

GUIDANCE NOTE FOR DESIGN AND MANAGEMENT OF PROCUREMENT RESPONSIBILITIES IN COMMUNITY-DRIVEN DEVELOPMENT PROJECTS

MARCH 15, 2012

I. INTRODUCTION

1. Community-driven development (CDD) gives control of decisions and resources to community groups. These groups often work in partnership with demand-responsive support organizations and service providers including elected local governments, the private sector, nongovernmental organizations (NGOs), and central government agencies. CDD is a way to provide social and infrastructure services, to organize economic activity and resource management, to empower poor people, improve governance, and enhance security of the poorest. CDD is relevant across many sectors. The potential for CDD is greatest for goods and services that are small in scale and not complex and that require local cooperation, such as common pool goods (e.g., management of common pasture and surface water irrigation systems), public goods (e.g., local road maintenance), and civil goods (e.g., public advocacy and social monitoring). But not all goods and services are best managed through collective action at the community level. Public goods that span many communities or that require large and complex systems are often better provided by local or central government. Similarly, private goods or toll goods are often better provided using a market-based approach, relying more on individual enterprises than on collective action. CDD can, however, fill gaps where markets are missing or imperfect, or where public institutions or local governments fail to fulfill their mandates. Depending on country conditions and capacity, CDD type projects have been found to be useful in fragile and conflict affected countries to provide for the needs of the citizens, especially with regard to the delivery of basic services at the community level.

2. **CDD Fiduciary Principles.** Although the high degree of variation among CDD projects precludes universally applicable rules and procedures, some general principles and working procedures apply:

- Bank policies and Procurement and Consultants Guidelines apply to CDD projects as they do for any other project; however, their application has to be scaled to the project requirements and the community's capacity. Most CDD projects involve a range of procurement requirements and benefit from application of the full flexibility in the Guidelines to select and apply the appropriate procurement methods, including provisions specifically designed for such projects.
- The procurement objectives of the Bank Guidelines are efficiency and cost-effectiveness, quality of goods and services, transparency, and competition among qualified suppliers. Procurement procedures developed for larger institutions do not always mesh well with the CDD environment, especially at the community level where the transactions may be too frequent and small to warrant the methods (and

attendant costs) usually considered to be good practice for larger, less frequent transactions.

- CDD projects should take local culture, norms, and capacity into account. Procedures should be kept simple, with a high degree of transparency and accountability. Many of the decision making and management responsibilities should be delegated to communities.

CDD aims to empower beneficiary communities. This can only be achieved if they are fully aware of what the project aims to do, its rules, its sanctions, and so on. In relation to procurement, for example, communities need to know the rules and methods for paying local labor, buying materials, and hiring equipment. Communities also need to know how money has been spent and to include methods that promote full local accountability.

3. **CDD Fiduciary Challenges.** Management of procurement responsibilities in CDD projects presents special challenges because:

- CDD embraces a range of projects, and CDD projects often have a multiplicity of actors.
- Communities and subprojects are scattered, sometimes in remote locations with poor communications.
- Bank policies and procedures are typically constructed to respond to larger-scale initiatives than those undertaken at the community level. CDD procedures thus need to be tailored to project-specific situations while remaining consistent with Bank Guidelines.

4. **Purpose of this Note.** This note clarifies and augments rather than supersedes prevailing Bank policies and Guidelines. The note focuses on issues related to CDD project activities at the community level, where the community, or some agency acting on its behalf, undertakes fiduciary responsibilities. It is intended to help Bank staff meet the Bank's fiduciary requirements while building local management capabilities.

II. IMPLEMENTATION AND PROCUREMENT CONSIDERATIONS

5. The thrust of a CDD project is the involvement of communities in the formulation, design, and implementation of their subprojects. Typically, a CDD project includes many small, simple subprojects that are geographically dispersed and that are implemented by communities that have various degrees of Community Based Procurement (CBP) expertise. Community based procurement varies in view of the actors involved and assets generated within each project. There are many models seen to be operating in CDD implementation with relation to procurement which include but are not limited to: (i) Family Based Private Asset Generating Procurement undertaken by Self Help Groups (SHGs) and Common Interest Groups (CIGs); (ii) Village Organization Based Force Account Type Procurement as observed in case of Water Users Associations, Poverty Reduction Committees, Agricultural Producer Companies, Village Development Funds, etc.; (iii) Non-Governmental Organization (NGO) Based Procurement Service Agency (PSA) Type Procurement for CDD Implementation; and (iv) Third Party

Contracted Procurement which is monitored for progress and quality deliverables by the community. Thus the community based procurement under the different types of CDD projects requires different considerations.

