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Procurement and Disbursement Issues

Gita Gopal
Alexandre Marc

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Gita Gopal
Alexandre Marc

The World Bank
Washington, D.C.

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First printing November 1994

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ISSN: 0259-210X

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Library of Congress Cataloging-in-Publication Data

Gopal, Gita, 1954—

World Bank-financed projects with community participation :
procurement and disbursement issues / Gita Gopal, Alexandre Marc.

p. cm. — (World Bank discussion papers ; 265)

Includes bibliographical references.

ISBN 0-8213-3068-3

1. Economic development projects—Finance—Citizen participation.
2. Community development—Finance—Citizen participation. 3. World
Bank—Procurement. I. Marc, Alexandre, 1956— . II. Title.
III. Series.

HD75.8.G67 1994

332.1'532—dc20

94-32394
CIP

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Foreword

A Bank-wide Learning Group on Participatory Development was launched in December 1990. The Group was charged with examining issues of participation and identifying means of increasing participation in Bank operations. As part of the Group's activities, it was decided in 1992 to conduct a study on procurement and disbursement issues in Bank-financed projects with community participation. The Human Resource and Poverty Division of the Africa Technical Department managed this study as a response to the increased focus on community participation and as a means of promoting sustainability of projects in the Africa Region.

This study discusses and seeks to clarify procurement and disbursement issues in designing, planning and implementing Bank-financed projects with community participation. Identification of such issues, it is hoped, would generate further discussion on a topic that is increasingly becoming very important as the Bank finances more social sector projects. The study further attempts to put together an inventory of innovative project design features that could facilitate procurement by or from, and disbursement to, communities. This cataloguing represents an initial step towards providing guidance to task managers of Bank-financed projects. Several recommendations are also put forward which could facilitate community participation in procurement-related activities.

The study has been the result of a collaborative and participatory process within the Bank. A number of Bank staff have spent considerable time sharing their experience with the team that has prepared this report. I would like to acknowledge this collective effort and hope that this document will serve its purpose as a preliminary tool for task managers wishing to design Bank-financed projects with community participation.



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Acknowledgements

This report financed by the Swedish International Development Authority was prepared by Ms. Gita Gopal, Consultant, under the supervision of Mr. Alexandre Marc (AFTHR), Task Manager, and with the support and guidance of the Study Advisory Committee chaired by Mr. Peter Pease, (OPRPR), and including Mmes. & Messrs. R. Barahona (LOAAF); F. Bentchikou (LEGOP); B. Bhatnagar (ENVSP); M. Bromhead (EC1AE); M. Fowler (LOAEL); S. Jorgensen (AF6PH); D. Howarth (MNAV); X. Legrain (SA1EI); C. Perera (LOAAS); J.J. Raoul (AFRSA); J. Roman (EA1AN); E. Schaengold (ASTEN); A. Silverman (LA2AG); A. Williams (OPRPG). The study draws on information and comments from various other Bank staff, in particular those listed in Annex VI. Comments were also received from "Action Aid" and "World Vision". The documents were edited and processed by Donna McGreevy and Françoise Genouille.

Abbreviations

AGETIP	:	Agence d'Exécution de Travaux d'Intérêt Publique
CIDP	:	Community Irrigation Development Project
CP	:	Community Participation
CTB	:	Central Tender Board
DEMATT	:	Development of Malawi Traders Trust
ECRF	:	Ethiopia Community Rehabilitation Fund
ESF	:	Emergency Social Fund
GIE	:	Groupment d'Intérêt Economique
GOU	:	Government of Uganda
IBRD	:	International Bank for Reconstruction and Development
ICB	:	International Competitive Bidding
IDA	:	International Development Association
IM	:	Implementation Manual
LCB	:	Local Competitive Bidding
MOF	:	Ministry of Finance
MP	:	Manual of Practices
MU	:	Monitoring Unit
NGO	:	Non-Governmental Organizations
OD	:	Operational Directive
PAPSCA	:	Project for Alleviation of Poverty and Social Costs of Adjustment
PCMU	:	Project Coordinating Monitoring Unit
PO	:	Partner Organizations
PCR	:	Project Completion Report
PCU	:	Project Coordinating Unit
RA	:	Requesting Agency
RPA	:	Regional Procurement Advisor
SA	:	Special Account
SAR	:	Staff Appraisal Report
SGSA	:	Second Generation Special Account
SIF	:	Social Investment Fund
SIMAP	:	Social Impact Amelioration Program and Agency
SOE	:	Statement of Expenditure
TKV	:	Development Fund of Turkey
TM	:	Task Manager
TOR	:	Terms of Reference
UNDP	:	United Nations Development Program
WB	:	World Bank
WEMTOP	:	Women's Enterprise Management Training Outreach Program

EXECUTIVE SUMMARY

OBJECTIVE AND SCOPE OF STUDY

Community participation in the planning, designing, and implementation of development projects is increasingly a feature of development project design. World Bank experience suggests that "projects tend to be more sustainable and yield higher returns when they involve those they are intended to help" (Bhatnagar and Williams 1992). Community participation may, thus, increase the access of disadvantaged communities to project benefits, enhance motivation of communities, increase ownership of projects, encourage self-reliance by transfer of skills, build local institutional capacities, and ensure that greater proportions of project benefits flow directly to targeted deserving beneficiaries (Bhatnagar and Williams 1992). Past reviews of Bank experience, however, show that procurement and disbursement have been a concern during project preparation and implementation of Bank-financed projects with community participation. Issues have been raised in which current World Bank directives and procedures, as well as existing rules and regulations in the country themselves restrict the scope for community participation (Bhatnagar and William 1992; Marc 1992).

