MBOPs and the case of Northeast Brazil
The Rural Poverty Reduction Program

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1. Introduction

Over nearly two decades, the Northeast Brazil and the World Bank have been engaged in an evolving experiment in participatory development for the reduction of rural poverty. From 1986 to the present, some US$1.4 billion have been invested in the ten states which comprise the region, applying a methodology that has come to be defined as community-driven development (CDD). In stark contrast to previous attempts at combating rural poverty in Northeast Brazil – particularly under the guise of earlier failed integrated rural development schemes – CDD relies on local knowledge and understanding to generate investment options to meet pressing community demand. Starting as an obscure sub-component of a larger set of fairly traditional rural development projects, CDD in the region has been incrementally modified and fine-tuned into what today arguably represents one of the more effective CDD country programs worldwide, in terms of both its ability to reach the rural poor with investment resources and generate tangible benefits for them. Across four successive generations and a cumulative 36 projects, well over 50,000 small-scale community investments have been financed and implemented by some 36,000 community organizations, extending basic services such as electrification, safe water and income-generating activities to approximately 1.2 million households, or about 7 million individuals.

Yet strong and vocal critiques of the CDD methodology call into question its purported effectiveness and its ability to generate lasting benefits for those participating in it. First, its participatory nature is believed to be subject to manipulation by local elites and, owing to information asymmetries, can be less efficient in (or worse yet, incapable of) translating community demands into actual investments. Second, given that, in NE Brazil, sub-national (i.e., State-level) governments are charged with CDD's overall execution, conflicts and power struggles may arise in the decision-making process that leads up to actual community investments, in that the State may "know better" what communities actually need, thereby annulling the comparative advantage of localized knowledge. Third, the new institutions which form in response to CDD –the myriad community associations through which individual subprojects are implemented and the umbrella project-related Municipal Councils which are structured to funnel community investment demand and prioritize investment decisions within a given municipality – may only be transient, in that once external assistance is no longer available, fade into non-existence, since the "game" for which they were created is no longer being played. Similarly, and more broadly, what evidence exists that, beyond the political will to

[1] Opinions expressed are those of the authors and not necessarily those of the World Bank. The authors thank Anna Roumani (World Bank) for substantive comments and suggestions on this draft.

accept CDD as a modality for foreign assistance, State governments are actually making systemic and structural changes in their approach to reducing rural poverty by "mainstreaming" CDD?

The purpose of this paper is to trace the origins of and the accumulated experience with CDD in Northeast Brazil as an example of membership-based organizations for the poor (MBOPs). Section 2 describes NE Brazil, particularly the rural NE, and the dimensions of poverty there. Section 3-5 define CDD in the NE Brazil context, discuss its role as a development methodology, and provide the historical background leading up to its adoption as a vehicle for rural poverty reduction in the region, as well as the pre-conditions – internal and external – that facilitated its arrival on the scene. Section 6 addresses the institutions emerging through CDD, the community association and the municipal council. Section 7 address the question, "what are the development outcomes achieved by MBOPs in Northeast Brazil?", and lays out a set of stylized lessons on the successes, potential for scaling-up and replicability of the CDD experience in Northeast Brazil. Section 8 provides concluding remarks and issues for further research.

2. Background: Northeast Brazil

Brazil is characterized by extreme levels of income disparity, with poverty rates much higher than in other countries with a similar level of per-capita GDP. In particular, the Northeast region accounts for some 20 percent of Brazil's land area, yet is home to 48 million people, 30 percent of Brazil's total population. Poverty is endemic in the region, with 47% of the total Northeast population living on less than US$1 per day. Poverty in the rural space is more severe, with 64% of the Northeast rural population (9.2 million) living on less than US$1 per day. On a national scale, 49% of Brazil's population living on less than US$1 per day reside in the Northeast; for rural Brazil, this figure jumps to 64%. Among the five major regions of the country, the Northeast ranks lowest in terms of the Human Development Index - HDI (0.608 compared to 0.764 for all of Brazil). Table 1 reports indicators of poverty, income inequality, rural population and Human Development Indices for the NE states.

Table 1: Northeast Brazil, Summary Indicators, by state

State	Extreme Poverty, 2000 (1)	Poverty, 2000 (2)	Gini (2000)	Total (#)	Rural (#)	Rural (%)	HDI-M, 2000
Alagoas	55.4	57.2	0.691	2,822,621	902,882	32%	0.649
Bahia	52.8	53.6	0.669	13,070,250	4,297,902	33%	0.688
Ceará	53.5	54.4	0.675	7,430,661	2,115,343	28%	0.700
Maranhão	52.8	56.7	0.659	5,651,475	2,287,405	40%	0.636
Paraíba	51.1	52.1	0.646	3,443,825	996,613	29%	0.661
Pernambuco	53.2	52.3	0.673	7,918,344	1,860,095	23%	0.705
Piauí	51.5	55.0	0.661	2,843,278	1,054,688	37%	0.656
Rio Grande do Norte	54.3	52.0	0.657	2,776,782	740,109	27%	0.705
Sergipe	49.8	52.2	0.658	1,784,475	511,249	29%	0.682

Source: Human Development Atlas for Brazil, United Nations (2004)

(1) % population with per-capita monthly income below R$37.75

(2) % population with per-capita monthly income below R$75.50

3. Community-driven Development (CDD): pre-conditions in NE Brazil

How do we define CDD in the Brazilian context and how did it take hold in Northeast Brazil? The answer to these questions lies in the confluence of internal transformations occurring in Brazil and external factors which facilitated the rise of participatory approaches embodied in CDD.

