

**WHO KNOWS WHAT'S BEST FOR THE POOR?
DEMAND-DRIVEN POLICIES AND RURAL POVERTY
IN NORTHEAST BRAZIL**

by

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TABLE OF CONTENTS

ACKNOWLEDGEMENTS

LIST OF ACRONYMS

ABSTRACT

CHAPTER

1. INTRODUCTION		7
The Case		9
Thesis		10
Methodology		11
2. ORIGIN AND PROMISE		14
2.1. The Context		14
2.2. The New Political Economy of Development Programs		15
<i>A Change in the Goals of Development Policy</i>		16
<i>Reducing the Role of State Government</i>		18
<i>Local Governments: Good Guys or Bad Guys?</i>		19
<i>Increasing the Involvement of the Private Sector</i>		20
<i>Beneficiaries' Central Role</i>		21
3. STATE GOVERNMENT-DRIVEN DEMANDS		23
3.1. How State Government Influenced Project Choice		23
<u>The Aggregate Result of Government's Influence</u>		24
<u>Government's Means to Induce Demand</u>		26
3.2. Why State Government Influenced Community Decisions		28
<i>The Information Campaign</i>		28
<u>The Failure of the Information Campaign</u>		29
<u>Poor Design. A Political Advertisement Campaign</u>		29
<u>Some Consequences of the "Less Government" Policy</u>		30
<u>Fear of Being Overloaded by Demands</u>		31
<u>Induced-Demand as a Transaction Cost</u>		33
<i>A Technical Unit with a Vision of What to Do</i>		33
<u>The Ownership Dilemma</u>		33
<u>The Irony and Challenge of Human Capital Formation</u>		35
4. LOCAL GOVERNMENT-DRIVEN DEMANDS		37
4.1. Four Disguises for Local Government-Driven Demand		38
<i>Proposing</i>		38
<i>Imposing</i>		40
<i>Bypassing</i>		41
<i>Persuading</i>		42

4.2. The Driving Forces of Local Government's Demand	
Inducement	43
<i>Local Policy & Public Finance</i>	43
<i>Local Politics</i>	44
<u>Why Bypassing Local Government May not Prevent</u>	
<u>Clientelism</u>	46
5. MARKET-DRIVEN DEMANDS	48
5.1. Risk-Take & Risk-Averse Firms	48
5.2. Choices Induced by Risk-Take Firms	51
5.3. Incentives to Influence Project Choice	53
<u>The background</u>	53
<u>Cheap to Design & with the Highest Profits</u>	54
<u>Customizing</u>	55
<u>Standardization & Economies of Scale</u>	56
5.4. Government & Market Failures	57
<u>The Lack of Market Competition</u>	57
<u>The Lack of Government Control</u>	58
6. CONCLUSIONS	59
ANNEX 1 States, Municipalities and Communities Visited	62
ANNEX 2 Eligible Projects	63
ANNEX 3 Selected Indicators for the Municipalities of the Iguatu Region	64
ANNEX 4 Number of Projects Demanded in Each Municipality by Type of Project-- Iguatu Region	65
BIBLIOGRAPHY	66

List of Acronyms

APCR	Apoio a Pequenas Comunidades Rurais
EMATER-CE	Empresa de Assistencia Tecnica e Extensao Rural-Ceara
FUMAC	Fundo Municipal de Apoio Comunitario
PAC	Programa de Apoio Comunitario
PAPP	Programa de Apoio ao Pequeno Produtor
R-PAPP	Reformulated PAPP
SEGOV	Secretaria de Governo (Government's Secretary)
SEPLAN	Secretaria de Planejamento (Secretary of Planning)
TU	Technical Unit
WB	The World Bank

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ABSTRACT

This thesis focuses on a new kind of policy model, called “demand-driven programs” by which poor rural communities are allowed to choose the project they want most from a wide set of project options. Demand-driven programs emerged as a reaction against the traditional supply-driven programs, where the government decides what and where to invest. Demand-driven programs claim to be better than supply driven on a number of counts. I focused my analysis on one of its basic claims: that demand-driven programs allow poor communities to choose what they need. While studying how communities made their decisions, I found that this claim was not an accurate picture of the way in which communities actually make their decisions. Basically, I found that in a significant number of project selection cases, communities were not making their decisions driven by an examination of their own needs and preferences, but by the influence of other actors, such as state government, local government politicians and private firms. I call this phenomenon “supply-driven demand,” to distinguish it from community-driven demand that the model expects. This thesis focuses on the analysis of this phenomenon. Specifically, I will present how and why state government, local government and private firms were able to influence community demand; and reflect on the roles that these three actors play in demand driven policies.

Thesis Supervisor: Judith Tandler

Chapter 1 INTRODUCTION

Traditionally, bureaucrats and politicians have decided what kind of development programs to implement and where. They used to decide, for instance, if a rural development program would consist of providing irrigation kits or tractors or rural infrastructure, or all of these, and if it would be implemented in municipality x or in region y . This policymaking model was called supply-driven because it was government who decided what was the solution for a problem (irrigation, tractors, etc.) and, then, “supplied” this solution to the target population. The underlying assumption was that government knew what was best for its population. This assumption has been strongly challenged.

During the 1980s, international agencies and non-government organizations have converged in criticizing the supply-driven model and its assumptions. Some of the criticisms have been that these programs do not work well because, first, the government tends to spend more money in the administration of the program than in reaching the poor with benefits. Secondly, supply-driven programs often do not address the true needs of the poor because government is too far away to know their needs and do not involve them in the decision-making process. And thirdly, because beneficiaries don’t participate and don’t see their needs represented, they lack “ownership” of the investment and don’t feel committed to maintaining it. The critics of the supply-driven model have proposed, instead, a new policy model called “demand-driven.”

In demand-driven programs it is not the government who supplies the solution to beneficiaries’ needs, but the beneficiaries’ associations who select among a wide set of

project options (irrigation, tractors, rural electrification) the one that addresses their most pressing needs, and who “demand” from government the resources for those projects. I refer here to *community* demand-driven programs, where only community organizations can present demands. However, there are other kinds of demand-driven programs where NGOs, local governments, and the private sector can also present project demands (Marc et al. 1995.) Throughout the text, when I use the term demand-driven I am restricting the demand only to the community.

The advocates of demand-driven programs say they are better than supply-driven programs on a number of counts: (i) a larger percentage of the funds reach the poor because they go directly to them, and are not consumed by administrative payroll; (ii) because the poor are allowed to select the projects they really want, these projects address their real needs, and (iii) elicit their commitment to maintain them. This model has emerged and spread forcefully since the late 1980s in the form of the Social Emergency/Investment Funds--the poverty alleviation package originally designed to “ease the pains” of structural adjustment policies, recommended and largely funded by international donors (The World Bank, IDB, USAID), even though there are some countries who support the Funds with their own resources (i.e., principally Mexico’s PRONASOL, and to a less extent Chile’s FOSIS.)

This shift from supply to demand-driven policies represents a reduction of central government’s role in policy implementation and an increase in the role of community groups, non-governmental organizations (NGOs), local governments and the private sector (Beneria and Mendoza 1995). At the same time, it imposes new roles on central government

for which it is neither accustomed nor institutionally organized to carry out. For example, demand-driven programs may require a multi-sectoral agency when government is organized around sectoral agencies. Also, while government agencies are accustomed to working around a plan, in a demand-driven program they have to learn to deal with the uncertainty of how many project demands they will have to attend.

In spite of the advantages the demand-driven model claims to have and its increasing spread throughout the developing world, there has been little research done on how this model works in practice--how projects are selected, what impacts they have, etc.--and whether their claims have solid grounds. The purpose of this paper is to contribute to filling in this research vacuum by assessing through a case study some of these claims. But, before going on to that, I will briefly present the basic features of the program I studied.

The Case

My case study is the Reformulated PAPP--*Programa de Apoio ao Pequeno Produtor*--,¹ a demand-driven program being implemented in the state of Ceara, Northeast Brazil, since June 1993. The Reformulated PAPP has been implemented in the nine northeast states plus in the Minas Gerais drought area, and, although the guidelines were the same for all of states, there have been important differences between them in the implementation. Although I describe the program more extensively in the next chapter, let me give a quick picture of it: (i) it is a matching-grant program funded with a loan from the World Bank (US\$ 78 million) plus state government and community counterparts--although the cost-sharing arrangements vary according to the type of project, in average it is 60%

¹ Known in English under the acronym of Reformulated NRDP--Northeast Rural Development Program.

WB, 30% state government and 10% beneficiaries; (ii) it covers 176 municipalities out of the 184 of the state of Ceara; (iii) rural community organizations have to select the project they prefer from more than a hundred project options (see Annex 2), broadly classified as productive (e.g., tractors), infrastructure (e.g., water supply) and social (e.g., day-care centers); (iv) project costs cannot exceed US\$ 40,000 (v) for project design, community organizations can contract private or public firms; (vi) projects are approved by the Technical Unit at the state government level, and there are two ways for screening proposals: in general proposals are screened by the Technical Unit--called PAC, and as a pilot project, in some municipalities, the proposals are screened by a Municipal Council formed with representatives from the political and civic society--called FUMAC; (vii) between June 1993 and December 1995, almost 1,780 community projects were presented; 1,449 approved; 1,165 implemented; and a total of US\$ 9.7 million disbursed.