A. Capacity and Risk Assessment

6. The Procurement Sector has provided guidelines and format for assessment of procurement capacity¹ available in procuring entities responsible for procurement under World Bank-financed projects which are applicable to CDD projects and other projects that finance many small, lower value contracts. This section provides additional guidance with an emphasis on CDD. The findings of the assessment should be summarized and documented in the PAD and may draw upon other capacity assessments such as financial management, identifying the actions required to be taken to make improvements, including training. As many CDD projects are preceded by a smaller scale piloting program or are follow-on projects, lessons learned should be considered when conducting the capacity and risk assessment. Types of procuring entities to be assessed are described below. Since CDD projects will often involve several layers of governance, the assessment takes into consideration the linkages between the entities involved in the project and the impact, if any, that such linkages will have on procurement and reflects this in the project design.

- ***Government Agency***

The government as the borrower of Bank funds assigns the responsibility for implementing the CDD project to a specific agency [referred to herein as a Government agency], which can be for example, a line Ministry, a parastatal organization or a Social Fund. The capacity of the agency is assessed from a national perspective, as it would be expected to carry out any central procurement under the project, which may include large and complex ICB contracts. The assessment should focus on the adequacy of the applicable procurement procedures and the capacity and adequacy of staffing. It should also include the adequacy of the agency's capacity to carry out its oversight responsibility to ensure fiduciary compliance by participating local authorities, NGOs and beneficiary communities. Coordination with financial management and other team members to determine capacity with regard to audit and aspects of supervision and post review is especially important in CDD projects as this responsibility may be delegated by the Bank in CDD projects. The assessment will also require a broad understanding of national procurement policies and their application at decentralized levels of government. Existing CPAR and/or OECD-DAC MAPS² assessments are useful source documents for a broad understanding of the national system.

- **Local Authorities/Governments**

Very often local authorities are delegated project implementation because they are close to beneficiary communities. Local authorities may also be delegated the oversight

¹ See "Revised Instruction for Carrying out Assessment of Agency's Capacity Assessment to Implement Procurement; Setting of Prior-Review Thresholds and Procurement Supervision Plan" dated July 2002. This instruction is currently being updated.

² "Methodology for Assessment of Procurement Systems" dated July 2006.

responsibility to ensure fiduciary compliance by participating beneficiary communities and intermediaries such as NGOs and contracted private sector firms. Care must be taken to ensure that if local authorities are expected to follow central government procurement regulations, there is adequate knowledge of such legislation and the impact of such legislation on handling procurement is considered. The assessment should include analysis on the mandate, responsibilities, and financial capacities of local government authorities.

- ***Intermediaries***

Intermediaries that assist Communities in procurement could include a government entity, a private sector firm, or an NGO. Intermediaries are used where the community does not have adequate capacity to carry-out procurement. The assessment would cover the capacity of the intermediaries, as well as the coordination and accountability mechanisms with the local governments and the communities to guarantee that technical implementation does not suffer from poor procurement management, and vice versa. The intermediary's procurement management system must be robust enough to cope with and report on community's subprojects.

- ***Communities***

It will not be possible to assess the capacity of each one of the communities that are to participate in a CDD project when the number of communities is large and when they are widely dispersed. Moreover not all participating communities are identified prior to project effectiveness. The capacity assessment will normally be based on a sample of communities with the size of the sample determined on the basis of risk, in order to have a general picture on how communities are organized and will carry out procurement. A rating system on the performance of the community groups while carrying out fair and transparent procurement processes rooted on universal participation in identifying needs, fairness and openness displayed while carrying out the process and good governance principles in selection and management should be part of the assessment. The Operational Manual for the project will define the minimum requirements that a beneficiary community should fulfill before it can be permitted to handle procurement; the assessment will determine whether communities are able to meet these requirements. The requirements should include the communities' organizational and legal status. Communities that have a defined membership usually have an executive committee that facilitates collective decision making in contracting, while the community's legal status enables the community to enter into contracts and open Bank accounts. The assessment report should identify actions required to strengthen the community's procurement capacity and to mitigate associated risk.

