) was organized with the contribution of specialized personnel from the Bank to familiarize project staff with procedures. In addition, some technical advice was provided to support project staff in handling procurement matters at the start of the project. Whenever such training courses are conducted, the syllabus must incorporate matters related specifically to CRP.

**Supervision**

The Bank conducts periodic supervision in the field. In a Bank-financed project with significant community participation, there are normally a large number of sub-projects spread in remote and scattered locations. Consequently, the efficient and cost-effective supervision of such sub-projects is a very difficult task.

In order to improve this situation, more and more Bank-financed projects are attempting to contract out supervisory activities to other suitable entities who perform such tasks either prior to the arrival of a Bank supervision team or as part of the supervision team. PUs should be encouraged to put together a database of consultants (either individuals or firms, including NGOs) with the necessary training and skills to supervise and monitor the progress of sub-projects. Where necessary, the Bank should assist the Borrower in developing necessary skills through local capacity building.
CHAPTER 7: REGULATORY FRAMEWORK OF BORROWER

The regulatory framework of the Borrower is crucial to effective CRP. In countries with federal or semi-federal systems, the existence of any impediment within the municipal government’s procurement regulations must be evaluated.

The Country Procurement Assessment Reports (as required by OD 11.01) provide project designers with an assessment of the Borrower’s regulatory framework relating to procurement. Issues identified during the design stage of a project can sometimes be addressed through suitable project design or sometimes through project-specific regulations. Inadequate attention to the regulatory framework governing CRP and CRD in the borrowing country during the preparation of a project can and has resulted in badly designed projects, thereby impeding effective procurement and disbursement in many Bank-financed projects.

In most countries, either statutes or other Government regulations lay down procedures and steps for the use of any public funds. These normally apply to even small contracts with communities. For example, in Zambia and Tanzania, use of public funds subjects the user to auditing by the Auditor-General’s Office. Many NGOs resist such governmental inquiry into their financial matters. In other cases, small community groups are technically subject to such audit. If identified during project preparation, the project could require that the Auditor-General’s Office delegate the task of auditing contracts involving community participation to smaller private auditors who would handle the matter in a more sensitive and expeditious manner.

Procurement and disbursement in social fund projects are normally exempted from the application of national procurement and disbursement regulations. This is usually achieved by requiring the law or regulation that establishes the social fund to specify this exemption. Alternate procedures are then agreed between the Bank and the Borrower and defined in the operational manual governing the activities of the social fund. Such exemption must be sought with the assistance of Bank’s Legal Department so as to ensure that all legal issues are addressed. For example, whereas a Government regulation may establish a social fund, the impediment to CRP may arise from a statutory provision that cannot be amended except by another statutory provision. Legal counsel must be sought early on during project preparation to address such issues.

Box 6 provides a checklist that can be used in identifying issues that have commonly arisen in designing CRP.
Box 5: Checklist - Examining impact of discretionary regulations

- Is there a problem with the thresholds for competitive bidding?
- An administrative order?
- Can CRP be exempted from government procurement regulations? How can this be removed?
- Disputes regulations for CRP? If so, how can this be removed?
- Do community groups provide such security or guarantees? Are the bidding documents in the local language?
- Do community groups have to register as NGOs or do they need to funders? For example, do they need to register as NGOs or do they need to funders?
- Are there any reasonable before community groups can access public documents?
- Are the accountancy requirements applicable to community groups?
- Is there an adequate requirement for small amounts of funds? Can this be decided?
- Is there a possibility of incorporating a project-specific simple dispute resolution process?
- What is the normal dispute settlement process if this complaint?
- Are there any differences when the entity is an NGO or other agency?
- Process cause delay? Can it be simplified?
- Are these offices involved and where are these offices located? Will these community groups have to go through to authorize disbursement? How many steps will it take to disburse?
- What are the processes for disbursement? How many steps will it take to disburse?
CHAPTER 8: DISBURSEMENT MECHANISMS

The flow of funds from the Borrower's central banks, where Bank funds are usually deposited in a Special Account (SA) to the communities, is often reported to be a key bottleneck in community-related disbursement. In many projects with community participation, tedious disbursement processes are said to hinder effective implementation. However, a significant share of this delay can be attributed to regulations governing the disbursement of public funds in the borrowing countries. It is important, as stated in the earlier chapter, to examine Borrower regulations relating to disbursement and whenever possible, to identify and address processes or requirements that could create bottlenecks. Issues related to Bank policies are few and are discussed in the following paras.

MULTIPLE SPECIAL ACCOUNTS

The inability to open a separate Special Account (SA) for community participation components has been cited as a problem. One central executing agency with one special account is the norm for each project. The Bank discourages the opening of more than one SA because monitoring and controlling these accounts becomes difficult.

However, the Bank makes exceptions when there are different executing agencies for separate components under the same project. This was considered necessary in the Ethiopian Economic Recovery and Reconstruction Project which had a separate and small component called the Ethiopian Social Rehabilitation Fund. The need for a separate SA for the component with community participation was justified as it was executed by an agency which was different and separate from that for the larger project.

SIMPLIFIED SPECIAL ACCOUNTS PROCEDURE

The Bank strongly discourages advances from the SA to other bank accounts. This creates a problem in projects like the proposed Ethiopian Social Rehabilitation and Development Fund, which is expected to be implemented nationally in ten regions. Additionally, in many cases, sub-projects will be implemented in remote or scattered areas where implementing agencies would not have recourse to banking facilities. When funds are held in the capital city, disbursement of funds to the grassroots level becomes a difficult process.

As a response to this, the Bank is proposing "Simplified Special Account Procedures" as pilot exercises in four specific social sector projects in the Africa region. This procedure would permit a decentralized approach combined with monitored autonomy in the management and implementation of sub-projects. The Borrower may transfer funds from the SA to other local accounts for a period of ninety days. The Bank will, however, monitor only the centrally-located SA, leaving it to the Borrower to ensure that any funds transferred from the SA to other local accounts are used consistently with the terms described in the Development Credit Agreement (DCA). The Borrower would continue to justify the use of funds as required in the DCA. Any unjustified use of funds will be the responsibility of the Borrower who will reimburse the SA promptly upon the Bank's request. One of the primary conditions for permitting simplified SA Procedures would be the Borrower's capacity to establish and maintain sound accounting, financial controls, internal and external independent audits, and regular reporting on utilization of the decentralized funds on a continuous basis.
To obtain this autonomous management of the SA, the Borrower would prepare quarterly and annual Work Programs (WP) and Funding Requirements (FR) for the project, which would contain details (estimates where only this is possible) of the activities planned for the year and the estimated cost of each of the activities to be financed. Such plans would provide detailed estimates of financial requirements of different regions or localities.

The WP and the FR would be prepared in a format agreeable to the Government and the donors. It would provide the following details and breakdown:

- Description of each activity and the location (province, district, etc.) where the activity would take place with appropriate indicators for each activity. In projects where sub-projects are community initiated and defined only during implementation, estimates based on appraisals or other surveys would suffice;

- The WP would be in a chronological order with sub-totals for each quarter - identified as quarterly targets of work program for each geographic area or region;

- Costs relating to each work program activity - in local and foreign currency components - would be detailed with sub-totals on a quarterly basis; and

- Funding requirement based on agreed contribution from each donor agency and the Government share of the project cost would be identified separately.

The Borrower would open a SA with a commercial bank in its country. For local currency expenditures and operational costs not financed by the Bank, the Government would open a second account in local currency into which the Government counterpart funds would be deposited. Once the credit has been declared effective, the Government would submit a withdrawal application along with a copy of the approved WP and FR to IDA requesting IDA's share of quarterly funding (in exceptional cases semi-annual funding where justifiable) to be deposited in the SA.

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**Box 7: Significance for Project-Related Staff**

- **FOR THE BANK DISBURSEMENT OFFICER**
  - Monitoring of effectiveness of the simplified disbursement procedures;
  - Closer coordination with TM and Project Team on utilization of funds and accounting.

- **FOR THE TM**
  - Need to provide assistance to Borrower in setting up suitable accounting, auditing and reporting systems;
  - Need to train project staff in maintaining proper documentation in a systematic fashion.
  - Ensure regular reporting;
  - Closer supervision.

- **FOR THE FIELD STAFF**
  - Must be aware of the demands of new system in terms of proper documentation both for accounting and for replenishment.
Depositing of the Government's share of the quarterly funding as reflected in the WP and FR would be a pre-condition for the Bank and other donors (if any) to deposit their individual share of the agreed funding at each stage. For the first project year, it should be made a condition of project effectiveness. The WP and the FR should also identify items of expenditure to be centrally managed for reasons of economy and efficiency, and quantify them in terms of central procurement with values. The total value of all centrally-managed items would be retained in the SA under the Financial Management Unit of the PU. Further allocation of Bank funds to the SA would be made on evidence of satisfactory utilization of the first payment as reflected in the simplified SOEs, i.e. a summary of expenditures by program activity instead of by disbursement categories, which will be prepared on the basis of the WP and the FR. In order to facilitate accounting for project expenditures, simplified SOE forms should be designed and provided to the regional project officials for submission to the center.

**DISBURSEMENT CATEGORIES AND PERCENTAGES**

**Disbursement Categories**

Schedule 1 of the DCA provides allocations for different categories like goods, works or services. In designing projects where sub-projects are demand-based, it is difficult to determine the exact size or nature of the sub-projects during project preparation, or to determine the allocations for goods, works or services.

In defining categories in Schedule 1, ensure that the categories are kept as simple as possible. For example in the Guinea Socio-Economic Development Sector Project, Schedule 1 defines a category as "goods and services for sub-projects". Some DCAs, like the Malawi Rural Financial Services Project, also refer in Schedule 1 to "goods and services for Part A sub-projects". The DCA then provides a detailed description of the institutional arrangements for and the nature of such sub-projects in Part A of Schedule 2 of the DCA. In the Zambia Social Recovery Project, the DCA categorizes civil works for large, other and self-help sub projects. It also includes a category called "Social Services Sub-projects" in addition to "Consultants Services and Studies".