Failure of Integrated Rural Development: At a recent conference which brought together the ten Northeastern states to share their collective experience with CDD, a well-known keynote speaker declared, "State Governments and the international community have been involved in the rural development of Northeast Brazil for some forty years, and the first thirty years were a resounding failure."[2] A principal component of this failure was the intense devotion to Integrated Rural Development (IRD), which attempted to coordinate and implement (typically at the central government level) a panoply of investment activities designed to reduce rural poverty, build institutional capacity for service delivery, and create the conditions for improved income-generation, primarily in agriculture. From 1975 to 1987, the Brazilian government committed approximately US$3.3 billion to IRD in the Northeast, for which it borrowed US$1.4 billion (42% of total) from the World Bank. This package of assistance included the first-generation projects (POLONORDESTE)[3], approved in nine NE states over the 1975-1983 period, and (ii) the second-generation projects (NRDP) in the same states, over the 1985-1987 period.[4]

The first-generation IRD projects included about a dozen different components. The staples of these projects were credit (23%), land-related activities (16%), feeder roads (20%), and agricultural extension (14%), in the aggregate accounting for 72% of total costs (Tendler 1991). To reduce project complexity and focus more exclusively on agricultural production, the second generation eliminated health, education, and roads--as well as some smaller components (e.g., micro-enterprise credit, electrification, marketing). Credit (30%), extension (24%), and a new community-participation component-APCR (16%) accounted for 70% of total expenditures under the second generation.[5] Common to both the first and second-generation projects was a lethargic pace of implementation and significant lags in disbursing resources, partly due to the inflationary crisis in Brazil at the time, but also a function of the persistent level of complexity in project design, despite fewer components and activities. These projects also suffered from (i) faulty poverty targeting mechanisms, resulting in significant slippage in benefits; (ii) institutional deficiencies, mainly costliness and inefficiency of agencies, as well as excessive centralization of decision-making; (iii) political manipulation associated with entrenched patron-client relations; and (iv) inadequate community participation, involvement and capacity building.

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[2] Hans Binswanger, November 2004, João Pessoa Conference.

[3] POLONORDESTE is *Programa de Desenvolvimento de Areas Integradas do Nordeste* (Program of Integrated Development for the Northeast), and NRDP is Northeast Rural Development Project.

[4] Northeast Brazil is comprised of nine states (see Table 1) and the northern section of Minas Gerais (which is excluded from the analysis in this paper).

[5] *Apoio às Pequenas Comunidades Rurais* (Support for Small Rural Communities).

Decentralization: It is important to recognize that the early IRD projects began under a centralized military government in Brazil, where public agencies controlled most development activity. Both participation and decentralization were politically problematic in the Brazil of the period. By the mid-1980s, Brazil had returned to democratic rule, and adopted a new constitution in 1988 that promoted the decentralization of responsibility and resources for implementing development programs from the Federal Government to the States, municipalities and local communities (JVZ 2000). In parallel, the emergence of the Solidarity program in Mexico launched a World Bank-supported experiment there in CDD that would eventually inspire other countries. Yet it was the small APCR component in the Northeast program that would serve as the prototype for an eventual re-design of the NRDP. In 1993, in agreement with Federal and State Governments and following a study tour of the positive CDD experience in Mexico, the NRDP project components were dramatically reduced, and the bulk of remaining resources were reallocated to a scaled-up hybrid of the APCR.[6]

4. CDD in Northeast Brazil 1986-present

The combined effect of the above factors aided the transformation of the NRDP projects into more participatory CDD vehicles. A lone element of the second-generation IRD projects in the Northeast – the APCR[7] -- performed well enough to make it the centerpiece of the reformulation effort in 1993. A wholesale change in project design was implemented, first by devolving direct implementation responsibilities to sub-national agencies, typically (but not exclusively) linked to the respective Secretariats of Planning. This put into practice the principle of *subsidiarity*, in that decision-making and responsibilities devolved to their most local level of capacity. Second, the NRDP became a community matching-grants scheme, founded on local participation in decisions about investment priorities and modes of implementation, with the intent of meeting the expressed needs of rural poor communities. Practically speaking, since governments and central planners had, over the course of several decades, proven to be incapable of reaching the rural poor with basic public services, it was decided that a "role reversal" was in order, with the communities themselves taking on a greater role in deciding what most improved their quality of life.

The movement from a top-down approach to a participatory, community-based methodology founded on MBOPs was aided by a favorable policy setting in Brazil – at the Federal and State levels – in the late 1980's and early 1990's. The NE States were painfully aware of persistent failings in the sequential IRD programs over several decades. These failures disposed State governments to a willingness to expend the political capital needed to break with traditional, centralized programming, and move toward a greater reliance on demand-driven processes of investments for poverty reduction. Third, reducing the role of the State – both in terms of size and scope of interventions -- was a movement sweeping the developing world in the early 1990's, creating an opening for an expanded role for civil society in poverty reduction.

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[6] Another facilitating factor for the movement toward CDD were the policy prescriptions widely pursued, chiefly on the part of the multi-lateral lending institutions like the World Bank, which promoted, *inter alia*, the scaling back of the role of the State, combined with increased privatization. Fukiyama (2004) points to the changing role of the state in delivering services, as a result of the so-called Washington Concensus. The Washington Consensus carried as many as ten fundamentals. See Davidson (2003) for a more extensive treatment. Here, the focus is placed squarely on the changing role of the state.

[7] *Apoio ás Pequenas Comunidades Rurais* (Assistance to Small Rural Communities)

On paper, the results of the reformulated NRDP were impressive: in the three years following its restructuring, the NRDP accomplished 100% of its physical targets. Overall, more than 40,000 community associations presented proposals for small-scale investments, which they themselves would implement. Of these, about 18,000 subprojects, at an average cost of US$24,000 per project and about US$360 per family benefited.

Three funding mechanisms for subprojects were available: (ii) FUMAC, which sought to initiate a municipal development context through the formation of a project municipal council, with up to 70% of its voting membership being representatives of the community associations residing in the municipality; (iii) FUMAC-P, which pilots an extension of the FUMAC by devolving the financing of subprojects from the project coordinating unit at the state level to the municipal council; and (iii) PAC, which forged a working relationship directly between the project coordinating unit and the community association; (Box 1). The project coordinating units established in each participating state were found to be competent in overall project execution, especially in creating awareness of the project among the intended beneficiaries: the rural poor of the Northeast.

Box 1: Gaining Access to CDD: Delivery Mechanisms

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 PCU of their decisions. This process is guided by an annual, indicative Council-specific budget estimated by the PCU 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 PCU) and submit an Annual Operating Plan (POA) for PCU 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.

(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 PCU 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, and more prone to local political manipulation.