B. Financing Agreements

7. The approval process for community projects includes the need for the community to plan, program, and budget its subprojects. The forms of the plan and budget for subprojects are usually documented in the financing agreement between the beneficiary community and the designated implementing unit for the project and should be quite simple including:

- A comprehensive list of activities, their approximate timing, their estimated costs and sources of financing (including community contributions), and estimated benefits; and
- A listing of responsibilities for each aspect of the subproject before, during, and after implementation.

8. **Appraisal of Community Groups and Subprojects.** The appraisal process in case of CDD projects should include a readiness assessment of the community groups identified to implement and deliver the project and a technical and commercial appraisal of the subprojects. During preparation, agreements should be reached on mechanisms to ensure universal participation of the targeted beneficiaries, arrangements for horizontal fiduciary assurance like setting up of Social Audit Committees, Citizen Charters, etc.; methods of verification of these measures; and the arrangements for capacity building of community groups to implement the subprojects. As part of technical and commercial appraisal of subprojects plans complete with basic specifications and budget estimates, would be appraised before they are approved for funding. These plans should identify the actions needed to complete the subproject, their approximate cost and timing, as well as potential sources of finance and how this will be obtained or provided. This simple procurement planning can help identify which goods, works, and services the community can procure for itself, and which will require additional assistance.

9. **Fiduciary Aspects to Appraisal of Community Groups and Sub Projects.** The subproject appraisal process should include all pertinent fiduciary aspects and the enabling environment that will ensure efficient, fair and transparent community based procurement. The appraisal should address for example: (i) does the team designated to manage the process on behalf of the community represent the target beneficiaries as desired by the project plan; (ii) are the needs identified strategic and useful for the whole group; (iii) does the group use a Procurement Committee and include a trained bookkeeper and/or treasurer; and if not, (iv) who can be quickly trained to undertake these responsibilities and how will this training be given?

10. **Payments for Community Subprojects.** Subproject beneficiary communities should be empowered to carry out their procurement according to project-specific procedures contained in the financing agreement between the Project Implementing Unit (PIU) and the community; and such procedures must be consistent with those described in the Operational Manual for the project. There are essentially two methods of payment used for community subprojects. The financing agreement should identify the method to be used and once agreed, this method should not be changed for that subproject during implementation. In a given CDD project, either of the two methods may be used for different types of subprojects.

- (a) **Payments based on Subproject Completion.** This is the preferred method for subprojects that are large in number, small in scope, and technically simple. Most of the sub-projects are not identified during project preparation. The PIU agrees on this method of payment on the basis of the following criteria: subproject eligibility, method of implementation, cost estimates, along with a defined outcome or delivery of an end product. The financing agreement is a contract between the PIU and the community, against which payments will be made, usually in one or several tranches, and on the basis of physical progress, performance or completion. The review of the subproject will focus on the

delivery of the end product described in the financing agreement. This financing method involves direct community participation, and often will include in-kind labor or materials contributed by the community, or subcontracting or procurement of goods and skilled labor. Such subcontracting must comply with the financing agreement, and thus with the procurement procedures and financial management requirements set forth in the Operational Manual for the project. Such subprojects are relatively simple to administer, as documentation and reporting is kept to a minimum, and the PIU receives progress and completion reports as well as technical inspection certificates from its staff and from consultants that the PIU hired. Another advantage is that the community has a built-in incentive for economy and efficiency, which allows for fewer and less onerous process controls by the PIU. This payment method is consistent with the Bank's guidance on output-based aid operations.³

- (b) **Payments for Actual Costs Incurred by the Community.** This method should only be applied when (a) the subprojects are few and of large value (e.g., water supply in cities), and are identified during project preparation, or (b) the cost cannot be satisfactorily estimated, but it has been determined that the community has the requisite capacity to implement the appropriate procurement procedures. (The formal procurement procedures associated with this method require a high level of technical knowledge; if the community does not have sufficient capacity, technical assistance from the PIU, a local government agency, an NGO, or a consultant would be a prerequisite). In either case, the community acts like an arm of the PIU when this method is used to finance subprojects. The procurement procedures to be applied should be reviewed to determine their consistency with the Loan Agreement and the Operational Manual. Disbursements to the community are made on the basis of eligible expenditures incurred or to be incurred by the community; hence the implementation of such subprojects involves a significant amount of paperwork, expenditure reporting, and fiduciary controls by the PIU.