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**Box 8: Checklist for Designing Disbursement Framework**

- a. Is there a reliable local commercial banking network with branches that facilitates transfer of funds from the center to the districts and provides efficient banking services to its customers?
- b. Are bank accounts being opened at regional or district level and controlled locally?
- c. Is there an agreement on how the Bank and other donor (if any) funds are to be disbursed?
- d. Have satisfactory accounting and financial controls, and auditing that cover both the central unit as well as the regional or district level offices, been established?
- e. Is there a proper system, computerized where necessary, to ensure efficient information flow? Is the PU equipped and skilled to understand the accounting and computer functions?
- f. Have the procedures for drafting AWP and FRs in line with Schedule 1 of the respective credit agreement been determined?
- g. Is there existing or to be developed regular internal and external auditing capacity to undertake timely and regular annual audits and reporting to Government and donors?
- h. Are appropriate procedures for monitoring in place with monitorable indicators for physical achievement?
- i. Has provision been made for adequate training to all concerned staff prior to implementation?
Disbursement Percentages

The lack of adequate and timely counterpart funding is a problem in many countries. This has slowed project implementation. In determining disbursement percentages in projects with a community participation component, it may be advisable to restrict local counterpart funding to community contribution. Where possible, during project preparation, arrange for Bank funding for the larger part of the sub-project, leaving the rest to be picked up by the community. This reduces the impact of lack of timely Government funds. This arrangement should provide for a gradual increase in the local contribution during subsequent years, particularly in any maintenance or operation activities, to ensure sustainability after the termination of Bank funding.

Disbursement and Women

The urgency of tackling women's access to economic opportunities has resulted sometimes in a new condition of disbursement. For example, Section 3.05 of the Senegal Second Rural Operations Project DCA states:

"In carrying out ... of the Project, the Borrower shall take all measures necessary to ensure that at least 30% of the funds allocated to Category (6) of the table set forth in Paragraph 1 to Schedule 1 of this agreement, shall be disbursed for Sub-projects benefiting groups of producers whose members are solely women".

However, disbursement officers caution that the DCA or other project document should clearly define the types of sub-projects which would fall under this category and state mechanisms for calculating the defined percentage.

Advances and Administrative Costs

The financial capacities of the community groups undertaking procurement must be examined in order to assess their capacity to handle procurement and to determine any mechanisms necessary to ensure both economic and efficient procurement. Two issues related to Bank disbursement practices that must be addressed relate to any advance payments that may be necessary to initiate works and to incremental operating costs.

Advance Payments

Normally, the Bank requires bank guarantees for advance of any funds to commercial contractors. This was initially applied in the context of CRP and unsecured advances were almost prohibited, unless they could be provided from local counterpart funding. However, the lack of timely and adequate availability of local counterpart funding meant that this was a poor remedy.

While unsecured advances are still not encouraged, it is permissible to advance a small and reasonable amount without formal security or collateral, when dealing with economically weak communities unable to initiate project implementation. In both the Zambia Education Rehabilitation Project and the proposed Ethiopian Social Rehabilitation and Development Fund Project, reasonable advance payments have been permitted.
However, such advance payments must have the following features:

a. they must be justified;
b. the use of and liability for such advance payments must be recorded in the contract or agreement with the community;
c. mechanisms ensuring accountability must be incorporated in project design to ensure that communities use the funds for the purpose for which they are granted or lent.

When sizable amounts need to be advanced, formal alternatives also need to be developed keeping in mind the institutional aspects of community groups. A lien over the goods bought with project funds is one possibility when the community is procuring the goods or material. The possibility of placing a "floating charge" over inventory or manufactured goods in the case of an income generating activity may also be explored.\(^8\) Accepting a guarantee from an intermediary on behalf of the community group is another possibility. Requiring the community to collect any cash or material contribution as a condition for payment of the first tranche also ensures some degree of security and is used in the proposed Ethiopian Social Rehabilitation and Development Fund Project.

Other forms of security within the socio-economic context of each community needs to be developed. In the case of the Grameen Bank in Bangladesh, peer pressure among participating communities has proved to be a very powerful form of collateral. In dealing with non-commercial community groups, mechanisms for ensuring such peer pressure could include:

a. financing only groups as opposed to individuals;
b. ensuring that leadership is always in the hands of a group of respected people selected in a transparent fashion by the community;
c. ensuring that leadership and the general membership consist of people who have vested interests in the success of the activity; and
d. encouraging publication of all financial decisions (reading out such information at public forums, etc.)

**Administrative Costs**

Sometimes, intermediaries acting as implementing agencies do not have the capacity to participate in project activities without any financial support for their recurrent expenses. Bank policy normally permits the financing only of recurrent incremental costs and that too on a declining basis to avoid over-dependence on one financial source. As a general rule of thumb, up to 10 percent of the total sub-project cost may be considered as administrative costs, provided such costs are justified and the use of funds can be accounted for. However, when administrative costs are higher, the economy and efficiency of using such an implementing agency must be closely scrutinized.

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\(^8\) A floating charge is a concept in English Common Law whereby a creditor's charge is presumed to float over the goods or inventory of a debtor. But the charge does not attach unless the creditor expressly notifies his intention to do so. Until such notification the debtor may deal with such inventory or goods as routine. However, the risk arises if there is no inventory or goods when the charge actually attaches.
Documents in these Annexes merely provide illustrative samples. All documents will have to be modified to suit the requirements of the specific projects as well as to suit the socio-economic and cultural aspects of the communities that are to be involved. In developing legal documents, the assistance of both the Country Counsel (within the Bank) as well as suitable local counsel must be sought to ensure that project documents are valid within the regulatory framework of the Borrower.
<table>
<thead>
<tr>
<th>Type of Doc</th>
<th>Title</th>
<th>Requirement Relating to Community Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>OD 4.00A</td>
<td>ENVIRONMENTAL ASSESSMENT (EA)</td>
<td>These ODs state that the &quot;Bank expects the Borrower to take the view of affected groups and local NGOs fully into account in project design and implementation, and in particular in the preparation of environmental assessments&quot;. The EAP must take into account views of all stakeholders obtained through means that induce broad local participation.</td>
</tr>
<tr>
<td>10/31/89</td>
<td>&amp; OD 4.00B</td>
<td></td>
</tr>
<tr>
<td>&amp; OD 4.01</td>
<td>In Category A, an environmental analysis is required. In Category B projects, an environmental analysis is required.</td>
<td></td>
</tr>
<tr>
<td>&amp; OD 4.02</td>
<td>OD 4.02 requires an environmental plan (EAP)</td>
<td></td>
</tr>
<tr>
<td>BP 17.50</td>
<td>DISCLOSURE OF OPERATIONAL INFORMATION</td>
<td>In order for meaningful consultations, the Borrower must provide stakeholders with relevant information prior to consultations in a timely and meaningful manner. Such information should normally include (i) for the initial consultation, a summary of the project description, objectives and potential adverse effects of the proposed project; and (ii) a summary of the conclusions of the EA. In addition, the Government should make the EA report available at some public place accessible to affected groups and local NGOs for their review and comment. Should a Borrower be reluctant to publicize the required documents, it will be necessary to consider the specific circumstances, assess whether the local consultation has been effective, and what alternative means have been used to convey to the stakeholders the results of the consultation process. Bank management would then consult with the Executive Directors as to how to proceed under these circumstances.</td>
</tr>
<tr>
<td>09/30/93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OD 4.15</td>
<td>POVERTY REDUCTION</td>
<td>The OD states that effective implementation of poverty reduction projects requires the active involvement of beneficiaries to be built into the early stages of a project.</td>
</tr>
<tr>
<td>12/91</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OD 4.20</td>
<td>INDIGENOUS PEOPLES</td>
<td>&quot;Mechanisms should be devised and maintained for participation by indigenous peoples in decision making throughout project planning, implementation and evaluation.&quot;</td>
</tr>
<tr>
<td>09/17/91</td>
<td></td>
<td>&quot;Appraisal teams should be satisfied that indigenous people have participated meaningfully in the development of the plan.&quot;</td>
</tr>
<tr>
<td>OP 4.20</td>
<td>GENDER DIMENSIONS OF DEVELOPMENT</td>
<td>The Bank aims to reduce gender disparities and enhance women's participation in the economic development of their countries by integrating gender considerations in its country assistance program.</td>
</tr>
<tr>
<td>4/94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OD 4.30</td>
<td>INVOLUNTARY RESETTLEMENT</td>
<td>Participation of both resettlers as well as host communities should be encouraged in planning and implementing resettlement.</td>
</tr>
<tr>
<td>06/01/90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of Doc Date</td>
<td>Title</td>
<td>Requirement Relating to Community Participation</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------------------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>OD 8.30 02/28/92</td>
<td>FINANCIAL SECTOR OPERATIONS</td>
<td>Governments can help to promote small Borrowers to mobilize savings by helping to finance the start-up costs of group formation and the initial negative cash flow of lending activities and/or providing seed capital to a credit insurance fund.</td>
</tr>
<tr>
<td>OD 8.50 11/28/89</td>
<td>EMERGENCY RECOVERY ASSISTANCE</td>
<td>The OD encourages the use of NGOs, and community groups in an ERL because of their knowledge of the local situation, flexibility, action-oriented staff, effectiveness in enlisting local volunteers, and ability to mobilize funds for disaster relief and reconstruction.</td>
</tr>
<tr>
<td>OD 8.50A 11/28/89</td>
<td>TYPES OF IMMEDIATE BANK SUPPORT</td>
<td>Participation of &quot;NGOs, informal organizations, and community groups&quot; may deserve &quot;special support.&quot;</td>
</tr>
<tr>
<td>OD 11.10 03/28/89</td>
<td>USE OF CONSULTANTS</td>
<td>Permits hiring of NGOs as consultants for the promotion of community participation.</td>
</tr>
<tr>
<td>OD 14.70 08/28/89</td>
<td>INVOLVING NON-GOVERNMENTAL ORGANIZATIONS IN BANK-SUPPORTED ACTIVITIES</td>
<td>Deals with private organizations (NGOs) pursuing activities that promote the interests of the poor, protect the environment, provide basic social services, or undertake community development. The OD provides guidance on involving such NGOs in Bank operations.</td>
</tr>
<tr>
<td>GP 4.03 04/30/93</td>
<td>AGRICULTURAL PEST MANAGEMENT</td>
<td>Encourages the participation of farming communities for effective pest control research and requires appropriate training to be provided to shopkeepers, vendors, farmer groups, doctors, community health clinics, and women's groups.</td>
</tr>
<tr>
<td>OP 4.70 07/27/93</td>
<td>WATER RESOURCES MANAGEMENT</td>
<td>Requires the establishment of &quot;strong legal and regulatory frameworks to ensure that social concerns are met...&quot;</td>
</tr>
<tr>
<td>OP 4.36 09/01/93 &amp; GP 4.36 05/20/93</td>
<td>FORESTRY</td>
<td>The Bank's lending operations in the forest sector are conditional on government commitment to undertake sustainable management and conservation-oriented forestry. Such a commitment requires a client country inter alia: (i) to promote active participation of local people and the private sector in the long-term sustainable management of natural forests; (ii) adopt a comprehensive and environmentally sound forestry conservation and development plan that clearly defines the roles and rights of the government, the private sector, and local people (including forest dwellers); and (iii) undertake social, economic, and environmental assessments of forests being considered for commercial use.</td>
</tr>
<tr>
<td>BP 17.50 09/30/93</td>
<td>DISCLOSURE OF OPERATIONAL INFORMATION</td>
<td>For all projects a public information document (PID) (a brief summary of the factual elements of the evolving project) must be made public at the Bank's Public Information Center. Such PIDs must be prepared in tandem with the IEPS and updated as the project evolves. Staff Appraisal Reports of projects where the invitation to negotiate was issued after October 31, 1993 are also public documents.</td>
</tr>
<tr>
<td>GP 13.55 04/94</td>
<td>IMPLEMENTATION COMPLETION REPORTING</td>
<td>The ICR should address: (i) the effect of local participation on the sustainability of the project; (ii) the impact of project on women and poverty alleviation, and effectiveness of NGO and beneficiary participation in achieving the project's social objectives; (iii) the effectiveness of beneficiary and NGO participation in achieving the project's major environmental objectives.</td>
</tr>
</tbody>
</table>
ANNEX 2: CHECKLIST FOR SELECTION OF INTERMEDIARIES