In view of the growing number of projects in the social sector, this study examines procurement and disbursement issues in Bank-financed projects with community participation to collate and analyze Bank-wide experience, to identify issues, present cases of best practices, and suggest, where feasible, possible enhancements to existing policies and procedures. Chapter I reviews existing Bank policies on such procurement and disbursement. Chapter II examines a number of Bank-financed projects to identify issues relating to such procurement and disbursement. Chapter III catalogues a number of new and innovative procurement and disbursement practices formulated in some Bank-financed projects as a first step to information sharing in this important area. Chapter IV concludes the study making suitable recommendations. The annexes provide relevant background information for the study.

OVERVIEW OF EXISTING POLICY

Under existing Bank policies, International Competitive Bidding (ICB) and Local Competitive Bidding (LCB) (when international contractors are not interested) are the preferred methods of procurement in Bank-financed projects, keeping in mind the interests of the Member and Borrower countries (*Procurement Guidelines*, 1992). Where competitive bidding is not feasible either due to the size of the contracts, or the remote or scattered locations of the sub-projects, the *Procurement Guidelines* permit the use of alternate economic and efficient practices like shopping, direct contracting, or force account (See Annex II). Additionally, when projects involve financial intermediaries like agricultural credit institutions or development finance companies, *Procurement Guidelines* permit the use of commercially established practices acceptable to the Bank, except in the case of large contracts.

Given this policy framework, communities may be involved in procurement in Bank-financed projects in three situations, together referred to as "community related procurement". One, communities (small-scale artisans, entrepreneurs and small non-governmental organizations, together referred to as 'community groups') may be brought into the process of competitive bidding. Clearly, communities have no role to play when ICB is determined to be the appropriate method due to the size and nature of the contracts. When LCB is used, existing experience suggests that communities could be involved, particularly when the goods are of a type commonly provided by community groups (furniture, roofing sheets, wooden sleepers, and so on), or the works are that which can be performed by them (unskilled labor, construction of small infrastructure). Two, communities may be involved where *Procurement Guidelines* specifically state that competitive bidding may not be feasible. These situations arise, as stated earlier, when contract sums are small or works are remote or scattered. Involvement of the community (formal and informal community groups or individuals) is possible in such situations in the procurement of goods, works or services, provided alternate procurement practices are cost effective. Three, a number of projects are increasingly setting set up non-governmental or semi-governmental organizations as financial intermediaries or separate social funds in an attempt to channel funds to grassroots communities. While social funds are not "financial intermediaries", their design ensures more accountability and transparency, thereby permitting innovative procurement practices.

Except in the case of competitive bidding, community related procurement is normally permitted when sub-projects are remote, scattered or small (See Annex III). Under such circumstances, existing administrative arrangements are usually weak or unsuited for commercial activities. The designing of community related procurement and disbursement then becomes difficult, and greater flexibility is required to design appropriate and effective funding mechanisms. The World Bank's Operational Directives (ODs) 4.15 and 14.70 recognize this fact and state that flexibility should be permitted in procurement practices in poverty alleviation projects, and when procurement is executed through NGOs. Neither OD, however, discusses the extent or scope of flexibility to be permitted, while they do reiterate that any procurement must take place within the framework of the *Procurement Guidelines*.

Without clear guidance, Bank staff are themselves unsure of the permissible levels of flexibility in designing community related procurement. Consequently, there are no Bank-wide minimum standards. Bank practices and attitudes vary from region to region and sometime within the region. Some projects have new and innovative community related procurement practices. Other projects of a similar nature are standard and conservative. This results in some arbitrariness, uncertainty in planning and generates tension between staff who insist on flexible interpretations and those who believe such interpretations would violate Bank policy.

Policies regarding disbursement show no difference in treatment of community related disbursement. The policies, while fairly simple, provide few options to meet the new demands of disbursing small amounts to dispersed communities in rural and remote areas.

ISSUES IN COMMUNITY RELATED PROCUREMENT AND DISBURSEMENT

Given this policy framework for community related procurement and disbursement, the design and implementation of community related procurement and disbursement generates a number of concerns or issues. These are briefly discussed below.

Issues In Procurement

- (a) Competitive bidding is a formal method of procurement requiring the participant to have some degree of institutional and financial support, and knowledge of commercial bidding. As practiced currently, it virtually excludes smaller local level organizations, unfamiliar with commercial practices.
- (b) While there is no mandatory rule, the normal practice is to package small contracts into larger packages for reasons of economy and efficiency. This poses a barrier to the participation of smaller organizations with weaker administrative and financial capabilities.
- (c) The need to specify all matters relating to procurement and disbursement fairly early on in the project cycle (OD 11.02) is a problem in many projects where the nature and quantities of goods, materials works or services to be procured can be determined only after assessments of needs and demands. Reportedly, task managers sometimes use arbitrary figures in preparing staff appraisal reports.