C. Procurement

11. The borrower is responsible for ensuring that project procurement is carried out in accordance with the Loan Agreement and the procurement plan. The plan—including the procurement procedures acceptable to the Bank, as described in the Operational Manual (OM)—defines the project procurement arrangements, including the organization, procedures, and review thresholds at all levels (government, local government and communities). Procedures at the PIU and sub-PIU levels (whether for the purchase of equipment or selection of consultants for centralized tasks, or for purchases of large quantities of imported items that are needed by beneficiary communities) are similar to those of any other project, and follow normal Bank procedures and guidelines.

³ See “*Procurement Issues in Structuring Output-Based Aid (OBA) Operations Financed by the World Bank: Guidance Note for Procurement Staff*” dated April 11, 2008. This note is being updated.

12. Although international competitive bidding (ICB) and national competitive bidding (NCB) may be used by central/local governments and the PIU, they are seldom used by communities under CDD projects. Procurement methods commonly used by the community are highlighted in paragraph 15.

13. **Paragraph 3.19: “Community Participation in Procurement.”** This provision of the Bank’s Procurement Guidelines⁴ has been specifically designed to address procurement in CDD projects. The paragraph stipulates among other things, that procedures, specifications and contract packaging shall be “suitably adapted” to reflect the conditions and capacity of the community, provided they are “acceptable to the Bank”. These provisions allow flexibility in defining acceptable procedures at the community level. As a general rule, procurement should be designed to:

- Be simple so as to be understood and implemented by local staff and the community;
- Be sufficiently transparent to permit real competition among suppliers (and recognize limited access to competitive markets) and to facilitate control in the selection of contractors and use of funds;
- Use simple, standardized documentation; and
- Balance risk versus control/management with efficiency considerations.

14. **Community Procurement Challenges.** Many community-level expenditures will be for payment of local wages or for the purchase of materials. Under the payments based on completion payment procedure, the valuation of these goods, labor, or services is predetermined as part of the subproject proposal and may be based on a database that reflects local market prices; and funds are included in the fixed-amount provided for the subproject. This enables a community representative (for instance, the implementation team treasurer) to make payments to individuals in the community for goods or services. The actual amount paid becomes the decision of the community and can produce efficiencies and savings for the community, allowing the saved funds to be applied against other expenditures under the project.

15. **Procurement Procedures.** The procurement procedures to be described in the Appendix to the subproject financing agreement with the community could include simplified selective tender procedures, shopping, off the shelf purchase and direct contracting. As a matter of principle, procurement falling below the project’s NCB threshold would follow these methods which are further described below. It is important to assess whether communities, especially registered ones, are governed by procurement legal and regulatory framework of the borrower and required to follow certain procurement procedures, and how such requirements fit with the procedures and thresholds proposed in the financing agreement and under the Operational Manual for the project. If national/local regulations are unsuitable, it is necessary to reach an agreement with the Borrower to follow the procedures agreed in the financing agreement for the subproject and the Operational Manual. The following five methods are derived from the Procurement Guidelines and are consistent with the provisions of paragraph 3.19 of the Guidelines.

⁴ See “Guidelines: Procurement of Goods, Works, and Non-consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers January 2011”, paragraph 3.19.

- ***Shopping for Goods, Works and Non-Consulting Services***

Under this procedure⁵, quotations are obtained from at least three qualified suppliers, service providers or contractors on basis of simplified documents. If shopping for works, the documents describe the scope of the works, provide specifications and where possible include drawings. In order to enhance efficiency and remove the inherent risk of compromise, communities are advised to ensure that the request for and submission of quotations are in writing. Quotations should be opened at the same time and to the extent possible in the presence of community members. As a general rule, the supplier or contractor who offers the lowest price should be awarded the contract. If there is sufficient information available in advance as to the need under the project for common use goods or simple works and services, the implementing agency for the project may consider the use of framework agreements⁶ to simplify obtaining these requirements by communities implementing subprojects.

