khanya-aicdd
African Institute for Community-Driven Development

Briefing

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Experiences of approaches to Funding Communities

This policy briefing draws from emerging findings of a study about Funding Communities and demonstrates that mechanisms to fund communities can have a major impact and at scale and can be an effective weapon to address poverty and inequality, and to empower communities to take forward their own development.

Abstract

This briefing argues that despite evidence of success in approaches to funding communities in Africa, Asia and Latin America, many governments are still wary of communities' ability to control the allocation of resources. It suggests that existing funding mechanisms can be used to support the accumulation of assets within communities – where assets can be physical, natural, financial, social or human assets. It also finds that where funding was directed towards projects that used local structures to plan, implement and make decisions – there were notable gains in building social capital and increasing communities' capacity to plan, manage and account for themselves.

This briefing therefore gives some insight into a range of funding mechanisms, and draws on a number of case-studies (from the research) to illustrate how they work. It then goes on to review the impact of some of these mechanisms and provides a simple guide to support decision-making on the most appropriate funding mechanism.

The research was undertaken by Khanya-aicdd together with Practical Action Zimbabwe and Concern Malawi, and was funded by the Southern African Trust . The research analysed 14 case studies on funding communities reflecting a variety of funding institutions (government and non-government) and their diverse interests. The case studies were predominantly drawn from Africa and Asia.

Introduction

Participatory approaches, decentralisation, and development of local capacity are now mainstream parts of the development toolkit. **Decentralisation** involves democratisation and involving people in their own development, giving people the power to influence their own developmental outcomes. One of the challenges that have emerged is that often reform processes focus on the local government and not sufficiently on the link between local governments and the community. In community-driven development (CDD) processes communities have control over planning of activities, resources and implementation of projects in their community. If CDD approaches are to be widespread, local government as the lowest level of government has a key role to play.

The World Bank in particular has been driving approaches to community-driven development, with the direct funding of communities a key component. Different mechanisms have been including community foundations, community

Policy issues emerging:

- Despite common fears about capacity at community level, local structures are able to manage funds successfully in most projects, and community management is generally at least as good as local government at handling funds, as well as value for money, with lower costs of infrastructure;
- These models can be applied at large-scale, but are easier to operate where there is effective local government. Part of the functions of local government can be funding communities (and a submission in this respect arising from this research has been adopted by the SA Government);
- Communities can be used for decisions on targeting disadvantaged and the devolution of planning and decision-making allows communities to make choices about how to utilise the available funds;
- Where community participation is more active, it promoted more ownership and better care of assets. Strengthened upward, downward and horizontal accountability is needed to make the funding process fully transparent to both the funder and participating communities;
- Large funding schemes require government participation, or at least support, and this can also be beneficial in smaller schemes. However care must be taken to ensure that ownership remains local, and particularly in the CBNRM examples communities were often overshadowed by the government partner;
- There is the potential for a mix of mechanisms to be applied.
- More effective monitoring, evaluation and learning systems to provide more concrete evidence of impacts.

funds or trusts, public-private partnerships, social transfers, social or community investment funds, community banks and community-based planning.

However the effective use of CDD approaches in Southern Africa is limited. For example Everatt and Gwagwa (2004) suggest that for South Africa *"Community participation …remains wedged at the level of consultation during planning, and subsequent involvement in the running and maintenance of projects. It seems to be only a few central government programmes that have moved in the direction of CDD; provincial and local government, and even NGOs, are not yet using this approach… Government agencies at all levels are reluctant to 'let go' and transfer control to communities, particularly true of the project identification function."*

This Brief draws from a research project by Khanya-aicdd and its partners, Concern Malawi and Practical Action Zimbabwe, specifically to look at best practice in the funding of communities, and funded by the Southern Africa Trust. The idea was to learn from a variety of experience, share this with policy-makers and practitioners to see how such approaches could be taken forward in Africa, contributing to improved livelihoods, greater opportunities and reduced vulnerabilities.

