1. Country and Sector Background

The experience of the war and genocide in 1994 made it clear that poor governance was at the root of Rwanda's tragic history. The Government of National Unity, acting within the framework of the Arusha accords, resolved that decentralization and democratization were necessary to reconcile the Rwandese people and to fight poverty. Building governance after the genocide began with a massive deficit in terms of institutions, and human, financial and material resources. Even before this, Rwanda had decades of unsuccessful efforts at community development stemming from the top-down approach in which programs were conceived, and with no prior consultation with local populations.

The main sector issues are now to :

Reactivate local people to initiate, implement and monitor decisions and plans that concern them: Take account of local assets, needs and priorities; and transfer power, authority and resources from central to local government;

Strengthen accountability and transparency: Make local leaders directly accountable to the communities they serve and establish a clear linkage between the taxes people pay and the services that are financed by these taxes;

Enhance responsiveness of Public Administration to the local environment: Strengthen capacity in order to place the planning, financing, management, and control of service provision at the point where services are provided;

Improve the predictability of funding, and strengthen economic and financial planning and management capacity at local levels so these are the driving forces for social, political and economic development.
Scale out decentralization and democratization (Rwanda’s approach to CDD) through a set of coordinated, coherent processes.

Government took interim measures in 1998-2001 under a “National Program for strengthening good governance for poverty reduction in Rwanda.” This produced new legislation on decentralization and local community development, public sector and administrative reform, measures for strengthening the Parliament, rehabilitating the justice sector, promoting National Unity and Reconciliation and the protection of human rights, promoting gender equality and women’s empowerment, demobilizing and reintegrating the army, and improving economic and financial management to stabilize the economy. The follow-on program during 2003-2007 emphasizes: institutional strengthening and coordination, national unity and reconciliation, peace and security; social welfare and empowerment; promotion of the private sector and civil society, and economic planning and financial management.

Donor-supported pilot programs, such as the CRDP, have led to positive developments. There is now a need to coordinate and harmonize these interventions to reinforce and further support the CDD process through more effective decentralized management, sustained local participation, and, most importantly, connecting planning with budgeting functions. Presently, there is a disconnect at local levels between planning of activities and the required financing, so that budgetary constraints are not factored in. To manage the change process for development effectively, strengthening of the institutions is also needed in areas of human resources, facilities, equipment, technologies, networks, and coherence across parts of the legal framework, taking into account the severe capacity shortages at all levels: public sector, private sector, and civil society.

2.2 Government Strategy

Government is already working on priority interventions in the inter-related areas of (i) decentralization, (ii) community development, civil society capacity building and advocacy, and (iii) fiscal decentralization. These three combined constitute the strategy for CDD. The policy and institutional framework are described in Annex 11. Highlights of the strategy are immediately below.

Decentralization Policy

The Decentralization Policy (May 2000) formulated by the new (created in 1999) Ministry of Local Government Administration and adopted by the National Assembly is now at the heart of Rwanda’s poverty reduction strategy. The enabling laws, the outline of an implementation strategy, the creation of local government and deconcentrated administrative structures, and local elections have all been accomplished.

The decentralization framework provides for four levels of local administration: The Provinces or prefectures (Intara), Districts (Akerere), Secteurs (Umurenge) and Cellules (Akagare). The Province is a deconcentrated entity with responsibility to coordinate the planning, execution and supervision of central government programs within its jurisdiction, and monitor and evaluate the District activities on behalf of the central government. The District, the legally decentralized government entity with specific functions, services and resources devolved to it, is the center of economic and social development. Both the Secteurs and Cellules are administrative entities. The Cellule is the level closest to the people, where community needs are identified. The District has a coordinating role over the Secteur. Similarly, the Secteur has a role to coordinate the activities of the Cellules' activities. As the capacities of the councils improve at the Secteur and Cellule levels, the Secteur will take on some of the Provinces' current responsibilities, and the District will transfer some administrative functions to the Secteur. Ultimately the Province level will be phased out. There are some slight variations of the general framework for urban areas.
The March 1999 national election already established decentralized structures. Each of Rwanda’s eleven Provinces elected community representatives from the *Secteur* and *Cellule* levels; and councils and executive committees at those levels were also established. In March 2001 the population elected District members of city councils, with their respective Executive Committees.

1. Law no. 4/2001 of 13 January 2001 on the organization and function of the Districts,
2. Law no. 5/2001 du 18 January 2001 on the organization and function of urban centers,
3. Law no. 7/2001 du 19 January 2001 on the organization and function of the City of Kigali,
4. Complementary ministerial decree 003/07.05 of 22 March 2002 on the organization and function of the CDCs in the three institutions cited above.

Development programs are now a responsibility of the Community Development Committees (CDC) of the Cellules, Secteurs and Districts. A District CDC is one of two sub-committees of the Executive Committee and manages the formulation of District Five-Year Development Plans and their implementation.

The legislation also provides for gradual devolution of service delivery to District governments. Because the decentralization process is still at an early stage, the respective responsibilities for a number of functions remain unclear: some are performed by Districts, while others still by sectoral ministries. To address the devolution of ministerial functions, an inter-sectoral coordinating committee has been created to identify service components to be transferred, reassign funding for services, and establish the timing of these actions. The committee is composed of Secretaries General from concerned ministries, representatives from Provincial administration, local governments, NGOs and other partners. The focus is on governmental services as well as NGOs who play an important role in service delivery. The Ministry of Finance is refining systems to connect this planning with the fiscal decentralization policy that is also in early stages of implementation.