- ***Local Bidding for goods and works***

Communities are often interested in open competition in order to enhance economy, fairness and equal opportunity to suppliers and contractors. Open tendering procedures may be limited to local advertising using such media as local newspaper or radio, posting notices at strategic places, circulating such notices or reading them out in community meetings or other public gatherings. Essentially this procedure is like NCB except it is not mandatory to advertise in a newspaper of national circulation and bidding documents are simpler. Target suppliers and contractors are often those within the vicinity of the beneficiary community.

The request for bids spells out the works or goods required, the criteria for selection, and the deadline for submission of bids. Bids are opened in a public ceremony. The bids are evaluated by a committee appointed by the community. Bids are examined to determine whether they meet the minimum specifications mentioned in the bidding documents (experience, quality of works, equipment, services offered, and delivery dates). Bids that meet the minimum requirements specified in the bid invitation are retained for further evaluation and the bidder who meets the minimum requirements and offers the lowest bid is selected. The award and amount of the contract should be announced to all bidders.

- ***Direct Contracting***

Direct contracting enables a supplier or a contractor to be chosen without applying the competitive methods described above. This method is used when there is only one source available. Other justifications for direct contracting include urgency, the need to adopt certain technology or a repeat order. To the extent possible, the contract price agreed upon should be within local market rates or established estimates as indicated in a Unit

⁵ See ""Guidelines: Procurement of Goods, Works, and Non-consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers January 2011", paragraph 3.5.

⁶ See paragraph 3.6 of the Procurement Guidelines, January 2011.

Cost Database.⁷ Direct contracting should require approval of the community committee in order to remove the inherent risk of failure to appropriately justify the use of the method.

- ***Off the Shelf Purchases***

Off the shelf purchases are a form of direct contracting that is used when very low quantities and low overall value of goods or supplies are simply purchased "off the shelf" from an available retail outlet. Provisions and conditions for off the shelf purchase should be specified in the Operations Manual, including monetary thresholds.

- ***Community Force Account***

Under a community force account, the community implements the subproject using its own resources (skilled and unskilled labor, materials, equipment), and may subcontract part of the subproject. This approach offers several advantages. It is community driven and cost effective (inputs can be provided by the community at below-market costs), and it injects funds into the community (e.g., through the payment of wages and materials). Its major drawbacks are the potential for abuse (misallocation of funds) and the difficulty of estimating and controlling costs.

16. **Consultant Guidelines.** Communities may need assistance in preparing and implementing their subprojects. Such assistance is usually provided by consultants (individuals or firms) or NGOs. The Bank's Consultant Guidelines apply to selection of NGO's, individuals and firms. The three pillars of the selection process are competence, transparency of the process, and simplicity of the process. Suitable and efficient selection processes should be designed keeping these principles in mind and reflected in the OM. It may be useful for the PIU to prepare a roster of qualified consultants and NGOs, and even to enter into indefinite delivery contracts⁸ with them; communities can then contact the consultant or NGO of their choice from such lists.

17. **Prior Review Thresholds.** Prior-review thresholds should be set at levels commensurate with the assessed risk and expected contract amounts under the financing agreement, and should aim at prior review for only the larger contracts. Such thresholds are normally established following the completion of the capacity assessment of the implementing agencies undertaken as part of project preparation.

18. **Post Review for CDD Projects.** Guidance on procurement post review was updated in 2009. The updated guidance note⁹ states that procurement post review under Community Driven Development cannot be handled following standard post review procedures as set forth in the note. In order to maintain fiduciary oversight on such projects, the note recommends that post review consist of reviewing technical, financial and procurement reports carried out by the

⁷ Many projects use a Unit Cost Database (UCD) to help create reasonable cost estimates and obtain value for money. These databases are maintained by the PMU or sub-PMU. The UCDs should be kept updated and valid and can be useful for communities in the preparation of proposals and in assessing whether a specific supplier is offering a "fair" price.

⁸ See paragraph 4.5 of the Consultants Guidelines, January 2011.

⁹ See paragraph 11, "Guidance Note: Procurement Post Review and Independent Procurement Reviews: Processes and Procedures", July 2009.

