Brazil: Community-Driven Development in Rural Communities of the Northeast

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Executive Summary

Community-driven approaches to development offer enormous potential for reducing poverty and improving lives, as shown by the Rural Poverty Reduction Program in northeast Brazil. The program has done a remarkable job of delivering basic infrastructure and services, supporting 55,000 small-scale investments—including 10,000 investments in water supply and 8,000 in electrification—in a region that contains Latin America’s largest concentration of poor rural people. Just as important have been the program’s effects on empowering communities, building social capital, improving governance, and reducing corruption. The program works directly with poor rural communities while leveraging the involvement of an increasingly broad range of public and private partners—including municipal governments, no-governmental organizations (NGOs), public and private service providers, and churches, to expand coverage, exploit special skills, and build constituencies.

The evolution and outcomes of today’s approach

Community-driven development efforts began in northeast Brazil in 1985 as a test component of 10 World Bank-supported projects in as many northeast states under the Northeast Rural Development Program (NRDP). The component’s striking success, and the high costs and limited success of the more traditional activities in this program, prompted a bold reformulation of the NRDP in 1993, with all elements not involving community-driven development dropped and those remaining scaled up and further refined. The Reformulated NRDP was followed by the Rural Poverty Alleviation Program and then by the current Rural Poverty Reduction Program. Since 1993 the program has sponsored 24 community-driven development projects, with another three awaiting negotiation or presentation to the board.

The program is guided by several principles. Most important, decision-making is decentralized to community associations, which make their voices heard through representative, project-created municipal councils. Communities, with appropriate assistance or training, are involved in all stages of the investment process, including priority-setting. The program uses simple, explicit, and verifiable poverty targeting mechanisms and is administratively simple. Funds are transferred directly to the community associations for approved investments, and the program relies on state (not federal) loans and significant local cost sharing. Finally, decision-making is transparent for all processes, at all levels of the program.

Community-driven development efforts have been scaled up in several ways. First, the numbers of loans and beneficiaries have been increased and geographic coverage broadened using financing from the Bank and from borrower and beneficiary cost-sharing. Even more significant, northeast state and local governments are now allocating and transferring funds under other state and federal programs for poor rural populations, as well as integrating programs across sectors to increase the impact on poverty reduction; they are using the same principles, mechanisms, and practices established and refined under the Bank-supported community-based program.
The core institutional mechanism is the community associations; they define, execute, operate, and maintain the investments from which they benefit, acting through decentralized, participatory municipal councils in which 80 percent of voting power for approval of proposed investments rests with community representatives. These councils are approaching blanket coverage in many northeastern states. Their growing collaboration with municipal governments on local development planning and resource allocation is boosting overall efficiency as well as the long-term institutional sustainability of the approach itself.

Evaluations have shown that community-driven development projects increase community well-being, employment, incomes, and economic and social capital. Using Bank and borrower funding of $1.2 billion (with more than $800 million in Bank loans), the program’s investments in basic infrastructure and productive and social facilities have benefited about 7.5 million poor rural people, organized in some 36,000 community associations in nearly 1,500 of the 1,650 municipalities in northeast Brazil. At least 90 percent of loan resources reach beneficiaries directly, compared with 40 percent before 1993, with the balance financing technical assistance, program evaluation, and administration.

**Lessons**

Brazil’s experience with community-driven development offers a rich cache of lessons. Among them:

- When given sufficient funding and assistance and working through representative councils, poor rural communities are capable of setting their priorities and preparing, executing, operating, and maintaining their investments.

- Community-driven development requires a longer-term commitment to reap its full social and economic benefits—depending on the severity of poverty conditions—and relies on an integrated vision of subnational development that values local knowledge.

- Decentralizing fiscal and investment decision-making and implementation to states and localities, including community organizations, increases efficiency and accountability, builds social capital, and achieves better overall results.

- Community-driven development reinforces accountability for project performance by reducing the distance between decision-makers and beneficiaries. Indeed, the two are often the same.

- Matching grant-based investments are a legitimate, effective tool for launching capital accumulation by rural poor people, contributing to sustainable development when complemented by community cost sharing, operation and maintenance support, and user fees.

- Poverty targeting mechanisms must be simple, verifiable, and based on objective criteria to promote transparency, minimize political interference in resource allocations, and ensure that funds reach intended populations.
Standardized project documents, technical designs, and unit costs can simplify project preparation and evaluation, improve quality, facilitate procurement, cut costs, and prevent overly complicated designs.

Representative municipal councils have proven advantages for targeting, sustainability, and nurturing social capital in poor rural communities. When properly trained and linked to local governments, councils can integrate local rural development efforts for greater impact.

Learning and innovation are aided when best practices are disseminated through exchanges of information in local, national, and regional seminars, workshops, and study tours.

Successful scaling up of pilot projects extends well beyond quantitative steps, involving geographic, political, and organizational aspects, as well as proper sequencing.

Local governments are essential partners for effective, sustainable community-driven development, but the heart of such programs lies in empowering community partners and institutionalizing mechanisms for participatory governance.

The sustainability of community-driven development efforts has three elements: (1) institutional sustainability is achieved by assigning greater responsibility to local civil society organizations and forging mutually beneficial links between municipal councils and local and state authorities; (2) financial sustainability is achieved by promoting local cost recovery; and (3) physical sustainability is achieved by ensuring significant community participation, commitment, and contributions (labor, materials, cash).

**World Bank involvement and future challenges**

Continued Bank engagement with Brazil’s community-driven development program is intended to consolidate its medium- and long-term financial and methodological sustainability. But, as the program matures, the strategic focus of the Bank’s involvement is changing. Although core project activities will continue in response to massive unsatisfied demand for basic socioeconomic investments, longer-term sustainability is increasingly predicated on:

- Using the municipal councils to allocate nonproject resources and expanding their use of information technology for marketing and transparency purposes
- Relying on social capital to generate income, leverage funds not previously available to poor communities, and access international markets
- Scaling up community-driven development governance mechanisms to secure funding from a wide range of public programs
- Using the community-driven development approach to strengthen cross-sector integration—strategic and operational—at the local and regional levels, for greater impact
- Strengthening environmental oversight by forming partnerships with related agencies, training communities, and councils as well as applying agro-ecological zoning to project design and execution where necessary
• Establishing strategic partnerships to achieve program objectives.
Implementation Process

(a) Rationale: The CDD rural poverty reduction program in Northeast Brazil, with a decade of experience since initial scale-up, evolved out of a small test component of the World Bank-supported Northeast Rural Development Program (NRDP, 1985-1993), comprising Federally-financed integrated rural development (IRD) projects of similar design in the ten states of this region. The community-driven development (CDD) component, *Apoio as Pequenas Comunidades Rurais* (APCR), was the only activity to disburse effectively and achieve positive results for project beneficiaries. With total investment cost of US$106 million (10 states), APCR represented a striking shift from several decades of Bank-supported IRD programs, and was the Bank’s first real attempt to make rural development projects more participatory.

The APCR made matching grants of up to US$10,000 to community associations in rural areas and centers of <5,000 residents. Matching grants, with an initial community contribution of 10 percent (later adjusted to a maximum of 25 percent depending on the investment), were justified as providing the poorest with access to resources for essential social and economic infrastructure. The APCR financed community-owned, small-scale socio-economic infrastructure and productive works/services in water supply, rural electrification, grain milling plants, seed banks, input supply stores and storage facilities, as well as institutional strengthening of community associations and piloting of representative, participatory Municipal Councils intended as deliberative forums for community decision-making about basic priorities.