Source: A. Roumani. Brazil: Community-Driven Development in Rural Communities of the Northeast (2004)

By 1995, and following the success reformulated NRDP, the NE States began a new generation of projects, known as the Rural Poverty Alleviation Projects (RPAP). The RPAP retained many of the same mechanisms as the previous generation, and sought to expand the number of the project municipal councils and the emphasis on municipal development. From 1995-6 through

2004, World Bank-assisted operations totaling US$444 million have been deployed in eight NE states (Table 2).[8]

Table 2: Rural Poverty Alleviation Projects – Implementation Indicators

State	Project Effective Date (month/yr)	Project Closing Date (month/yr)	Total Amt (US$ million)	Community Subprojects (#)	Families Benefited ('000)	Community Associations (#)	Project Municipal Councils (#)
1. Bahia	11/95	12/00	163.4	6,608	451.9	3,594	354
2. Ceará	04/96	12/00	99.6	3,056	153.2	2,410	139
3. Maranhão	06/98	06/03	106.9	3,946	184.5	2,835	175
4. Paraíba	03/98	06/03	79.5	3,058	108.4	2,458	159
5. Pernambuco	09/97	06/01	51.2	1,601	136.0	1,255	155
6. Piauí	09/97	06/01	39.7	1,199	70.9	897	170
7. Rio Grande do N.	08/97	06/01	31.6	1,697	77.1	1,382	132
8. Sergipe	03/96	12/00	53.3	1,820	62.4	917	71
TOTALS			**625.2**	**22,985**	**1,244.4**	**15,748**	**1,393**

Source: Project MIS data

5. MBOPs in NE Brazil: Community Associations and Municipal Councils

The success of the NE Brazil CDD model comes in large part from the perceived advantages of placing intended beneficiaries in the position of petitioning for, executing, operating and maintaining those investments which best meet their own pressing needs. Furthermore, by supporting collective action to resolve these needs, so-called "social capital" is both created and deployed in the investment process. Community associations are therefore the fundamental building-blocks for CDD, where interested individuals coalesce around the common goal of expanding community assets, and access to basic services (e.g., electricity, safe water, sanitation). What are these community associations and how do they participate in the CDD?

Earlier assessments of IRD in the NE cited the lack of community participation as a chief reason for their failure. In fact, one of the key findings was that, with strong political support at the state level, almost any project component which is *tailored to the immediately felt needs of the beneficiaries* can be made to work (Tendler 1993). Sufficient evidence now indicates that projects which exclude the active participation of communities are likely to fail, whereas projects that seek such participation increase their chance of success (Finstersbusch and van Wicklin 1987; and Narayan 1995a). Therefore, building on the success of the APCR component (whose outcome was specifically linked to the strong participation of beneficiaries), its scaling up in the reformulated NRDP and the subsequent RPAP, CDD seeks to engage the participation of citizens and their communities in the development process.

Formally defined, community associations are groups of rural citizens with a common interest and organized into legally-constituted civil associations (as required under Brazilian law).

[8] Due to fiscal pressures, the States of Alagoas and Minas Gerais were not able to participate in this round of CDD projects. However, new projects have been prepared in these states are currently awaiting negotiations with Federal and State authorities. Also, two projects in the states of Maranhão and Paraíba are still active under the RPAP.

These associations are not necessarily defined by geographic boundaries, but rather bring together households and individuals that share a mutual objective for improving their quality of life. Community associations are the bedrock of CDD implementation: they identify, prepare, implement, supervise, operate and maintain their subproject investments, assisted both by technical specialists (whom they contract directly) and by technical assistance and training made available by project Municipal Councils and the project coordination Unit. Even more importantly, these community associations directly receive and manage the funds required for the executions of these investments. Money is transferred from the PCU at the state level into the bank account of the respective community association, which is then responsible for contracting all goods and works required to complete the investment. Upon completion of the task, the community association submits a simplified statement of accounts to the PCU to verify the proper use of these public funds.

While the community associations are indeed the foundation of CDD in NE Brazil, there is a municipal context in which they operate. Furthermore, if CDD is to become a viable mechanism over the long run, it will need to find a way of inserting itself into the municipal socio-political context. Yet, it was the a desire to break with the historical legacy of political patronage at the local level, combined with justifiable fears as to the potential for manipulation of community associations by strong, and often autocratic, municipal governments, that led to the creation of project Municipal Councils, where broader, more transparent discussions and decision-making could occur. The Municipal Council, as such, serves as a means of social control for project activities and community associations. Within any given municipality, community associations choose delegates for seats on the Municipal Council, but in all cases the representation on the council is approximately two-thirds community association members and one-third other elements of organized civil society (e.g., rural workers' union, NGOs, local government) and public sector agencies. In terms of sheer size, most municipal councils have from 11 to 20 members. Today, about 80% of the municipalities in NE Brazil have a project municipal council established.

6. The Glue that Binds: the community subproject

CDD promotes local involvement in investment decision-making and therefore must provide some reasonable expectation that something tangible will result. Enter the community subproject. Under CDD, community associations can propose almost any investment under the rubric of a community subproject, with the exception of a short negative list including the following: (i) Federal or State road repair; (ii) land acquisition; (iii) religious buildings; (iv) Federal, State or Municipal buildings; (v) investments related to political parties; (vi) Union halls; (vii) tobacco production; and (viii) alcohol production.[9] A maximum threshold of US$50,000 is set for the total cost of each community subproject, though in practice the average cost (since 1995) has ranged from US$22,000 to US$25,000.[10] Simplified rules guide the community subproject investment cycle:

[9] Some variation in elements of the "negative list" occurs between states e.g., home construction is prohibited in Pernambuco state, yet permitted in Sergipe.

[10] This was likely a result, *inter alia,* of a natural rationing of finite resources to benefit the maximum number of households.

- Community Associations, with technical help as needed, determine their local investment priorities and prepare subproject proposals;
- Subproject proposals are submitted to respective project Municipal Councils where they are prioritized and approved, based on indicative municipal resource envelopes, as defined by the PCU at the state level;
- The PCU evaluates approved subprojects and confirms compliance with subproject guidelines before releasing funds to community associations;
- Subproject agreements (*convênios*) – signed between the PCU and Community Associations – spell out the terms and conditions for the funding, execution, ownership, operation and maintenance of the approved subprojects.
- Resources for subproject implementation are transferred directly to the Community Association's bank account;
- Community Associations are responsible for (i) contracting goods, works and technical assistance for subproject execution and (ii) operation and maintenance of all investments. They may also request technical assistance to develop operation and maintenance programs and techniques.

Since 1993 and across three successive generations of CDD, MBOPs in NE Brazil have implemented over 55,000 subprojects(Table 3). The bulk of these community investments (about 70% of total) can be broadly categorized as basic socio-economic *infrastructure*, principally rural electrification and water supply systems. About 20% of subprojects have been *productive* in nature (.e.g., irrigation, manioc mills, agro-processing, tractors), where as those termed *social* make up the remaining 10% (e.g., crêche, community centers, school rehabilitation).