Borrower's executing agencies and/or consultants selected and hired under the Bank project according to procedures acceptable to the Bank. The Bank staff responsible for the review summarizes the findings of such reports in a separate report which is filed in the post review system and shared with the TTL and the RPM. The Bank updated OP 11.00¹⁰ and the Guidelines¹¹ containing the policy and procedures for handling of procurement post review for projects with many, highly decentralized and small contracts such as those found under CDD which sets the Bank's policy of relying on reporting and monitoring done through communities, local government entities or contracted entities such as NGOs or consultants in lieu of conducting traditional post review. This policy states that procedures under CDD should be simplified but must meet the Bank's principles of economy, efficiency, transparency and fair competition. Procedures acceptable to the Bank and described in the Operational Manual serve as a basis for conducting post review. The Bank's supervision of such projects may consist of reviewing reports of procurement post review carried out by the Borrower according to procedures acceptable to the Bank and should be done in addition to technical and financial reviews or audits. Procurement post review and other supervision responsibilities should be carefully coordinated and integrated with the audit requirements (see Section D below) determined for the project.

Box 1: Example of Post Review

Post Review. In Indonesia, a sample of 2% of subprojects approved under a CDD type project is selected for specific post review. The selected subprojects and the communities are reviewed to determine if the provisions of the OM are being implemented with regard to procurement and whether the various internal mechanisms within the community's internal control system as determined in the OM and the Financing Agreement are being practiced. Post review should determine if community meetings are being held and whether prices for specific contracts under the subproject are being announced at the community meetings. Monitoring reports prepared by the community are inputs used by the Bank to ensure that post review is being undertaken appropriately on those subprojects where the Bank is unable to conduct its own post review.

D. Implementing Governance and Anticorruption Initiatives in CDD Projects

19. As in every project, a good system of internal controls is indispensable for the proper fiduciary management of CDD and to minimize the risk associated with corruption. The internal controls and audits at the PIU and sub-PIU levels follow normal fiduciary procedures. It is at the community level that special measures are necessary, as outlined in the following paragraphs.

20. **Risk Factors.** Risk factors that need to be addressed include:

- The large number of parties and transactions involved, the small value and multiplicity of contracts, and the scattered locations of the subprojects that render problematical ex-ante controls across all individual sub-projects;

¹⁰ See paragraph 22, "OP 11.00 – Procurement" updated January 2011.

¹¹ See paragraph 5, Appendix 1 or the Procurement Guidelines, January 2011.

- Disbursement to the beneficiaries' bank accounts or to regional/subregional accounts is based on progress reports while the supporting documents are best kept at the level where the expenses are incurred;
- Community groups may lack the necessary capacity;
- Community representatives may not be truly representative of the community (i.e., elite capture of institutions and political interference)
- Communities may lack access to diversified markets leading to a higher risk of conflict of interest issues arising.

21. **Mitigating Risks.** Task teams should ensure that the risks associated with CDD projects are mitigated by clear transparent rules and by other methods for empowering and training communities to exercise fiduciary control over their leaders, as well as by suitable internal control procedures. The mitigation system should be simple but effective. Key control points to consider include:

- No individual should be able to initiate, authorize, execute, or record a transaction without the active involvement of someone else (for example, all withdrawals and transactions should be witnessed and countersigned);
- Risks of loss, leakage, fraud, inaccuracy, or mistake should be identified at all levels, carefully assessed, and measures put in place to eliminate or minimize them;
- Measures should normally not cost more than the possible loss that could result from their absence;
- Measures should not unduly slow the flow of funds or project implementation;
- Fiduciary management supervision at the community level should be integrated with monitoring and evaluation to ensure a close link between technical/progress reporting and financial reporting, as a way to support the validity of the expenditures;
- Accountability should be built into the local governance system and at the community level using the many accountability mechanisms already being piloted in a large number of projects (participation, public announcement of community activities and funds received and spent, use of local languages for all community records and their communication to the next higher level, election of subproject management committees, putting all information into the public domain in open meetings and posting salient information in public places in the most common local language(s)—even in communities where illiteracy levels are high);
- A complaints mechanism for the project should be established and defined in the Operations Manual and ensure that complaints from stakeholders at any level of implementation receive attention and resolution. Such a mechanism will review procurement related complaints but not preclude exercise of the rights and responsibilities covered in Appendix 3 of the Guidelines¹²; and
- Internal audits/ex-post audits of community organizations should be required.