Empowering rural communities to prepare, execute, operate and maintain their own investments, APCR produced results which were positive, replicable and relatively low cost per family. Moreover, municipal governments and beneficiary communities demonstrated significant capacity to mobilize additional resources and share investment subproject cost.

Acknowledging certain imperatives, the Federal Government, Governors of the Northeast states and the Bank agreed to scale up the new approach following intense discussions which included a study tour by Brazilian Federal and State authorities to Mexico in 1993 to assess the *Solidaridad* social fund program which embodied elements of community driven development methodologies available and practices at that time. Brazilian authorities agreed to use CDD mechanisms, adapted to local conditions, acknowledging that decades of traditional integrated rural development programs had failed to reduce misery and inequality in a region containing the single largest concentration of rural poor in Latin America. Millions of rural families in the northeast lacked access to basic services and economic assets, and rural incomes were barely 10 percent of the national average.

Traditional programs were adversely affected by macro-economic and fiscal crises, centralized financing and management, lack of beneficiary participation and difficulties integrating/coordinating multiple activities in under-developed regions. Delivery mechanisms relied exclusively on Federal and State bureaucracies resulting in a high proportion of funds being absorbed by administrative costs. Barely one-third of project funds reached intended beneficiaries and not always for investments they genuinely needed.
The successful APCR experience and mounting research and empirical evidence showing that participatory, decentralized models which directly engaged the rural poor had promising poverty reduction potential, resulted in a profound reformulation of the NRDP in 1993. Community-driven mechanisms were expanded, further innovations and refinements were incorporated and all non-CDD elements were dropped.

The reformulated NRDP (R-NRDP, 1993-1996) was followed by the Rural Poverty Alleviation Projects in eight states (RPAP, 1993-2003) - notable for their State Governments expressing commitment to the CDD program by borrowing directly from the Bank - and the current Rural Poverty Reduction Projects in six states (RPRP, 2001-present), with three new state projects awaiting negotiation. Supervision, evaluation and an effective Management Information System (MIS), standardized in all participating states, continuously build understanding of what works and why, providing the analytical rationale for expansion and consolidation of the program.

In aggregate, World Bank loan resources exceeding US$800 million (and total Borrower/Bank funding of about US$1.2 billion) have financed over 55,000 small-scale investments in basic infrastructure, productive and social facilities benefiting about 7.5 million poor rural people (net of repeat families, i.e., those benefiting from more than one subproject) organized in 36,000 community associations, in around 1500 of the 1650 rural municipalities of the Northeast (Table 1).

Table 1: Aggregate Results – R-NRDP, RPAP and RPRP Programs, 1993-2003

<table>
<thead>
<tr>
<th></th>
<th>R-NRDP</th>
<th>RPAP</th>
<th>RPRP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loan Resources (US$ mill)</td>
<td>338.6</td>
<td>417.9</td>
<td>49.9</td>
<td>806.4</td>
</tr>
<tr>
<td>Total Project Resources (US$ mill)</td>
<td>615.6</td>
<td>557.2</td>
<td>66.5</td>
<td>1,239.4</td>
</tr>
<tr>
<td>Subprojects</td>
<td>25,000</td>
<td>22,985</td>
<td>2,533</td>
<td>50,518</td>
</tr>
<tr>
<td>Families Benefited</td>
<td>890,000</td>
<td>1,244,477</td>
<td>136,471</td>
<td>2,270,918</td>
</tr>
<tr>
<td>Community Associations</td>
<td>14,900</td>
<td>19,154</td>
<td>2,401</td>
<td>36,438</td>
</tr>
<tr>
<td>Water Supply Investments</td>
<td>2,700</td>
<td>7,786</td>
<td>1,078</td>
<td>11,564</td>
</tr>
<tr>
<td>Communities with Water Supply</td>
<td>2,250</td>
<td>6,528</td>
<td>1,075</td>
<td>9,853</td>
</tr>
<tr>
<td>Families with Water Supply</td>
<td>110,250</td>
<td>524,108</td>
<td>51,615</td>
<td>685,973</td>
</tr>
<tr>
<td>Energy Investments</td>
<td>5,040</td>
<td>8,537</td>
<td>436</td>
<td>14,013</td>
</tr>
<tr>
<td>Communities with Energy</td>
<td>4,200</td>
<td>7,198</td>
<td>400</td>
<td>11,798</td>
</tr>
<tr>
<td>Families with Energy</td>
<td>246,960</td>
<td>357,272</td>
<td>18,779</td>
<td>623,011</td>
</tr>
<tr>
<td>Productive Investments</td>
<td>5,893.8</td>
<td>4,887</td>
<td>268</td>
<td>11,049</td>
</tr>
<tr>
<td>Communities with Productive Inv.</td>
<td>4,910</td>
<td>4,072</td>
<td>260</td>
<td>9,242</td>
</tr>
<tr>
<td>Families with Productive Inv.</td>
<td>262,506</td>
<td>414,034</td>
<td>31,382</td>
<td>707,922</td>
</tr>
</tbody>
</table>

The Program has a set of guiding principles: (i) decentralize decision-making to organized community associations acting through representative, participatory Municipal Councils; (ii)
transfer funds for implementing approved community investments directly to the bank account of their association; (iii) foster the active involvement of local authorities and civil society in the program; (iv) maintain transparent decision-making at all levels of the program and process; (v) stress community participation in planning, cost-sharing, executing, operating and maintaining their investments; (vi) use simple, explicit and verifiable poverty targeting mechanisms; and (vii) use State not Federal loans/projects and significant local cost-sharing.

The program has continued to evolve, expanding and deepening coverage, refining governance and targeting features, and promoting empowerment and sustainability. Communities and their Councils have developed together through participatory processes for determining and executing investment priorities. The Councils are assuming expanded roles, leveraging funding from other social programs for member associations and sharing in local government deliberations on broader municipal poverty planning and budgets.

Under new rural poverty projects in the Northeast currently awaiting negotiation, the Councils will have an important role in integrating activities across sectors and deciding the allocation of all Federal and State funding available locally. Thus, a crucial feature of scaling up in this case has been State and local governments adopting the CDD approach, using institutional mechanisms set up under the Program for their own planning, budget allocation and program implementation purposes.

(b) Objectives: Rural poverty reduction has been the dominant objective of this program, with specific objectives at each new round of projects reflecting some shifts in emphasis based on outcomes, impact and lessons. Change was most marked in the transition from the NRDP to the Reformulated NRDP, with the focus shifting from small farmers and agricultural production, to poor rural communities, investments in basic infrastructure and social priorities, and decentralized decision-making, financing and execution.

Specific objectives of the early pilot APCR component indicated a marked philosophical and conceptual change compared to the broader objectives of its more traditional host program (NRDP). The APCR is expressed in the appraisal document as “helping formal and informal groups of farmers to participate in their own development, providing them with a system for selecting, planning, implementing, managing and monitoring their own interests through group representation; and enabling them to improve their productive/economic base through joint organization of resources.”

The R-NRDP further refined this idea, “providing for basic social and economic infrastructure, and employment and income generating opportunities for the rural poor (not only small farmers); supporting rural community groups in identifying, planning and implementing their own subprojects; and, involving state governments more directly in decision-making and financing the Program.”

These objectives were sustained under the follow-on RPAP, adding a safety net objective commensurate with a period of fiscal adjustment, and the idea of revenue mobilization at the municipal and community levels consistent with cost-sharing aspects of project design.
The ongoing RPRP further refines these objectives, specifying increased social capital, enhanced local governance through citizen participation and fostering closer local-level integration of development policies, programs and projects by helping Councils extend their role in leveraging non-project funds, priority-setting and decision-making on resource allocation (see 5.2).