Thesis

The reasons for designing the R-PAPP as a demand-driven program were similar to the usual claims discussed above. While doing my field-work in Ceara, I focused my analysis on one of the basic claims of the model: that demand-driven programs allow poor communities to choose what they need. While studying how communities made their decisions, I found that this claim was not an accurate picture of the way in which communities actually make their decisions. Basically, I found that in a significant number of project selection cases, communities were not making their decisions driven by an examination of their own needs and preferences, but by the influence of other actors, such as

state government, local government politicians and private firms. I call this phenomenon “supply-driven demand,” to distinguish it from community-driven demand that the model expects. This thesis focuses on the analysis of this phenomenon. Specifically, I will present how and why state government, local government and private firms were able to influence community demand; and reflect on the roles that these three actors play in demand driven policies. What are the conditions that allow for processes of supply-driven demand? What policy lessons can be learned to enable communities to choose autonomously?

Methodology

I conducted my field work in two stages. The basic field material came from my stay in Ceara during a three-month period--from June to August 1995. Then, in December, 1995, I spent three weeks traveling through two other northeast states--Bahia and Pernambuco--as a research assistant to a consultant contracted to do an evaluation of the R-PAPP in the whole northeast.

In Ceara, I spent one month in the state capital and the other two months in the region of Iguatu, which comprises 13 municipalities with a total population of 282,731 inhabitants (see Annex 3.) Because I wanted to have a deep understanding of the context and characteristics of the municipality where projects were being implemented, I did extensive field work in three municipalities--Iguatu, Jucas and Quixelo (which have a population of 112,750 inhabitants). However, I was also interested in understanding some of the big differences with the other ten municipalities (such as the lack of demand in some of the latter) and, thus, I also gathered information about most of the other ten

municipalities--interviewing community leaders and extension agents of these municipalities, as well as key informants with knowledge of the whole region, particularly the staff of the R-PAPP's Office for the region of Iguatu.

I chose these three municipalities because they presented similarities and contrasts that were interesting for a comparative analysis. The three municipalities: (i) had different degrees of community demand--Iguatu the largest in the state (79 projects); and Jucas (23 projects) and Quixelo medium (16 projects); (ii) had different political contexts, with cases of mayors strongly interested and very active in promoting development (particularly Jucas and to a lesser extent Iguatu), and another case (Quixelo) of a mayor with the old political style with little interest in promoting development; (iii) one had a Municipal Council, was a FUMAC (Jucas), and the other two were PAC.

I used my field work in the states of Bahia and Pernambuco to gain a broader picture of the factors affecting the performance of a demand-driven program. Looking for differences and similarities between these two cases and Ceara, and trying to understand the reasons for this, helped me to make some of my Ceara findings more generalizable, to limit other findings to Ceara, and to understand new things that I hadn't seen or were not so clear in Ceara.

I collected the data through interviews; reviews of programmatic, evaluation and monitoring reports; and analysis of secondary information and programmatic data. I have also read the main literature on the subject. In total, in the states of Ceara, Pernambuco and Bahia, I conducted 165 interviews, and visited 45 communities from 17 municipalities (see Annex 1.) In the countryside, I interviewed 92 community leaders and residents, 8 rural

extension agents, 5 project design firms, 3 regional state officials, 5 mayors, 6 local government's officials, 2 councilmen, and 2 state deputies. I also sat in on many community associations meetings and Municipal Council meetings. In the state's capital, I interviewed 13 high and middle officials currently and previously involved in the R-PAPP, 9 officials from state secretaries (Planning Secretary, Social Action Secretary), and 1 federal legislator. I also interviewed World Bank staff related to the Program in Washington D.C., and in the Regional Office in Recife.

The order and contents of the thesis are the following. In Chapter 2, I describe the state's context, and present the main assumptions implicit in the design of the program. In the following three chapters, I analyze, using the case of the Reformulated PAPP, how three different types of actors have affected community project choices: (i) state government--chapter 3; (ii) local government--chapter 4; and (iii) private firms--chapter 5. In the final chapter, I present the thesis' conclusions.

Chapter 2

ORIGIN AND PROMISE

In this chapter I, describe, first, the main socio-economic and political features of the state of Ceara; and then analyze the main assumptions about the role of government (state and local), market and civic society that are implicit in the design of the Reformulated PAPP.

2.1. The Context

Ceara is one of the nine states of Brazil's Northeast, a region considered to be the single largest area of rural poverty in Latin America (The World Bank 1995.) With a land area of 146,817 km², Ceara is roughly the size of Uruguay and has twice the population of that country, 6.4 million (IPLANCE 1994.) Of the 2.2 million people (34.6%) who live in the rural areas, 66.2% (1990) families fall below the official poverty line (IPLANCE 1994, IPEA 1993) and 83% of the heads of households earns one minimum wage or less (IBGE 1991.) In the rural areas, the adult illiteracy rate is 59%, 73% of the heads of households have less than one year of schooling, and 3% of households have running water (IBGE 1991.)

Widespread rural poverty stems from "three major interrelated causes: recurrent droughts, low agricultural productivity and a highly unequal distribution of land" (Damiani 1993.) Negative agro-climatic conditions, such as irregular rainfalls and periodical severe droughts, plus a poor natural resource base of the semi-arid zone have been major constraints to increase agricultural productivity. An example of the effects droughts can have is the 47.2% decline in agricultural output that resulted from the 1993 drought (World

Bank 1995.) Despite the fact that agriculture has constituted the traditional basis of the state's economy and that it accounts for one third of the labor workforce (IPLANCE 1994), the agricultural sector has been steadily declining as a share of the state's GDP. In 1994, the Gross Agricultural Product comprised only 8.5% of the state's GDP, even less than the already small 14% in 1991 (IPLANCE 1992 & 1994.) The skewed access to land is another cause of rural poverty and low productivity. The few large landowners, who raise predominantly cattle, are not interested in increasing productivity because "they own large areas of land and can make up for low productivity by the low inputs (and risks) of raising beef cattle exclusively on natural pastures" (CEPA 1986 cited by Damiani 1993.) Small farmers, in turn, are constrained by a number of factors: "insecure tenancy arrangements that stifled the adoption of productivity-increasing practices" (Tendler 1996), and lack of access to modern technology and adequate working capital.

Politically, this is a context characterized by long-standing patterns of paternalistic and clientelistic politics, "where subordinates are accustomed to obtaining (meager) benefits as 'favors' from elite patrons with whom they have a personal relationship of clientship or dependency [And where] the elites, in turn, are accustomed to distributing favors and benefiting from that distribution" (Kottak 1994.)

2.2. The New Political Economy of Development Programs

Since 1973, the federal and northeast state governments of Brazil have implemented several programs to promote rural development and alleviate rural poverty in the region. The Reformulated PAPP is the last policy experiment. Even though the word

“Reformulated” in the program’s name suggests certain continuity with respect to the previous program, the fact is that the Reformulated PAPP represents a radical shift regarding the type of policy intervention that has been tried for two decades in the Northeast region. It shifted from a rural development program to a rural poverty alleviation one, and from a supply-driven approach to a demand-driven one. In other words, from an integrated rural development model to a Social Fund one.

This double shift is a phenomenon that it is happening not only in Brazil’s northeast, but also in many countries of the developing world, through the programs known as Social Funds.² In the sections that follow, I will present the main features of the R-PAPP, showing how they respond to the criticisms made to the old model, and outlining the assumptions about why the new model should work well.

A Change in the Goals of Development Policy

One of the most significant changes involved in the adoption of the R-PAPP is the shift in the goals of development programs from an integrated rural development (IRD) approach to a rural poverty alleviation one. The IRD approach focused on improving the agricultural productivity of small farmers through an integrated provision of development investments, ranging from roads, water and health to agricultural credit, extension, and research and land distribution. Since 1975 and until the 1993 reformulation, the rural

² Since the late 1980s, and at an increasing pace, the WB and other international donors (such as IDB, USAID) have been exporting the Social Funds model to Third World countries. The WB not only invented the Social Fund’s model with the launching of the Bolivian Social Emergency Fund in 1986 but it was also supporting, by 1993 more than 30 Social Funds in Latin America, Africa, Asia and Eastern Europe (World Bank, 1994.)

development strategies for the Northeast consisted of two generations of “integrated rural development”—the POLONORDESTE Program (1975-84), and then PAPP (1985-93.)

The new approach focuses on improving the living conditions of the rural poor in general (it’s not limited to farmers) through small-scale infrastructure, productive and social projects. Project options (see Annex 3 for all the options) fall within three broad categories: *productive* (communal tractors, grain mills, small scale irrigation, clothes-making), *infrastructure* (rural water supply services, rural electrification, pavements) and *social* (day-care centers, ambulances, repairing community-owned schools.) While the previous programs concentrated large amounts of money in certain regions involving many municipalities, the demand-driven program involves small investments (cannot exceed US\$ 40,000) in one small community in a municipality. While the IRD programs were based on loans, the R-PAPP is based on grants—communities only have to contribute in cash or in-kind with a percentage of the project’s cost (generally 10%).