**Community Development Policy**

The Community Development Policy and Strategy (May 2001) incorporated within the decentralization policy and laws provides the legal basis for grass roots governance. A premium is placed on social inclusion and consensus building in the design and implementation of development programs and projects. Rwanda's institutionalization attempt recognizes that communities are best to identify and prioritize their needs. Thus, the development planning process should start with assets inventory, definition of needs, and development plans by the *Cellule* CDC, to be consolidated with other *Cellule* plans at the *Secteur* level, and presented to the District CDC. With input from the technical sector departments (e.g. Education) and the District Executive Secretariat, the District CDC compiles a Five-year District strategic development plan at its level, on which the District has final decision authority. The plan is presented to the Provincial Coordinating Committee to ensure the planned projects meet their sector-specific policy requirements, to be transmitted to MINALOC and the Ministry of Finance. The Provincial Heads of department for the sectors also present the Districts' sector plans to their line ministries at the central level. The process is iterative, and as situations and priorities change, the five-year plans are reviewed and updated. *Diagram 1* depicts the bottom-up development planning structure, from *Cellule* to District level. Noteworthy are the formalized channels for representatives of women, youth, and other civil society associations.
Diagram 1:

Organigram of the CDD Structure in Rwanda: District and Local Levels

Fiscal Decentralization Policy

Key to the policy is to connect planning of activities with mobilization of actual resources. Decision making is being devolved to the local authorities who, with the exception of Kigali, presently lack a revenue base to finance programs arising from their decisions. The Fiscal Decentralization Policy (May 2001) aims to broaden the revenue base for local governments over the long term, by devolving authority to levy taxes to that level and re-directing revenues from central to local government. Rwanda's long term vision is that Districts will create a sustainable finance system that combines revenue collection, central transfers, borrowing, grant funding, Districts' counterpart funding, and contributions from partners such as beneficiary groups or associations. Managing this requires rigor in financial management by local governments and thus considerable strengthening of skills, where at present there is poor understanding of basic accounting procedures and few five-year plans contain budgets.

Currently, the Districts’ revenue is generated mainly by flat taxes or fees imposed on small-scale activities.
In this way, revenues are static and do not reflect changes in levels of economic activity within the Districts. Nor are major economic activities within Districts’ jurisdictional areas subject to local taxation; thus there are no direct contributions to the local revenue base. The new fiscal decentralization policy introduces criteria for the redistribution in tax sharing with central government, for empowering local authorities to set tax and license rates and levy service fees, and devolving the property tax to local government. Some changes are underway, as laws have been passed that allow local governments to raise their own taxes on licenses and rents. Legislation is pending to allow Districts to collect revenue on property. Districts have recruited revenue collectors, and collection has started in some Districts. Furthermore, inter-governmental transfers are being applied to fulfill local service responsibilities and to support local governments’ development investments. The Government of Rwanda transfers 1.5 percent of domestic income for the administration of the Districts. The transfers are based on population, size of District, poverty levels, and the ability to raise own revenue.

The Government of Rwanda is treating the development of infrastructure finance separately from recurrent costs because of the longer life of capital investments and the volume of resources required for a single infrastructure. Currently, capital investments -- indeed most development investments -- at local level are funded either by small transfers from the Districts’ operating budgets to the development budget, or by parallel donor funding which does not enter into the Districts’ budget. Government recognizes that this is insufficient in light of pressing social and economic development needs, and not sustainable over time. Government proposes to begin building the foundation for sustainable infrastructure finance through the community development planning systems outlined above, through multi-year capital budgeting that includes debt capacity analysis, and restructuring local government budgets by reaching agreements on how donor funds can be integrated into local development budgets. Government is exploring constructing a sliding scale to calculate a higher level of grant funding for local governments which are comparatively “poorer,” according to pre-specified criteria. Proposals for various formulae exist, but are not yet operationalized.

The grant component of the development finance system is to be channeled through a new, Common Development Fund, "CDF," established in May 2002 (law no. 20/02; see Diagram in Annex 11). Government encourages all donors to plan eventually to administer their funding for community based development through the CDF and has already started to make its own transfers. In 2002, 2.5% of central tax receipts were transferred to Districts through the CDF mechanism, and 5% were transferred in 2003. The CDF is managed by a unit in MINALOC, reporting to a Board of Directors. Once capacity is built, the CDF should start transferring funds to Districts on a project support basis, i.e. funding on project presentation. The CDF will use the planning processes and the decentralized entities described above.

Presently, the majority of planning exercises from Cellule to District level are weak in budgeting, and are not conducted with a sense of fixed envelope. Mechanisms to address this have been initiated, as the Provinces and Districts began in 2001 to develop budgets in the Medium Term Expenditure Framework (MTEF) of three-year intervals. The aim is to consolidate this as a regular exercise -- from Cellule to District levels -- in a coherent system of resource allocation coordinated by the CDCs. The methodology revives a traditional Rwandese practice and cultural value of collective action to solve problems ("ubudehe mu kurwanya ubukene"). The novelty under the new approach is the MTEF that connects Cellule MTEF through the District level MTEF, ultimately to inform the Ministry of Finance which shapes the national budget.
2. Objectives
The Decentralization and Community Development Project (DCDP) will consolidate a framework in four entire Provinces and two Districts in a fifth Province, to boost the emergence of a dynamic local economy, through communities who are empowered to lead their own development process under strong local government. This is a key plank in the national poverty reduction strategy and is underpinned by the Government’s decentralization policy. The project therefore contributes to Rwanda’s long term goal for decentralization, a realigned mandate for central government, through the empowerment and improved accountability of local governments and communities.