This Annex provides issues to be considered in selection of NGOs. Project designers must select from this list based on the needs of their proposed project and based on an understanding of the profile and characteristics of NGOs operating in the Borrower's country. For example, where there are very few operational NGOs to select from, the legal requirements would continue to be important, while other criteria cannot be strictly applied. At the same time, it would be important to ensure requisite capacity building exercises in areas that have been highlighted.

Legal or Regulatory Requirements

(a) the NGO is validly registered under existing regulations in the country;
(b) the NGO is validly registered to work in the particular geographic locality; and
(c) the NGO's articles of association or by-laws permit operating in the sub-project sector.

Institutional Aspects

(a) Human and Physical Resources

i. there is committed leadership at the top, supported by adequate second level leadership;
ii. existence of adequate and skilled staff in relation to needs for sub-project implementation; ** and
iii. NGO has necessary physical resource base (accessible office space, vehicles, communication facilities and so on).

(b) Community Sensitivity

i. NGO has prior experience in the community where the project is to be implemented;
ii. community/beneficiaries' perception about the NGO is positive;
iii. NGO, through its personnel, has a keen understanding of, and are sensitive to issues concerning women and minorities; **
iv. NGO, through its personnel, have a keen understanding of, and are sensitive to issues related to the environment;**
v. NGO, through its personnel have a philosophy suitable for implementation of community initiated sub-projects with community participation.

Financial Aspects

(a) Financial Capacity

i. NGO has required financial strength and stability;
ii. NGO will not need the payment of non-incremental recurrent administrative cost; and
iii. NGO has access to other sources of financing and will not be dependent on sub-project financing.

(b) Accounting Capacity

i. NGO has knowledge of, and practices sound accounting principles;**
ii. NGO has no objection to external auditing (where applicable or when acting as implementing agency (OD 14.70));

Demonstrated Experience

(a) Relevant Sectoral & Operational Experience

i. NGO has prior experience in related sectors;
ii. NGO has adequate technical expertise;**
iii. NGO must have been functioning at least ____ year(s) (where there are a large number of NGOs);

**HIGHLIGHTS THE NEED FOR CAPACITY BUILDING.
ANNEX 3: CHECKLIST OF ISSUES IN DRAFTING AGREEMENTS WITH COMMUNITIES

This checklist considers a number of aspects, all of which may not be relevant in each case. The contract, while a complete statement of the obligations and responsibilities of the parties to the contract, should be kept as simple as possible.

STANDARD CONTRACTS

1. Preamble

Name the parties who are entering into the contract

Communities

- Who is signing the contract on behalf of the community?
- Is such signatory authorized to enter into the contract?
- Does such signatory have the requisite authority to sign on behalf of the community group?
- Do they need any clearances or permits from any government agencies?
- If land is involved, do they have clear title to use land in proposed manner?

Project Unit

Who will sign the contract on behalf of the PU?

Third Party

Are there any third parties who need to sign or ratify the contract?

- Is there need for commitment of resources from any line agency either for operation or maintenance of sub-project activity or facility?
- Is there need for an NGO or other entity to provide technical assistance? Is such entity going to sign a separate contract or can they be joined as a party to this contract?

Sample Clause:

"This agreement has been made and entered on this day, __________ at ________ by and between __________________________ (hereinafter referred to

1 This Annex is based on the documents used for the Ethiopian Social Rehabilitation Fund as well as on sample documents contained in J.M. Lantran, Managing Small Contracts (Contracting out of Road Maintenance: Volume IV), Environmentally Sustainable Development Division, Technical Department, Africa Region, World Bank, 1993.

2 In a three party contract, the responsibilities of each party must be clearly defined. In addition, the contract should contain terms which establish the liability of each party and specify whether such liability is joint or several.
as the "First Party") represented by _______________, on the one part and _______________ (hereinafter referred to as the "implementor": "implementing agency": "executor":) represented by _______________, on the other part and together referred to as the "two parties".

2. Purpose of the Contract

Sample clause would be as follows:

"Whereas the ______ is desirous of supporting community-based sub-projects designed to respond to poverty alleviation needs of the community, and whereas the two parties are desirous of building a [classroom] described in Attachment 1 [hereinafter referred to as the "Works"] through the use of community participation and contribution, with goods and materials being financed as shown in Attachment 2, the two parties now hereby agree as follows:...."

3. Contract Documents

List the documents which must be made part of the entire contract. These could include: a general description of the sub-project; list of construction materials & cost estimate; list of equipment and cost estimates; priced bill of quantities; plan and designs, if any; work program; and attachments to the Agreement.

4. Costs of the Contract

State the total value of the contract.

A sample clause could be as follows:

"The total cost of the Works (hereinafter referred to as the "total cost") and reflected in Annex 2, which is a part of this agreement is ($, Birr, Kwacha) (in numbers and in words).

Out of the total cost ($, Birr, Kwacha) ____ (in numbers and words) would be borne by the (second party) and/or by other beneficiaries.

What cost or other contingencies need to be incorporated?

A sample cost contingency clause would include:

"When the total cost is expected to rise by more than 10% due to conditions beyond the control of the implementing agency, the increased costs shall be reviewed and approved by the __________ [first party?] [in its sole discretion]."
5. Source of contract costs (if from several sources)

Who will contribute towards contract costs?

- % of community contribution
- % of funding provided by PU
- % of other financing

What will they contribute?
Who will coordinate such activity?
Is there a need to specify how these costs will be provided?
Is there a need to detail the specifications of the materials that will be provided?
Is there a need to incorporate any of the above provisions in the contract? If so should it be in the main text of the agreement or as an attachment?

6. Disbursement of Funds

(a) How will payments be made? In tranches? Upon completion? Is there to be an advance payment? How much advance is agreed to be paid and under what conditions will such advance be made?
(b) Do either party need to open a bank account? What will such account be for?
(c) Is there any documentation requirement or formalities that either party will have to comply with before receiving funds?
(d) Who will operate the account? Does either party need to know who is authorized to operate the account? Can each party change signatories without notifying the other party? Should such notification be in writing?

"The IMPLEMENTING AGENCY shall open a bank account opened in the name of the sub-project with ________ branch of ________ Bank (henceforth referred to as the "Bank") as soon as this Agreement has been signed and shall provide the Bank account number to the First Party.

The IMPLEMENTING AGENCY shall notify the First Party in writing the names and addresses of those who will jointly operate the Bank account mentioned in Article 3.1. Such signatories shall not be changed without the prior written consent of the First Party.

The first tranche of the First Party's payment of ________________ (in words) as specified in Attachment II, will be deposited in the Bank account opened in the name of the work upon the signing of this contract.

The second and subsequent payments shall be effected as stated in Attachment II, and upon fulfillment of the conditions stated below:
a) receipt of written request from the IMPLEMENTING AGENCY stating the intended use of the second tranche, consistent with the terms of the Agreement.

b) existence of an up-to-date progress report by the sub-project officer or assigned supervisor and approval of the payment by the concerned sub-unit.

c) proper and justified utilization of at least 50% of the previous tranche, and 100% of any prior tranche."

7. Operating or Maintenance Costs

(a) Who will be responsible for operating or maintaining the facility? Does the Agreement incorporate a clause ensuring that such arrangements must be made? If it is a third party, a line agency or another entity, which is ensuring such arrangements, should this line agency or entity be a party to the Agreement?

8. Procurement of Goods and Materials

(a) What goods or works will need to be procured?
(b) Is the mode of procurement if applicable, clearly specified in the Agreement?
(c) Are the specifications of any goods or materials to be brought through sub-project funding clearly established in the Attachment?

Sample clauses could include:

"The second party shall procure all goods and works [involving contracts above US $10,000] under this sub-project through competitive bidding. In doing so it must follow the procedure stated in Attachment 3 to this contract."

"The second party may procure materials within or outside the region, provided the second party obtains pro forma invoices from at least three different suppliers or vendors, for submission to the first party, and purchases materials from the vendor selected in consultation with the first party."

"When permitted by the first party in writing, the second party may procure materials from a sole vendor available close to the sub-project location. In such a case, the second party shall attempt to purchase such goods at lowest price possible."

"The second party may if necessary sub-contract the works to contractors [who are properly licensed under the regulations of the Ministry of ______/community contractors/local contractors/class ______ contractors] or other appropriate non-governmental organizations. In such case, however, prior to such sub-contracting the second party must inform the first party of its intention to do so in writing."
9. **Lien or Security**

Is there need to include a clause establishing a lien or security over any goods or materials purchased with credit or grant in favor of the first party?

10. **Maintenance of Accounts**

Who will maintain accounts? What is the reporting obligation of the second party to the first party? Is there a need for external audits? Who has access to the accounts? In the case of an NGO, does the benefiting community have access to the accounts?