The WB and other donors like to present this shift as the failure of the old centralized, supply-driven model and the victory of the new decentralized, community-driven one. A more convincing argument, however, has to do with a change in the policy orientation of international donors in general. Some people argue that IRD programs failed not because they were centralized and supply-driven, or because they were supplying the wrong answers, but because overcoming rural poverty requires a wide array of interventions that has been nearly impossible to support, due to its complexity and other implementation problems (Parker 1995.) Since the late 1980s, frustrated with these results, donor agencies have tended to withdraw from the ambitious agenda of the 1970s, failing to confront the

challenges of rural development, and leaving a policy vacuum. Parallel to the policy vacuum left by the failure of IRD, a new kind of model, called Social Funds, developed an increasing popularity since the mid-1980s in donor agencies

Reducing the Role of State Government

In the history of rural development interventions in Ceara, the adoption of the Reformulated represented the shift from a supply-driven approach to a demand-driven one.

One of the consequences of this is the reduction of the role of state government. In general, the demand-driven model has attracted so much enthusiasm among the donor community partly because it's a model of less central government. In the cases of Ceara the model tries to reduce government's role, mainly, in two ways: (i) by excluding it from its traditional planning role of proposing what and where to invest; and (ii) by assigning minimum program's resources (of funding, personnel, etc.) to perform the roles to which state government is left out with--information dissemination, project appraising and monitoring.

State government was blamed for the failure of the previous supply-driven model, mainly because of being too much involved. The main causes stated for this failure are that institutional arrangements were highly centralized; decision-making, administration and financing arrangements were generally non-participatory, and the sense of project 'ownership' at both State and local levels was limited (World Bank 1995.) Also there were problems of inter-agency coordination, and of spending a high proportion--56%--of funds on operational costs rather than on the program beneficiaries--44%--(Damiani 1996.)

In the case of the R-PAPP, the government is left out with a minimum structure. The R-PAPP is coordinated by a Technical Unit (TU), situated in the state government's Planning Secretary (SEPLAN), which has a small staff at the state and regional level for appraising and funding projects, and for monitoring them. All the other implementing agencies, like the extension agency EMATER-CE, who played an important role in previous programs were eliminated from the program.

Local Governments: Good Guys or Bad Guys?

In the supply-driven scheme prior to the R-PAPP, local governments didn't have any formal role in program design. Including them is an innovation of the R-PAPP. However, the role that local government should play in the R-PAPP, and in decentralized demand-driven policies in general, appears to be one of the most controversial issues in the design of the program. The most patent evidence of this is that by 1996 the program had put in practice three different kind of local government's roles.

In some municipalities, the program bypasses local government and communities present their projects directly to a regional office of the Technical Unit who does a first appraisal and then sends the projects to the state level Technical Unit for final appraisal and funding (called PAC-*Programa de Apoio Comunitario*). For a second group of municipalities, the program have created Municipal Councils formed by representatives from civil society and the government which only screen and (supposedly) prioritize projects for approval, but don't have funding power (called FUMAC- *Fundo Municipal de Apoio Comunitario*.) After the Council analyzes the proposals, it sends them to the Technical Unit,

at the state level, for appraisal and funding. The Council includes approximately 13 members, chaired by the mayor, and with representatives from the Regional Office, the rural labor-union, the rural extension agency, the town council, the church, and local banks, and with a majority of members from community organizations. In both A third group is similar to the second, but with the additional feature that each Council will administer the allocation of an annual budget (FUMAC-P.)³

These three different models reflect the range of feelings that donors have about involving local governments, from the fear of LG's clientelistic use of the program (PAC), passing to giving them some voice in decision making (FUMAC), up to trusting them with the co-responsibility for spending part of the program's budget (FUMAC-P.) The Program started with 165 municipalities under the PAC scheme and 11 under FUMAC, as a pilot program. During the first year and a half of the program, 15 more municipalities were shifted from PAC to FUMAC, after the WB and state government considered it to be a better scheme.⁴

Increasing the Involvement of the Private Sector

The role of the private sector changed in two important ways before and after the R-PAPP. One is that they started to be responsible for providing technical assistance in project design, a role the extension agency was playing before. Program guidelines specified that after communities select the project, they could contract professionals, governmental or non-

³ While the first two schemes have been under implementation since the beginning of the program, the last one is just starting in 1996.

⁴ Actually, the FUMAC component will expand more and more in the next five-year loan program that was signed with the World Bank for the period 1996-2001, and for a loan of US\$ 70 million—that with the State and beneficiaries contribution will add up to 116.7 million.

governmental organizations to assist them in the project design. The Technical Unit would distribute to the program Regional Offices a list with firms and individuals who have expressed interest. After selecting the project a community could contract somebody from that list or from their own choice, who would be paid 2%⁵ of the project budget only if and when the project is approved (World Bank 1993.) The other change was that in implementation issues (selling machines; building contracts) private firms had to deal with and were contracted by community associations instead of government.

Beneficiaries' Central Role

The rural poor is the actor that has the greatest responsibility in the Reformulated PAPP. They have to (i) select the project by themselves without technical assistance, (ii) decide which firm to contract to design the project, (iii) administer the funds when the project is approved, and (iv) contract private suppliers of goods and services to implement the project; and, once implemented, (v) operate and maintain it. This shows that the program has shifted not only important decision-making power to the community level, but also many responsibilities.

Table 1 presents a scheme of the actors involved in each stage of the project cycle, for an easier understanding of the whole project cycle.

⁵ The program guidelines set a limit of up to 8%, but in Ceara it was cut to 2%

Table 1
Roles of Actors Involved in Each Stage of the Project Cycle,
According to Program Design

	Stage 1 Information Campaign	Stage 2 Project Selection	Stage 3 Approval of selection	Stage 4 Project Design	Stage 5 Analysis & Approva	Stage 6 Funds Disburse- ment	Stage 7 Project Imple- mentation	Stage 8 Monito- ring
Technical Unit (TU)	Implements Campaign				assesses & decide	gives check		responsi- ble
Regional Coord. (RC)	informs		check if it meets cri- teria -PAC		assesses & sends to TU			ibid
Design Firms				contracted by comm.				
Commun. Assoc.	get the info.	select/ send to RC		select design firm		deposits check	only res- ponsible	
Municipal Council	informs		same RC, but for FUMAC		same RC, but for FUMAC			

In this chapter, I presented the program design features and the assumptions involved in them about the role of state and local government, the private sector and community organizations. In the next chapter I will start my presentation of how this policy model worked in practice in the case of Ceara. Particularly, I will present the first case of supply-driven demand, analyzing how and why state government influenced community decisions.

Chapter 3

STATE GOVERNMENT-DRIVEN DEMANDS

In this chapter, I will analyze the first case of the supply-driven demand phenomenon, focusing on state government influence on community decision-making. First, I will examine those cases where demands were driven by government preferences, analyzing how government managed to exert its influence. Second, I will analyze the reasons and factors that explain government actions and, at the same time, how these actions created some of the key conditions that allowed other actors (mayors, town councilors, private design firms) to drive community demand. Based on this material, I will elaborate on the relationship between state government and demand-driven policies, suggesting alternative ways of thinking about this relationship.

3.1. How State Government Influenced Project Choice

Although the demand-driven model tries to exclude the state government from proposing where and in what to invest, I found two ways in which the government managed to drive the demand. The first way was to show its preference for productive projects rather than infrastructure or social projects. Many communities chose a productive project (say, a tractor) instead of a non-productive one (a community center) that they wanted more, because they knew it had higher chances of getting approved. The second way was to exclude project options that were listed in the agreement with the WB, but that the government didn't want to support. Energy for households was a clear example of this

situation. Many communities wanted it but, in general, they didn't request it because they said "you cannot choose energy, the government doesn't give for that."

The state government showed preference for productive projects, in particular agricultural ones (input supply stores, tractors, irrigation, etc.), for two reasons. First, there were political factors. According to TU and WB officials, the governor of the moment, Ciro Gomes, liked the idea of a productive orientation because he saw it as politically profitable to show concern for employment and income generating activities.

The second factor relates to the preferences of the Technical Unit's staff, both at the state and regional level, grounded in their professional background and work experience. Most of the staff were agricultural engineers, agricultural economists and agricultural technicians who were involved in the previous phases of the program, which focused on improving agricultural production. Many of the top officials still regarded that goal as central and thought it should be prioritized in the R-PAPP because it was the best way to use public resources. Their conception of development was that it is better to help the rural poor to generate income and employment first, and then with that increased income they would be able to build the latrines or the water service, and maintain them without the help of the state.