Different types of mechanisms for funding communities

A 'funding mechanism', is defined here as a process by which **funds are transferred from funding institutions to recipient communities, the mechanisms they use to spend those funds and to account for them**. These can be in the form of grants, cash transfers, revenue sharing or loans. Some different mechanisms include:

Funding mechanism	Description
Community investment fund (CIF)	Funds provided to communities to empower local communities through the financing of sub-projects. These are sub-projects that have been identified, implemented, managed, operated and maintained by the communities. In some cases such as in community-based planning (CBP), this is based on an integrated local plan.
Community foundations:	Foundations are fiscal and accountable entities governed by a local board of trustees which receive funds from a wide array of sources, often as an endowment which generates income. This income is used to make grants within the communities they serve. (World Bank, 2007)
Community trusts	A legal community structure that raises funds and distributes them to local organisations/agencies or community type developmental projects. Community trusts also undertake activities on behalf of the community.
Community-based natural resource management (CBNRM)	This arises when communities have legal rights to revenues from the use of natural resources, for instance hunting revenues. These resources can then be managed under a detailed plan developed and agreed to by all relevant stakeholders. Communities have some formal institution (eg a Trust) to represent them and hold the funds, and have economic incentives for sustained use of these resources.
Community banks	A village bank can receive capital from donors, and makes loans to its members, guaranteeing the loans and relying on peer pressure and support among members to help ensure repayment. Members' savings are held by the village bank as an internal account and forms capital that the bank can lend or otherwise invest to increase its resource base (GDRC 2006).
Social transfers	Resources distributed directly to individual households or people that meet certain eligibility criteria. This includes social cash transfers which are permanent programmes, emergency cash transfers that are only designed for temporary assistance, and in some cases direct assistance in kind eg of food. Cash transfers for community investment are thus primarily social cash transfers (GTZ 2005). These can include government transfers e.g. pensions, child grants

Case studies

The research covered 14 case studies including:

Malawi	Concern Worldwide's Livelihood Security Programme and Food and Cash Transfer project.
South Africa	Community-Based Planning (CBP) in Mangaung; Greater Rustenburg Community Foundation (GRCF), Madikwe Initiative, Mayibuye Ndlovu Development Programme (MNDP), Umzimkhulu Community Forestry (UCF); Mangaung University Community Partnership Programme (MUCPP), Village Banks initiative.
Zambia	Zambia Social Investment Fund (ZamSIF), Kalomo Social Cash Transfer Scheme
Zimbabwe	Campfire
Other	Gemi Diriya - Village Organisations (Sri Lanka); Aga Khan Rural Support Programme (Pakistan)

One example of each of the types of mechanisms is illustrated below.

(a) Social/Community investment funds (CIF)

Zambia Social Investment Fund (ZamSIF) aimed to contribute to the improved, expanded and sustainable use of services provided in a governance system where local governments and communities are mutually accountable. ZAMSIF had three closely linked components: (1) community investment funds which empowered local communities through the financing of sub-projects. A total of US$39.2million was used to fund 555 community projects throughout Zambia. (2) district investment funds which supported the process of strengthening the capacity of local government and administrations and their accountability vis-à-vis local communities. (3) poverty monitoring and analysis (PMA).

(b) Community foundations

Greater Rustenburg Community Foundation (GRCF) serves the Bojanala District in North West Province, South Africa and the Board is made up of community members.. Direct funding is provided to local non-profit organisations (NPOs) and other development agents through an endowment fund and also by providing services to these agents to improve their capacities. GCRF generally provides between R10,000 and R25,000, believing that a greater number of small grants is more advantageous than fewer larger grants and. It is difficult to assess the actual impact on the ground because benefits are imparted through the actions of the NPOs, funded by the Foundation.

(c) Community-based natural resource management

The Communal Areas Management Programme for Indigenous Resources (Campfire) in Zimbabwe is an example of CBNRM revenue-sharing mechanisms used to fund local communities. The objectives of Campfire are to link conservation and sustainable livelihoods in rural areas, where there are a few or no alternative sources of income. Community rights over natural resource use have created opportunities for sustainable economic development. The gross revenue from income generating activities is disbursed amongst the major stakeholders in the programme. This allows benefits accruing from wildlife and other indigenous resources to be retained by local communities and enables communities to choose how to spend their money, including both cash dividends and decisions to embark on infrastructural projects. The Campfire movement has led to increased awareness of entitlements and rights at a community level. The money received by the communities has had an impact on livelihoods of communities and provides a sustainable means to monitor and protect local wildlife resources.