11. **Responsibilities of Second Party**

It would be useful to clearly define the duties and responsibilities of the parties clearly. However, if it is a simple and small contract with a commercially unsophisticated community group, it may be better to eliminate such provisions or keep them very simple.

Sample clauses could include:

"The _______ will perform, supervise and monitor the works through the term of this contract according to the terms of this contract and in a manner satisfactory to the first party."

"The _______ will perform, supervise and monitor all the works described in this Agreement on the basis of the plan with quality, materials and good workmanship within the period stated in Article _______."

"The _______ as part of the share of the cost shall furnish the materials described in Attachment 2 within ________ days after the signing of this Agreement."

"The _______ shall arrange at its expense temporary warehouse facilities required for storing materials and construction supplies."

"Unless authorized by the ________, the second party is not permitted to use the money earmarked for the Works for other activities not specified in this agreement."

"The second party shall provide to the concerned staff of the first party or to the supervising entity [specify] any information required regarding the progress of the Works or any related aspect or on any matter relating to this Agreement."
12. Responsibilities of PU

This section would need to incorporate clauses mainly pertaining to the First Party's obligations to disburse funds or goods (if applicable) in a timely manner. A sample clause is provided below.

"The First Party shall deposit the first tranche of ________________, as specified in Article __ in the Bank account opened in the name of the work."

"The First Party shall effect the second & subsequent payments within 10 days after receipt of payment requests which meet all the necessary conditions."

"The First Party will monitor the execution of the work through its concerned sub-project officer or designated supervising engineer.

"The First Party shall furnish in a timely fashion the materials that it has agreed to furnish under the terms and conditions of this agreement. If the First Party cannot furnish these materials on time it shall notify the IMPLEMENTING AGENCY in writing to take appropriate action."

13. Completion Time and Acceptance of Work

The period in which the work is to be completed must be specified in this section. Sample clauses are provided below.

"The Works should be completed in [months/weeks/days] from the date of this Agreement."

"Acceptance of the Works will be effected in the presence of the two parties and others concerned. The work will be reviewed and if found satisfactory by the First Party or its representative, a provisional acceptance will be effected."

"The time period stated in Article __ above may be extended in writing by mutual consent of both parties."

Consider the need for retaining a small amount of the total costs when works is executed by a contractor.

"Upon provision acceptance of the Works, the final payment, minus 5% of the total cost will be retained by the First Party. After a period of [months/weeks/days] from the date of the provisional acceptance, if the works found to be satisfactory, the final payment will be effected in the presence of all concerned."

14. Termination/Modification of Contract

To ensure greater accountability, examine the need for a clause to the following effect:
"The first party can stop and suspend the works when it becomes evident that the second party is not performing its works satisfactorily as per the terms of this Agreement and can demand the reimbursement of its payments."

"This Agreement may be amended or canceled by the mutual consent of the two parties in writing."

15. Dispute Settlement

(a) Method of Dispute Settlement

In the event of dispute who will settle the dispute? Court? Arbitration by third party? Mediation by a community group? Is there some local/tribal/village authority who can settle disputes? Is arbitration a commonly used and expeditious method of dispute resolution?

Sample clause:

"If over the works, any dispute arises between the two parties relating to any aspect of this Agreement, the Parties shall first attempt to settle the dispute through mutual and amicable consultation. If the dispute is not settled through such consultation, the matter may be referred for arbitration to ________.

(a) Applicable Law

Sample Clause:

"This Agreement shall be governed by the laws of ________.

16. Signatures

The signatures of both parties, two independent witnesses (depending upon the law of the Borrower) must be affixed under this section.
Description of Work

Attachment 1 should contain a detailed description of the infrastructure. If the infrastructure is standard and the costs are fairly similar, then it would be useful to attach a standard design developed in consultation with the community's part of the standard contract. If not, a design should be developed for each contract.
### Detailed Cost for Works

<table>
<thead>
<tr>
<th>Material</th>
<th>Quantity required</th>
<th>Unit costs</th>
<th>Cost</th>
<th>Costs to be provided by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement</td>
<td>14. bags</td>
<td>US $ 30.00</td>
<td>US $ 3000.00</td>
<td>Unit financing</td>
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<td>Bricks</td>
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<td>Local community</td>
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<tr>
<td>Wooden planks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nails</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Windows</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Door knobs</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Aluminum sheets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roofing tiles</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**Sub-total Costs**

<table>
<thead>
<tr>
<th>Labor</th>
<th>No of Man days</th>
<th>Cost per man day</th>
<th>Sub-total Cost</th>
<th>Costs Provided by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unskilled Labor</td>
<td>50</td>
<td>US $ 25</td>
<td>US $ 1,250</td>
<td>Community</td>
</tr>
</tbody>
</table>

Costs of materials and labor:
Overhead cost:
Calculation of Local Contribution:
Total Costs:
Local Competitive Bidding (LCB)

LCB will be the preferred method of procurement for all contracts of works over _______. The procedure to be followed is explained below. When the implementing agency does not have requisite institutional capacity to undertake LCB, the second party will ensure that adequate assistance is provided either directly or through an intermediary.

Procedures for Local Competitive Bidding (LCB)

The second party in consultation with the first party draws up the terms of the tenders, prepares the various bidding documents, for review and approval by the second party.

Once approved, the tender is advertised in the local media. Where advertisement in the local newspapers is not considered necessary, the tenders may be posted in localities or places where contractors interested in such tenders are likely to visit, like the village councils or other similar organizations.

A reasonable deadline for response should be given (15 days to 1 month). A date, time and place for the public opening of the bids should be indicated. This should normally be the same time and day as the deadline for bids submission.

The bids will be opened in the presence of those contractors who may attend, the second party and an authorized representative of the first party (the “committee”).

The analysis is carried out in two steps: first the committee will analyze whether the following conditions, described in the tender documents, are met by the bidders.

- delivery dates
- after sales service, if applicable
- availability and cost of spare parts, if applicable
- track record and experience of the supplier; and
- quality of equipment and material proposed.

The bidders who have not met the conditions are eliminated. The second step will be in the selection of the bidder offering the lower price.

The award of the contract shall be made known to all bidders.
ANNEX 4: MODEL BIDDING DOCUMENTS

These documents were prepared for The Gambia Public Works and Capacity Building Project and the Ethiopian Social Rehabilitation Fund [C2351].

INSTRUCTION TO BIDDERS

1. DESCRIPTION OF WORKS

1.1. The works to be executed under this contract include construction of

__________________________________________ and

__________________________________________ and are hereinafter referred to as "The Works ".

2. COST OF BIDDING

2.1. The bidder shall bear all costs associated with the preparation and submission of his tender and the ________________, hereinafter referred to as "The EMPLOYER" will in no case be responsible or liable for these costs, regardless of the conduct or outcome of the bidding process.

3. ELIGIBILITY AND QUALIFICATION REQUIREMENTS

3.1. This invitation to tender is open to all domestic bidders that shall provide evidence satisfactory to the Employer of their eligibility and of their capability and adequacy of resources to carry out the contract effectively.

4. SITE VISIT

4.1. The bidder is advised to visit and examine the site of works and its surroundings and obtain for himself on his own responsibility all information that may be necessary for preparing the tender and entering into a contract. The costs of visiting the site shall be at bidder's own expense.

5. CONTENT OF TENDERING DOCUMENTS

5.1 The set of tender documents issued for the purpose of tendering includes the following:

1) Instruction to Bidders
2) Special Condition of Contract
3) Technical Specification
4) Bill of Quantities
5) Form of Agreement
6) Drawings
5.2 The bidder is expected to examine carefully all instructions, conditions, forms, terms, specifications, and drawings in the tendering documents. Failure to comply with the requirements of tender submission will be at the bidder's own risk.

6. CLARIFICATION OF TENDERING DOCUMENTS

6.1 A prospective bidder requiring any clarification of the tender documents may notify the Employer in writing or by cable at the Employer's address indicated in the invitation to tender. The Employer will respond in writing or by cable to any request for clarification which he receives earlier than 15 days prior to the deadline for the submission of bids. Written copies of the Employer's response (including a description of the inquiry but without identifying its source) will be sent to all prospective bidder who have purchased the tender documents.

7. AMENDMENTS TO BIDDING DOCUMENTS

7.1 At any time prior to the deadline for submission of tenders, the Employer may, for any reason, whether at his own initiation or in response to a clarification requested by a prospective bidder, modify the tender documents by the issuance of an Addendum.

7.2 The Addendum will be sent in writing or by cable to all prospective bidder who have purchased the tender documents and will be binding upon them. Bidders shall promptly acknowledge receipt thereof by cable to the Employer.

8. LANGUAGE OF TENDER

8.1 The tender prepared by the bidder and all correspondence and documents relating to the bid exchanged by the bidder and the Employer shall be written either in English or local languages. Supporting documents and printed literature furnished by the bidder with the tender may also be in the same language.

9. DOCUMENTS COMPRISING THE TENDER

9.1 The tender to be prepared by the bidder shall comprise the following: The Form of Tender and Appendix thereto; the Tender Security, the Bill of Quantities, the information on Eligibility and Qualification and any other material required to be completed and submitted in accordance with the Instruction to Bidders embodied in these bidding documents.

10. TENDER PRICE

10.1 The rates and prices quoted by the bidder shall be fixed for the duration of the contract and shall not be subject to adjustment on any account except as otherwise provided in the conditions of contract.
11. TENDER VALIDITY

11.1 Bids shall remain valid and open for acceptance for a period of ____ days after the date of tender opening prescribe in Clause 16.

12. TENDER SECURITY

12.1 The bidder shall furnish, as part of his bid, a tender security of 2% of the Contract amount in the amount of __________ BIRR in the form of a certified check, a bank draft, an irrevocable letter of credit or a guarantee from the Commercial Bank of Ethiopia. The tender bond shall be valid for 30 days beyond the validity of tender.

12.2 Any tender not accompanied by an acceptable tender security will be rejected by the Employer as non-responsive.

12.3 The tender securities of unsuccessful bidders will be returned as promptly as possible but not later than 30 days after the expiration of the period of bid validity prescribed by the Employer.

12.4 The tender security of the successful bidder will be discharged when the bidder has signed the Agreement and furnished the required performance security.

13. FORMAT AND SIGNING OF TENDER

13.1 The bidder shall prepare one original and two copies of the documents comprising the tender as described in subclause 9.1 of these Instruction to Bidders, bound with the volume containing the Form of Tender, and clearly marked "ORIGINAL" and "COPY" as appropriate. In the event of any discrepancy between these documents, the original shall prevail.