The short term objective is for the DCDP to scale out validated project experience in the country, particularly by extending the community-driven development (CDD) strategy of the precursor Community Reintegration and Development Project (a LIL), from 11 to 39 Districts. The specific development objectives are to: (i) strengthen District capacity to lead a process of planning and consultation with local communities, translating their development priorities into sub-projects which are incorporated into Districts’ strategic development plans; (ii) develop a matching grants system to finance the sub-projects; (iii) validate procedures for decentralized project cycle management and financial management, through implementing the sub-projects, to replicate as basic operating procedure in Rwanda’s overall decentralization program; and (iv) introduce and promote public awareness programs.

3. Rationale for Bank’s Involvement
The value added of the new project is that it will carry out the CRDP approach through mechanisms which are rooted in the new policies and institutional framework, and boost the potential impact of the Districts on poverty reduction across a greater geographic coverage.

The Government envisages a comprehensive approach to decentralization and community development as described in previous sections. However, this approach may not receive adequate attention because of the real or perceived possibility that the public sector infrastructure would not be sufficiently capable and fiscally able, and that the linkages between the public and civil society groups would not achieve mutual trust and transparency. The Bank may therefore be able to reduce these risks through:

- The multi-sector dialogue established with the Government through the CAS and ongoing projects
- The Bank’s global experience in institutional reform projects
- The Bank’s ability to work with both the central and decentralized levels of government
- The existence of Bank sector-specific operations that can help induce local demand for investments, thus promoting the project’s financing mechanism among Districts and communities.
- Assistance in linking the project to the overall monitoring of progress under the PRSP.

In addition the World Bank:

- offers high level technical expertise (and oversight) to provide an element of accountability and transparency in the operations
- extensive experience with community-driven approaches and partnership between governments and NGOs, and so is in a position to advise the Government on the advantages and disadvantages of the project design and in-time quality enhancements as the project's progress is monitored on an on-going basis
- has an ongoing relationship with Government, in which the technical and financial support for, and supervision of the CRDP operation, are seen by the Government and potential foreign donors as essential elements in promoting operational success and confidence in the integrity of the proposed project.
4. Description

The project includes four components: (1) Institutional Capacity Building, (2) Information, Education and Communications, (3) Community Development Initiatives, and (4) Program management, monitoring and evaluation. The project design takes into account Rwanda’s dynamic, yet somewhat unbalanced, post-conflict environment characterized by severe local capacity constraints and an increasing volume of external funding that potentially can be tapped by proactive stakeholders at District and local levels. The project will be implemented through the existing administrative and civil society infrastructure, and it places a strong emphasis on capacity building, information/communications, and “learning by doing” through managing development sub-projects and observing their tangible results. Finally, the project capitalizes on the great familiarity with the CRDP among policy makers and population alike, who consider it the most effective approach to CDD in Rwanda and wish to scale out the benefits it brought to the initial 11 Districts. Given the pivotal role the Districts play in Rwanda’s CDD strategy, they are the project’s entry point, most specifically, their strategic development plans.

Component 1: Institutional Capacity Building (US$9.7 million). The Project will support the Government’s decentralization policy by strengthening institutions’ and communities’ capacity to plan, implement, manage, finance, and maintain development activities. Through this component, the project will contribute to the establishment and improved management of control mechanisms to improve accountability and transparency of the local administrations vis-à-vis the communities they serve. The project will also support and strengthen participatory planning systems to allow communities to participate in development planning and provide mechanisms for targeting the most vulnerable groups. Activities to be financed by the project include a broad spectrum of training workshops and on-the-job training at all levels of implementation – national, Provincial, District, Secteur, and Cellule levels – according to identified needs.

Training programs for 4 people at MINALOC, a total of 60 Province administrators for the 5 Provinces and 390 District administrators for the 39 Districts, as well as civil society groups will concentrate on: planning; participatory assessments of assets and needs; communications techniques; proposal writing, including budget estimates; program management; financial management; procurement; screening to offset risk of detrimental environmental or social impact; monitoring and evaluation; and conflict resolution. At the Secteur and Cellule levels, the project will provide training to 631 Secteurs and 3,314 Cellules, mainly in participatory planning and techniques to identify and reach consensus on development priorities.

Component 2: Information, Education and Communication (US$2.4 million). This component will develop and implement an Information, Education and Communications Strategy (see guidelines in Annex 12) to support the process of decentralization, specifically to inform and mobilize the population regarding the project through a two-way process: from the top down to Provinces, Districts, Secteurs, Cellules and communities; and from the communities to the Districts, on to the Provinces. Both directions in the information flow are of equal importance to enhance participation at all levels. The component will aim to inform and educate different players at all levels regarding the objectives, activities and modalities of decentralization and the relevant laws and regulations, so that populations are aware of their rights and are included in the processes. The communications strategy will also support the project’s participatory monitoring and evaluation, including "social audits" for feedback from the communities on project process and results.