The Aggregate Result of Government Influence

State government influence explains in part the predominance of productive projects over infrastructure and social ones, both at the state level (70% productive) and in the Iguatu region (73% productive). This stands in sharp contrast with the northeast project

portfolio, where only 40% of the demand was for productive projects; and with other states like Sergipe where 15% were productive and 65% infrastructure (Damiani 1996). I observed the same phenomenon of government influence, perhaps even more accentuated, in the case of Bahia, where the state government was interested in micro-enterprise projects (agro-processing, bakeries, clothes making, etc). Furthermore, Damiani (1996) also points out the influence of state government preferences in the cases of Sergipe and Rio Grande do Norte.

A very concrete example of the effects of Ceara's government preference is the case of electrification projects. Although electrification for households was an eligible project--it appears as such in the "Beneficiaries Handbook" (DEPES 1993), the TU spread the word that it wasn't going to approve these projects unless they were coupled to a productive use (motors for irrigation or a manioc mill, etc). Thus, as Table 2 shows, while rural electrification is one of the most demanded projects in the Northeast (20.3%), the influence of Ceara's state government has reduced its significance (3.8%).

Table 2
Community Demand by Type of Projects in Ceara and the Northeast

	Ceara		Northeast	
	n	%	n	%
<u>By Broad Types</u>				
Infrastructure	395	21.7	14,566	52.1
Productive	1,273	69.9	11,057	39.6
Social	152	8.4	2,314	8.3
Total	1,820	100.0	27,937	100.0
<u>8 Most Demanded Specific Project Types in Ceara</u>				
Livestock	309	17.0	n/d	—
Tractors	245	13.5	2,263	8.1
Rural Water supply	182 (1)	10.0	6,230	22.3
Agricultural Input Supply Stores	157	8.6	n/d	—
Manioc Flour Mills	85	4.7	978	3.5
Rural Electrification	70	3.8	5,671	20.3
Irrigation	56	3.1	642	2.3
Clothes-making	50	2.7	447	1.6
Share of total demand	1,154	63.4		
Projects Implemented	1,176	64.6	16,231	58.1

Source: World Bank, Recife Office 1995.

(1) includes 11 sub-types

Government's Means to Induce Demand

The government had two basic means for influencing community decisions: (i) the information it gives communities about the program, and (ii) its power to approve projects.

The government of Ceara first showed its interest when it named the program, which it baptized "Produce" (*Produzir*), highlighting only one of the three broad sectors of the program (social, infrastructure and productive). However, probably the best means to deliver its message was through the publicity campaign or informal contacts with those transmitting information to communities. One brochure of the publicity campaign states:

“Given the state government’s commitment to employment and income generation issues, productive projects are being prioritized.” Even though this message didn’t reach communities directly because of the ineffectiveness of the publicity campaign, it did reach the program regional offices and local actors (such as mayors, private firms, etc.) who transmitted the information to communities, many times adding their own bias or preference. If not through these brochures, these actors learned about the Technical Unit’s preferences through informal contacts with it. Mayors, deputies and project firms made regular visits to the Technical Unit. Regional offices were key actors in disseminating these preferences because they were sources of information about the program for communities and the other actors involved. Although the regional staff made few visits to communities—it has very little budget and 1 or 2 persons to cover an average of 14 municipalities-- many communities (mostly from the same municipality where the office was located) and other actors visited the office.

A second way government expressed its preferences was by approving certain types of projects faster and in greater number. According to the program design, project appraisal and approval would be done on a first-come, first-serve basis. However, the Technical Unit gave priority in the analysis to productive projects (or to those that had political support-- see next chapter.) Some communities noticed this and took it into account as a factor in deciding what project to present. For instance, sometimes a community that had presented a latrine project earlier than another community that had presented a productive project saw that the latter got its project first. When the former complained to the regional officer, the common answer was: “latrines are not a priority because they are not productive.” When

this community presented a second project, not only did they often choose a productive one, but they also might transmit this information to other communities.

Although the state government showed its interest in productive projects, it did not exclude financing some social and infrastructure projects. That's why some people who knew about this preference still sent other types of projects. This was particularly true of mayors, who knew that the chances of having a project approved depended also to a great extent on their political leverage at the TU (see next chapter.)

3.2. Why State Government Influenced Community Decisions

The main argument that I will present in this section is that there were two factors that explain why the state government influenced community decisions. The first one relates to the way in which the government disseminated the information about the program. This also created the conditions that allowed other actors (local government politicians and private firms) to influence community demand--I refer to the influence of these actors in chapters 4 and 5. The second one relates to the existence of a government with a vision of the best use of public resources that conflicted with the demand-driven model.

The Information Campaign

As I mentioned in chapter 2, one of the new roles that state governments assumed in demand-driven programs was the dissemination of information about the program. This role is a crucial one because if communities don't get information about the program they cannot request a project. However, how communities get information is just as important as getting

it. The process through which the information goes from the state government to the thousands of communities spread all over the 176 municipalities creates the possibility for altering the content of the message. What information is delivered? Who delivers and who receives it? How is it delivered? These become important questions to answer.

The Failure of the Information Campaign

The program's guidelines required an information campaign that would guarantee to all the eligible communities information about the program's "objectives, eligibility criteria and main rules, providing simple and viable procedures to present proposals, indicating information places, or telephones where the public could forward complaints or denunciations. The campaign was to have a wide scope, and could be done using radio, newspapers, "carros de som", bulletins and brochures, posters and public events in rural areas. Each State will develop a strategy, action plan and terms of reference to contract this campaign" (see Diretrizes... 1993.) The information campaign done by the state of Ceara did not achieve its goal. None of the people I interviewed in the communities had known about the program through this campaign, but rather through other channels (mayor, regional seplan, a private firm, a deputy, a town councilor, other communities, etc.). Why was this?

Poor Design. A Political Advertisement Campaign

One of the reasons for the communication failure was that the campaign was poorly designed. It did not select the appropriate channels. Experts in rural communication consider radio to be a superior channel of information to TV, given that the short duration of the TV spots (because of its high cost) makes TV a more information-poor channel than radio, which because of its lower costs allows for deeper information. This was true in Ceara's TV

spots for the R-PAPP, which referred to the launching of a new program for rural communities, but only in a general and superficial way. According to the experts, the rural poor use radio more than TV. Ceara's emphasis of TV over radio as the media selected to reach the rural population is an extreme version of the error --according to Barnett (1994) who analyzed the information campaigns implemented in the different northeast states. Ceara had the highest television to radio budget ratio (15 to 1, or \$112,060 to \$8,480.) Ceara also used many posters and small pamphlets which, as Barnett points out, contain little information and usually only serve to provide contact information.

The reasons for this poor design are very significant. Initially, the Technical Unit was responsible for the campaign and was going to follow through and deepen the program guidelines scheme. However, the governor, through the Government Secretary (SEGOV), took over this function in order to gain political credit for the start up of the program. To design and implement the campaign, SEGOV contracted the publicity firm which does political advertising for government. What this firm did was the same kind of work it had been doing before for government: a political advertisement campaign instead of a deep informational campaign that informed and enabled communities to participate in the program.

Some Consequences of the "Less Government" Policy

Another reason for the failure of the information campaign could be traced to the lack or underutilization of government structure, caused partly by the "less government" policy. This had two manifestations. On the one hand, the program regional offices which had the role of visiting communities to inform them about the program and distribute informative

brochures didn't do it because of lack of budget and personnel. There were only one or two technicians to cover 14 municipalities, with a small budget that didn't cover gas expenses or car repair.

On the other hand, the state agency with the greatest experience and structure for reaching the rural poor--the agricultural extension agency, EMATER-CE--was not involved in the program, partly because it was seen as part of the old model of government intervention, from which the R-PAPP was trying to create a distance. EMATER-CE is the only state agency with offices in each municipality, and a minimal staff. Its job (whether well or badly done) consists in visiting rural communities, and through the years extension agents build networks of information with community leaders which could have been used to deliver the information about the program. However, a political conflict between the extension agency and governor Ciro Gomes, who was trying to close the agency, hindered this possibility from happening.

Fear of Being Overloaded by Demands

The other reason for the poor design was government's fear that if they had a deep information campaign, government could be overloaded by demands from communities. The same phenomenon happened in other northeast states (Barnett 1994.) That's why instead of deepening the information campaign, it trusted other means of publicity, such as mayors, the regional coordinators, etc. These channels, along with others such as design firms and dealers and neighboring communities were the real channels of information. But this had a cost. The cost was that it created the conditions for induced demand to happen. Communities received the visit of a design firm representative who presents partial

information about the program, pressing for a quick choice. The community is vulnerable to this type of influence because it hasn't received information about the program from an autonomous source. This problem of induced demand also happened in other states--see Moreira da Silva (1994) for Maranhao, and Damiani (1996) for several northeast states.

A massive and effective information campaign is a pre-requisite for a demand-driven program to work well. Unless communities have independent sources of information, it is very likely that they are not going to choose the projects that address their needs. However, at the same time, the information campaign poses specific dilemmas: to work well the program needs to be widely publicized, but at the same time, this could allow politicians to manipulate the program. Also, it may generate a demand so high that the TU cannot manage with limited administrative resources.