13.2 The original and copies of the tender shall be typed or written in indelible ink and shall be signed by person or persons duly authorized to bind the bidder to the contract. Proof of authorization shall be furnished in the form of a written power-of-attorney, which shall accompany the bid. All pages of the bid where entries or amendments have been made shall be initialed by the person or persons signing the bid.

14. SEALING AND MARKING OF TENDER

14.1 The bidder shall seal the original and each copy of the bid in separate envelope, duly marking the envelopes as "ORIGINAL" and "COPY" as appropriate, and forward both to the Employer.
14.2 The envelopes containing the original and the copy
a) be addressed to

b) bear the following identification
i) Bid for ____________________________
ii) Ref. No ____________________________
iii) Name of sub-project ____________________________
iv) the word "DO NOT OPEN BEFORE ____________________________

15. DEADLINE FOR SUBMISSION OF TENDER

15.1 Bids must be received by the Employer at the address specified above no later than ____________________________ Any bid received by the Employer after the ____________________________ will be returned unopened to the bidder.

16. TENDER OPENING AND EVALUATION

16.1 The Employer will open the bids, in the presence of all bidders or their duly authorized representative who choose to attend, at ____________________________ at the following location ____________________________.

The bidders' representatives who are present shall sign a register evidencing their attendance.

16.2 The name of the bidder and total amount of each bid, and of any alternative bids if they have been requested or permitted, should be read aloud and recorded when opened. The Bidder’s representatives who are present shall sign a register indicating their attendance.

16.3 Prior to the detailed evaluation of the bids, the Employer should ascertain whether the bids meet the eligibility requirements have been properly signed; are accompanied by the required securities; are substantially responsive to the bidding documents; have any material errors in computation; and are otherwise generally in order.

16.4 If a bid is not substantially responsive, i.e., it contains material deviations from or reservations to the terms, conditions and specifications in the bidding documents, it should not be considered further. The bidder should not be permitted to correct or withdraw material deviations or reservations once bids have been opened.

16.5 Bids determined to be substantially responsive will be checked by the Employer for any arithmetic errors. Where there is a discrepancy between the amounts in figures and words, the amount in words will govern. Where there is a discrepancy between the unit rate and the line item total derived from multiplying the unit rate
by the quantity, the unit rate as quoted will govern. If a bidder refuses to accept the correction, his bid will be rejected.

17. AWARD OF CONTRACT

17.1 The Employer will award the contract to the bidder whose bid has been determined to be substantially responsive to the bidding documents as stated above, and who has offered the lowest Evaluated Bid Price, provided further that the bidder has the capability and resources to carry out the contract effectively.

17.2 Prior to the expiration of the period of the bid validity prescribed by the Employer, the Employer will notify the successful bidder in writing that his bid has been accepted. This "Letter of Acceptance" shall name the sum of which the Employer will pay to the contractor in consideration of the execution, completion and maintenance of the works by the contractor as prescribed by the contract. (hereinafter and in the condition of contract called "The Contract Price")

17.3 Upon furnishing by the successful bidder of a performance security in accordance with the provision of clause 17.6, the Employer will promptly notify other bidders that their bids have been unsuccessful.

17.4 At the same time that Employer notifies the successful bidder that his bid has been accepted, the Employer will also send the bidder the Form of Agreement provided in the bidding documents, incorporating all agreements between the parties.

17.5 Within 15 days of receipt of the Form of Agreement, the successful bidder shall sign the Form and return to the Employer.

17.6 Within 30 days of receipt of the notification of award for the Employer, the successful bidder shall furnish to the Employer a performance security in the form of a bank guarantee in an amount of 10% of the contract price.

17.7 The Employer may reject all bids. All bids should not be rejected and new bids invited on the same specifications solely for the purpose of obtaining lower prices, except in cases where the lowest evaluated bid exceeds the cost estimates by a substantial amount. Rejection of all bids is also justified when bids are not substantially responsive or there is lack of effective competition. If all bids are rejected the Employer should review the causes justifying the rejection and consider making either revisions in the specifications or modifications in the sub-project or both before inviting new bids.
Model Works Contract

Contract No. ____________ awarded following the request for proposals of ________, 199_,
concerning the sub-project designated as: ____________

Signed on: ____________
Recorded on: ____________

It is hereby agreed, BETWEEN:

The Ethiopian Social Rehabilitation Fund ____________, as one party and
hereinafter referred to as the "Fund",
AND:
__________, represented by ____________, acting in the capacity of ____________
hereinafter referred to as the "Contractor," as the other party, as follows:

Article 1: PURPOSE OF THE CONTRACT

This contract is for execution of works of ____________ broken down into _____ separate tasks,
each having an individual price calculated on the basis of one unit of the corresponding quantity, in
accordance with the price list attached hereto.

Article 2: LOCATION OF WORKS

The works described under article 1 shall be performed in the region(s) of:
__________

Article 3: AMOUNT OF CONTRACT

The amount of the contract, exclusive of taxes, as stated in the approximate breakdown, is the sum
of: Birr ____________ on the basis of prices as of ________, 199_.

The prices given in the price list have been evaluated taking into account the cost prices of labor,
including taxes, [total cost of the supplies delivered to the work site], the sales cost of work site
equipment, including provisions for depreciation, as well as work site installation expenses,
overhead and miscellaneous costs of the works, operating burdens, hazards and benefits.
The total amount of the contract, including taxes, is ____________.

Article 4: ORGANIZATION AND DURATION OF THE WORKS

The works shall be performed in accordance with the breakdown into ____________ tasks
described under article 1.
For each of these tasks, performance shall be entrusted to a set number of teams composed of laborers and workers of various skills.

The composition and number of teams needed, depending on the amount of work and the projected output, are shown in the annexes to this document (organization chart).

(The bidder is invited to inspect the chart, modify it if necessary and complete it in order to furnish a specific detailed organization plan for the works.)

While being based on an average number of _____ days worked per month, this contract shall be concluded within a completion period of _____ months, counting from the date of the service order fixing the beginning date of the works in question.

The expected date of completion of the works is ________, 1989, or any other date mutually agreed upon by the Fund and the Contractor.

Article 5: PENALTIES FOR LATE DELIVERY

In the event of a delay in execution of the works in relation to the time periods fixed in the service order, the Contractor is subject to a penalty of one one-thousandth of the amount of the works ordered per day of delay, except in the case of force majeure, in which case the Fund will evaluate the additional time to be allowed and so inform the contractor.

Article 6: SETTLEMENT AND SCHEDULE OF PAYMENTS

Monthly invoices shall be prepared on the basis of progress of the works. The invoices will clearly state the amount of the works done during the month in question, as well as the cumulative amount of the works done as of the last day of that month.

These amounts of work are calculated with reference to the prices in the price list, by multiplying these prices by the quantities actually executed, after inspection by the engineer assigned by the Fund.

The payments shall be made through a bank check under the responsibility of the financial officer of the Fund upon presentation of the invoices prepared by the Engineer/PO and accompanied by works progress statements, certified by the engineer/PO.

The time of payment shall not exceed thirty (30) days counting from the approval of the Contractor's monthly invoice by officials of the Engineer/PO.

Article 7: UPDATING AND REVISION

The contract does not provide for updating or revision of prices, in view of the time periods given for completion of the works.
Article 8: MOBILIZATION ADVANCE UPON START-UP OF THE WORKS

A fully bonded mobilization advance not exceeding 20 percent of the amount of the contract will be granted to the Contractor, at the time of issuance of the service order.

Article 9: LIABILITY OF THE CONTRACTOR

The Contractor is directly and personally liable to the Fund, for proper execution and quality of the works. The Contractor agrees to furnish to the engineer assigned by the Fund all information, schedules, calculations and supporting documentation that may be requested of it.

Article 10: CONTROL OF THE WORKS

The works are placed under the control of the engineer assigned by the Fund. The Contractor must defer to all written or verbal orders from the engineer, and the Contractor is responsible for stating any reservations within a period of ten (10) working days.

Article 11: LABOR -- HEALTH

The Contractor is subject, in the employment of labor, to regulations under current law at the time the works are performed and, in particular, .......

Article 12: DISPUTES AND LITIGATION

If, over the course of the works, problems arise between the Fund and the Contractor, the problem shall be resolved by mutual dialogue. If the Contractor does not accept this decision, each of the parties, that is, the Fund on one hand and the Contractor on the other, agrees to proceed for arbitration in accordance with current regulation in Ethiopia.

Article 13: CONTRACT DOCUMENTS

The four documents listed below, which the Contractor has full knowledge of, contain all the conditions and terms of this contract:

- The present draft contract;
- The Bill of Quantities
- Bidding documents including any plans.

Article 14: The present contract shall take effect when signed by both parties.

Approved: City of _______, 1989
The Contractor
The General Manager of the Fund
Letter of Submission of Bid

Request for proposals of ______, 199__, concerning the sub-project:

__________________________, in the name of and on behalf of on the commerce registry of ____________ under number ____________, telephone ____________, and whose tax identification number is ____________:

After having read the bidding documents relating to the above-mentioned works, and in particular the following four documents:
- Draft contract;
- Price list;
- Approximate breakdown; and
- Bidding documents.

Having evaluated the nature and difficulties of the company from my point of view and under my responsibility;

Accept, without restrictions, all the provisions in the Bidding Documents;

Submit a price list bearing my signature and completed by me following the mode that was sent to me;

Agree, as the Contractor to carry out the works named below, following the provisions of the price list; and

Submit a draft contract bearing my signature, including my proposals for changes in the provisions of this contract.

The Executing Agency shall pay the amounts due from it and set forth in the detailed work statements, by crediting the bank account opened in the name of: ____________, number ____________, at the ____________, branch of the ____________, bank.