Table 3: Aggregate Results, CDD in NE Brazil, 1993-present

	R-NRDP (1993-95)	RPAP (1995-03)	RPRP (2001-present)	Total
Total Loan Resources (US$ million)	338.6	420.6	112.1	871.3
Total Project Resources (US$ million)	615.6	625.2	171.7	1,412.5
Subprojects Implemented	25,000	22,985	7,242	55,227
Families Benefited[1]	890,000	1,244,477	410,000	2,544,477
Community Associations	14,900	19,154	6,392	40,446
Water Supply Investments	2,700	7,786	2,469	12,955
Communities with Water Supply	2,250	6,528	2,469	11,247
Families with Water Supply	110,250	524,108	148,433	782,791
Energy Investments	5,040	8,537	1015	14,592
Communities with Energy	4,200	7,198	1015	12,413
Families with Energy	246,960	357,272	55,731	659,963
Productive Investments	5,893	4,887	1298	12,078
Communities with Productive Inv.	4,910	4,072	1298	10,280
Families with Productive Inv.	262,506	414,034	101,779	778,319

Source: Project MIS data

[1] Includes families which have benefited from more than one community subproject

Targeting: Each participating community association has implemented, on average, 1.3 subprojects. This raises a fundamental question for interested policymakers: What is the desired balance between breadth of investment (i.e., coverage) and depth of investment? On a more general level, how are benefits targeted under CDD? Common to all NE CDD projects, targeting occurs on three levels: (i) municipalities are included in the project area by the PCU, based on exogenous criteria, e.g., Human Development Index and level of rural population; (ii) community associations self-select into the project, based on need and an understanding of the potential benefits arising from their participation; and (iii) project municipal councils prioritize subproject proposals received from community associations, in line with local knowledge of rural poverty and constrained by the resource envelope available for the municipality. Additionally, participation in the project is limited to associations from communities with up to 7,500 inhabitants.

In practice, virtually all municipalities in a participating state are included in the project (Table 4). Given the finite budget constraint faced by the participating state (i.e., total project cost ceiling), this near blanket coverage implies that state governments have opted for a focus on breadth rather than depth.[11] This is not surprising in that astute elected officials may perceive greater political returns are to be had by extending project benefits to as many voters as possible, as opposed to deepening subproject activities, and hence poverty impact, in a smaller number of municipalities and communities.

The above example serves as a reminder that CDD does not operate in a political vacuum. In many cases, political imperatives can and do conflict with technical design considerations. Here, it is crucial to bear in mind that one of the primary initial conditions for the success of CDD is the strong political backing from both State and Local government. Hence, tradeoffs will inevitably be needed in order to preserve the overall buy-in on the part of these officials. A question for further exploration would be whether binding political constraints weaken the effectiveness and impact of CDD, particularly in regard to the potential for widely dispersed, yet uniformly thin investment, at the community level.

Table 4: Municipal Targeting under CDD, NE Brazil

State	Alagoas	Bahia	Ceará	Maranhão	Paraíba	Pernambuco	Piauí	Rio Grande do Norte	Sergipe	Total
Total Municipalities	102	417	187	217	222	184	222	165	77	1,793
Targeted CDD Municipalities	96	407	186	216	221	177	221	157	71	1,752

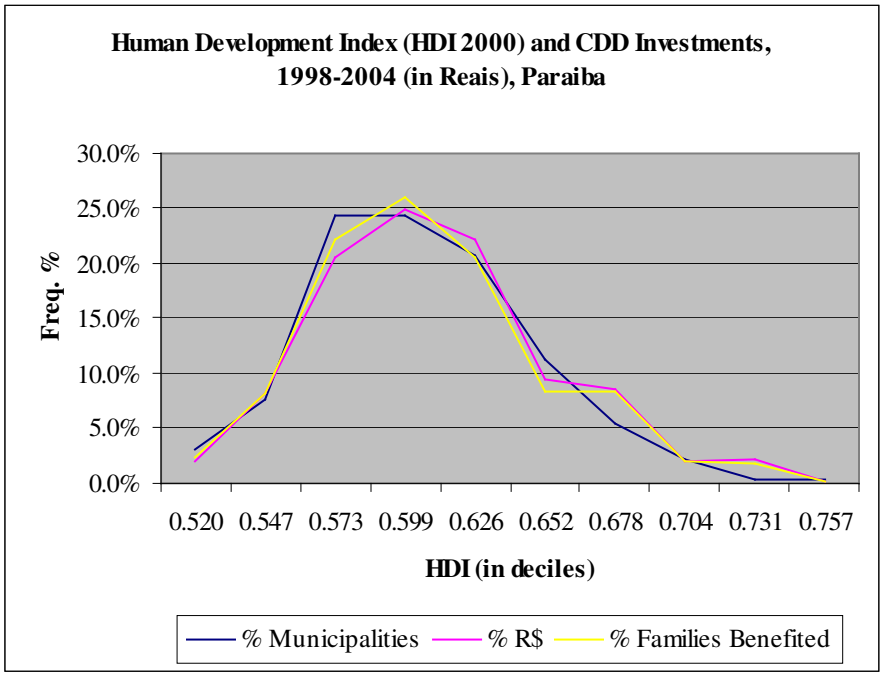
Source: Project MIS data

Since very few municipalities have been excluded *ex ante* from participating in the project, what can we say about municipal poverty indicators and their relationship to the level of project resources invested? For example, are those municipalities with *lower* HDI-M receiving relatively proportional levels of investment funds under the project? Using Human Development