¹² See Appendix 3, paragraphs 11-14 of the Procurement Guidelines and Consultants Guidelines, January 2011.

22. **Community Involvement.** Successful internal control and management of a CDD project requires that beneficiaries and other stakeholders be kept well informed at all times and at all levels about their entitlements, rights, obligations, and the project's costs and benefits. This information should be provided in a manner understandable to all interested parties. Where any of the beneficiaries are illiterate, it may even have to be presented in pictures or other appropriate media. It is also good practice that summaries of local project expenditures and procurement information be posted in a public place (for example, outside of a village hall or meeting place), since this literally places the information in the public domain.

23. **Internal Audits.** Internal audit by central government, local government, or simply by trained members of the community should also be encouraged as an integral part of the internal control system.

24. **Ex-Post Audit.** A simple, inexpensive internal ex-post audit of community subprojects designed to confirm that funds have been spent on the intended purpose and that the community has received value for money can be a valuable addition to the quality and internal control framework. This can be one of the most effective ways of minimizing risk of fraud and corruption or of detecting poor practices that enable fraud and corruption to occur. This ex-post audit is often linked to the overall monitoring and evaluation of the community subproject.

25. **Annual Procurement Audits.** The OM may also provide for annual procurement audits so that issues raised in these audits may be corrected during implementation of the project. The audit of procurement under subprojects should follow the arrangements described in the OM established for the project. Coverage of procurement may also be enhanced and integrated as an aspect covered under the financial audit(s) conducted for the project.

26. The overall control framework established for a CDD project should be a well integrated design that draws upon various tools that include internal and external controls, post review, monitoring and evaluation and audit. Consideration as to how the various tools can be utilized to provide coverage and assurance without overwhelming capacity is a key design concern that will involve the full project team.

E. Supporting Documents

27. **Operational Manual.** An Operational Manual (OM) is prepared for the project by the PIU and must be cleared by the Bank. The assigned procurement specialist/procurement accredited staff (PS/PAS) should ensure that the OM contains the following supporting documents related to the handling of procurement:

- (a) **Sample formats for submitting subproject proposals.** The subproject proposal should identify the items [including cost estimates] that would be financed under the subproject. The format should require communities submitting subproject proposals to describe the procurement management arrangements that would be applicable at the community level;
- (b) **A format for a simplified procurement plan** for procurement under subprojects;
- (c) **An appendix describing the acceptable procurement procedures** should be attached to the agreement. The procedures would be followed for procurement

under the subproject. In cases where the community subproject involves large contracts, e.g. a small town water supply, reconstruction of a school, the OM would provide guidance on the technical assistance required to assist communities process such contracts;

- (d) **Simplified bid documents and forms of agreements for works, goods and services** that would be used by communities;
- (e) **A Draft Financing Agreement** to be signed between communities and the Project management, Social Fund or a central government agency. The agreement describes the obligations of the community and conditions for use of project funds;
- (f) **A sample contract form** to sign between the community and intermediaries; this agreement is a simplified form for provision of services; and
- (g) **A format for reporting on procurement progress**; the OM should define minimum procurement reporting requirements. If the community has a reporting format that satisfies these conditions, it should be maintained; otherwise, a new format should be proposed.

28. **Monitoring Agent.** Procurement implementation arrangements under CDD may also agree to provide for a monitoring agent to augment other controls for ensuring that contracts under subprojects are procured in accordance with the agreed procedures and payments are made for performed contracts. One option is to have local government or a frontline government agency provide this service. Increasingly, using representatives from the community itself is seen as a good option. Another option is to have an umbrella NGO carry out this function. In each case the objective is to monitor the activities of the communities on a regular basis and take corrective action in a timely manner. The following box provides a good practice example.

Box 2: Example of Community-based Monitoring

Urban Poverty Project (UPP), Indonesia. The community representatives are elected on the basic criteria of honesty and commitment. They are not paid, so they do not make a business out of performing their service. These elected representatives are responsible to oversee the implementation of the subprojects. In support of their monitoring, they have access to a simple management information system (MIS) to track all contracts and expenses. The MIS system is maintained by local government, but serves as a tool for the community and for monitoring. The system also includes a basic complaints monitoring system as well. Data can be entered into the MIS using any internet connection. Reports are prepared and available for the Bank to review.