Component 3: Community Development Initiatives (US$5.8 million). This component will finance grants to participating communities in the 39 supported Districts for community-based sub-projects. The sub-projects to be financed will have been identified in a participatory planning process, resulting in
agreement on Districts’ Five-Year Strategic Development Plans and One-Year Action Plans, to meet the priority needs of the respective communities. Sub-projects would include: education, health, nutrition, social protection, income-generating activities, youth skills training, HIV/AIDS, community roads, and water supply. This component will complement the training activities financed under Component 1, by providing decentralized entities and communities the opportunity to “learn by doing” during the planning, preparation, and implementation of the sub-projects. It will assist the Government to strengthen mechanisms to manage decentralized capital development. The component will also finance the design and piloting of income-generating activities. [Details to be finalized during Appraisal.]

Component 4: Project Coordination and Monitoring (US$1.6 million). The project will adopt a decentralized approach to coordination and management. It will support a small Project Coordination and Monitoring Unit (PCMU) at the national level within MINALOC, and four Project Provincial Coordination Offices (PCOs) to assist in the five Provinces. The PCMU, in collaboration with the Provincial offices and other partners, will be responsible for the overall monitoring and evaluation of the project’s progress. The PCOs will be responsible for outreach and technical assistance to the Districts in their respective Provinces. The project will assist the PCMU and the PCOs to coordinate and monitor local activities, and provide training. The project will finance: a National Coordinator, a Procurement Specialist, a Chief Financial Officer, an Accountant, a Civil Engineer, a Project Officer in Charge of Coordination and Training, and a Project officer in Charge of Communications. Consultancy services will be financed under the project for technical and financial audits, two external evaluations—at mid- and end of project, and studies on decentralization process. The project will also finance the purchase of vehicles, equipment, materials and the associated recurrent costs to complement counterpart funding, as well as supervision missions by the national project team, both at the national and provincial levels, particularly for the newly integrated provinces and districts. Phasing of project activities at the decentralized levels, and the roles and responsibilities of the project unit at central level vis-à-vis the Provinces, will occur based on terms of reference agreed upon within the government team and to be spelled out in the operational manual.

To support MINALOC Planning Directorate in its role as national coordinator of all programs and projects which support Rwanda’s decentralization and community development program (including but not limited to the DCDP), the project will complement Government funding and finance the purchase of vehicle and equipment and the associated recurrent costs.

Project Preparation Facility (PPF) Refinancing: (US$0.5 million). The PPF will finance consultant services and studies to: assess the districts’ capacity, fiscal/financial decentralization, and the construction sector for small- and medium-scale enterprises; harmonize CDD components across IDA-financed projects in Rwanda; and setting-up the MIS. It will also finance training and workshops at national, provincial and district levels, as well as support to the Project preparation national team.

Indicative Costs and Project Financing Plan

1. Institutional Capacity Building
2. Information, Education Communication
3. Community Development Initiatives
4. Project Coordination and Monitoring
5. PPF Refinancing

5. Financing

Source (Total (US$m))
BORROWER/RECIPIENT ($0.60)
IDA GRANT FOR DEBT VULNERABLE ($25.00)
Total Project Cost: $25.60

6. Implementation

The most important features of the project are (i) the decentralized structure and the distribution of responsibility between government and communities to manage and execute the project, and (ii) the large range of stakeholders in the institutional arrangements. The project works with and is executed through the normal channels of government, so it implicates the Districts, Provinces and central government. The Ministry of Local Administration, Information and Social Affairs will have overall responsibility for project oversight and coordination.

4.1 Institutional Arrangements

The institutional structure of Rwanda’s decentralized administration is described in Annex 11. In keeping with the political objective that seeks dynamic, bottom-up input to the national development agenda, the project aims to assure effective capacity at Cellule and Secteur levels to mobilize popular participation in identifying development priorities and to implement the Community Initiatives (Component 3).

The project support will be primarily concentrated on the District Level, and especially on the District CDCs, as they will be the principal executing agents of the Community Development Initiatives which should correspond to the priorities expressed by Cellules and Secteurs. These sub-projects will be selected from the Annual Action Plans in the Districts' Five-Year Plans. By legal mandate (Laws no. 04/2001 and 05/2001 regarding function of Districts and urban centers) the CDCs formulate the Five-Year District Development Plans and the Annual Plans and budget. The CDCs will be responsible in the DCDP for: (i) ensuring the relevance, technical and financial soundness of all activities contained in the development plan; (ii) identifying sub-projects for IDA co-financing; (iii) preparing the detailed estimated budgets, procurement plans, etc. and conducting environmental and social screening to conform with IDA requirements; (iv) supervising implementation of the sub-projects, most of which will be contracted to local firms e.g. for infrastructure construction; (v) managing the flow of funds for sub-projects; and (vi) organizing capacity building activities at all levels of the District.

The Provinces by mandate coordinate, monitor and evaluate activities of Districts in their jurisdiction. It is chiefly the Provincial Coordinating Committees (PCC) who (a) ensure that District plans are feasible and follow national sector policies; (b) consolidate District plans and budgets into a Provincial Development Plan (PDP); (c) provide technical advice and assistance to Districts on a demand-led basis; (d) monitor the technical quality of infrastructure sub-projects; (e) monitor procurement activities at District level and facilitate the appropriate processes; (f) monitor and evaluate the budgets of District plans; and (g) commission technical and financial audits as required. The DCDP’s entry point at Provincial level will be the PCC. In particular, the Provinces will have accountability for (i) financial control and internal auditing of sub-project accounts; (ii) technical audits on sub-projects; and (iii) technical assistance to the Districts upon request. Provincial administration examines the conformity of decisions taken by Districts to the national policies, but Provincial authorities have no veto power over Districts' decisions on sub-projects they identify for funding.
At Central Level, MINALOC is responsible for the decentralization and community development policies; technical oversight; and coordination, harmonization and quality/performance improvement of programs and projects (donor, civil society, private sector and government interventions) through protocols of collaboration, and by disseminating and training in standards and critical guidelines (e.g. Manual for Financial Management at Local Administration). The locus for this oversight is MINALOC’s Directorate of Planning which reports to the Vice Minister for Good Governance and the Vice Minister for Community Development. The Planning Directorate is assisted by the Coordination Committee, le Comité de coordination du suivi des activités de décentralisation. The Committee was created as a consultative infrastructure to facilitate the application of decentralization by all line ministries. Coordination Committee members represent all levels of decentralization: central, Province, District, Secteur, Cellule. The Coordination Committee will participate in the annual reviews which the Government and development partners conduct on the DCDP.