(d) Community trusts

Umzimkhulu Private Sector-Community Forestry Partnership, South Africa, is a Public Private Partnership (PPP) formed between Mondi (a large paper manufacturing company in South Africa) and communities in the Umzimkhulu region. Through an initial land reform grant local communities in the region have initiated forestry projects and benefited from employment generated through the scheme and also will benefit through the sale of timber when the trees have reached maturity. The partnership was complex and required the establishment of a community trust to facilitate and oversee the process and to maintain relationships between the stakeholders.

(e) Village banks

The Village Bank Project in South Africa started with three pilot banks located in North West Province as a possible mechanism for rural communities to access a range of financial services and gain access to credit. As a result of the village banks communities have access to banking facilities, and at more affordable rates than the big institutions, and generally found it easy to open accounts. It was also found that households using village banks had been those without access to any financial services

(f) Cash transfers

Concern Malawi's Food and Cash Transfer (FACT) project is an example of a cash transfer scheme used to fund communities. The aim of the project was to protect beneficiary households from the impacts of the food security crisis, particularly malnutrition and distress sale of assets. The combined food and cash transfer package was designed to meet 50% of household food needs. These transfers were split equally in the form of food and cash. Given the food crisis, the expectation was that the food rations would be consumed in its entirety and that the majority of the cash component would also be used toward the purchase of food. However, other acceptable usages were for school fees, health car and agricultural inputs. The transfers did benefit beneficiaries, reducing their vulnerability and improving their livelihoods, and there were only minimal instances of the transfers being used in an inappropriate manner.

Impact of the different funding mechanisms

In terms of community-level impacts of the specific case studies reviewed in this study, these models have demonstrated that they can enable communities to accumulate assets, whether physical, natural, financial, social or human. Apart from cash transfers which were primarily directed towards individuals within the community, the majority of projects used local structures in the implementation, planning and decision-making processes. This built social capital, leaving communities with increased capacity to plan, manage and account. This knowledge and skills should allow communities to continue to take forward local development more effectively, even without the direct assistance of a funding scheme.

There is considerable variation in **impacts on livelihoods at beneficiary level**. Some had large impacts, such as the Gemi Diriya Project which positively affected approximately 1,000 village communities. The village banks benefited local beneficiaries by making banking and credit facilities accessible to them. Some projects do not appear to have had impacts at scale, eg the Madikwe Initiative, Umzimkhulu Private Forestry Partnership and the Mayibuye Ndlovu Development Programme. In each of these, there were evident tensions in the communities as members failed to see the immediate benefit of their participation in such schemes.

Some versions of these models have been applied at very large scale, particularly some of those funded by the World Bank, for example:

- Zambia Social Investment Fund – $40 million spent over 5 years, on 555 community projects;
- In Benin, the National Community-Driven Development Project supports local development through both local government and village associations, and has reached 700 sub-projects;
- Brazil - $1.43bn spent in 37592 communities benefiting 2.5 million households. Resources reaching communities rose from 45-90%, and project quality was high;
- Indonesia – 28 000 communities reached, benefiting 25 million people.

Both the **financial management** and procurement related aspects of these operations have been closely supervised through annual independent external audits and procurement reviews. Overall, there has been no systematic evidence that channelling funds to local project committees and community groups presents any greater fiduciary risk than funding through central or local governments in terms of corruption or misappropriation of funds:

- The Bank's Implementation Completion Report for the Senegal Social Development Fund, which channelled all micro-project grants to community project committees, concluded that "Financial management and procurement performance was strong. In particular, the project is an outstanding example of effective financial management and procurement based on community control of these processes. All external financial audits were completed on time and were unqualified. Internal procurement reviews were carried out throughout project implementation and found that the systems were sound and procedures respected."'
- In the Benin example above, a 2006 evaluation found that the community level performed as well or better than other levels of government in respect for eligible expenditures and supporting documentation (Rawlings et al, 2004).