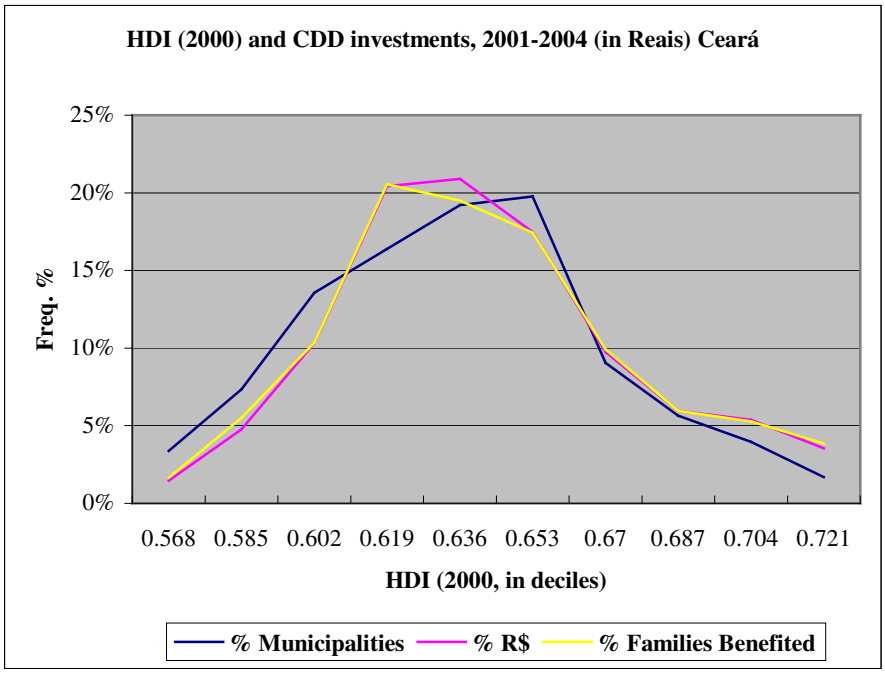
[11] An additional point for further exploration is the extent to which municipalities and, indirectly, community associations truly operate within the context and awareness of resource scarcity vis-à-vis the budget constraint.

Indices from 2000, frequency distributions were calculated for various participating NE states, establishing deciles for the municipal-level HDI. Next, this information was crossed with subproject expenditure data – classified by municipality – then aggregated according to the respective decile. The resulting paired frequency distributions for two states – Paraíba and Ceará – are given in Figures 1a and 1b.

Figure 1a and 1b: Frequency Distribution, Human Development Index (HDI) and CDD Investments



Source: Project MIS Data



Source: Project MIS data

The data yield several observations in regard to targeting. First, there is overall convergence between the frequency distribution of the HDI-M and the level of project resources invested in R$, indicating that, in a general sense, resources are flowing in concert with an exogenous measure of need. Second, the points at which the curves transect indicate areas of greater or lesser than proportional investment for a given decile, which can imply either heightened targeting or slippage, respectively. In the case of Ceará, the 1st decile through the 4th decile received relatively less investment funds, while the 5th, 6th 9th and 10th deciles received relatively more. As for Paraíba, a similar slippage occurs, albeit less intense. Given that the overall project is based on a demand-driven model, this may indicate that greater effort is needed to inform those municipalities in the lower deciles of the how to participate. It may also be an indication of the ability of better prepared municipalities (i.e., 5th deciles and higher) to organize and demand investment funds under the project.

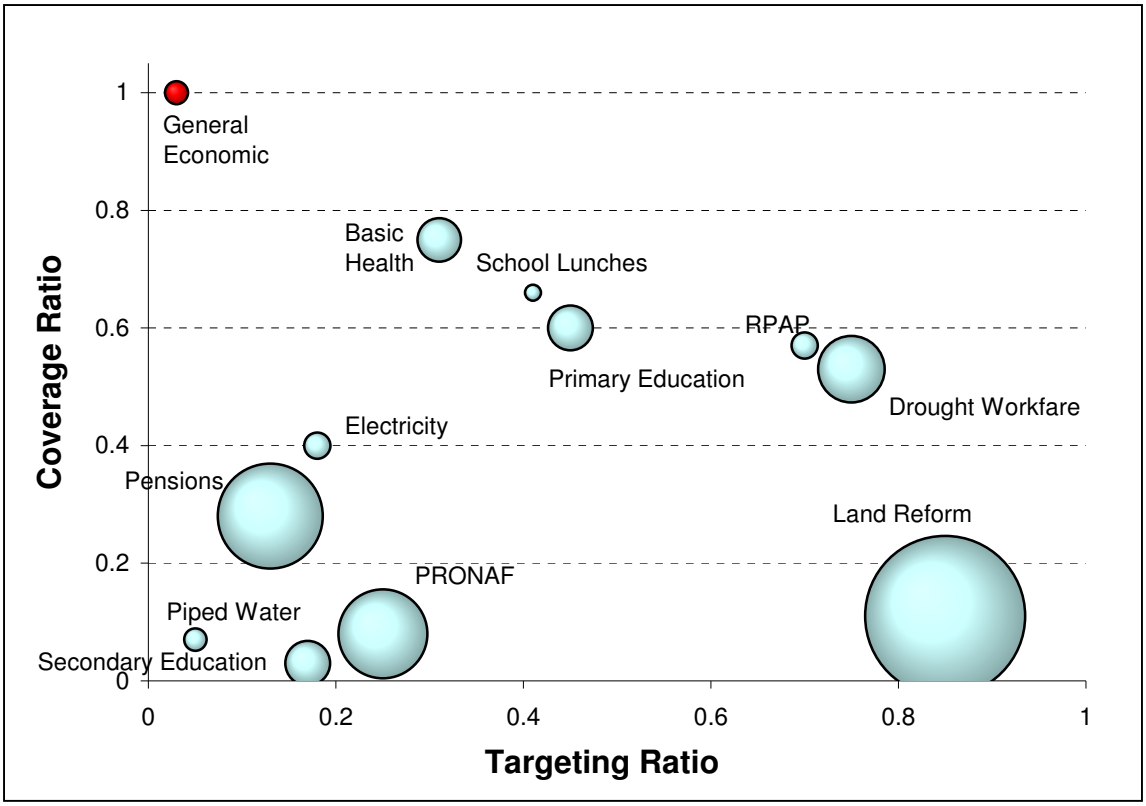
While these data shed light on the effectiveness of targeting at the municipal level, they are silent as to the effectiveness of targeting *within municipalities*. World Bank (2003) notes that about 70% of families benefited under CDD in the NE have household monthly incomes of less than two minimum salaries (about R$300 in 1999 or US$166). Based on an average household size of five in the rural NE, per capita incomes among this group would be slightly more than US$1 per day.[12]

Since 1993, CDD in NE Brazil has generated annually about 5,000 community subprojects, benefiting 231,000 families at a per-family cost of US$470. Applying the targeting rate of 70 percent, about 162,000 poor rural NE families have been reached annually by the project, compared to a total of 1.8 million poor families in the rural Northeast. As such, CDD reach about 9% of the rural NE poor each year with at least on investment. The project therefore reaches about one-eighth of the poor families in the rural Northeast each year. Over eleven years, subprojects for 1.8 million households were completed. Adjusting for repeat households, about 900,000 households (or 50 percent) of the 1.8 million poor households in the rural Northeast may have been covered through CDD.