This progression of objectives reflects the evolution and maturation of the Northeast Brazil CDD approach and a sense of what the methodology is capable of achieving. The conscious integration of investment activities across sectors was not an initial objective, but the Municipal Councils clearly had the potential and have since demonstrated their capacity to leverage information and complementary funding from education, health, credit and other public programs, for their members. This “horizontal integration” of planning/programs to increase poverty impact, using the Councils as the institutional vehicle and CDD for governance, is an explicit objective of a new generation of CDD projects initiated by the Northeast Integrated Project – Rural Development, in the State of Maranhão.

(c) Political Context: The transition to and consolidation of democracy in Brazil in the last two decades are reflected in the evolving strategy, design and implementation of the Northeast CDD projects. The APCR component was the practical application of a concept with many global roots. It was tested under a centralized, military government in which public agencies controlled most development activity. Concepts like participation, organization and decentralization entailed certain difficulties, had yet to enter the Bank’s lexicon, and were largely experimental in project design.

While most project activities were implemented by state, not federal, agencies, the Federal Government exercised dominant control over these early projects both from the capital and through the Superintendent for the Development of the Northeast (SUDENE). The return to democratic government in Brazil in 1985 and subsequent Constitutional changes in 1988 paved the way for testing and expanding decentralized, participatory mechanisms which permitted the direct transfer of funds to poor communities - a *sine qua non* for successful CDD. The expansion and consolidation of the CDD methodology with all its implications of community social capital formation, the willingness of poor communities to demand better services/performance, and interaction with local government through the representative Municipal Councils, as well as the manner in which thousands of small, poor communities have acquired access to basic infrastructure in a relatively short time period have influenced politicians and the public sector, policy making for poverty reduction and the way development business is done in Brazil.

(d) Consistency of Objectives with Poverty Reduction Strategies: The projects have carefully aligned their objectives with rural poverty reduction strategies in the Bank and Brazil. Bank Country Assistance Strategies (CAS) for Brazil in the period covered (1985-present) have consistently defined poverty alleviation as the overarching objective of Bank assistance; recommended decentralized anti-poverty policies; specified community and market-based strategies for rural infrastructure and land re-distribution as key elements; supported Government’s social equity objectives; reiterated the Bank’s commitment to areas of more intense poverty and inequality, including the Northeast; and most recently (CAS 2003-7), inter
alia, called for consultation with civil society to include youth, women, indigenous and ethnic groups in the development dialogue and programs. The quality of the dialogue since the early 1990s with individual Northeast states has ensured that project design fits state poverty reduction strategies, but this process will be formalized under the new Maranhão project (see above) which links community demand to municipal and state poverty reduction targets and ultimately, achievement of the Millennium Development Goals (MDG).

(e) Institutional Involvement and Commitment: In marked contrast to previous integrated rural development programs, there is only limited direct involvement of public institutions/agencies in the CDD program, and that is chiefly in coordination, administration, monitoring and evaluation activities, but not day-to-day project implementation. The institutional framework is as follows:

Beneficiary associations: Institutional fulcrum for project implementation, identifying, preparing, executing, supervising, operating and maintaining community subprojects. Communities are assisted by technical specialists contracted directly by the community and paid with project funds. Communities are also supported by training programs delivered by STUs and by other entities (NGOs, Church, private firms) under partnership arrangements with STUs.

Municipal Councils: Project-established and representing the communities/civil society and local authorities in an 80 percent/20 percent mix, respectively. Councils target benefits and allocate resources through a deliberative process in open, well-publicized meetings. The Councils are increasingly interactive with local government and steadily assuming greater responsibility for supervision, financial management and technical assistance.

Project benefits are delivered by two types of Municipal Councils, differing in their degree of decentralization of final decisions for the allocation of funds, and in potential to strengthen social capital, and a third non-council mechanism, as follows:

(i) FUMAC Councils (translated loosely as Municipal Community Schemes): these were piloted under the Reformulated NRDP. The State delegates decision-making to representative Councils which deliberate, establish priorities, appraise and vote on community investment proposals, informing the STU of their decisions. This process is guided by an annual, indicative Council-specific budget estimated by the STU based on specified criteria.

(ii) FUMAC-P Councils (Pilot Municipal Community Schemes): FUMAC-P, a variant of FUMAC introduced under the follow-on RPAP, extends decentralization a step further. Selected, high-performing Councils receive an annual budget envelope (determined by the STU) and submit an Annual Operating Plan (POA) for STU review. Approval releases budget funds to the Council, which manages their distribution to associations with approved investment proposals, supervises subproject implementation, and is accountable for use of the funds. (An evaluation of the Councils and their impact on social capital formation is included in Sections 4(b) and 5.2).

(iii) PAC (State Community Schemes): the core delivery mechanism under the APCR pilot but now used sparingly. Community associations submit investment proposals directly to the STU which screens and approves them, releasing funds to the association. Evaluation shows that
while PAC can be important in the initial stages, i.e. until a municipality has established a FUMAC Council, it is less effective than FUMAC and FUMAC-P in involving local government and in terms of sustainability and social capital development.

**State Technical Units (STU):** Quasi autonomous bodies usually affiliated with the State Secretariat of Planning or other agency; coordinate and manage the projects, increasingly in recent years delegating supervision of community associations to the Councils and focusing on administration, oversight, coordination and promotion. Most STUs are stable and committed, having evolved with the programs – some since the mid-1980s - and developed extensive technical and administrative experience/expertise.

State Governments have consistently maintained commitment, demonstrated in their willingness to assume responsibility for counterpart funding under the Reformulated NRDP, and to take the Loans under the RPAP and RPRP, a fundamental change from past practice. Municipal Government commitment derives from pragmatic political and financial considerations. By fact of managing and executing their own development, and especially the funds/budgets, empowered communities are not easily ignored. Moreover, the projects represent a valued source of funding for local development in budget-strapped municipalities. Conversely, municipal government commitment to support the program has crucial implications for longer-term sustainability of program institutions and services.

(f) Involvement and Role of Civil Society: The definitive civil society body in this case is the community association. The involvement of NGOs started slowly, and has evolved somewhat unevenly across the Northeast region, depending on the State. Low interest stemming from an imperfect understanding of the project mechanism and objectives, and a tendency to shy away from involvement with the Bank, saw generally modest participation in the initial years, but this has changed.

The role of NGOs has also changed, and communities now have resources to contract/fund NGOs which serve them best. The program has made NGOs accountable to the communities (not the other way round). Bank Task Managers working with STUs to leverage technical and other support to complement lean organizational rosters, have identified NGOs/civil entities with capacity to assist the project. Depending on the State, rural labor unions affiliated with the National Confederation of Agricultural Workers (CONTAG), Church-based NGOs, specialized technical NGOs/service providers such as SEBRAE (Brazilian Service for Support to Small Firms), and groups aligned to gender, indigenous/ethnic, environmental, marketing and community mobilization goals support and complement the STU’s work, often under contractual partnerships. An interesting and valuable development has been the emergence of technical assistance cooperatives in the countryside, a direct response to beneficiary communities’ needs under the program.

(g) Preliminary Results: Joint evaluations by FAO (United Nations Food and Agriculture Organization) and the Bank in 1994, 1995, 1996 and 2000 reached the following, preliminary findings:
• * Targeting and reaching the rural poor were far more effective than under traditional rural development programs. Positive impact was evident on quality of life, employment and incomes, and on local economies from investments in low cost, basic infrastructure and services (chiefly electricity, water-supply, access roads/bridges and productive facilities).