Done in one original copy
at ____________, __________, 199__
The Contractor
## ANNEX 5: SAMPLE MONITORING INDICATORS

Sample Performance Indicators for a Project with Community Participation  
(Proposed Ethiopian Social Rehabilitation and Development Fund)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Yr1</th>
<th>Yr2</th>
<th>Yr3</th>
<th>Yr4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.</strong> No of sub-projects approved</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **2.** No of Direct Beneficiaries  
Name specific sectors  
Training  
Total |     |     |     |     |
| **3.** Average percent of Female Beneficiaries  
As above  
Training  
Overall |     |     |     |     |
| **4.** % of No of Community Groups acting as implementing agencies:      |     |     |     |     |
| **5.** No of sub-projects applications (Funds Requests)  
No of sub-projects appraised  
No of sub-projects contracted  
No of sub-projects completed  
Median processing time (days from Funds Request to contract)  
Percent of Sub-projects contracted in less than three months: |     |     |     |     |
| **6.** Infrastructure  
a. Person days of Employment  
b. Value of construction contracts:  
c. Value of construction contracts with small scale contractors:  
d. Value of construction contracts with NGOs |     |     |     |     |
| **7.** Income generating  
a. Average size of sub-project  
b. Amount of credit committed  
c. Amount of credit disbursed  
d. Amount of credit outstanding |     |     |     |     |
| **8.** Percent of projects completed within x months of schedule        |     |     |     |     |
| **9.** No of Regional Offices Functional                                |     |     |     |     |
| **10.** Amount of total money committed  
Amount of total money disbursed |     |     |     |     |
| **11.** No of projects completed impact assessment                      |     |     |     |     |
ANNEX 6: SAMPLE OPERATIONAL GUIDELINES FOR NGOS

1. NGOs must seek to make all decisions related to sub-project activities in a transparent fashion, seeking wherever possible the participation of communities. In order to do this, NGOs must hold regular meetings with community groups or members associated with or affected by sub-projects to discuss related matters.

2. Where NGOs manage and control sub-project funds, NGOs must periodically provide the community group with simple financial statements concerning relevant sub-project activities. Such financial statements must, in addition to being presented at community meetings, be provided to Community Project Committees or placed with other respected chiefs or leaders within the community so as to ensure that they are easily accessible to individuals or communities seeking such information. Any information provided to community groups must be in a form comprehensible to the community groups to whom it is provided.

3. NGOs must wherever possible employ staff from their targeted communities, familiar with socio-cultural characteristics of the communities, to work on matters relating to the sub-project.

4. NGOs must wherever possible ensure that women and other disadvantaged communities are given equal access to economic opportunities generated under the sub-project. Where women are under severe socio-cultural constraints, NGOs must when possible employ female staff to access such women and encourage their participation. If this is not possible, NGOs must attempt to educate and raise awareness among the male participants about the need to involve women in their activities.

5. NGOs must ensure that sub-project activity does not cause adverse environmental damage. Where such impact was not anticipated and is discovered after the commencement of sub-project activity, the NGO must discuss measures needed to mitigate such impact both with the community and with the Project Implementing Unit, and discuss the need to increase project costing to incorporate mitigatory measures.
ANNEX 7: OUTLINE FOR A SAMPLE OPERATIONAL MANUAL

This outline (prepared by Alexandre Marc, Gita Gopal, and Mary Schmidt) is for the proposed Bank-financed Armenian Social Investment Fund. A detailed Operational Manual (and Annexes) has also been prepared for use in the proposed Ethiopian Social Rehabilitation and Development Fund, and may be found in the project documents file in the Africa Document Center of the World Bank, Washington, D.C.

PART A: GENERAL

Chapter 1: Objectives of the SIF

Objectives of Fund/Project/Program
Methodology
- Participatory Methods
Typology of microprojects to be funded

Chapter 2: Organizational Structure

Governing Body: How has it been set up? Its composition. Its role, powers and responsibilities. How will it make decisions? What is its relationship with other entities?

Executive Committee: Who will set up the Executive Committee? What is its composition? Who are the key officers? What are the functions of the Executive Director? What is the line of reporting? What are their key functions? When and how often should they be in touch with the Governing body?

Departments: What are the departments? Financial and Administrative Department, Microproject Department (with a promotion, infrastructure microproject, technical services unit) and a Monitoring Unit? What are the broad roles of these units? Staffing of these units? What are the links between these units? Who do the Department heads or Unit chiefs report to?

PART B: MICROPROJECT RELATED ASPECTS

Chapter 1: Promotion

What are the objectives of the promotion?
What are the powers and responsibilities of the staff of the promotion unit?
Who will initiate promotion? (contracted or staff themselves)
What type of promotion? (newspaper, radio, television, street plays, brochures, pamphlets and so on)
Who are the targeted people?
What is the role of the local governments in such promotion?
When will such promotion be done? (continuing process vs. one time promotion activities)

Chapter 2: Microproject Cycle

Preparation/Identification

As a result of the above promotion, the PU or agency in charge will start to receive proposals. Many of these proposals may be mere letters or badly filled up proposals. Others may contain good ideas but may need some modification in microproject design. Others may be unacceptable in terms of stated objectives.

Who will input all proposals received, rejected and accepted?
In the case of unacceptable or unsuitable proposals, what is the process of informing the applicant?

How does the Microproject unit assist such groups refine or develop proposals? What does it do? Who does it?

Should provision of such assistance be contracted out and to whom?
Should it maybe appoint/hire/train a qualified person from the community to perform this task?

Appraisal

As a result of the above preparation, the proposal should now be duly complete with all relevant information. It is then ready for appraisal. What are the steps for appraisal?

Who initiates the process? Who ensures that the proposal meets the initial criteria of the SIF? When should the Microproject Officer (MO) go on a field visit? What should the MO do on the field visit? What is the format for the appraisal report that the MO writes upon his return? With whom is this report discussed? Who takes the final decision whether to accept or reject the proposal? If rejected when is the applicant informed and the database updated?

Preparation of Framework Agreement with Implementing Agency

Once the proposal is accepted, the MO prepares the documents based on the standard Framework agreements in the Annex Operational Manual. Has the Financial and Administrative Officer cleared the Framework Agreement? Who signs the Framework Agreement? Have the procurement, disbursement and other financial guidelines in the operational manual been incorporated in the framework agreement? Does the community or the implementing agency have the skills to properly account for funds used?
Implementation of Microproject

Supervision

Who supervises? How often does the concerned staff have to go to the field? What aspect of supervision can be sub-contracted and to whom? What should be the format of the supervision report?

Technical Assistance to Implementing Agency

Who determines the need to provide technical assistance? Who ensures, where necessary, that such assistance is provided? Who provides the assistance? Technical Assistance to Contractor/Microenterprise? Who arranges, where necessary, the appropriate technical assistance to either the implementing agency or the contractor? What are the contractual arrangements?

Handover and Certification Agreement

Have arrangements been made for maintenance and operation of the facility/activity?

Chapter 3: Microproject criteria

This chapter should explain the criteria that should be applied in selection and appraisal of the microproject. This should include technical, social, financial and institutional criteria. They should incorporate criteria to determine the impact of microproject on the environment as well as on women and children.

Chapter 4: Monitoring and Evaluation

Matters to be covered in this chapter would include: Microproject monitoring, Management Information System, impact assessment, special studies and mid-term reviews. For each one, the following questions should be answered:

- Who is responsible for the different types of monitoring?
- How does the information generated reach the managers?
- What is the standard formats for such monitoring reports?

Have sample monitoring indicators been provided?

For the MIS: a list of output tables;

Special Studies & Impact Assessment: Who decides the need? Who drafts the TOR for the special studies (for impact assessment, examine need for generic TORs) and how is it contracted out?

How is the information generated to be used?
Chapter 5: Training and Capacity Building

Who identifies the need for such support and when?

Training

What are the main training modules (nature, form, needs of trainees and so on)? To whom should it be sub-contracted? Should there be any cost recovery from the trainees? If under what conditions and terms?

Capacity Building of Microenterprises

Who delivers these services? How is to be delivered?

PART C: FINANCIAL AND ADMINISTRATIVE ASPECTS

Chapter 1: Annual Work Plan and Budget

What is the process for preparation of the quarterly and annual work plans and budgets? Who will prepare it? In what formats? Time Schedule? To whom will it be submitted? Who finally approves of it?

Chapter 2: Procurement

What are the different methods of procurement? When is each method permitted?

Local Competitive Bidding (Thresholds)

Procedure

Sample formats in Annex

Competitive Local Shopping

Procedure

Sole source contracting

When is it possible?

Procedure

What are the formalities before a Framework agreement can permit sole source contracting? Who determines the procurement method? (Financial and Administrative officer) Is there any need for prior permission form higher managers in any case? In which cases will, and what types of assistance be given to implementing agencies? Nature of responsibilities for setting up, maintaining unit costs database.

Chapter 3: Disbursement

How will the money flow from the central bank account to the implementing agency? What are the different methods for payment?
What kind of documentation will the implementing agency have to provide to receive the money? How much may the Framework agreement permit as an advance payment without collateral? How will further disbursements be made after the preliminary advance?

Chapter 4: Accounting and Auditing

Accounting

What are the responsibilities of the Financial and Accounting Department? What is the accounting system? What types of accounting are necessary? What is the link with the monitoring unit?

Auditing

How often will financial, procurement and technical audits be conducted? How will this be contracted out and to whom? To whom will the audits be sent to?

Chapter 5: Administrative Procedures

Who will hire and fire the staff? What are the contractual terms for employment? What are the regulations governing staff? Are there any Terms of reference that need to be incorporated, particularly for senior staff?

List of Annexes

1. Decree
2. Organizational Chart
3. TORs for key staff
4. Monitoring Indicators and list of output tables from MIS
   TOR for Impact Assessment Studies
5. Sample Microproject Documents
   Microproject Proposal Form
   Appraisal Report
   Supervision Report
6. Sample Contractual Documents
   Standard Framework Agreements (one for each type of implementing agency)
   Tender Documents
   Handover and Certification Document
7. Reporting Documents
ANNEX 8: PROCUREMENT GUIDELINES FOR A SOCIAL INVESTMENT FUND PROJECT

A. General

1. All procurement practices for works, goods and services to be used by SIF or any of its implementing partners in any micro-project shall comply with the guidelines provided in this Chapter and be aimed at achieving economy and efficiency.

B. Procurement Management

2. The ___ will oversee all procurement to be carried out by SIF.

3. The Procurement Unit in the ___ will be responsible for the procurement of any goods, works or services required by the SIF and will also monitor and supervise all activities related to procurement. The Project Engineer (PE) will be responsible for ensuring that all procurement related to microproject activities is designed and undertaken in conformity to the rules stated in the Operational Manual, with assistance whenever necessary from the Procurement Unit.

4. Local procurement of goods, works and services is the primary responsibility of the micro-project implementing agency. For each micro-project, SIF will enter into a Framework Agreement with the implementing agency. The Framework Agreement will specify inter alia the terms and conditions under which the funds may be used. During his monthly visits, the PE will review and guide the IA that any procurement activities are undertaken by the IA in conformity with the Framework Agreement.