In terms of adequate utilisation of funds through procurement of small-scale infrastructure, numerous studies have confirmed that direct management of funding by community groups lowers the unit cost of infrastructure, resulting in better value for money. For example a six country evaluation of community investments through social funds found that "community management of investments offers significant potential for cost savings, often on the order of 25-50 percent". (Dowdall, 2000).

This study included Zambia's Social Investment Fund, which carried out a value for money audit and found that compared with the community-based approach, contractor-based investments cost twice as much for classrooms and more than three times as much for latrines. Analysis of the unit price differentials found that 60 percent of the difference in unit cost was attributable to contractor overhead costs and profits and may indicate uncompetitive bidding. Beneficiaries considered the quality of construction in all programs acceptable (Dowdall, 2000). A recent World Bank study on school infrastructure in Africa found that "The evidence is clear that community based approaches that empower local communities to implement school projects result in lower costs and are more effective in scaling up to meet the volume required". Specifically, the report concluded that "results from numerous countries (including Benin, Burkina Faso, Ghana, Madagascar, Malawi, Mali, Mauritania, Senegal, Uganda, Zambia, India, Laos and Vietnam) provide solid evidence that community delegation can significantly increase production and lower the cost of construction compared with all other management strategies" (Theunynck, 2006).

Selection of appropriate funding mechanisms

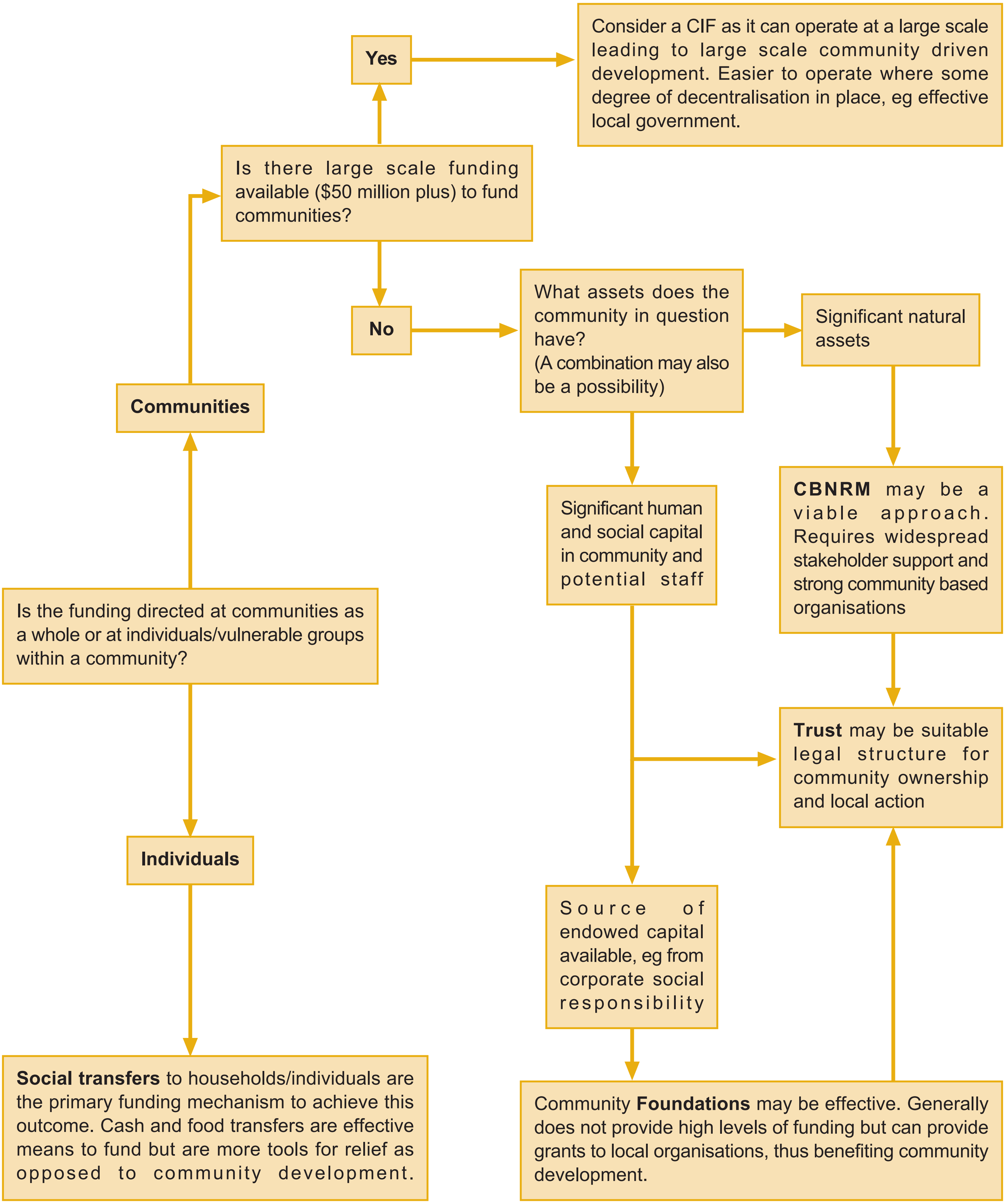
Overall the findings serve to demonstrate that the direct funding of communities can provide more responsive mechanisms to address the needs of poor people. The selection of appropriate funding mechanisms should be related to the needs of the local community as well as its environmental potential. Some key points are:

- There is a need for **local capital**, either for developing public goods such as infrastructure or private goods, such as a household's productive capacity. The case studies illustrate both – with the CIFs, Foundations, Trusts essentially providing public goods and the village banks, cash transfers providing capital to individual households;
- Mechanisms such as the **CIF**, **Foundations** and **Trusts** require well established systems and processes so that funds are distributed easily and transparently to communities, and that there are mechanisms for local accountability, entrenching community ownership in the way funds are spent. The main concern about these mechanisms, evident in the case studies, is that they needed start-up capital, well established community networks and strong management, otherwise their short-term impact is not as effective as other methods;
- In terms of access to capital at household level, the Aga Khan Foundation demonstrates the use of **community banks** where rural agricultural production flourished due to the ability of local producers to access loans so the could invest in their land. A mechanism which provides loans and also extends agricultural capacity such as the CWW LSP may also have significant benefits in this regard;
- **Cash transfers** also have the potential to reduce poverty, and for example there is increasing evidence in South Africa that declining poverty in some of the poorest areas can be attributed to the increase in social grants (Goldman and Reynolds, 2007), despite increasing unemployment;
- In terms of providing immediate responses to communities cash transfers would have the greatest impact due to the immediate impact it has on the financial resources of households. Thus, when there is a pending humanitarian crisis which needs immediate interventions cash transfers would be the most effective intervention in the short run. On the other hand funding directed through community structures generally impart more benefits in terms of development of public goods and accumulation of human and socio-cultural assets. This points links closely to the idea that the selection of a funding mechanism needs to be fundamentally aligned to the needs of the respective communities.

A simple decision tree (Figure 1) highlights which may be the most appropriate model for funding communities in different situations. In practice there is the potential to implement several of these mechanisms at once – for example an institutionalised CIF system applied widely across the country, with community development grants to local structures such as ward committees, community-based planning to plan these use of such funds, community trusts or foundations established in specific areas, and cash transfers to vulnerable people, which can even be disbursed through village banks. The potential of local revenue raising can also be realised based on resources such as wildlife (or indeed mining rights as with the Bafokeng people in North West Province).

The various models provide mechanisms for communities and civil society to lead on how funds are spent, using local knowledge. Many of the systems which operate at scale are developed in conjunction with government and/or donors. A critical success factor is the relationship between communities, civil society, government and donors which must be collaborative and managed appropriately. For such approaches to be implemented at scale remains a significant challenge, as despite evidence of success in several countries in Africa, Latin America and Asia, in many countries in the region government is wary of the capacity of communities, and wishes to control the way resources are allocated. We have to move beyond the distrust of communities, a paternalistic approach, and one that creates dependency on the state, towards a process of liberating the energy of our people's, putting in the catalyst which releases local energy to change people's lives. The models we have covered show some mechanisms that can be applied widely across Africa – the challenge is now to see how these can be applied and institutionalised.

Figure 1: Funding Communities Decision Tree



References

Please refer to the main report for detailed references: **An investigation into the funding of communities: Volume 1, Lessons And Best Practice** which is available at www.khanya-aicdd.org. Other references include:

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