• * Investments were meeting genuine community need, were mostly of good quality, and were generating a sense of “ownership” (community associations do in fact, own their investments); increased local capacity and multiplier effects were generating endogenous economic development, leading to household and community-level savings.

• * Investments in water supply had generated state and municipal budget savings ranging from US$7 million to US$15 million in normal and drought years respectively, from reduced need to truck water to communities; and, reduced municipal health costs from lower incidence of water-related illness.

• In marked contrast to previous rural development programs, CDD was garnering from local government institutional and financial commitment for the decentralized, participatory mechanisms, essential for longer-term program sustainability.

• Municipal Councils were promoting community organization and participation, transparency, sharper poverty targeting, and social capital build-up.

• Significant potential was evident for state and municipal tax revenue collection on the marketed outputs of productive subprojects.

**Financial and economic analyses** of productive subprojects showed that the amount invested per job created was low, and that internal economic rates of return (IERRs) and benefit-cost ratios were satisfactory. Most calculated IERRs exceeded 30 percent both in financial and economic terms. Cost effectiveness results for employment creation and the methodology itself, were also satisfactory. Community-implemented infrastructure subprojects were at least 30 percent cheaper than similar investments by public agencies. Cost recovery through associations’ payment of user fees on selected productive subprojects adequately covered operation and maintenance (O&M), including replacement of worn equipment, and were financially sustainable.

**(h) Adjustments and Changes:** Testing, evaluation and supervision oversight have generated design modifications throughout the course of the Program:

• Mainstreaming the FUMAC Municipal Council mechanism and piloting an even more decentralized variant (see 5.2). PAC became largely residual.

• Clear rules for the composition and operation of Municipal Councils, including increasing to 80 percent the representation of communities and local civil society (see 5.2).

• The permissible ceiling on cost per subproject was increased from US$10,000 to US$50,000.

• Cost-sharing requirements were introduced for states and communities (Table 2).

• Standardized subproject documents, engineering designs, technical and financial parameters, and cost indicators, to simplify preparation, facilitate procurement and prevent over-design.
• Technical assistance (TA) and training for capacity building of community associations, Municipal Councils and the STU; an amount equivalent to 8 percent of total subproject cost was introduced.

• Progressive upgrading of State Management Information Systems (MIS) under each new program, including internet-based real time data entry from the field, and improved impact evaluation capability.

• Systematic beneficiary targeting and transparency with incentives/penalties based on performance;

• Operational Manuals with technical and financial parameters for project implementation; and publicity campaigns to promote project availability and substance.

• Introduction of a small “reform of the state” component (successful under RPAP and extended to RPRP) financing technical assistance to modernize/upgrade planning and management capacity of selected State public agencies.

### Table 2: Co-financing Matrix - Rural Poverty Reduction Projects

<table>
<thead>
<tr>
<th>Type of Subproject</th>
<th>Community</th>
<th>Municipality</th>
<th>State</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>10% - 25%</td>
<td>Up to 15%</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>Productive</td>
<td>10% - 25%</td>
<td>zero</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>Social</td>
<td>10% - 25%</td>
<td>Up to 15%</td>
<td>75%</td>
<td></td>
</tr>
</tbody>
</table>

*Note: In all cases, a minimum of 10% is supplied by the community.*

(i) **Changes in Scale:** Experience shows that the taxonomy of scaling up can encompass diverse elements including quantitative, organizational, geographic and political dimensions, and sequencing considerations.

Scaling up this program has functioned *inter alia*, through increased numbers of loans, beneficiaries and extent of geographic coverage over time using Bank loan funds and Borrower/beneficiary cost-sharing. Based on cumulative learning and demonstrated demand, numbers of targeted beneficiaries increased over time from an initial 73,000 families to 1.2 million and about 1.7 million under the current RPRP. The subproject cost ceiling rose from an initial US$5,000 to US$10,000 to US$50,000 to achieve scale benefits. Maximum population size of eligible settlements still considered “rural” rose from 5,000 to 7,500. Geographic coverage steadily expanded (increased numbers of eligible municipalities), although the geographic focus of the program remained the Northeast region.

Piloted mechanisms and features (FUMAC Councils) were mainstreamed and new pilots tested (FUMAC-P) in limited areas. Targeted numbers of new Municipal Councils and community associations increased over time, and the responsibilities of Councils were expanded as social capital increased. Larger State projects meant increased need to leverage technical support and expertise in the countryside to maintain quality since State Technical Units had limited ability to increase staffing, although a number of STUs decentralized their operations,
establishing regional offices in response to the imperatives of scaling up. Loan size and State financial obligations steadily increased to accommodate the above changes.

An even more significant aspect of scaling up has been the extent to which State and local governments are using the Program’s CDD governance mechanisms to achieve political, financial and organizational scale up, by: (i) allocating/transferring funds from other State and Federal programs to poor rural populations; and more recently, (ii) achieving cross-sector integration of programs to increase poverty reduction impact.

**Impact Analysis**

**(a) Efficiency in Use of Resources:** Evaluations, economic, financial and community participation analyses, and special studies on the causes and nature of rural poverty in Brazil, have examined Program-wide investments. The following summarizes main findings:

*Types of Investments:* The Program has financed about 55,000 community investments in basic socio-economic infrastructure (80 percent of total) and productive services/facilities (20 percent), benefiting some 7.5 million people organized into 30,000 community associations represented in about 1,500 Municipal Councils (of the total 1,650 municipalities in the Northeast region). While the data shows over 100 types of investments, rural water supply and electrification systems have consistently dominated demand, not surprisingly in the Northeast context; families commonly seek the “basics” before turning to productive and social investments. Other popular types include rural access road improvements, communal tractors, small bridges, manioc mills, sanitation systems and small-scale irrigation schemes and agro-processing equipment/facilities.

Some 600,000 families now have access to water, sourced variously from surface or groundwater via tube/artesian wells or dams, and sharply reducing the incidence of water-borne disease, infant mortality and time taken in daily water collection over distance, as well as the financial burden on state and municipal governments of supplying trucked water. Over 8,000 electric power subprojects have connected 320,000 homes and 4,300 school buildings, providing access to information, communications, and household appliances such as refrigeration; generating employment and income opportunities from small business and agro-industry; and enabling evening school for adults and youth.

*Cost effectiveness and Sustainability:* The CDD approach to rural infrastructure and service delivery for the poorest works cost-effectively in the Northeast, supported by specific design features: (i) demand-driven subproject priority-setting and selection within a democratic forum (e.g., the Councils); (ii) use of standard technical designs and cost parameters in selected cases, ensuring the use of least-cost models and providing established patterns for subproject initiation, procurement and completion; and (iii) delegating subproject implementation directly to community associations - which generates cost savings relative to similar works by public agencies (procurement by the communities is more cost-effective), with funds transferred directly to the association bank account for approved investments.
A “Sea of Fresh Water” – São João de Varjota

Precarious water supply has, like in many other municipalities in Brazil’s Northeast region, been a historical source of misery for the São João de Varjota Municipality, State of Piauí, even though its location is comparatively fertile. The community of Jacus traditionally sought water from a reservoir 3 km distant and from a nearby spring with intermittent flow. Each family was expending three hours per day fetching three loads of water, each of 72 liters. Women had to travel into town to do their family laundry. The community association decided in 1998 to try to resolve longstanding deficits through the Bank-supported RPAP program. Among the alternatives, the community chose to construct a small reservoir and with the help of an engineer contracted by the association, the site and specifications of a 140 meter-wide water source were defined. The subproject was approved at a total cost of R$48,000 by the FUMAC Municipal Council. Construction took six months with the intensive participation of beneficiary families which by the end, had contributed significantly more than the minimum 10 percent counterpart required under project rules. The Mayor was a constant, supportive presence. The works were completed and fully operational.