4.2 Implementation Arrangements

Project oversight

The project will be structured to place responsibility at District level, specifically the CDCs, to manage and execute the Community Initiatives component. The Provinces -- specifically the PCCs -- will support the Districts' sub-project execution with training and other capacity building activities tailored to the technical skills required, e.g. participatory planning methodologies, budgeting, procurement, project monitoring. Technical assistance will be coordinated with the national Decentralization Implementation Program of Government, and relevant actions of other donors. The consequences of this decentralized structure for project management and execution are that MINALOC requires only a small team at central level for (a) overall project oversight and coordination, and (b) disbursement of IDA funds to the Districts to finance their sub-projects, and to finance various capacity building activities.

In addition to the PCMU’s oversight, the Provinces will also have technical oversight responsibilities, and so will the Districts in regard to progress in the sub-project cycle. Project oversight responsibility ends with the CDCs of the Districts.

- A Project Coordination and Monitoring Unit (PCMU) will be formed as a semi-autonomous unit within MINALOC for overall oversight, coordination and monitoring of the project. The PCMU will be attached to MINALOC’s General Secretariat and work closely with the Department of Planning and the Coordination Committee, and the Provinces and line ministries. The PCMU will: (a) assist the CDCs in all aspects of their responsibilities, although this will be delegated to the extent possible to the PCOs (see below); (b) clear CDC funding proposals and co-sign grant agreements between MINALOC and the CDCs; (c) coordinate the different project components at all levels of intervention, (community, Cellule, Secteur, District, Province and National) with the national framework of focal points, the sector ministries, and other development partners; (d) develop DCDP annual work plans and budgets; (e) establish a decentralized monitoring and evaluation system and ensure effective monitoring and evaluation of the project; (f) manage financial disbursements following agreed procedures of approval and endorsement to Districts and Provinces; (g) develop a capacity building program, with input from and to be carried out mainly by the PPOs; (i) manage the overall finances and administration of the project; (j) compiling and circulating quarterly and annual reports on the project, and (k) organizing studies, audits and evaluation reports.

The key positions of the PCMU will be as follows:
The National Project Coordinator will report to the Secrétaire d'Etat of MINALOC and will be responsible for the strategic planning, overall coordination, and supervision of the project, ensuring that it supports Government decentralization and sector policies. The Project Coordinator is also responsible for developing and managing mechanisms for coordination or protocols of collaboration with co-operating partners at policy and operational levels. Partnerships will be based on agreed policy and operational guidelines endorsed by the Government, to ensure complementarities between interventions. The National Coordinator will be responsible for the reporting of all the Project activities necessary to support the development of Provinces, Districts, Secteurs and Cellule to manage their own development effectively.

A Technical and Procurement Specialist will be responsible for the development and operation of systems which ensure that the functions of project appraisals, design, costing and budgeting, procurement, contract management, project management and maintenance are implemented and managed in the most effective ways conforming with agreed procedures.

Capacity Building, Participation and Communications Officer, supported by the Provincial Coordinating Offices, will be responsible for the planning, coordination, organization, monitoring and evaluation of the capacity building programs at all levels, including national, Province, District, Secteur, Cellule and communities, as well as for other programs using CDD approaches. The Officer will also be responsible for the development and operation of a communications strategy for the Project. This strategy should have national coverage.

Financial Controller and Support Staff will be responsible for the financial administration of the Project according to agreed procedures.

The Ministry of Local Administration and Social Affairs, as the umbrella organization for programs supporting the decentralization and community development policies, will regularly organize consultations among the various programs and partners to exchange lessons learned, and to harmonize operating procedures and financing mechanisms particularly affecting District level. The ministry will ensure that the CEPEX, CDF and other national agencies as relevant are updated on the progress of the DCDP. As the DCDP reinforces management and implementation capacity at District and Provincial levels, it will be strengthening the same mechanisms that will ultimately implement the CDF when it becomes fully operational.

During project preparation, MINALOC organized a series of workshops at national and local levels to learn from the experiences gained from all the interventions in order to harmonize the institutional arrangements and implementation mechanisms, in particular at the District level. These lessons are being used to fine-tune the design of the DCDP during Appraisal.

Executing agencies and project management

The investment activities of the project will be will be mainly of two types: the capacity building actions in Components 1-3, and infrastructure sub-projects and income generating activities under Component 3. Activities will be executed by public and private organizations, and civil society.