The uncertainty that a demand-driven program generates for the actors involved very much affects the implementation of the program. Politicians fear that they will be overloaded by demands which they will not be ready to satisfy, and so they carry out a general campaign which serves the purpose of political advertisement but does not allow communities to act autonomously. They use selective means of publicity, which jeopardizes the very nature of the program. The technicians are uncertain about whether too much diffusion of the program will attract too much political interference, and so don't want to disclose too much information (this happened in the case of Maranhao.)

Induced-Demand as a Transaction Cost

The importance of the information campaign creates a transaction cost in demand-driven programs that supply-driven ones do not have to face. The transaction consists of the state providing the information so communities can generate a demand. The cost is represented by the risk that opportunism enters in the transaction (a state government, a mayor or a private firm manipulating the information) making the final product (the community's decision) not the best product (what the community really wants) but rather one of inferior quality. The transaction required by the R-PAPP opens the window for the opportunistic behavior. Transactions in the supply driven model do not present this information problem because there is only one actor (the state) which decides what to do, where and when (an analogue of vertical-integration.)

A Technical Unit with a Development Vision

A second reason that explains why state government influences community choices is the existence of a Technical Unit with a clear idea of what type of development policy has to be implemented, which contrasts with the openness and uncertainty of the final program profile that exists in a demand-driven program. The existence of this conflict reveals both a dilemma and an irony in the thinking and the practice of development policy.

The Ownership Dilemma

One of the main arguments for supporting a demand-driven model is that letting communities choose the project they want will increase their sense of ownership of the project, and thus, the likelihood that they will operate and maintain it successfully in the long

run. However, those who support this argument overlook the fact that there is another kind of ownership, government ownership, which seems to be in contradiction with community ownership. Government ownership means that it is committed to the goals of the program, and that it will put its energy into making it work. The development literature has often referred to the lack of government ownership or commitment as a cause of policy failure, and thus, to the importance of generating government support.

The dilemma that seems to be inherent to the demand-driven model and that the R-PAPP reveals is the contradiction between these two kinds of ownership. If the community gains ownership (choosing the project it wants) it means that government has to give up ownership (not choosing what it thinks is best.) A possible consequence of this tension is that state government will try to re-gain ownership, as Ceara's government did, by defining productive projects as the most important, or excluding household energy. In doing that, it will undermine community ownership and the basic demand-driven principle because communities may choose something that is not what they want most, but what they are most likely to get.

What this shows is that the attempt of demand-driven policies to rule out government's preferences not only is difficult, because government has ways to impose its interests, but also not necessarily very desirable, because it may turn out to be against the basic principle of demand-driven policy. What to do then? Is it possible to take into account government's preferences while maintaining the demand-driven scheme? An alternative would be that the donor agency negotiates very carefully with the government responsible for the coordination of the program, trying to come to agreement on the sectors or projects

options which the government wants to include in the set of eligible options. In the case of Ceara, was that the program guidelines were negotiated with donors for the whole region, and not individually with each state. The assumption of homogeneity of interests across states was apparently not investigated.

Even if this problem is solved and government's preferences are better taken into account through its participation in project design, there is still another problem. Public sector ownership doesn't come only from participating in the design, but mostly from participating in the implementation. This conclusion comes out in the explanation for the better performance of the APCR component in the old PAPP vis-a-vis the other components (Tendler 1993.) The APCR component was the only one in which the Technical Unit had executive power, instead of just coordinating power. Bureaucrats, having the chance to participate in the implementation, felt more responsible for its success, devoting more bureaucratic energy than in other cases. The R-PAPP undermines this source of ownership by confining government to the passive role of appraising proposals, without any possibility of influencing the implementation process.

While in the case of the R-PAPP community and government ownership are in contradiction, in the case of the APCR they are not. In the APCR, both technical agents and community members had a chance to discuss their perspectives of what would be the best project for the community, both gaining ownership in the process

The Irony and Challenge of Human Capital Formation

One of the most important positive impacts of the 20 years of supply-driven, integrated rural development policies prior to the R-PAPP was the creation of scarce and valuable human

capital. This was a cadre of agricultural engineers, economists, technicians or rural sociologists who spent years traveling through the region, dealing with the problems of how to start a process of rural development, and gaining experience through different kinds of interventions. Most of Ceara's Technical Unit top officials and staff were formed by this process.

It is ironic that this valuable and scarce human capital, which should be an advantage in a development process, could turn out to be a constraint when a demand-driven program is adopted. As I argued before, the TU's staff resisted the demand-driven model because they thought that it would be better to focus the program on improving income and employment generation, and to have more public sector involvement. The sectoral expertise may represent a barrier for implementing multi-sector policies like the Reformulated PAPP and Social Funds in general. And it poses the challenge of finding out what kind of mix of skills is more appropriate for these schemes and what to do when they are not available.⁶

In this chapter, I have discussed the first type of the supply-driven demand phenomenon—when the demand is driven by state government's preferences. In the next chapter, I will turn my attention to the local level, showing how local government's influence constitute a second type of supply-driven demand.

⁶ I didn't have time but it also would be interesting to research what role Technical Units played in the other states, given that they also had people with similar backgrounds to those in Ceara, but in some cases, such as Sergipe and Pernambuco, there was an emphasis on infrastructure instead of productive projects.

Chapter 4

LOCAL GOVERNMENT-DRIVEN DEMANDS

The role that local government should play in demand-driven policies is a controversial issue, with several alternatives, and seemingly no easy answer. Should local government be bypassed because anything it touches turns out to be clientelistic and corrupt? Or, is it the opposite, that it should be included because it knows the context, has resources and a vision to contribute to municipal development and, perhaps more importantly, it exists to represent community demands? If it participates, which role should it play? The R-PAPP, reflecting the difficulty of this issue, has experimented with three different roles (which I described in chapter 2.) In one, local government is bypassed (PAC); in a second, it participates in a Municipal Council that screens project proposals (FUMAC); and in a third one, starting in 1996, it also participates in a Municipal Council which, aside from screening, also approves and funds projects using a budget transferred by the program. Although the R-PAPP is moving towards a greater local government (LG) involvement, there is one crucial role that other Social Funds have included⁷ and the R-PAPP hasn't: allowing LG to present projects it considers crucial for the municipality; to make demands the same way communities do.

In this chapter, I will address the issue of how LGs have dealt with being excluded in the R-PAPP from proposing projects. I will show that in many cases they managed to get their demands through the program by influencing the project selection process. In different ways, LGs got some project demands to be driven more by their preferences and actions than by community ones--a phenomenon I call local government-driven demand. LG

⁷ See Cisneros 1993; Goodman 1995; Marc et. al 1995.

politicians are interested in influencing demands because the R-PAPP represents an incredible opportunity for doing local policy (given that the money received in a municipality through the program may largely exceed its budget for investments); and local politics. But before analyzing why LGs are interested in influencing demand, let me show first how they do it.

4.1. Four Disguises for Local Government-Driven Demand

LG politicians--mayors, town-councilors--managed to influence community demand so that the community represents its preferences in four different ways: (i) proposing a project to a community; (ii) imposing the project on the community; (iii) presenting a project through an association not formed by the poor; and (iv) persuading communities to choose the project LG prefers.

Proposing

This type has the following form: a mayor has a project in mind, an idea of what kind of investment is needed in the municipality--either to install a clothes-making factory or a fish processing factory, for example. Then, he proposes the project to one or more communities, who may accept or reject it. I will present two examples of this.

In the municipality of Machados in Pernambuco, the mayor created the demand and the organization. In 1995, the mayor of Machados got to know about a large national apparel corporation (Hering) interested in installing small-garment factories in municipalities close to the state's capital, to contract out part of its production and lower its costs.⁸ The

⁸ A detailed presentation of this agreement can be found in Damiani (1996.)

company would provide sewing machines and inputs, training and a commitment to buy all the production. However, as a counterpart, the group or the government had to build the warehouse where the small factory would function. The mayor saw this as an excellent opportunity to attend to the growing unemployment problem that his municipality suffered. However, the LG didn't have money to build a warehouse as Hering demanded. First, he offered his house; but then, he found out about the R-PAPP, and decided to apply for those funds. He asked the women of the municipality interested in the project to sign up, and then created a community association (*Associacao Comunitaria das Costureiras de Machados*), covering the costs for legalizing it, and speeding up the bureaucratic paperwork. The state government, which was also involved in the negotiations, gave priority to the approval of this project, which by January 1996 was finishing the training for almost 100 workers.

In this case, the mayor played a role that goes against the way in which the community demand-driven model is designed, given that he, instead of the community, created the organization and demanded the project. However, in a pure community driven model this municipality wouldn't have received the benefits of this project. His role was crucial in two ways: first, in making the contact with the private firm; second, in solving the economic and administrative costs of creating the association (which have prevented or delayed many communities from participating in the program.)

A second example relates to fishing projects in Jucas. In this case, the mayor had an idea and proposed it to several communities (taking over the demand generation), who accepted it not because it was what they wanted most but because of the greater chances of having their projects accepted if they were supported by the mayor (persuasion.) Knowing

through fishing experts about the great potential for fishing in the northeast interior, the mayor's idea was to develop a set of linked fishing projects: intensive fish breeding in "acudes" by community groups; a "fabrica de racao" to feed the fish; a factory to process the skin of the fish and another one to process the meat in fillets and sell them. These turn out to be four R-PAPP projects, presented by three different communities. The mayor made an agreement with the state university and got a fishing engineer who spent a year in the municipality discussing the projects with the communities that had accepted and designed them.