Residents of the community estimate that there has been a 30 percent reduction in the incidence of parasitic infections and diarrhea among children and the elderly (200 and 75 persons respectively). They even say that around 30 percent of the community’s 1,500 head of cattle – valued at an average R$250/head – would have died for lack of water during the recent drought, but for the existence of the new reservoir. Twelve families are already using the water to grow vegetables including tomato, cilantro, onions and lettuce. Tomatoes produced net returns of R$150 for one family this past year. Production not consumed is sold, generating for the 12 families net returns from vegetables of about R$10-R$15 per week in the period from May to November. Another benefit noted by residents is the weight gain in their animals due to adequate water consumption in addition to forage – an average 150 kg with a market value of R$125/kg. The community of Jacus represents a typical example of how water supply has multiple benefits – survival, improved health and viable, profitable and sustainable economic activities.

Illuminating Lives in Itacoatiara

Seventy two families live in the community of Itacoatiara, Municipality of Nossa Senhora Aparecida, State of Sergipe. Until recently, the community lived the typical life of those without electric power: rare contact with the outside world, few commercial and productive alternatives to generate employment opportunities; school with two daytime sessions; deficient water supply system and precarious food storage and conservation conditions. Supported by an NGO and the state rural extension service, the newly-formed Itacoatiara Producers’ Association took the initiative, supported by the whole community, to submit a proposal to the FUMAC Municipal Council, for an electrification subproject. Divided into three phases, the proposal was approved and the association selected and hired a contractor to prepare design plans and execute the works, using community unskilled labor. The first phase benefited 35 homes, 7 businesses, the local church and installed public lighting in the main through-road. The second benefited 14 additional homes and a health post, while the third hooked up the remaining 23 homes.

The change in family lives and well-being was immediately apparent upon completion of the first phase: initiatives by small-scale enterprises such as poultry-raising and slaughter for domestic consumption and sale; purchase of refrigerators and television sets, radios and other basic appliances; seven businesses (existing and new) increased the variety of products locally available; several community residents started small-scale irrigation schemes to produce vegetables for market; the community school began to offer an evening session, starting with 30 adults enrolled in a literacy program; houses were repaired, encouraged by the availability of power; and community residents reported feeling safer walking to visit friends at night due to street lighting. A community member summarized it this way: “The availability of education and health services improved a lot with the arrival of electricity. The school is open at night and vaccines can be brought to the community because we now have a refrigerator. We have better opportunities for business and agricultural activities. We feel stronger and better-prepared to motivate and organize our community.”

Analysis of a random sample of subprojects including ten categories representing about 80 percent of types financed, found Program costs 30-50 percent cheaper than state-implemented
investments of similar type and quality. Most surveyed subprojects were rated technically satisfactory and of good quality. Operation and maintenance (O&M) was satisfactory with a majority of associations charging user fees where appropriate. General cross-state surveys found that 89 percent of 8,123 Reformulated NRDP (1995) and RPAP (1997/98) subprojects were still fully operational in 2000. Infrastructure, productive and social investments showed no appreciable difference in sustainability.

**Financial Viability of Productive Subprojects**: Benefit cost ratios are high (greater than 2.0) and investments are financially sustainable, based on analysis of 12 selected, typical productive facilities (e.g., manioc mill, communal tractor, small-scale irrigation, goat production, honey production, fish farm, cashew-nut processing plant and small dairy plant). The one-time productive investment matching grant from the Program is financially sustainable because fee-based cost recovery covers O&M and replacement of the original investment.

Internal rates of return (IRR) range from 15.6 percent (fish farm) to 50 percent (small-scale irrigation, cashew processing). Less than six years are needed to recover the investment in all cases and less than 3.5 years in 50 percent of cases. IRRs compare favorably with the real cost of borrowing to the Brazilian Government, at about 11-12 percent (Table 3).

**Fiscal Impact**: Tangible government savings associated with the community-driven design include: (i) savings of up to 50 percent over publicly-executed investments; (ii) estimated savings to municipal, state and federal governments of around US$35 million/year from reduced need for trucked water, in drought and normal periods; and (iii) municipal health and time savings (water collection) of around US$40 million/year from access to clean, reliable water for some 600,000 families. Finally, direct impacts on revenue generation are small but indirect impacts can be significant. The increased purchase of appliances, agricultural machinery and irrigation pumps once electricity became available, raised an estimated US$27 million in incremental sales tax (ICMS) revenue across all participating states, under the RPAP.

Aggregate Impact on Employment, Income and Cultivated Area: Aggregating the Reformulated NRDP and RPAP through 2000, Van Zyl et al. found that investments of about US$800 million in Bank loan funds generated almost 100,000 additional jobs, incremental net annual income/savings of about US$200 million and 85,000 hectares of additional, cultivated area.
Table 3. Results of the Financial Analysis of Selected Subprojects, RPAP

<table>
<thead>
<tr>
<th>Type of Activity</th>
<th>Investment (R$)</th>
<th>IRR (%)</th>
<th>NPV (at 10%)</th>
<th>Net Annual Income (R$)</th>
<th>Years to Recover Capital Invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manioc Mill</td>
<td>18,450</td>
<td>15.8</td>
<td>5,377</td>
<td>3,970</td>
<td>5.6</td>
</tr>
<tr>
<td>Communal Tractor</td>
<td>39,752</td>
<td>37.6</td>
<td>35,141</td>
<td>18,075</td>
<td>2.4</td>
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<tr>
<td>Small Irrigation 1</td>
<td>44,054</td>
<td>&gt;50</td>
<td>327,366</td>
<td>90,781</td>
<td>0.9</td>
</tr>
<tr>
<td>Small Irrigation 2</td>
<td>28,311</td>
<td>28.1</td>
<td>23,573</td>
<td>15,238</td>
<td>3.3</td>
</tr>
<tr>
<td>Goat Production</td>
<td>43,346</td>
<td>16.5</td>
<td>16,925</td>
<td>12,180</td>
<td>5.8</td>
</tr>
<tr>
<td>Feed Production Equipment</td>
<td>6,730</td>
<td>15.4</td>
<td>1,831</td>
<td>1,149</td>
<td>5.9</td>
</tr>
<tr>
<td>Honey Production</td>
<td>26,102</td>
<td>16.8</td>
<td>9,112</td>
<td>7,252</td>
<td>5.5</td>
</tr>
<tr>
<td>Local Bakery</td>
<td>43,352</td>
<td>35.0</td>
<td>56,868</td>
<td>29,575</td>
<td>2.8</td>
</tr>
<tr>
<td>Fish Farm</td>
<td>46,104</td>
<td>15.6</td>
<td>13,739</td>
<td>13,162</td>
<td>5.6</td>
</tr>
<tr>
<td>Cashew Processing Plant</td>
<td>64,964</td>
<td>&gt;50</td>
<td>288,790</td>
<td>72,195</td>
<td>1.1</td>
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<td>Jam Production Plant</td>
<td>41,123</td>
<td>41.7</td>
<td>69,062</td>
<td>35,008</td>
<td>2.4</td>
</tr>
<tr>
<td>Small Dairy Plant</td>
<td>62,583</td>
<td>19.7</td>
<td>30,223</td>
<td>34,591</td>
<td>4.7</td>
</tr>
</tbody>
</table>

b) Effectiveness: Three important elements of CDD effectiveness in the Brazil case, are as follows:

**Targeting:** The grant-based nature of the program mandates a conservative approach to beneficiary targeting, which occurs on three levels: (i) geographically by poverty level and other municipal characteristics; (ii) geographically within municipalities, targeting specific communities and rural settlements (of <7,500 persons); and (iii) community-based selection of poor beneficiaries and vulnerable groups, by the project Municipal Councils. Scaling up has not diluted targeting accuracy. Populations targeted under the Program are poor, and strategies for reaching them have been generally effective. Targeting is superior in municipalities with FUMAC and FUMAC-P Councils. Greater decentralization and participation, and processes for democratic decision-making about resource allocation keep targeting on track. Well over 90 percent of program resources reached final beneficiaries as direct subproject investment – the remainder went mainly for technical assistance - and about 75 percent of beneficiaries had initial income of <US$1/day.