Issues In Contracting

- (a) Prior review of contracts for goods, works or services is noted to delay implementation of community related procurement.
- (b) Simple model contracts or checklists for community related procurement and disbursement are necessary for the guidance of project designers. Poorly drafted contracts cannot anticipate potential issues, impeding implementation. In some cases, NGOs are unwilling to enter into contracts with the government since this affects their credibility with their target communities.
- (c) The inability to pay recurrent capital costs unless they are incremental to the project and the reluctance to advance funds to communities without performance securities also affect the participation of smaller community organizations.

Issues In Disbursement

- (a) Bank policies and borrower country regulations do not always permit quick and timely disbursement of small amounts of funds to individuals or groups at local levels. The opening of a second Special Account or the withdrawal of funds from the such an account to a second account, even for a short period of time for purposes of community related disbursement, is restricted.

Mechanisms Increasing Accountability

- (a) There is inadequate guidance on incorporating measures for accountability and transparency in the use of funds. Since community related procurement is a fairly recent development, task managers are not always familiar with effective mechanisms and cannot find adequate support or guidance in such matters.
- (b) The Bank is yet to develop standards and formats for supervision, monitoring and evaluation of projects sensitive to community related procurement and disbursement.

Institutional Aspects

- (a) Inadequate skills on the part of project designers in community related procurement and disbursement is cited as an issue. This includes the lack of sensitivity to the special requirements of projects with community participation as well as the lack of familiarity of project staff with even existing Bank policies and procedures.
- (b) Inadequate institutional capacity of project executing or implementing units, absence of specialized project staff, and lack of focus on community related procurement and disbursement have been identified as contributory factors.
- (c) There is need to record and maintain information in a more systematic and accessible fashion on aspects related to community related procurement and disbursement in project documents.

Borrower Related Issues

- (a) The impact of national regulations on procurement and disbursement in general, and therefore on community related procurement and disbursement is another issue. Some national regulatory provisions conflict with Bank policies. When procurement and disbursement are subject to both Bank policies and borrowing country regulations and institutional arrangements, the resulting bureaucratic processes can impede implementation of projects. The borrower's reluctance to decentralize fiscal control also affects community related procurement and disbursement. Lack of familiarity of borrower country officials with Bank policies is another dimension.
- (b) Lack of counterpart funds is a persistent problem which has impeded both procurement and disbursement in a large number of projects examined for this study.

The issues discussed here need to be addressed appropriately if community related procurement is to become an effective tool for development. Recommendations on how the Bank might be more supportive of community related procurement and disbursement are suggested subsequently.

Recommendations

One, *Procurement Guidelines* and OD 11.00 together need to clarify in broad terms when and under what circumstances community related procurement may be undertaken. This can be achieved by adding a paragraph in the existing *Procurement Guidelines* and by revising OD 11.00 to provide broad guidance on specific issues identified in this study. Two, adequate guidance should be provided to project designers in designing, implementing and supervising projects with community related procurement and disbursement. Increased guidance could result from the provision of a "Manual of Practices" detailing best practices, suggesting possible models, and providing sample contractual and other documents for community related procurement and disbursement. Three, in all projects with significant community participation, the preparation of an "Implementation Manual" specifying all community related procurement and disbursement should be made a condition of loan effectiveness; and incorporated by

reference into the loan agreement. This is currently done in projects which set up social funds in the Latin American and African regions, and helps in ensuring greater accountability as well as establishing a clear understanding between the Bank and the Borrower. Such an Implementation Manual could be prepared as part of the Implementation Plan currently required for all investment loan operations.¹ Four, existing training for Bank staff does not cover community related procurement or disbursement. The Bank should develop training courses for project designers both in the dynamics of community participation and in procurement and disbursement matters. Five, the Bank should develop a data base or improve the existing data base to provide adequate information on matters related to community related procurement and disbursement so that Bank staff may easily access and share information available both within the Bank and outside, at the project level. For this, more detailed reporting of relevant aspects of community related procurement and disbursement may be required. Six, increased flexibility in procurement practices would require corresponding flexibility in disbursement practices. It is suggested that existing practice with regard to the advance of funds from the Special Accounts, currently restricted to thirty days, be extended to sixty days on a case by case basis for projects with community participation, provided adequate accounting and auditing provisions are incorporated in the project design.

In the case of Borrower related issues, the ability to redress the situation is more limited. However, identification of issues specifically concerning community related procurement should be incorporated into the ongoing process of preparing Country Procurement Assessment Reports (OD 11.01) so as to advise project designers of issues in the country. Key areas of concern which cannot be addressed through project design should be incorporated into the Bank's policy dialogue with the respective countries.

1. Letter dated September 17, 1993 from James W. Adams to Staff on the "Preparation of Implementation Plans".