5. Training and technical assistance will be provided to the IA and contractors by the Institutional Support Unit of the SIF in undertaking procurement.

C. Approval of Contracts

6. All contracts, whatever the method or level of procurement, shall be approved by the ______, unless otherwise indicated in this Chapter.
D. **Procurement Monitoring and Evaluation**

(i) **Unit Price Data Base**

7. SIF will collect and maintain a unit costs data base for all items commonly required for micro-project implementation. The Micro-project engineers will collect, on a monthly basis, costs and rates from 40 of the most commonly required items from a random sample of suppliers and employers. The unit prices for other required items will also be collected monthly, but on a rotational basis so as to be updated at least three times a year. For this purpose, the SIF will make a data base of employers and suppliers from whom such unit prices will be collected on a rotational basis. These unit prices will be used to calculate compound prices for commonly required items of work. The data base will be used as a planning, appraisal and monitoring tool and as a guide when procurement is through direct contracting.

8. SIF will regularly update these data bases as and when necessary as part of the cost control system, to safeguard that selection of micro-projects is undertaken according to transparent criteria. The unit costs or rates will be recorded on a regional basis.

(ii) **Procurement Monitoring**

a) **Procurement Assessment by SIF**

9. When the total disbursement against micro-projects exceeds US $__ million, SIF will contract an independent entity to perform an assessment of micro-project related procurement in micro-projects. A sample TOR is attached in Annex ____ Based on the findings of the study, the SIF, in consultation with the Board and SIF's international donors may make necessary modifications to the procurement guidelines.

b) **Regular Monitoring**

10. SIF will establish a system to continuously monitor all procurement information related to micro-project implementation. Such monitoring should provide information including the type of implementing agencies, number and amount of contracts awarded to each type of implementing agency, procurement methods and
amount of contracts procured through each method, number and amount of contracts prior reviewed both by the other donors.

E. Procurement Methods

(i) International Procurement

11. Contracts for purchase of similar types of goods (e.g., vehicles, computers, copiers, fax machines and so on), would be packaged into larger contracts wherever possible. Goods with an estimated value of more than US $_____ would be procured through ICB guidelines acceptable to IDA. Goods with an estimated value of more than US $_____ would be procured through International Shopping provided at least three quotations are obtained from qualified suppliers.

(ii) Local Procurement

National Competitive Bidding (NCB)

12. NCB is based upon basic principles of adequate competition, openness of procedures, and fair and equal treatment of all bidders according to pre-disclosed criteria. NCB will be the preferred method for procurement for all contracts for civil works or for goods and materials; and the sole method for all contracts above US $_____. The standard procedure to be followed is described below in Para 14.

13. When the IA does not have requisite institutional capacity to undertake NCB, SIF will ensure that adequate assistance is provided either directly or through an intermediary.

14. All NCB should comply with the following guidelines briefly discussed below and the standards bidding documents provided in Annex ____:

a) The IA with assistance from the PE and specific training from the SIF, should establish the terms of the tenders, prepare the various bidding documents, and drafts the necessary advertisement and/or invitation to bidders. Advertisements and/or bidding documents may be composed in the
local language. The Framework Agreement will clearly define the
obligations of the IA in this regard.

b) Once approved, the IA arranges for advertisement of the tender in the
national and regional newspapers. When there are no regional newspapers,
established customary practices of advertisement may be followed
including the posting of tenders in localities or places where interested
contractors will visit. Invitations to bidders may also be furnished directly
to potential bidders by the SIF.

c) A reasonable deadline for response should be given (15 - 21 days). A date,
time and place for the public opening of the bids should be indicated. This
should be the same day and time as indicated for the deadline for bids
submission. The Procurement Officer of the SIF, as well as a
representative of the IA should be named as the contact persons for further
clarifications prior to the bid opening date.

d) A representative of the Micro-project Committee will open and announce
the bids in the presence of those contractors who may attend. The analysis
should be carried out in two steps: First, the Micro-project will analyze
whether the bids are responsive in that they conform to all the terms,
conditions and specifications of the bidding documents, without material
deviation or reservation.

e) Bidders who have not met all the specified conditions will be declared non-
responsive.

f) The second step will be the selection of the contractor. Bids determined to
be substantially responsive will be checked by the IA for any arithmetic
errors and corrected according to mechanisms provided in Annex. The IA
will then recommend that the contract be awarded to the Bidder whose Bid
has been determined to be substantially responsive to the bidding
documents and has offered the lowest evaluated Bid.

g) Following any clearances required under the Framework Agreement, the
award of the contract will be initiated by notifying the lowest evaluated
bidder. Upon signing the contract, the other bidders may also be notified.
15. Standard bidding documents, including Instructions to Bidders, Contract Data, and Submission Letters are provided in Annex ___ and should be used for all NCB.

National Shopping (NS)

16. NS is a procurement method based on comparing price quotations obtained from several local suppliers, usually at least three, to ensure competitive prices. It requires no formal bidding documents and can only be used when contract values are small or when the works are fairly simple, or in instances when there are few contractors interested in the contract. Contracts for works with an estimated value of less than (US $_______), and for goods with an estimated value of more than (US $_______) may be awarded to local contractors on the basis of NS.

17. Such offers for contracts of works will need to be advertised as widely in order to generate the maximum competition, in accordance with established practices in the region. The advertisements should prescribe a method for obtaining any further information. Information about the contracts should be made available to any interested contractor or supplier.

18. In the case of works, a schedule of works must be drawn up and provided to interested contractors, along with a brief set of instructions.

Direct Contracting (DC)

19. Where projects are in remote or scattered locations, where contractors are not available or adequate to permit NCB or NS, DC may be an appropriate method of procurement for contracts below US $_______.

20. Where micro-projects are located in remote areas, where neither NCB not NS is practical, a IA may be permitted by its FA to purchase goods or materials up to US $_______ through direct contracting after justifications are recorded in the micro-project files.

IA Executed Microprojects

21. For contracts below US $_______, SIF may agree with implementing agencies that they execute the works themselves, in order to increase community participation in and ownership of microproject. The prices for such microprojects will be
negotiated based on SIF’s unit cost data base. The ________, may at the recommendation of the ________ adjust the price taking into consideration any special characteristics of the physical location or typology of microproject. As in other Framework Agreements, a detailed bill of quantities will be established and agreed between SIF and the IA. The contribution of SIF, the community and any other partner will be clearly distinguished by source and stated with a schedule for payment.

22. The IA must employ labor from the benefiting community. Where the labor is remunerated, contract prices must be paid as agreed in the Framework Agreement. In such micro-projects, the implementing agency must procure the necessary goods or materials through NS. Such direct contracting of community labor should be clearly documented in micro-project records and should be classified under “IA Executed Microprojects” in the MIS. (For details see Annex __)

(iii) Consultant Contracts

Selection of Consultants

23. All consultant contracts should be preceded by the preparation of a Terms of Reference by the ________.

24. All consultant contracts above (US $ 5,000) will be advertised in national and regional newspapers giving adequate notice and information on the assignment and specifying the latest date for receipt of applications. A shortlist will be generated based on the responses, and clear selection procedures and criteria will be established. Only short listed consultants will then be invited to submit technical and price proposals. The designated SIF staff member will evaluate and rank the technical and price proposals. The contract award recommendation will be submitted to the Executive Committee for approval.

25. For contracts below (US $ 5,000), the designated SIF staff member may obtain competitive proposals from at least three qualified consultants and make a recommendation based on a combination of technical and price considerations. Such recommendation should be approved by the ________.

26. In the case of consulting services to support microproject appraisal, some contracts are expected to be under US $ 500. Such consultants may be selected
from a shortlist generated from the SIF Data base on Consultants by the PE and approved _____.

27. In the case of consultants, periodical payments for provision of services may be made, upon rendering of services for the period in question. The period may be determined based on the nature and length of the consultancy. Where the consultant is required to provide a product, an advance payment of 20% may be made, and subsequent payments of 40% may be paid upon provision of the draft study or document, and the final payment upon provision of a satisfactorily revised study or document.

F. Bid Security and Performance Bonds

28. Bid securities will not be required in order to encourage contractors to provide bids.

29. Performance Bonds will not be required for contracts below [US $ 30,000].

30. For contracts above [US $ 30,000] a Performance Bond in the form of a Bank Guarantee will be required for between 5 to 10% of the contract price within ____ days after the receipt of the letter of acceptance of the successful bidder.

G. Modifications to Procurement Rules

31. Based on the findings of the technical audit stated above, the ____ will make recommendations to the Board for amendment to the procurement procedures, who may authorize such amendments in consultation with donors.
ANNEX 9: SAMPLE TERMS OF REFERENCE FOR THE TECHNICAL EVALUATION

Background

The Eritrean Community Development Fund (ECDF) has been established by a Decree of the Government of Eritrea as an autonomous non-profit agency to assist in the rehabilitation of smallscale infrastructure through community initiated and demand based activities. It is governed by a Board of Directors, chaired by the Vice- Minister of Local Government. A detailed Operational Manual governs the activities of the ECDF. ECDF is mainly financed by international donors, the single largest creditor being IDA.

The Executive Office located in Asmara is headed by a General Manager who is in charge of day to day activities and is accountable to the Board. The Finance and Administration Department in the Executive Office, headed by a Finance and Administrative Manger is responsible for proper accounting of funds received by ECDF. The Central Office consists of a Microproject Unit, an Administration Unit, a Finance and Accounts Unit, and a Logistics Unit.

ECDF will finance the implementation of many microprojects for the rehabilitation and reconstruction of local level infrastructure, selected and implemented by small local or grassroots level entities. Such entities in most cases will be comprised of members from the community and will be in charge of implementation. ECDF enters into Framework Agreements with each Implementing Agency (IA) which governs the terms and conditions for microproject implementation. It also defines the procurement and disbursement procedures that the IA has to follow. The IA is responsible for procurement of all goods, works or services required for microproject implementation and therefore is authorized to enter into the necessary contracts. The most common contracts are those that the IA enters into with a contractor to execute the works and with a supervisor who supervises the work as an agent of the IA. In some microprojects, the IA may be permitted to execute the works themselves. In some case, registered non-governmental organizations or other local government agencies may also act as implementing agencies.