**Social Capital Formation:** Fostering social capital within rural municipalities and communities is an important program achievement. For the purposes of the Northeast CDD program, Costa (2000) defines the key elements of social capital formation in terms of levels of popular engagement, community participation, organized collective action and shared responsibility and concludes that social capital has increased as the programs evolved and as the delivery mechanisms (PAC>FUMAC>FUMAC-P) became more decentralized.
The Tractor that Germinated Benefits – São Felix do Coribe
Municipality

The 115 families of Mozondó community in the State of Bahia established an association in 1985. The association operates in five small housing settlements within a 4 km radius of its community center. Residents are poor, small-scale landowners cultivating modest quantities of beans, corn and rice for own consumption and a little for sale. There are some small cattle and sheep herds for local consumption. Annual per capita cash income (at the time the association was founded totaled US$80 and the community endured many hardships including lack of water, unemployment, communications difficulties and low productivity. The association was formed to help people mobilize around collective problems and find solutions. Being located in a drought zone and with a short rainy season, the association submitted a proposal in 1997 to the project State Technical Unit for purchase of a communal tractor and implements (harrow, cart and plow). Their proposal was approved and once the tractor was acquired, the association hired a trained tractor operator and handles its own operation and maintenance. Usage of the tractor is discussed and agreed among associates to avoid privileges and conflicts. All services are subject to user fees. Members pay R$20/hour for tractor use, and non-members pay the market rate of R$25/hour. Besides agricultural services, the tractor is also used to transport water and materials and for starting up grain threshing machinery on farms.

The impact of the tractor has been enormous, strengthening the association and creating multiple benefits for the community. Agricultural productivity increased 20 percent in the first year due to better soil management (adequate and timely plowing and harrowing) and mechanized crop activities. With revenue from services/usage, the association covers all O&M costs and saves for repairs and replacements, building a capital reserve and investing it in other needed small-scale investments for community benefit. The community has increased its assets and assumed a partnership with the municipal government for the administration of local and emergency water supply during drought periods. Using cash reserves generated by the tractor, the community has done the following: purchased additional land for the community; constructed a small building for the association, a telephone booth and a shed to store equipment; purchased an oxcart; paid the water supply system operator; contributed to the salaries of the telephone operators for its telephone post (also acquired under the RPAP program); transported water to communities with insufficient supply; and purchased 40 calves for fattening. The calves are maintained through a partnership between the association and a farmer under which net profit is divided 50/50 between both parties. The net yield of the fattening operation in its first year was almost 50 percent of the initial price of the herd. Similar experiences with the direct benefits and leveraging effects of communal tractor investments under the Bank-financed rural poverty projects, have been common in all participating states. As forums for collective decision-making, the Councils have: (i) improved local level governance and reduced patronage and political interference; (ii) strengthened the capacity of community associations and municipal governments to manage investment decision-making; (iii) created partnerships between communities, Municipal Councils, and municipal governments; (iv) increased community voice in the use of public resources; and (v) fostered citizenship through communities’ increased awareness of social responsibilities in community and public matters. By end-2002, an estimated 30 percent of the 1400 existing Councils had developed both voice and influence in broader municipal planning and decision-making.
Small-scale Irrigation in Baraúnas

The municipality of Baraúnas is located in the semi-arid western region of the State of Rio Grande do Norte. The municipal economy was, until the mid-1990s, based on subsistence agriculture and agro-livestock activities and was repeatedly decimated by drought. Landholding was highly concentrated with numerous large properties lying idle. An intense movement for land reform in the 1980s had resulted in expropriation and settlement of 165 poor rural families. They initially lacked electricity and deep wells were costly to drill. Rain fed agriculture was insecure with low returns. Access to several programs including the Bank-supported NRDP, resulted in electric power and water supply systems but settlers remained poor. From 1995, the NRDP began to finance small-scale irrigation ventures designed to increase output and income but also included training in irrigated agriculture, as well as the production and marketing of quality products, especially melon. Settlers received good quality technical assistance from AACC (Association for the Support of Small Rural Communities) and importantly, the NRDP connection helped settler associations leverage other funds including from banks, and served an important educative purpose.

Initially middlemen marketed settlers’ melons at low prices. AACC stepped in and helped associations broker marketing agreements with melon-exporting forms such as MAISA, a well-known Brazilian agro-industrial conglomerate. The export firms supplied packaging materials and inputs and under forward pricing arrangements, paid the producers R$2.50/12 kg box of melons. Good productivity and high quality melons prompted the follow-on RPAP program to replicate this experience in other land reform settlements in Apodi and Mossoro. The three municipalities combined had (at the time of survey) 12 land reform settlements and total irrigated area of 340 ha benefiting 666 families. Production at time of survey was impressive: 3,750 tons of melon, 4,500 tons of watermelon, 1,018 tons of mango, 770 tons of guava, 43 tons of cashew nut and over 500 tons of other tropical fruits such as acerola and graviola.

Pricing problems with purchasing firms prompted the associations to establish their own agro-livestock cooperative (COOPAB) to directly market their product at better prices, with the support of AACC and World Vision. Individual producers are paid R$3.00/box and COOPAB receives about US$3.00/box (about R$9.00/box at today’s rate of exchange) for each box exported. Profits are distributed among members. The existence of COOPAB in the market has been fundamental to non-members also obtaining better prices. The same export firms who were paying R$2.50/box began to pay R$3.00 then R$3.50/box. COOPAB has set its sights on exporting 300,000 boxes per year. Settler family income has risen from less than one minimum wage to over three (about US$210/month).

Finally, a community participation study (Costa 1999) analyzed a representative sample of 225 community associations and constructed a Community Participation Index (CPI), which showed social capital increasing over 40 percent in the period 1993-2000. This was particularly evident for the more decentralized FUMAC and FUMAC-P instruments.

- **Public Policy**: The Bank’s support for innovative, decentralized mechanisms, studies, knowledge dissemination and dialogue has raised awareness of public policy imperatives and influenced the way development is conceived and implemented in this region. Further, the Federal Government has made participation an explicit priority through its Economic and Social Development Council of the Presidency, while state and municipal authorities acknowledge that organized and empowered rural civil society can influence the realism, efficiency, sustainability and accountability of public policy and planning.

- **Cross-border Impact**: The Brazil CDD model is being adopted – in modified form for local conditions – in several countries of Asia, Africa, Latin America and Eastern Europe. The
projects have been visited frequently by foreign authorities, academics and rural specialists from some 30 countries, while members of the Bank’s Northeast CDD Team have visited those countries as expert advisors to launch discussions and project preparation activities. Further, CDD projects following the Brazil model are either under implementation or preparation in six States of India, in Sri Lanka, Nepal, Malawi, Ghana, Bolivia, Guatemala, Panama and Argentina.