Imposing

Both in Jucas and Machados, the political conditions are more the exception than the rule. These are "ideal" mayors, enlightened leaders committed to the development of their municipalities. The rule in rural municipalities is a mayor who turns every government decision in a client-patron relation aimed at giving him political or economic power. The take-over situation under a clientelistic or corrupt mayor may look much worse. The mayor will deal only with his captain ward, deciding, without consultation with the community what the project demand will be. Then, when the project is approved, the mayor and the captain ward tells the community that the project was something the mayor got for the community. This has the opposite effect of what the R-PAPP wants to achieve--it sends the message that community action is not needed to improve living conditions. Often, the mayor also gets part of the project funds (the captain ward of the community gives it to him after receiving the check) faking the receipts.

The fact that in the cases of Machados and Jucas the mayor's influence wasn't used in this clientelistic and corrupted way, raises some important questions. If, on the one hand, we agree that these cases are desirable and should be promoted in other municipalities; and, on the other hand, that the R-PAPP at least formally doesn't allow them to happen or they are not supposed to happen, the question then is: should the program allow a LG to present proposals? Is it possible to think of designing a program that encourages this kind of enlightened leaders, while not giving space to the clientelistic ones? Is this realistic?

Bypassing

Jucas provides an example of the use of an already existing association to take over the demand generation process. A very progressive mayor, strongly committed to the development of his municipality, is worried about a river that crosses the municipality and that during the dry season gets dry, leaving the farmers on its banks without water. He knows that if he can build a small "barragem" (dam) it will be possible to perennialize the river up to a certain point, but the municipal budget is already committed for other purposes. The mayor gets to know about the R-PAPP, and decides to apply for the funds through an association located in the municipal capital (which has less than 7,500 people and thus is eligible) of which he is a member, and which is formed not by poor farmers but by a local progressive elite. He gets the grant and implements the project, which achieved its goal.

Persuading

The fourth type of influence is the most subtle and indirect. In it the mayor tries to “persuade” community associations to choose the project he/she prefers (because he thinks it is a vital one for whatever reasons) by giving technical and political support to push for their approval. The key difference from the other types of influence is that the mayor has to wait for communities to be tempted, instead of contacting them directly. And some buy the LG preference and present such project not because it is what they want most, but what they think they are most likely to get because they can count on LG’s support.

The case of Iguatu is a good illustration of this kind of situation. The mayor of Iguatu believes that the types of project the municipality needs most are those that provide for drinking water to each community. Potable and accessible water not only helps to prevent diseases (in which he is very interested because he is a medical doctor), but it also allows the LG to cut down costs of contracting private water trucks (*carros pipa*) that bring water to those communities that have no access to water sources during the dry season. Some estimates indicate that the LG spends an average of US\$420 per family per year to supply water by using water trucks (Damiani 1996.) In Iguatu, 7 water projects implemented benefited approximately 500 families, which represented annual savings of US\$210,000 (5.5% of its annual revenues), and four others were waiting for approval.

The basic channel the mayor used to persuade communities to select this project was a Municipal Development Council (not the FUMAC) formed by community organizations that met once every month to discuss their problems and present demands to the LG. The mayor attended these meetings, presenting his case in favor of water projects and offering

technical assistance (contracting a geologist) to design them for the communities that are interested (see more related to this in next chapter.) Municipal staff also visited communities, advocating good reasons for choosing water projects, and emphasizing that it brings the mayor's support. In some cases, communities decide to choose water because they see it as their most urgent problem. In other cases, this choice is the result of a strategic calculation. They perceive that it's more likely that their projects will be approved (whatever they are) if the mayor is interested in them, because they assume the mayor will push for these projects in the Technical Unit.

4.2. The Driving Forces of Local Government's Influence

There are two main driving forces behind LG's influence—in any of the four ways I presented. One relates to local policy issues and the other to local political issues.

Local Policy & Public Finance

It is easier to understand why LGs are so interested in using R-PAPP resources if we consider that the average number of projects received in a municipality per year could be higher than the budget it has for investments. It is estimated that no more than 10% of a municipality's annual revenues remain available for investment after paying salaries and other expenditures (Damiani 1996.) In Iguatu, the R-PAPP has implemented 47 projects in two years, which represent approximately US\$1,290,855⁹, or US\$650,000 per year. That is more than one and a half times the amount the municipality has for investments—\$400,000 or 10% of an annual revenue of approximately 4 million dollars. Jucas, has implemented 14

⁹ It implemented 47 projects, calculated at an average cost of US\$27,465 (van Zyl et al 1995)

projects in two years, approximately US\$384,510, or US\$190,000 per year; again, this is higher than the US\$150,000 it has for investments--with annual revenue around US\$1.5 million.

These resources represent a great opportunity for implementing projects the mayors perceive as key for the municipality. The examples of Machados (clothes-making) and Jucas (dam and fishing projects) illustrate that situation well. A key debate in the local public finance literature is whether this kind of grant transfers makes LGs invest in sectors and projects where they were not investing before, and so the program helps to influence LG activities; or whether its the opposite case, and LG substitutes its own funds for state transfers, continuing with the same level of activity, with the program having no impact at all on the local level. The examples of clothes-making in Machados and the fishing project in Jucas show that LGs used the funds for new activities they were not doing before, and thus there was real additionality. In the case of water in Iguatu, the funds seemed to have been used to substitute for something the LG had some but not enough resources to do, so there was a sort of complementarity.

Local Politics

The large amount of resources available through the R-PAPP was not only an incentive for doing local policy, but also a tremendous one for doing local politics. There are two kinds of political uses of the program. One is the politician that fears community organizations, and thus, tries to use the R-PAPP resources in the traditional client-patron relation, between the captain ward and himself. The other kind of politician has the opposite view, seeing

community organizations as a way to gain new constituencies or securing old ones, more as an asset than a threat. Both types of politicians find a way to gain politically from the program, and probably that is how this program works its magic—that is, how it is able to leverage so much political support, when previous programs have faced so much political opposition.

A quick comparison between the old and the new model may show some of the R-PAPP's features that contribute to its political appeal. The previous program (called *subprojeto* or *Planejamento por Projeto*) concentrated high amounts of resources in geographically limited regions, and it was based on a regional multi-year plans, designed with high technical input. This scheme is a political bomb for a number of reasons. One, it creates political opposition from the mayors of the municipalities that have been excluded, who are jealous of the resources the other mayors are getting. Two, because plans are made with high technical criteria, those mayors with targeted municipalities find it difficult to politically influence the decisions of which communities should be included, making the program less politically attractive. Three, these mayors have to face the demands of those communities that are excluded, which could be their constituencies. On the contrary, the R-PAPP represents the dream of a politician. Almost all state municipalities are included, and it consists of small amounts of money that could be allocated almost anywhere in the municipality for a wide list of investments. And there are no technical agents or criteria insulating politicians from participating. The only thing a politician has to do to gain politically from this program is to do what he/she knows: deal with community demands either in a democratic or clientelistic way.

Why Bypassing Local Government May not Prevent Clientelism

The main way in which the program has tried to prevent LGs from taking over the community demand is through two possible institutional schemes. If the mayor was democratic, they would use the mayor-chaired Municipal Council. If the mayor was clientelistic, they would use the bypassing scheme, where communities can present their demands directly to the Technical Unit. However, to be autonomous from the local political system, communities need to have, at least, the information about the program through autonomous sources. As I showed in the previous chapter this was not the case either in Ceara or in the rest of the northeast states. Not only was the information campaign very ineffective in getting the message of the program directly to beneficiaries, but also state government's fear of being overloaded by community demands made it use mayors and deputies as one of the principal means for distributing information. If communities get to know the program through the mayor, they have no means for preventing themselves from being deceived and manipulated. A good name for this phenomenon would be not a client-driven process, but a clientelistically-driven one. A lesson to draw from this kind of situation is that one of the conditions for successful bypassing of clientelistic LGs is to deliver autonomous information about the program directly to communities.

The other assumption that did not work well was to think of FUMAC as the option for democratic, open mayors. It struck me to hear the Technical Unit staff from Ceara, Bahia, Pernambuco and Maranhao saying separately that many FUMAC municipalities were chosen not by their democratic virtues but by a political pressures from those municipalities interested in having it and with political leverage at the state level.

One of the policy design factors that has worked in limiting clientelism was to make non eligible those projects that were easier to manipulate politically. For instance, one of the reasons why the WB decided to stop financing ambulances was because it found out that many politicians were asking for them because it was easy to put stickers in them with their names and political parties. This is significant because in programs like this with many little, widely dispersed projects, it is hard to catch these cases. Even if such cases are caught, they are often not controlled because of the political strength of the people who are involved. The question then is what were the conditions that allowed for this control to work. A possible answer might have to do with the fact that in this case the monitoring was set up with different layers of checks-and-balances: regional offices of the Technical Unit transmitting information from the field to the headquarters in the state capital, which is monitored by and in contact with a WB office in Recife, which is located in Brazil, but not part of the Brazilian politics because it is an external agency. The staff of the Recife office are worried about their jobs and performing well because they will be judged by Washington. The representatives in Washington, in turn, are very sensitive to the clientelism issue because other people in the WB are suspicious of the program for this reason.