Objective

The objective of the technical evaluation is to seek a professional opinion on the economy and efficiency of procurement conducted by Implementing Agencies at the end of each fiscal year from a qualified agency.
Scope

The technical evaluation will be carried out of a sample number of microprojects in differing regions at differing stages of the microproject cycle. The consultant would ensure that the sample also covers microprojects that have used different implementation modes. The consultant should visit sites of selected microprojects and discuss with all stakeholders, in particular community groups and NGOs, involved in microproject selection, identification and implementation to ensure a correct basis for his opinion.

In conducting the review, the consultant should pay special attention to the following:

(a) All funds have been used in accordance with conditions of the relevant Framework Agreements and consequent contracts, with due attention to economy and efficiency and only for the purposes for which the financing was provided. Relevant agreements refer to all Framework Agreements signed by ECDF with its implementing partners and all contracts entered into by the IA with other contractors, suppliers or consultants for the provision of works, goods or services required for microproject implementation.

(b) Goods, works, and services have been financed by the Implementing Agencies in accordance with the above relevant Framework Agreements and contracts entered into by IAs conform to acceptable payment procedures;

(c) Works financed under the Framework Agreements are of standard and acceptable quality;

(d) All necessary supporting documents, records and accounts have been kept in respect of all microproject expenditures by the Implementing Agencies; clear linkages should exist between the books of account and reports presented by such IAs to the Fund;

(e) All procurement methods have been conducted in a transparent and fair manner giving all potential participants at the local level a chance to participate in procurement-related activities in accordance with Procurement procedures acceptable to the IDA and agreed in the Framework Agreements; and

(f) The utility and reliability of the unit costs database in monitoring local procurement and guiding price determination for non-competitive procurement; and whether method(s) adopted to establish prices paid can be relied upon.

In addition to the evaluation report, the consultant will prepare a “management letter.” In this letter the consultant will:
(a) give comments and observations on the economy and efficiency of community-related procurement methods, systems and controls that he/she has examined during the course of his evaluation;
(b) identify specific deficiencies and areas of weakness in systems and controls that have come to his/her attention and make recommendations for their improvement in the procurement of works, goods or services by the IA;
(c) report on the degree of compliance of IAs to their Framework Agreements;
(d) communicate matters that have come to his/her attention during the evaluation that might have a significant impact on the implementation of microproject; and
(e) bring to the ECDF's attention any other matters that the consultant considers pertinent, particularly in relation to community involvement in procurement related activities.

General

The consultant would be given access to all legal documents, correspondence, and any other information associated with the project and deemed necessary by the consultant. The consultant or his/her authorized personnel should be permitted access to all infrastructure for inspection, provided reasonable notice is given to the relevant authorities in charge of management of facilities.
The following slides were developed as a Powerpoint training program for designers of Bank-financed projects.
Designing Procurement & Disbursement in Bank-Financed Projects with Community Participation
Objectives of Training Module

- Familiarize participants with Bank policies relating to Community Related Procurement (CRP);
- Identify issues in designing CRP;
- Understand how issues are addressed in Bank-financed projects; and
- Modify training module based on experiences of participants.
Agenda for Session

- Define CRP;
- Review Bank policies on CRP;
- Describe steps in planning CRP;
- Examine arrangements for implementing CRP in Bank-financed projects; and
- Share experiences & comments of participants.
What is CRP?

- Procurement
  - by,
  - on behalf of, or
  - from,
- a community (socially and economically disadvantaged individuals or other social groups, grassroots entrepreneurs or associations)
Why CRP?

- Greater economy and efficiency;
- Increasing community ownership and sustainability of project;
- Increasing local capacity and skills;
- Generating local economic and employment opportunities;
- Reducing burden of centralized procurement;
- Increasing speed of procurement; and
- Facilitating attainment of project objectives.
Bank Policies
Articles of Agreement &
OD 11.00 - 04 & Procurement Guidelines

- Economy and efficiency;
- All eligible bidders from member countries must be given an opportunity to compete in providing goods and works financed by the Bank;
- Development of local contractors in borrowing countries; and
- transparency in procurement.
OD 14.70
“... as NGO contracts are usually small and involve community participation, ICB and LIB are not normally feasible. Shopping or direct contracting is often most appropriate method of procurement. Direct contracting may be justified where an NGO is the only entity capable of carrying out an activity (e.g., maintenance of feeder roads in remote areas, or the transfer of a particular technology). Contracts with OS may need to reflect the fact that NGOs differ from commercial contractors...”
OD 4.15

“Procurement: When projects include social objectives, the procurement procedures and contract packaging should be adapted, as appropriate within the framework of the Procurement Guidelines...”
"Community Participation in Procurement"
(Para 3.15 of the Procurement Guidelines)

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 participation of local communities and/or local 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 these are efficient. The procedures proposed shall be outlined in the Staff Appraisal Report, President's Report and the Loan Agreement.
Policy Framework for CRP

- **ECONOMIC**
  - economic prices;

- **EFFICIENT**
  - accountability for use of funds;
  - procedure should result in increased sustainability of project; or facilitate attainment of social objectives;
  - may encourage development of grassroots contractors.

- **EQUITABLE**
  - transparency;
  - fair opportunity for all eligible and qualified contractors.
Procurement Planning
Objectives of Planning

- Planning should lead to:
  - an understanding of needs and priorities of targeted communities;
  - understanding of regulatory aspects relevant to community participation; and
  - determination of the suitability and capacity of communities for involvement in procurement

- Planning should result in:
  - project design suitable to skills and needs of communities; and
  - economic and efficient procurement.
Steps in Planning

• What will be procured?
• Who will procure?
• When will it be procured?
• How will it be procured?
What will be Procured?

- Identity sources for procurement
  - Estimate quantities
  - Separate into Goods, Works and Services
Who will procure?

- Community group or Intermediary
  - Efficiency
    - institutional aspects
    - flow of funds
  - Economy
    - access to best prices
  - Equity
    - fair opportunity
How will the Goods, Works or Services be Procured?

• National Competitive Bidding
• Other Procedures
  – Local Shopping
  – Direct Contracting
  – Force Account
  – Financial Intermediary
• Service contracts
If goods and works are suitable for, and communities have capacity to participate in competitive bidding, then select competitive bidding.

If communities do not have capacity then will it help to:
- simplify process
- simplify documents
- provide assistance (capacity building or intermediaries)

If not use other procedures
Implementing CRP
Simplifying NCB

- Use of intermediate facilitator
- Registration of qualified contractors
- Simplification of documentation
- Flexible packaging
Other Procedures

- Contractors are not interested; remote or scattered; small quantities.
- Where it increases project sustainability or achieves social objectives.
  - Capacity building
  - Strengthens local contracting industry
  - Improves quality of local services;
  - and so on.
Local Shopping/Direct Contracting

- Bank practices indicates the emergence of a more formal local shopping/direct contracting process;
  - less formal advertisement;
  - simplified but transparent procedures; and
  - mechanisms for monitoring and auditing (unit cost/rate database or technical procurement audits for CRP, e.t.c.)
Force Account

• Issues
  – lack of transparency
  – government arrangements for supervision inadequate
  – community-government relationship

• Permitted only when there is:
  – detailed description of works
  – set of established specifications;
  – a supervision team independent from management of project;
  – disbursements are made only upon completion of production targets.
Efficiency & Transparency

- Accountability for use of funds
- Quality of goods, works or services
- Transparency of arrangements
- Regulatory framework
- Support arrangements
Accountability for Use of Funds

- Community must be accountable for use of funds
  - Who is accountable?
  - Standards of accountability;

- Accountability of Intermediaries
  - Accountability towards communities;
  - Standards of accountability;

- Accountability of PIU towards communities
Mechanisms to Increase Accountability

- Beneficiary contribution and participation
- Unit costs data base
- Separation of decision making from handling of funds
- Payment against measured output
- Use of standard contracts
- Operational manuals
- Prior review
- Accounting and auditing
- Monitoring and evaluation
- Disciplinary Code for community
Quality of Goods, Works or Services

- Use of standard and pre-approved designs
- Periodical technical audits or assessments
- Capacity building/technical assistance
Dispute resolution process

- Equitable decision making
- Sharing of benefits and liabilities
- Equitable contribution and
  gender issues

Fair opportunity

- Availability of information
- Nature of information

Right to information

Transparency
Regulatory Aspects

- Procurement & disbursement regulations of the Borrower
- Willingness of Borrower to adapt (Ethiopia, Madagascar):
  - Depends on status of legislation (seek counsel)
    - Social Funds (Ethiopia and Eritrea)
    - Project Specific Regulation (Egypt)
    - New Legislation (Benin)
    - Covenants in the Loan Agreement
When Procurement Regulations Apply

- Thresholds;
- Prior review
- Complexity of requirements
- Requirements before communities can receive funds (registration, collateral and so on)
- Accounting requirements
- Auditing
- Disbursement processes
- Dispute resolution processes.
Legal Status of Community Groups/NGOs

• Status of community groups:
  – process for obtaining formal status; and
  – ability to enter into contracts.
Support Arrangements for Weaker Communities

- Capacity building
- Assistance by intermediary
  - Status of intermediary
  - Recurrent costs
  - Accountability of intermediaries
Schedule 1 of DCA (Works, goods, or services)
- Lack of counterpart funds
- Inability to advance: SAGSA
- Multiple SAS issues
- Get funds to the ultimate user

Disbursement
Bank Practice

- Use intermediary/banking facility
- Pay to the contractor
- Voucher system
- Simplified Special Account Procedure
Modified Special Account Procedure

- nationwide projects
- community participation
- multiple donor

- transfer of funds to regional accounts
- comingling of funds at decentralized level
- simplified SOE forms
ADVANTAGES

■ Amount to be transferred:
  • expenditures expected to be incurred in next ninety days to regional accounts;

■ Comingling of donor and Bank funds at regional level is acceptable

■ Bank is concerned only with funds at the central level and a coordinating body should monitor use of funds and report to the Bank.
Safeguards

- Acceptable budgeting, accounting, fund flow and auditing procedures;
- Acceptable monitoring and MIS systems;
- Need to develop a work plan (quarterly and annual) and a Funding requirement forms;
- Supervision at least three times a year or on a quarterly basis
Accounting and auditing functions
Preparation of Project Implementation Plan
Capacity building
Collection and analysis of information
Monitoring and supervision

Role of the Government
Role of the Bank

- Prior review of contracts
- Provision of technical assistance
- Supervision
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