Perhaps the most significant cross-border influence resulted from the impact on the delegation of Brazilian Federal and State authorities of their study tour to Mexico during NRDP reformulation discussions in 1993, to study key features of the participatory *Solidaridad* social fund program. Elements of that program were subsequently adapted to Brazilian conditions as the Reformulated NRDP. A decade later, the influence is flowing in the reverse direction, from the Northeast program back to Mexico, as tested CDD governance features are introduced in new Bank projects in that country.

**(c) Final Outcomes – Poverty Indicators:** The linkage between the projects and regional, state and municipal social indicators/MDGs will be studied as part of a major research program contracted in October 2003 to the Federal University of Campinas (UNICAMP), through the Inter-American Institute for Cooperation in Agriculture (IICA). Field surveys will start in mid-2004. Meanwhile, the proposed new Maranhão Integrated Project – Rural Development, *inter alia*, links community demand to state and local poverty strategies and targets, and to the MDGs, with appropriate performance indicators and evaluation plans.

**Driving Factors**

**Commitment and Political Economy for Change**

The policy and institutional framework in Brazil has explicitly supported program objectives since major Constitutional changes in 1988. Scaling up actions were thus able to focus on expanding geographic coverage, deepening impact, strengthening and extending the Councils and building social capital, relatively free of the complexities of having to secure up front policy, legal and administrative support for CDD itself (an essential element for success) or find ways of coping with conditions on the ground.

Commitment was not uniform when the APCR component was first introduced in 1985 and garnering commitment took time and the willingness to experiment. Municipal stakeholders were accustomed to traditional, patronage-based relationships between authorities, elites and rural communities. Commitment grew from demonstration effects, swelling community demand, and the changing political/policy climate.

Both the Federal Government and NE states agreed with the Bank that the features of the CDD approach matched an emerging sentiment in Brazil for decentralization, a re-thinking of the role of public agencies in the development process, transparency, accountability and local empowerment. The 1988 Constitution formalized this sentiment, shifting power and fiscal
resources to states and localities, increasing the role of the private sector, and providing the political, legal and financial foundation for scaled-up CDD initiatives.

Based on results of the pilot APCR component (1985-93), and on the previously mentioned visit to Mexico, Brazilian authorities came to support a proposed radical restructuring of the NRDP. Accounting for country differences, Brazilian authorities supported the then-radical concept of permitting public resources to flow directly to beneficiary communities and ceding a large measure of control to the local level, essential to the success of the Brazil CDD model.

The landmark Reformulated NRDP achieved its objectives because its design and implementation strategy fit a new and evolving political, economic and social context. “Revolutionary” decisions were involved: by the Bank, to take a poverty alleviation approach experimenting with decentralization, matching grants, community ownership and participation, instead of a rural/agricultural development approach; and, by the Federal and State Governments, to relinquish significant political control by empowering communities and acknowledging their right and capacity to make their own decisions.

Institutional Innovation

Institutional Mechanisms/Governance: The guiding principles supporting institutional innovations include: (i) transfer funds for implementing approved subprojects directly to the beneficiary associations; (ii) decentralize decision-making and involve local authorities as participants; (iii) maintain transparent decision-making at all levels; (iv) stress community participation in planning, financing, executing, operating and maintaining the investments; and (v) use simple, explicit and monitorable poverty targeting mechanisms.

An essential feature of the Brazil CDD methodology is its institutional and administrative simplicity. Unlike past rural development programs, public agencies have little or no direct role in day to day project implementation. This ensures that at least 90 percent of program resources reach beneficiaries with direct investments and deliver genuine benefits, compared to around 35 percent under previous rural development programs. Organized, poor communities, with technical assistance/support from various state and local sources, mobilize human and material resources for common objectives. Delivery mechanisms (FUMAC and FUMAC-P Councils) are increasingly decentralized and participatory, and assuming broader responsibilities over time.

Initially, the program tended to circumvent local authorities due to the unresponsiveness of many. While the intention was never to “sideline” local government, establishing CDD requires an operational environment which reduces bureaucracy, i.e., where core principles and simplified, representative mechanisms can be tested and otherwise reluctant authorities persuaded to collaborate rather than oppose, based on good results on the ground, and on the pragmatic realization that the economic and political incentives favor their support.

The project Municipal Councils have become a social arena where, while including local government, community leaders can exercise a representative role, present and defend community proposals legitimately made by communities, and participate in assessing the proposals of other communities for final decision. They are increasingly also a municipal forum
to discuss wide-ranging local and regional issues, and to make decisions and take action through
democratic processes. Also acting as arenas for social equalization, the Councils empower “small
people” by arranging their interaction with “big people”, sharing equal vote with them on the
Councils despite lacking equal political weight in the broader sphere (Costa 2000).

The Councils have demonstrated strong resistance to political interference and traditional
forms of patronage, shown in more intensive social control of the program and greater
accumulation of social capital at the municipal level. Councils in fact, integrate members with
diverse political orientations and identities, serving as political arenas for revolutionary changes
in traditional patterns of political action between political elites and common people. Not
homogeneous, the Councils differ in composition, nature of activities, decision-making processes,
and the manner in which they distribute the funds allocated to them. However, the Councils have
adopted a set of clear criteria for evaluating community proposals in which, field analysis shows,
level of poverty is paramount.

Finally, the Bank has monitored the progress of the Councils since 1993 and instigated a
series of adjustments to improve institutional performance: (i) increased the relative number of
community representatives to 80 percent with the remainder consisting of local authorities; (ii)
introduced the more decentralized, independent FUMAC-P Councils; (iii) allowed Councils to
charge a percentage of approved subproject costs to enable their financial/operational autonomy;
(iv) better training and orientation to Council members; (v) established an annual funding
“ceiling” (budget envelope) so each Council can plan more realistically; and (vi) reduced
bureaucratic requirements for preparation of subproject proposals and for community
procurement.

Learning and Experimentation

Strong monitoring and evaluation, combined with intensive, locally-based supervision through
the Bank’s Recife Office, evaluations of program impact at key stages of successive programs,
and annual seminars, workshops and study tours to exchange experiences and best practice, have
contributed to the knowledge base, a series of technical and operational lessons (Section 6), and
to a culture of results-based program management.

While the major thrust of this program has been to test, refine and expand an indigenous
CDD methodology, albeit with global roots, the established institutional framework has also
proven a fertile host and catalyst to innovative pilot experiments using the program’s CDD
governance principles/practices. The most prominent example is the 1996 Land Reform pilot
component of the RPAP in the State of Ceará, crucible for the scaled-up Land Reform and
Poverty Alleviation Pilot Project in five Northeast states (1998-2002) and its successor, the Land
Reform and Poverty Alleviation Project (2001-present) in 14 states. (See separate Case Study
“Brazil: Reducing Rural Poverty through Access to Land”). Other important examples include the
Fair Trade Pilot (Comercio Ético e Solidário) which links consortia of CDD beneficiary
communities to European markets for honey, tropical fruits, cashew nut and crafts; and
community-based initiatives in information technology, education, youth, indigenous/ethnic
peoples and integrated development.
External Catalysts

The Bank’s catalytic effect on the transition to the new approach stemmed initially from its decades-long partnership with the Federal and State Governments in the Northeast; demonstrated success of the APCR and Reformulated NRDP experiences; and international experience with emerging and ongoing CDD efforts, capacity to monitor and evaluate program performance and to ensure that the lessons of new experiences were captured and applied to program design. As CDD processes have evolved and matured, the Bank’s role has increasingly focused on strengthening the linkages between community organizations, the Councils, and government, other public programs, markets and financial institutions, to foster sustainability beyond the Bank’s own involvement.