In this and the previous chapter, I focused on the government side of the phenomenon of supply-driven demand. In the next chapter, I turn my attention to the market side of this phenomenon.

Chapter 5

MARKET-DRIVEN DEMANDS

The Reformulated PAPP also opened a space in the program that meant a greater role for the private sector than in previous interventions, an unavoidable feature in these times of less government and neo-liberal reforms. The role assigned to private firms in the R-PAPP was different from the one it had in previous programs in two important aspects. One is that they were responsible for providing technical assistance in project design, a role the extension agency had traditionally played. The other one was that in implementation issues (selling machines; building contracts) they were contracted by community associations instead of government. The main advantages assigned to the private sector over the public sector are (i) that its work is more responsive and customized to the client needs because it faces competition pressures; (ii) that it delivers more quickly because of the incentive in earning money; and (iii) that it tries to cut down costs to increase profits.

In this chapter I will focus on how and why private firms and dealers influenced project choices. This will help us to think about the consequences that private sector involvement has in the way community demand-driven programs work, and what to do about them.

5.1. Risk-Taker & Risk-Averse Firms

In the 13 municipalities of the Iguatu region there were six firms that were responsible for almost all the projects designed in the region. The program design specified that only after communities have decided what project to request and the regional

coordinator has approved this request can they contact and contract design firms. However, in practice, what happened was that while some firms stayed at their offices waiting for communities to come with their project selected, others saw the R-PAPP as an excellent opportunity to earn good money quickly, and went to “generate” the demand. I will refer to these two types of institutional behavior as risk-averse in the first case, and risk-taker in the second one. Let me explain why.

The risk-averse firms waited for the communities to contact them not because it was what the program specified, but because of not wanting to take risks. These are very small firms (only one or two persons), which in some cases had other permanent jobs. For them, adopting a more active behavior would mean hiring people to visit communities, paying traveling expenses to them, and perhaps leaving their jobs or risking losing them. They didn't want to make those investments because of the uncertainty of not knowing whether and when those projects would be approved; and whether the Reformulated PAPP would continue or be interrupted and replaced by a different program--as had happened with previous programs (subprojetos.) Their strategy, then, was to have a low risk profile, working through the preexisting networks that they had with communities. In one case, this network came from having a staff member who had worked in the local cooperative (COIGUATU), which maintained contacts with around 40 communities. In another case, the firm had an ex-extension agent on its staff, who had developed personal relations with some community leaders. Because of this low profile, they worked with few communities and municipalities--at most 2 or 3 (only places were they had previous contacts.)

The risk-taker firms adopted an active strategy of going to the communities to generate the demand, assuming some risks. They hired staff to visit communities, paid their traveling expenses, and invested in infrastructure to speed up the rate of project design (computers, the design of standardized projects, etc.) They were in a better position to take these risks because they were stronger firms willing to expand--they had been designing projects for a long time for large farmers, or for BNB¹⁰ funded individual loans, so they had the basic infrastructure and capital to invest. They were lured by the possibility of making high profits (they could get up to \$800 for designing a project) but also--and perhaps more importantly--by the institutional signals they received from the program when it was starting.

In mid 1993, when the R-PAPP began, the TU was pressured to spend some funds before the end of the year that, otherwise, would have to return to the World Bank. The TU managers instructed the Regional Coordinators to prioritize the presentation of projects from the communities and push the project design firms to make projects quickly. As a result, by the beginning of January 1994, the TU had received a huge quantity of projects, without enough personnel to appraise them. Because of the pressures for quick disbursement in a short period of time and with a superficial evaluation, many projects were approved. This was the first approval and disbursement of funds by the Reformulated PAPP. When the firms saw that without much work they were getting high returns in a short period of time, the risk-take firms decided to invest in this and crystallized an institutional behavior that would be difficult to change in the short term. They expanded their staff, bought computers and developed software to standardize project presentation and became more aggressive in generating the demand.

¹⁰ Banco do Nordeste do Brasil

It is no wonder that these firms had the major share of projects designed. Out of 270 projects designed for the 13 municipalities, almost 200 were done by the two risk-taker firms, while the other 70 were done by the other four firms, and consultants brought from the state capital by local politicians.

5.3. Choices Induced by Risk-Take Firms

If we left the story there, we could praise the market for making the program work. Communities that had no information about the program because of the failed campaign of the state government were finally able to request projects because of the risk-taker firms who informed them about the program. Although this is true and important, it is not the whole truth. An important question that completes the picture is: Did this unexpected behavior of the risk-takers affect the nature of the community demand-driven program? More specifically, how were project choices made when these firms designed the projects? I will argue that the behavior of the risk-takers all too often prevented communities from choosing those projects more related to their needs, undermining the basic purpose of the program. In this section I will address how they did it and its results, and in the next one what were the reasons that pushed them to do it.

As in the other two cases of state and local government-driven demands, the asymmetry of information between communities and local firms is a crucial piece of the story. Communities did not know about the R-PAPP or had a poor understanding of it, which allowed the firms to manipulate the presentation of the program. In general, either the firm representative talked to the president alone or also to a group of community members,

presenting a narrower menu of projects than the one in the program's guidelines, often in a misleading way. For example, they would say: "There's a new government program that is giving things to communities. You can choose a tractor, an agricultural input supply store, or a manioc mill. Do you need a tractor?" It is easy to understand that many communities answered "yes" to that question. Why not have a tractor if it was "for free"--the community counterpart was paid in very few cases¹¹--and it would help. In those communities with personalistic, authoritarian leaders, the director of one firm acknowledged that they had to deal with the community leader alone, who then wanted to present this as his project. Firms also pressed for a quick decision, impeding the necessary time to assess the pros and cons of the different alternatives. Because the traveling expenses were high (communities are distant from one another, through difficult roads) firms asked their employees to make communities select the project in their first visit to the community, so they didn't have to return a second time. This picture of the project selection process is very different from the participatory one often portrayed. A different way of describing this is saying that these projects were not demand-driven but supply-driven demand with the suppliers being private firms instead of government.¹²

The incentives that led firms to work with a limited number of project options (see next point) explains why each firm tended to concentrate in a few types of projects. The

¹¹The purpose of the counterpart was to increase community ownership of the project, assuming that if a community was willing to contribute in money or in-kind, it would mean it was a project they valued and would be interested in maintaining. When the communities could contribute in kind, for instance with the labor for building an input supply store or a community center, I observed that in many cases they did. However, when the contribution had to be in cash (tractors, ambulances), they never made it. This is very significant if we consider that tractors was the second largest project demand in the region--42 projects (see Annex 4.)

¹² Constructing firms have had also a strong influence in some Social Funds in Latin America. Engineering firms building piped-water projects in Ecuador (Steffes 1996) and schools and clinics in Honduras (Watson 1994) are some examples of this phenomenon.

firm that designed more projects (120), had 40% of its projects of only one type (50 projects were for agricultural input stores.) Perhaps one of the most striking examples of supply-induced demand is the case of the latrine projects. Out of the thirteen municipalities in the Iguatu region, four of them requested 16 latrines projects in total (see Annex 4.). In the municipality of Ico there were 11 requests, and in the other three municipalities the other five requests. Why so many in Ico, compared to the rest? My explanation has to do with the firm supply induced demand. One of the risk-taker firms did 15 out of the 16 projects, had its headquarters in Ico, and in the same week-end visited 6 communities next to each other, informed them about the program and came out with the same project for the six communities.

5.2. Incentives to Influence Project Choice

Why did firms influence project choice? What kind of projects were they pushing for? They had preferences for agricultural productive projects, which are easier to standardize, without high design costs, and which would leave them the highest net profit.

The background

According to the directors of one of the risk-taker firms, their job was the following: “We send a technician to visit communities, he talks to the president to gather the community and explains what the program is about, and asks what they are *planting*. He then engages the community in discussion and advises them on the best option for their community.” The technician doesn’t ask: “what are your needs?” but “what are you planting?” Their bias for

agricultural productive projects probably has to do with the fact that all the staff have a background in the agricultural field--agricultural technicians and engineers, ex-EMATERCE agents, land surveyor. In this sense they share government's preference for agricultural projects, which they are more capable of designing than infrastructure projects such as water and energy.