District CDCs execute and manage infrastructure sub-projects and income generating activities.
A sub-project approval committee will be established in the District CDCs to screen and approve proposals from the District Annual Action plans, for funding under the DCDP. Sectoral focal points will validate proposals to ensure their conformity with sector strategies. The Districts will subsequently submit these proposals via the PCCs to the PCMU. Once the PCMU -- on advice from the Provinces -- clears the proposals for their technical aspects (e.g. environmental mitigation aspects), an agreement is formalized between the PCMU and respective Districts. The agreement attaches the project description, including the work program, budget and procurement plan, performance indicators, and maintenance plan when relevant. Once the PCMU transfers funds to the District accounts, the CDCs proceed with the processes of tendering, preparation of consultancy contracts, disbursement of funds to execute the sub-project. The funds the District receives from the DCDP will be complemented with contributions from the communities (as stipulated in the respective sub-project budgets) and other sources, when relevant, to ensure that adequate resources are put at the disposal of all stakeholders.

- **Provincial Coordinating Offices manage part of the capacity building activities in addition to their oversight role.** The project will establish four Provincial Coordinating Offices (PCO) to support these Provinces and two Districts in a fifth Province. The function of the PCO will be to support the PCCs to: (i) assist to plan, implement, manage, monitor and evaluate capacity building activities at different levels of intervention (Cellules, Secteurs and Districts); (ii) receive the requests for funding from the Districts, ensure that agreed criteria have been applied and endorse recommendations to the PCMU for the funding of sub-projects; (iii) facilitate the provision of technical assistance, usually contracted in from individual consultants or firms, to Provinces and Districts; (iv) ensure that the financial management of project funds follows agreed procedures and arrange financial audits as necessary; (v) monitor procurement, ensure that it follows agreed procedures and arrange procurement audits as necessary; (vi) facilitate and ensure regular technical audits; (vii) report on project activities in the Province as required; (viii) coordinate CDD Project activities with other interventions, NGOs, sector ministries and donors in the Province; and (ix) assist with the monitoring and evaluation of project interventions in the Province, ensuring value for money, community participation in development and assessment of the interventions’ contribution to reducing poverty.

The project technical assistance at Province level will be led by the **Project Provincial Officer** (PPO; hired on longterm consultancy contract by the PCMU) who will be responsible for ensuring coordination of the project's investment activities with other development interventions in the Province. The PPO will also support and strengthen the PCC so that it functions effectively. The PPO will ensure that Districts are facilitated in project cycle activities as requested by them.

The project will employ two **Infrastructure Specialists** who will work across the 5 Provinces. The Infrastructure Specialists will support the Provincial teams in their advisory role to Districts. They will provide specialist input and information to Districts on sub project design, especially regarding infrastructure and procurement; monitor the sub projects in the Districts on a regular basis; ensure the technical quality of sub projects; identify capacity building needs; facilitate capacity building programs; and develop systems which will facilitate the processes of the project cycle.

An **Accountant** in each of the PCOs will monitor District DCDP accounts, will ensure that Districts follow the agreed financial management procedures and will identify capacity building requirements at the District level.

**Development and financial management advisors** (short-term consultants) will be available to Districts and financed by the project. The Advisors will have a mix of skills according to the needs of the Districts. These skills will include: participatory facilitation, adult education, technical, financial
management and accounting, procurement, district planning, and human resource management. Upon credit effectiveness, Advisors may initially be physically based in some Districts, until they are evaluated to have adequate capacity to manage their own community development activities and finances. With assistance from the PPOs, the Districts will contract the consultants themselves, and use DCDP capacity building funds to pay for the services. It is envisaged that the project mid term review will propose whether or not these consultancy services should continue to be available to the Districts.

Civil society and private sector organizations will participate in project execution through two main channels: (i) on-granting arrangements to implement the infrastructure projects and training, whereby organizations that have the technical expertise in construction, focus group mobilization, capacity building, and other pertinent technical expertise and who have a track record of working effectively with grass-roots civil society groups -- including the most vulnerable population -- will be solicited by the Districts or Provinces to submit proposals, explaining how they will manage the on-granting arrangement and the types of organizations and content areas that they plan to support; and (ii) implementing the Community Initiative sub-projects: as described elsewhere in this document, civil society participates in identifying development priorities, contributes in cash or in kind to infrastructure sub-projects, and monitors and evaluates sub-project processes and results.

Procurement

For quick disbursement under the project, a simplified mechanism will govern the flow of funds (see Annex 6). The law authorizes the District and city councils to create ad hoc procurement commissions for quality control of procurement processing. The procedures applied under the DCDP will conform to the laws and regulations of Rwanda and the regulations of the World Bank.

Operational Manual

An Operational Manual has been prepared with financial support from a grant provided by the Japanese government for the preparation of this project. The draft Operational Manual was adopted by the government and submitted to the Bank in January 2004. It will be refined during project Appraisal. The manual describes in detail the institutional and implementation arrangements for the project, including the roles and responsibilities of all key stakeholders. It defines the procedures for accessing project funds and the criteria for the selection and approval of work plans. The manual spells out the contractual arrangements between MINALOC and the implementing agents for the project, and includes standard contracts to be utilized. The manual defines financial management arrangements, procurement procedures and thresholds, and reporting requirements.

7. Sustainability
Prospects are strong that the benefits and results of this project will be sustained. The measures that are being taken are chiefly:

- **Institutional sustainability:** The project is executed through the existing government and administrative infrastructure, whose capacity is reinforced as a foremost objective of the project.