Lessons Learned

The Brazil CDD experience offers a rich cache of lessons of which the following is a selective listing:

- Poor rural communities can decide their priorities, working through representative Councils, and prepare, execute, operate and maintain their investments, with funds transferred directly to the association bank account and appropriate technical assistance and information.

- The CDD process entails a longer-term commitment to reap the full benefits, and an integrated vision of sub-national development which values local knowledge.

- Decentralization of fiscal and investment decision-making and implementation to the states and localities including community organizations, improves overall efficiency and achieves better results.

- CDD approaches reinforce accountability for project performance by reducing the “distance” between decision-makers and beneficiaries; in practice, the two are often synonymous.

- Matching grant-based investment is a legitimate and effective tool for launching capital accumulation by the rural poor, contributing to sustainable development when complemented by community cost-sharing, O&M rules and user fees.

- Poverty targeting mechanisms must be simple, verifiable and based on objective criteria to promote transparency, minimize political interference in project resource allocation and ensure that funds reach intended populations.

- Standardized subproject documents, technical designs/parameters and unit cost can help simplify subproject preparation and evaluation, improve quality, facilitate procurement, reduce cost and prevent over-design.

- Representative Municipal Councils (MC) have proven advantages for targeting, sustainability and nurturing social capital in poor rural communities. Properly trained and with linkages
established to local government, Councils can be institutional vehicles to integrate local rural development actions for greater impact.

- **Dissemination of best practices** through exchanges of information among stakeholders via national, regional and local seminars, workshops, and study tours, hastens learning and rewards innovation.

- **Scaling up pilot projects/components** extends well beyond the quantitative, involving geographic, political and organizational aspects, as well as sequencing considerations.

- **Local government is an essential partner in effective, sustainable CDD programs, but the initial empowerment phase** is necessary to the fundamental changes sought and may create strains. The need to “re-integrate” with local and regional authorities can be a sequencing issue, and depends on specific country/local circumstances.

**Sustainability:** The elements of sustainability are by now well-understood:

- **Institutional:** Assigning greater responsibility and influence to local civil society organizations (community associations, Municipal Councils) and to municipal governments, fosters decentralized resource allocation and creates social capital. Longer-term sustainability depends on forging mutually advantageous linkages – financial, social and political - between the Councils and local/state authorities.

- **Financial:** Analysis and field investigation over time confirm the sustainability of investment subprojects financed by these programs. Analysis of productive subprojects shows that cost recovery through user fees paid by community associations covers both operation and maintenance, and timely replacement of the original investment.

- **Physical:** The physical sustainability of subproject investments is bolstered by community participation, significant levels of community contribution (up to 25 percent), subproject quality, and responsible operation and maintenance. Approval and financing of community proposals is contingent upon community-funded operation and maintenance (O&M) plans.Democratic processes intrinsic to FUMAC and FUMAC-P ensure sound priority-setting and better investment selection by communities.

**Bank Involvement and Future Challenges:** Continued Bank engagement with the Brazil CDD program is intended to consolidate its medium and long-term financial and methodological sustainability but the strategic focus of Bank involvement is changing as the program matures.

Core project activities will continue in response to massive unsatisfied community demand for basic socio-economic investments, but sustainability is increasingly predicated on: (i) using the Municipal Councils for the allocation of non-project resources and expanding their use of information technology for marketing and transparency purposes; (ii) using social capital to generate income, leverage funds not previously available to poor communities, and access international markets; (iii) scaling up established CDD governance mechanisms through their use by Government to allocate funds from a wide range of programs; (iv) supporting integration of CDD in sustainable regional development strategies; (v) strengthening environmental oversight.
through partnerships with related agencies, training of communities and Councils, and applying agro-ecological zoning to project design and execution where necessary; and (vi) establishing strategic partnerships to achieve program objectives.
References


Table 4: Socio-Economic Benefits of Subprojects by Main Subproject Type, RPAP

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Total No. of Subprojects Completed (i)</th>
<th>No. of Benefic. Families per Subproject</th>
<th>Cost per Subproject (US$)</th>
<th>Net No. of Jobs Created per Subproject (ii)</th>
<th>Net Annual Incremental Income/savings per Subproject (US$)</th>
<th>Incremental Crop Area Cultivated per Subproject (hectares) (iii)</th>
<th>Economic Internal Rate of Return (%)</th>
<th>Total Investment per Beneficiary Family (US$)</th>
<th>Total Investment per Job Created (US$)</th>
<th>Economic Benefit-Cost Ratio (iv)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural water supply</td>
<td>4,025</td>
<td>71</td>
<td>30,149</td>
<td>-</td>
<td>12,369</td>
<td>1.4</td>
<td>-</td>
<td>425</td>
<td>-</td>
<td>-</td>
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<td>Rural electrification</td>
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<tr>
<td>Small bridges</td>
<td>538</td>
<td>139</td>
<td>26,350</td>
<td>-</td>
<td>1,040</td>
<td>2.3</td>
<td>-</td>
<td>190</td>
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</tr>
<tr>
<td>Community telephones</td>
<td>435</td>
<td>140</td>
<td>22,944</td>
<td>-</td>
<td>422</td>
<td>0</td>
<td>-</td>
<td>164</td>
<td>-</td>
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<tr>
<td><strong>Productive:</strong></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Manioc mills</td>
<td>412</td>
<td>68</td>
<td>18,451</td>
<td>10.8</td>
<td>17,148</td>
<td>16.3</td>
<td>&gt;30</td>
<td>271</td>
<td>1,708</td>
<td>&gt;2.0</td>
</tr>
<tr>
<td>Community Tractors</td>
<td>573</td>
<td>95</td>
<td>30,870</td>
<td>29.3</td>
<td>28,137</td>
<td>22.6</td>
<td>&gt;30</td>
<td>325</td>
<td>1,054</td>
<td>&gt;2.0</td>
</tr>
<tr>
<td>Small-scale livestock</td>
<td>110</td>
<td>40</td>
<td>16,354</td>
<td>2.5</td>
<td>6,214</td>
<td>2.8</td>
<td>&gt;30</td>
<td>409</td>
<td>6,542</td>
<td>&gt;2.0</td>
</tr>
<tr>
<td>Small-scale irrigation</td>
<td>146</td>
<td>36</td>
<td>25,158</td>
<td>25.4</td>
<td>23,800</td>
<td>37.9</td>
<td>&gt;30</td>
<td>699</td>
<td>990</td>
<td>&gt;2.0</td>
</tr>
<tr>
<td><strong>Social:</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Road paving/rehab.</td>
<td>675</td>
<td>82</td>
<td>31,930</td>
<td>-</td>
<td>242</td>
<td>1.7</td>
<td>-</td>
<td>389</td>
<td>-</td>
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<tr>
<td>Sanitation systems</td>
<td>171</td>
<td>72</td>
<td>29,727</td>
<td>-</td>
<td>0</td>
<td>0</td>
<td>-</td>
<td>413</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

(i) As of March 2000. By January 2001, some 19,000 subprojects had been completed under the RPAP. Subproject distribution did not vary greatly.

(ii) Many jobs created by the infrastructure and social subprojects come from additional economic activities made possible by the investments, but not directly involved with the project after its construction/establishment.

(iii) The incremental crop areas associated with infrastructure and social subprojects come from the cultivation of additional areas, made possible by the projects.

(iv) Obtained by using a real rate of 10% for the opportunity cost of capital.