Figure 2 graphically compares a series of social spending programs in Brazil along four dimensions: (i) each "bubble" represents one spending program; (ii) the size of each bubble is proportional to annual per household spending (annualized in the case of investment programs) showing the relative importance of the program to its beneficiaries; (iii) the horizontal position of the bubble shows the level of targeting of the program to the bottom quintile; and (iv) the vertical position of the bubble shows the reach (coverage) of the program among the bottom quintile. Programs in the lower left corner (e.g., pensions, urban services, secondary education, and credit) are poorly targeted and do not reach many of the poor. Programs in the bottom right-hand corner (e.g., land reform) are well-targeted, but only reach a small share of the poor. Programs near the top left are universal (e.g., basic health, education, and school lunches). The "ideal" social program is located in the top right-hand corner. These "ideal" social programs are well-targeted and reach a large share of the poor.

[12] See table 5.4 in van Zyl (2000) for details

Figure 2: Coverage and Targeting of Selected Rural Social Spending Programs



Source: World Bank (2003)

Note: For reference, the impact of distributionally neutral annual growth of 4 percent is shown in the top left-hand corner.

Figure 2 reinforces the trade-off mentioned earlier between targeting and reach among the rural poor. As reach increases, it becomes more difficult to control benefit slippage. This is the challenge faced in attempting to scale up small and well-targeted social development programs. A second trade-off is also suggested between benefit size and coverage. Expensive programs, like land reform in Brazil (average per family benefit of R$4000) reach only a small number of the poor, while cheaper programs, such as the RPAP (average per family benefit of US$434), can afford larger coverage.

Scale of subproject investments: As stated earlier, the maximum cost per subproject is set at US$50,000; however, in practice, the average cost has been slightly more than one-half this amount. The first question is, of course, why US$50,000? Procurement rules which guide the use of World Bank loan proceeds have primarily driven the application of this subproject ceiling. Historically, World Bank projects have been associated with large-scale public works. As such, both procurement and disbursement procedures were designed for these larger scale investments, with little or no guidance regarding the smaller investments carried out under CDD (de Silva 2000). Yet it was clear that arrangements for million dollar works were not appropriate for smaller scale works. Second, but just as important, the technical capacity of the new implementing entities – the community associations – was as yet unproven, so the rules would also have to adopt a learning-by-doing approach in step with the innovations embodied in CDD.

Community contracting was the Bank's answer: procurement by or on behalf of a community. Here, "community" is defined as "groups of individuals living in close proximity to each other and other social groups, grassroots entrepreneurs or associations able to identify a need and come together to access project funds" (de Silva 2000). In determining the appropriate circumstances for community contracting, no strict threshold exists vis-à-vis the World Bank rules. Therefore, the US$50,000 threshold can be seen to some extent as the "comfort level" of the World Bank with community contracting, beyond which project complexity would dictate adherence to standard procurement rules.

7. What have we learned?

Sustainability: The NE Brazil experience has demonstrated that community associations can effectively organize to meet basic felt needs at a reasonable cost. What can be said about the sustainability of this experience? Sustainability must be assessed in at least two aspects: *outcome* and *process*. Outcome sustainability is the extent to which the end product of CDD can be maintained over the long term. Here, the subproject investment is the unit of analysis: what are the assurances that the physical investments undertaken by the community associations will be sustained? Specifically, what are the provisions for adequate operation and maintenance of the newly gained community asset? *Ex ante* arrangements and *ex post* evidence seem to point to a high probability of sustainability.

Prior to receiving funding for their respective subprojects, community associations formally agree to maintain and operate their investments. In fact, once the subproject is completed, community associations receive ownership of the investment, which in itself is believed to increase the odds that they will be sustained. A softer element of sustainability is associated with the very act of community residents banding together to meet their collective needs. We know now that the effect of this communal effort – combined with their in-cash or in-kind contribution– generates a high degree of ownership for the investment and a subsequent sense of responsibility to maintain it.

Ex post evidence appears to confirm a high level of outcome sustainability. Van Zyl (2000) and World Bank (2003) report that, for a sample of 3,633 subprojects implemented from 1997-98, about 89% were fully operational in 2000. Beneficiaries, in almost all cases, expressed their satisfaction with the quality of materials used in construction. Between one-half and three-quarters of the subprojects (depending on the participating NE state) were judged by beneficiaries to be adequately sized to meet their needs. Beneficiaries regarded more than 90% of all investments as being satisfactory overall.

Analysis of selected productive subprojects also suggests that the investments are generally financially sustainable, in that cost recovery through user fees paid by the beneficiary association is adequate to cover both maintenance and replacement of the original investment long before the end of its useful economic life. A sample of 1,820 **productive subprojects** (e.g., farm tractor, irrigation, goat/sheep production, brick production, fisheries, cashew nuts, manioc flour mills, clothes making, dry-land farming), implemented from 1995-98 indicates that 87% were fully operational in March 2000. Of 6,064 **infrastructure subprojects** (e.g., rural electrification, water supply, telephone booths, community road rehabilitation, small bridges) funded over the

same period, 89% were fully operational.[13] For the **social subprojects** (e.g., sanitation, health-related housing improvement and social centers), a sample of 239 subprojects, showed that 88% were also fully operational in March 2000.

Process sustainability is perhaps a bit more elusive to ascertain. What is the likelihood the local institutions created and fostered through CDD – the community associations and the project Municipal Councils – will survive? Obviously, there is a degree of interdependence between process and outcome sustainability: if associations are successful in maintaining their subproject, they may also be more likely to survive and thrive over the long haul. Findings from NE Brazil imply the accumulation of social capital via CDD and its deployment through greater citizen participation in local development planning at the municipal level.[14] Social capital provides citizens with appropriate reasons and motives to act collectively on behalf of their community and encourages a new kind of relationship between the State and individuals in matters of administration of local public infrastructure - namely, one shaped by the ideal of citizenship in which citizens (or civil society) oversee governmental activity and exercise political pressure upon authorities in the interest of the community (van Zyl 2000). Furthermore, social capital is also believed to be associated with branching out of these local institutions beyond the World Bank-financed project. Finally, a critical element of process sustainability in the context of CDD is adoption and/or internalization of the CDD methodology within the formal state and municipal political structures. In practice, this would be denoted by the utilization of project Municipal Councils and community associations for channeling public resources for local investments, even after World Bank support wanes, thereby validating the staying power of the CDD model (see Box 2).