- **Financial sustainability:** A realistic cost-recovery plan must be established for the infrastructure sub-projects and approved by the CDCs before the applications are accepted for financing. The probable impact of these recurrent charges on the various sector ministries (e.g. education for recurrent costs of schools) will be a focus of attention for the project. MINALOC is working with the other ministries on an overall strategy regarding recurrent costs, taking account of possibilities for the new
funding allocation mechanism to top up Districts which are under-resourced.

- **Social sustainability:** The confidence level between local populations and local administrators is the key element in this project. The project will assist the authorities to gain this confidence by (i) providing efficient and transparent service; (ii) having local populations participate in decision making on resource use in the Districts; (iii) promoting interactions, communication and exchange of information to encourage a "climate" of confidence between the population and the local administration, as well as within the population itself.

- **Political sustainability:** The Government's commitment to decentralization and community development is primordial to sustain all the above. The project will support the translation of policy into tangible action that demonstrates the acceptance of local solutions to local problems, within an enabling environment for popular participation in planning, execution and monitoring development projects. International comparisons (Ndewga: Decentralization in Africa: A Stocktaking Survey, World Bank, November 2002) measured the extent of decentralization by three indices: political, administrative and fiscal. Rwanda was rated at the moderate to high level on all three counts.

8. **Lessons learned from past operations in the country/sector**

Rwanda has incorporated into the proposed project design the validated experience of the CRDP in that country, and lessons from CDD and decentralization programs implemented in a large number of countries; namely the need for:

- Demonstrating commitment at the highest level of government and civil society for the enabling environment of institutional and policy (CDD) reform;
- Developing capacity systematically through intensive support to institutions at local and national levels, to sustain the whole system of intergovernmental relations;
- Recognizing that local level participation is necessary but not sufficient to sustain development initiatives: central Government needs to be proactive in monitoring, technical assistance and other support;
- Adopting a differentiated approach in mobilizing society since there is a broad spectrum of technical competence, and interest and capacities for social engagement.

The fundamental lesson of the CRDP is that certain features of a decentralization strategy can be realized even in a country with as tragic a history as Rwanda. The CRDP developed socio-economic micro-projects which galvanized a common vision and a common goal within severely disrupted communities characterized by displaced and non-displaced Rwandese, ethnic mixtures, and impoverished households, many of which were further weakened from the imprisonment of household heads and from effects of HIV. The CRDP’s most telling success is that it allowed Rwandese of all walks of life to talk to each other again and to engage in local development around common interests, largely overcoming ethnic and other constraints.

Preparation of the CRDP in 1998 coincided with broad-ranging Presidential consultations with villages, meetings of the National Unity and Reconciliation Commission, and the process that generated the PRSP. All of these revitalized a participatory ethos, but the CRDP was the test case because it tried to implement something on the ground. Success was powerful – some Districts implemented sub-projects for an annual total value of US$ 400,000 by project close – even despite disruptions caused by the country’s transition into the new regulatory framework for decentralization and community development. For example, while the CRDP was under implementation, the new laws redefined relationships between the CDCs and the District mayors, and redrew the boundaries of the former municipalities to create fewer entities, renamed
“Districts”.

The second lesson of the CRDP is that to achieve results, there must be systematic and intensive training and capacity building of stakeholders. This is also the lesson from other projects in the World Bank portfolio which attempted to disburse through CDCs without intensive capacity building. All the other projects ran into disbursement problems. One project, in the water sector, remedied this by sub-contracting the CRDP to manage its activities in Districts where the two projects were both present. The new, Multi-Sectoral HIV/AIDS Project drew lessons from this and has already arranged to disburse community grants through selected Districts who participated in the CRDP.

Other important lessons are derived from international experience of CDD, that its potential is greatest for goods and services which are small in scale and not complex. These are activities within the management capacity of community organizations and which require local cooperation: common pool goods (e.g. surface water irrigation systems), public goods (e.g. local road maintenance), and civil goods (e.g. public advocacy and social monitoring in the campaign against HIV/AIDS). The necessary elements for sustainability are: (i) demand-based approach, articulating priorities defined by the people themselves and expressed through community contributions; (ii) social mobilization and the organizational capacity of local community groups; and (iii) financial viability. Significant community contributions (including in cash) toward initial capital cost and, in many sectors full recovery of operating and management costs, promote rationality in the selection of options and contribute to the sustainability of community-driven actions.

The lessons from decentralization – defined broadly as the transfer of public authority, resources and personnel from the national level to sub-national jurisdictions – are many, as this has been a recurrent theme in African countries since independence. The impetus for decentralization stems from various factors: sub-national claims for greater autonomy as an extension of democratization; governments who are pressed to shed functions and commitments due to external and internal demands for a leaner, more efficient and enabling state; governments who are eager to decentralize authority and resources because of legitimacy concerns over their poor performance; and from major development donors who promote decentralization to improve governance and service delivery. The lesson is that the relative significance of these respective factors in any one country may well predict the extent to which decentralization succeeds. When reviewing the policy framework for decentralization, it is not sufficient to examine only decentralization-specific laws. Also important, for consistency, is related legislation mandating service delivery, civil service, budgeting.

Research has shown that successful decentralization requires some degree of local participation. Sub-national governments' proximity to their constituents will only enable them to respond better to local needs and efficiently match public spending to private needs if there is some information flow between citizens and the local government. On the other hand, the process of decentralizing itself enhances opportunities for participation by placing more power and resources at a closer, more familiar, more easily influenced level of government. In environments with poor traditions of citizen participation, decentralization can be an important first step in creating regular, predictable opportunities for citizen-state interaction, as was exemplified by the CRDP.

The legal and regulatory framework should be designed to recognize differences in management capacity. Assignment of functional responsibilities at District etc. levels often implicitly recognizes varying capabilities, but a more dynamic framework which recognizes capacity based on performance over time would be more desirable in the long run. Matching degree of autonomy and privileges to a set of performance indicators (e.g. total expenditure, degree of self-sufficiency, service performance) is more
propitious for the legal and regulatory framework to adjust for changes in local capacity. The experience of the Nicaragua Rural Municipalities Project (ref. _____) suggests that the central Government should be proactive, even to the extent that providing a differentiated system of incentives and penalties to local governments could be considered.

Theory and evidence suggest strongly that it is important to state expenditure responsibilities as clearly as possible in order to enhance accountability and reduce unproductive overlap, duplication of authority, and legal challenges. The literature is replete with the argument that decision making should occur according to the principle of "subsidiarity", i.e. at the lowest level of government consistent with allocative efficiency (the geographic area that internalizes the benefits and costs of decision making for a particular public service).

Organizational theory suggests that there are four fundamental functions which each tier in a decentralized structure, including local communities, must be able to do in order to reach their objectives: (i) decision-making which includes planning and evaluation; (ii) resource mobilization and management; (iii) conflict resolution; and (iv) communication and coordination. Local government responsiveness, one of the main rationales for decentralizing, cannot be realized when there are no mechanisms for transferring information between the local government and its constituents.

In sum, the lessons from decentralization are the following general guidelines for country-specific strategies: (a) a legal framework that clearly defines responsibilities and standards; (b) consistency and transparency to gain support; (c) reporting mechanisms that are clear and precise; (d) transitions from the existing system to new systems carefully planned to avoid conflict between new reporting arrangements and enduring mechanisms; (e) channels for citizen-civil servant communication; (f) training to contribute to the formation of new working relationships; and (g) pacing are important. There is evidence that abrupt decentralization campaigns have generally failed. In particular, Latin American countries that tried them (ref. World Bank case studies on Colombia, Chile, Brazil) have had to return to incremental decentralization, with differentiated rules according to the distinct administrative skills of their territories.

The DCDP design incorporates the lessons learned from CRDP, CDD and decentralization through:

- Mainstreaming participatory methodology by strengthening District capacity to lead a process of planning and consultation with local communities, translating their development priorities into sub-projects which are incorporated into Districts’ strategic development plans;

- Developing a matching grants system to finance sub-projects so (a) responsibility is shared by community, District and external funders; and (b) the flow of funds is decentralized. Each CDC will open an account in a local commercial bank, into which the project management unit will transfer funds (from the Special Account) for the agreed sub-projects. Payments from the local account will be managed by the District accountant and will be made directly by the bank to the beneficiary's account. Communities will provide co-financing and in-kind contributions.

- Validating decentralized procedures for project cycle management and financial management through the “learning by doing” of implementing sub-projects.

- Investing substantially in capacity building and leadership training of Districts and CBOs because community-based organizations rely on volunteer efforts, which can dissipate at critical stages or can lack continuity.
17

- *Ensuring that guidelines and policies are clear* regarding i.a. ownership, maintenance, and sustainability of projects once they are completed, and to raise awareness among communities and implementing agents about their legal rights and responsibilities.

- *Monitoring and continuous (formative) evaluation* including “social audits” (stakeholder participatory M&E).

9. Environment Aspects (including any public consultation)

**Issues**: The environmental impact of the project is not expected to pose a risk, given that (a) communities choose sub-projects and follow them closely; (b) the criteria to validate sub-projects take environmental aspects into account; and (c) there is widespread recognition in Rwanda of the importance of optimal land use management.

During project preparation, the Government recruited a consultant with assistance from the PHRD grant, to assess potential environmental impacts. This involved extensive fieldwork in Rwanda and resulted in an “Environmental and Social Management Framework” (ESMF). The terms of reference for the ESMF were agreed in advance between MINALOC and the World Bank, to ensure compliance with Bank safeguard policies. The draft report was delivered in December 2003, is being reviewed by ASPEN, and will be disclosed before Appraisal.

The ESMF examines the administrative, policy, legislative and regulatory framework, as well as human resource capacities for environmental management. The report provides detailed and comprehensive environmental and social data to serve the project’s environmental and social management process with key baseline information to identify project impacts regarding bio-physical environmental features (ecosystems, geology, hydrology in terms of ground and surface water resources, major and sensitive wetlands, flora and fauna) and features of Rwanda’s demographics, public health and poverty. On social baselines, MINALOC supplemented the ESMF with more intensive and participatory social assessments, reported in Section E.6.

Significant issues arising from the environmental assessment are summarized in Annex 14 [forthcoming upon ASPEN clearance of the ESMF] that lists the critical environmental problems facing Rwanda today. The ESMF identified the Community Initiatives as the most likely among all components of the DCDP to have environmental impact. Impacts can generally be characterized as due to the activities of private operators (e.g. construction enterprises) and the local communities (e.g. community groups repairing small bridges for rural roads) supported through the Community Initiative subprojects.

The ESMF describes the roles and responsibilities of key institutions and stakeholders to ensure that activities planned under the project by the Districts and local communities comply with Rwanda’s environmental laws and requirements, and those of the World Bank’s Safeguards Policies, and that the overall impact of the project is good. For example, the project will promote good practice in land improvements such as protection against erosion.

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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.