CDD in NE Brazil seeks to stimulate social capital accumulation within a cultural context characterized by traditional forces with opposing political interests. How can CDD succeed in this area? Has it succeeded until now? The data collected through the studies suggest that the impact of CDD in the process of formation and accumulation of social capital is variable and that this variation is explained by two major factors. The first deals with the endogenous differences that exist at the community level. For example, the best community associations are usually those which have a tradition of collective work (in Portuguese, *trabalho em mutirão*), a characteristic of rural life in NE Brazil. The other relates to the difference in potential, in terms of enhancing social capital formation, between the three delivery mechanisms (i.e., PAC, FUMAC and FUMAC-P) designed to support community investments in the projects.

To assess the degree of community participation in CDD -- overall and among the three delivery mechanisms (PAC, FUMAC and FUMAC-P), van Zyl (2000) presents a **Community Participation Index (CPI)** based on a representative sample of community associations that have benefited from the reformulated NRDP and the RPAP projects. The CPI considers fifteen indicators of social capital, two of which relate to compliance with the project rules of provision

[13] Rural electrification is an exceptional case, in that, following completion, these subprojects are typically transferred to the local electric company, which in turn accepts responsibility for operation and maintenance of the investment.

[14] Social capital can be defined as a stock of knowledge, behavioral practices and attitudes that are held by the members of a social group, which guides the social activities in which they participate, in an orderly fashion or not, so as to resolve a community problem that they identify as a priority.

of counterpart funding by the beneficiaries (usually 10% of the subproject cost) and responsibility of the beneficiary association for subproject operation and maintenance. Two sets of community associations were studied: (i) 56 associations studied during 1993 and 1994; and (ii) 149 associations in 1998-2000. The CPI reflects both the historical progress made with social capital accumulation from the NRDP to the RPAP, and the differences between the three subprograms in terms of community participation and social capital. Results obtained for the CPI are consistent with ethnographic observations made during field studies.

The findings from the CPI show not only the evolution of social capital between the NRDP and the RPAP, but also, the meaningful differences that exist between PAC, FUMAC and FUMAC-P. Communities in the 1993-94 sample (Group 1) had an average CPI of 11.98 (on a scale of 0 to 30 points). In comparison, the CPI of Group 2 communities visited 5-7 years later, is higher by almost 5 points, averaging 16.91. More specifically, PAC communities have a CPI average of 11.73, which is marginally lower than that of the NRDP communities interviewed in 1993, but substantially so compared to FUMAC (17.16) and even more FUMAC-P communities (21.09).[15] These results are a clear indication that FUMAC and FUMAC-P have contributed to enhancing social capital in the participating communities, while very little progress has been made (in terms of social capital) under PAC. It is also meaningful that the Group 1 sample presents slightly better results than Group 2 in only three of the fifteen indicators: (a) the rate of increase in the associations' membership; (b) the rate of renewal of members of the associations' boards of directors; and, (c) the associations' ability to leverage funds from sources other than the NRDP/RPAP. Considering the context provided by the other indicators of social capital and the huge differences in the averages reached by the two sets of samples and between the subprograms, it can be argued that although, in 1993, a small proportion of associations were in a better position to get funds from other sources, these funds and the programs which they came from were not as able as FUMAC and FUMAC-P to gear up the process of accumulation of social capital.

In response to the larger issue of internalizing CDD within the policy framework of the public sector, there are signs that such a move is underway. In 2004, the NE state of Maranhão began a next-generation program which aims to leverage the CDD municipal councils as a platform for prioritizing public rural investment resources, thereby scaling up the role of local participation in the development of these areas. Maranhão has linked its medium-term development program (2004-2007) to an explicit expected increase in its HDI. Public expenditures specifically allocated for poverty reduction will be allocated and applied, taking advantage of local participation and consultation through the CDD municipal councils (Box 2).

[15] The difference in longevity between the associations was found to be irrelevant in explaining the variation in CPI results.

Scaling up CDD in Maranhão

In 2001, Maranhão was Brazil's second poorest state, both on a per capita income basis and in terms of its HDI. Using a poverty line of about a dollar a day, nearly 60 percent of Maranhenses are living in poverty. The lag in education is particularly severe, with the average educational attainment (2.8 years) well below that of both the country and neighboring Northeast states. Maranhão is also Brazil's most rural state, and it is in the rural space where HDIs are the lowest.

The multi-year investment plan for Maranhão (PPA 2004-07) sets a goal of increasing its HDI from 0.647 (in 2000) to 0.700 by the year 2007. Since the 1990s, Maranhão has had a series of competent State Governments, and social indicators have increased faster than in most NE states. The State has launched an innovative, decentralized form of government, dividing itself into 18 regional management units, and has been proactive in attempting to change the culture of Brazil's state and local governments from clientelism and patronage, toward responsible service delivery to the population.

The PPA is comprised of six elements: (1) economic integration, (2) competitiveness, (3) transformation of the economic base, (4) social inclusion, (5) construction of a knowledge economy, and (6) environmental sustainability. All programs in the PPA are justified in relation to these six principles, and programs across all sectors are then implemented by 18 regional executing agencies (*gerências*). Priority programs are in education, health, water and sanitation, employment generation through local productive clusters, technology, environmental preservation, and public sector management and planning.

The new-generation project in Maranhão supports the State in its effort to reduce poverty by increasing its HDI, continuing the CDD approach already proven successful, by: (i) strengthening the cross-sectoral integration, monitoring, evaluation and results-based management of development efforts within Maranhão at the state, municipal and local levels; (ii) better aligning the State's public expenditures with the PPA development priorities, while improving the effectiveness and targeting of expenditures; (iii) introducing performance agreements between the State Government and municipalities, with special emphasis on targets for improving the various components of the HDI, and encouraging subproject identification and selection by beneficiaries according to the criteria of impact on municipal HDIs and environmental sustainability; (iv) providing significantly more emphasis on education, health, culture, natural resource management and environmental sustainability; (v) taking advantage of opportunities to achieve stronger results through coordinated action, including piloting regional subprojects (involving several municipalities) to address environmental issues, and supporting productive subprojects which tackle critical gaps within a broader concept of local supply chains (*arranjos produtivos locais)*; and (vi) leveraging the skills, social capital and institutional arrangements developed under the RPAP project at the local and municipal levels to improve also the relevance, efficiency, environmental sustainability, targeting and outcomes of non-project investments in rural areas of Maranhão.

Source: Project Information Document – Maranhão Integrated Rural Poverty Reduction Project (World Bank2004)

However, perhaps the true test of sustainability would take such internalization one step further by building in a fiscal transfer scheme to municipalities for the purpose of financing CDD investments.[16] Fiscal transfers from the Federal to municipal government already occur in Brazil under the Municipal Participation Fund (FPM), yet the use of these funds is hamstrung by (i) fixed and mandatory funding formulas which commit the bulk of these resources *apriori* and (ii) the virtual dearth of investment resources within the FPM envelope.

[16] For example, the Mexican municipal transfers as accomplished under *Ramo 33* . Also, Nicaragua, under its Law no. 463 approved in October 2003, adopted a similar arrangement for financing CDD in its 152 municipalities.

A novel idea taking shape in many NE states is the establishment of a Fund for Poverty Reduction.[17] The revenue for the FECOMP is derived from special taxes levied on luxury items. In Bahia State, annual revenue on the order of R$100 million (roughly US$30 million) is currently available; this amount drastically scales up the resources available for poverty reduction investment throughout the state and, if chosen, extending the reach and depth of CDD with the application of these funds.

Replicability: The simplicity of the CDD model lends itself to wider applicability beyond Brazil, and in fact, strong evidence exists that the model, with necessary adaptations to fit into the local context, can generate equally positive results (see Box 3).

Box 3: A CDD Pilot Experience in Haiti

Some 76 percent of Haiti's 8 million people live below the poverty line, with 56 percent in extreme poverty. Poverty in Haiti is comparable to rates in Sub-Saharan Africa.[1] Haiti ranks 153rd on its HDI (out of 177 countries). Income inequality there is among the highest in the world[1], with the poorest and wealthiest 20 percent accounting for 1.5 and 68 percent of incomes, respectively.

In March of 2003, the Post-Conflict Fund – a global program funded and implemented by the World Bank – approved a pilot project which sought to test the applicability of CDD in the Haitian context. Interest in CDD arose following a study tour to NE Brazil to view "on the ground" the experience with CDD there, particularly in the State of Pernambuco. At a total project cost of US$1.25 million, the Haiti Community-Driven Development (CDD) Pilot, the project operates in two of the 137 *communes* (or municipalities) in Haiti: Ouanaminthe (in the *Nord'est* Department) and Anse à Pîtres (in the *Sud'est* Department). Project design draws quite liberally on that of the NE CDD model: (i) Community Subprojects (US$0.616 million), identified by community organizations (OCBs, from their French acronym) and later prioritized in representative project councils (COPRODEPs) as a function of available resources under the project.; (ii) Capacity-Building and Technical Assistance (US$0.218 million), to finance training activities and needed materials to prepare both OCBs and the two COPRODEPs in fulfilling their responsibilities related to subproject execution, monitoring, operation and maintenance; and (ii) Project Administration (US$0.191 million), finances the Project Coordinating Unit – the Pan-american Development Foundation (PADF) incremental costs associated with implementation of the pilot, particularly the installation and equipping of the two decentralized implementation offices (BCT – *Bureau de Coordination Technique*).

In both Ouanaminthe and Anse à Pîtres, a deep history of community organization was present at project inception. At the time that implementation began in Ouanaminthe, some 85 OCBs were identified, of which 46 were determined to meet the criteria for participation in the project. Similarly, in Anse à Pitres, 42 OCBs are active in the project. These OCBs have all obtained legal status, a requirement in order to receive subproject funds. With an average of 50 households each, these 88 OCBs conservatively account for nearly 20,000 individuals or about 20% of the combined population in the two communes. Anse á Pîtres formed its COPRODEP in March 2004, while in Ouanaminthe the council was constituted in May 2004. COPRODEP membership consists of one representative from each OCB participating in the project, with the balance of membership consisting of Ministry representatives working in the Department, the Church, other NGOs and the municipal government. According to the Operational Manual, 80% of the COPRODEP members would represent potential project beneficiaries. In practice, both in Ouanaminthe and Anse à Pîtres, potential beneficiaries constitute nearly 90% of COPRODEP members.

At the end of October 2004, 44 community projects, of which 92 percent have been fully implemented and completed, had been selected through an open, transparent and democratic process and with strong community ownership and support. These include productive, infrastructure and social projects. More than 100 community associations received capacity-building training and technical assistance to design and implement their projects.

[17] In Portuguese, *Fundo Estadual de Combate à Pobreza* (FECOMP).

8. Conclusions

Some two decades of CDD in Northeast Brazil has shown that simplified approaches based on local participation can make a difference for the rural poor. This paper has discussed the origins of CDD in Brazil, compared it to earlier integrated rural development projects, and provided a glimpse of the breadth, depth and scale of investments undertaken through the community associations in the region. Evidence presented indicates that targeting results in minimal slippage overall, with about 70% of families who benefit under CDD having incomes of about US$1 per day. Political buy-in was crucial in getting CDD started in the Northeast. State governments were favorably disposed to experiment with greater decentralization and the Federal Constitution helped to facilitate it. Sustainability of the CDD model appears likely, in terms of both the physical investments and the new institutions – particularly the project Municipal Councils – in that efforts are now underway to scale-up the application of the participatory approach in a broader set of public programs addressing rural poverty. Finally, the simple "rules of the game" guiding CDD in a middle-income country such as Brazil seem widely replicable, as given the example of the CDD pilot in Haiti, which is already yielding positive results.

More effort will need to be devoted to answering some of the questions posed in the introduction. The role of the State in facilitating information flows can easily erode into a "supply-driven demand" scenario, especially given the potential for a relapse toward traditional power structures. Furthermore, time will tell whether State government remain politically committed to CDD and allow its application more broadly in relevant social programs. Many of these small-scale investments have laid the foundation for basic service provision, a key element of generating greater incomes for the rural poor of the Northeast. Yet the linkages of these subprojects to larger-scale and complementary investments – likely implemented by the public sector – is yet to be determined. A greater understanding of the limits to the CDD model would also be of use in helping to build strategic alliances that go beyond the community associations and the municipal councils.

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