Cheap to Design & with Highest Profit

In order to keep design costs low, firms also excluded projects with more expensive designs. Although in principle this could sound positive, because by excluding the most expensive projects to design they were economizing--which is a private sector virtue--in reality it wasn't. Let me give an example. A firm in Iguatu designed at the beginning of the program several ground water projects without a geological study, some of which failed because there was no water. After the Technical Unit started to demand geological studies previous to the approval of water projects, this firm decided to stop designing them, so they didn't have to incur this cost. As a result, some communities who wanted a water project, but didn't have the money to pay for a geologist (US\$150), chose another project the firm would design (such as an agricultural supply store.) The mayor of Iguatu was interested in water projects (see chapter 4), and so after a while, he started to offer free technical assistance for these projects.¹³

¹³ It is interesting to notice that the failure of a ground water projects--i.e. a hole is dug and there is no water--is more rapidly visible (the money was wasted) and more clearly associated with a bad project design (there should have been a pre-feasability study) than the failure of an agricultural supply store where if borrowers don't return the inputs, this is seen one year later and it's not associated with the designers, but blamed on the community (for its lack of solidarity.)

Another type of project preferred by project design firms were those that gave them the highest profit. Because they earned a percentage of the project budget (2%), firms were more interested in the most expensive ones--while the cost of a tractor was around US\$ 30,000 (with a profit of US\$ 600 for the firm) the cost of a cistern was around US\$ 4,600 (US\$ 92 profit.) If we calculate the net profit (taking into account the time span needed for project design), instead of the gross profit, probably the relationship won't change significantly.

Customizing

One of the arguments for involving private firms was their comparative advantage for customizing projects to the needs of the clients, under the basic assumptions of competition and being more responsive to clients' pressures. Perhaps because of the lack of these conditions and other factors--see next section--the truth is that projects were not customized. Examples of this could be found everywhere--and not only in the risk-taker firms but also in the risk-averse firms which frequently designed the project without going to the community. Agricultural input projects, for instance, included the building of the store and an initial inventory of supplies according to the local productive features (pesticides, fertilizers, one or two irrigation pumps and tubes, tools such as shovels, etc.) There were many projects that included an irrigation pump where there was no water for irrigation, or more corn pesticides than needed and less rice pesticides than needed. Other examples are electrical equipment for a manioc mill in a place without energy; or a rice husking machine

too big for the store in which it was going to be placed. While in some cases, these mistakes were solved, in others they weren't.

Standardization & Economies of Scale

Not only were projects often not customized, but they were also commonly standardized. I found that risk-taker or demand-generating firms emphasized those projects that were easier to design in terms of being amenable to standardization, and thus less time consuming. For instance, these firms preferred agricultural supply store projects to irrigation projects. While the former consists of a standard plan for the building (the plan was always the same), and a set of basic inputs (pesticides, fertilizer, tools, etc.), the latter demands a more customized analysis of the most appropriate irrigation system (aspersion, flooding, etc.), the existing quantity of water, etc. Firms had standardized models of several projects (tractor, agricultural supply store, manioc mills, latrines, etc.), a form in a computer that allowed them to design a project approximately in an hour. While the bigger firm had 8 to 10 models, the smaller ones had 2 to 4. An extreme and perverse form of standardization was when firms presented the same project for different communities. Program officials at the regional and state level, both in Ceara and Pernambuco, acknowledged that several times they received from the same firm the exact same project, photocopied seven or nine times for different communities. The only difference was the name of the community and beneficiaries.

Standardization of project design is not negative in itself, if it is used to set certain parameters that then will be adapted to the local situation.¹⁴ However, as implemented by

¹⁴ Actually, this is what the World Bank and state governments have agreed to do in the next phase of the program to improve project design.

private firms in the region of Iguatu, the negative consequence was that the economies of scale involved in project standardization represented an incentive for design firms to induce the demand in favor of those projects that were easier to standardize, working against the community demand-driven nature of the program.

5.4. Government & Market Failures

Explaining why firms influenced project selection has to do not only with the motivations of firms themselves, but also with the structure of the environment in which they developed their strategies. Two main structural factors are the lack of market competition and of government control.

The Lack of Market Competition.

In an ideal market situation, firms would spring up and compete among themselves for being selected by communities. Trying to overcome the competition, each firm would have tried to please communities by giving good information about all the options, or projects more customized for community needs, etc. However, the region of Iguatu was far from an ideal situation. There were few firms, splitting the market, and clients were poorly informed about the options. This resulted in the worst combination: monopolistic firms with weak clients.

There were six firms, two of which visited communities. Intentionally or not, the fact is these two firms had divided the project market. The bigger of the risk-takers worked mainly in Iguatu (where it had its headquarters), Carius, Cedro and Jucas. The other worked in the municipalities of Ico (headquarters), and Oros. So, communities got the visit of not more

than one firm, which thus didn't face competition. Because communities didn't know about other firms, they were a sort of captive client, with no opportunities to pressure firms for good performance.

The Lack of Government Control. Government failed in two main aspects. First, it did not provide good, non-biased information to communities that would allow them to be aware of other firms, and of all the possible project options--I have already referred to this. Second, it failed in monitoring two important aspects of the program. The TU didn't impose sanctions on the firms. Although at the state and regional level, the TU staff was aware of private firms' influence, they didn't try to control it. For instance, when they identified a project that had not involved consultation with the community but was agreed on between the firm and the community leader, they didn't punish the firm, banning it from continuing designing projects. I don't know the reasons. One possibility is that there were few firms, and banning them would have meant not having anyone to design the projects. When I was finishing my fieldwork, the state government decided to take the firms out of the program and bring this function back to government, saying that the firms were getting too much money, and there was corruption between firms and regional coordination offices (given that in my region, this didn't happen, I won't discuss it). Because of the pressures from the WB, the governor allowed private firms to continue working, but also ordered all the government secretaries to start designing projects for free (for which it would give special funds.) Because I left when this problem was unfolding, I don't have a clear idea of how it was finally settled.

Chapter 6

CONCLUSIONS

This thesis tells the stories of actors who were supposed to behave in a certain way under the demand-driven model, but instead behaved differently. These are, then, stories of misbehavior, though not necessarily with a negative outcome. The element in common that they have is that they are different manifestations of the same phenomenon, that I call supply-driven demand. Supply driven demand means that the demand, instead of being driven by communities' preferences--as the model proposes--, is driven or strongly influenced by the preferences of supply-side actors. In this thesis, I focus on understanding how and why three actors--state government, local government politicians, and project design firms--influenced community choices.

State government did this in two ways. Excluding projects it did not want to fund through the program--such as household energy--, it forced communities, who had energy as their first and most important priority, to choose a different project they wanted less. Giving priority for approval to certain types of projects (productive) over others (infrastructure, social), often influenced communities that had non-productive projects as their first priority to change to a productive project to increase their likelihood of getting their projects approved.

Local governments influenced project choices in four different ways, depending partly on the mayor's political style. One way was to organize the demand--instead of waiting for it to manifest itself--by proposing a project to a group of disorganized people, and forming an association to work on it. A second way was similar, with the difference that

it used an organization not formed by the rural poor to present directly his project, instead of “consulting” with the community. In a third type of situation, a mayor persuaded community organizations to present a project of his interest, because communities thought that with his support the chances of getting it approved were higher. Finally, there were those mayors who imposed their preferences over community ones by coopting community leaders and repressing community opposition.

Project design firms are the third supply-side actor which influenced community decisions. These firms took advantage of the poor information communities had about the program, making them choose from a set of project options which the firm preferred which that was narrower than the eligible ones. Hiding information and pushing communities to choose certain options, private firms prevented communities from choosing the projects they preferred most.

These different manifestations of the supply-driven demand phenomenon show that this is not an unidimensional phenomenon, and that it is necessary to discriminate among the different types. While in some cases the motivation for influencing community choices comes from a self-interested motivation with no attention to communities, as in the case of the project design firms and clientelist mayors; in other cases, it is a legitimate interest in using the resources in the best way possible that pushes them to influence community choices.

At the core of the demand-driven model is the claim that the poor know better than government what their needs are, and thus, if they are allowed to select the project, they will choose the one that addresses their true needs. The problem is that whether this is true or

not is very hard to determine in the cases of supply-driven demand because the poor are not making their choices autonomously and well informed. What I have shown in this th
that allowing the poor to choose what they want is not a sufficient condition to make it happen and that, in fact, there are considerable obstacles. Community choices are very vulnerable to the influence of outside actors whose preferences override the ones of the community. This vulnerability emerges from a basic asymmetry of information and power that exists between communities and the other actors. Communities have to wait for other actors to bring the information and have less power than a mayor or a state deputy to influence the project approval process. Increasing community autonomy in project selection calls for ways to close or narrow down this asymmetry gap.

Identifying the conditions that allowed the different forms of the supply-driven demand phenomenon to occur provides some lessons on how to address the most negative aspects of this phenomenon, and how to create the conditions that will allow true demand-driven processes. Probably one of the most important lessons is the crucial role of implementing an information campaign that enables communities to know all the different project choices and program features through autonomous sources. Complete and autonomous information could empower communities to defend their legitimate choices from other actors that are interested in manipulating them.

ANNEX 1**States, Municipalities and Communities Visited****CEARA****Jucas (FUMAC)**

1. Sao Pedro
2. Sao Pedro I, II
3. Poco Grande
4. Baixio da Donana
5. Vila Mel
6. Os Corredores
7. Canafistula
8. Varzea Paixavati
9. Sao Francisco
10. Santo Agustin
11. Angicos
12. Juazeiro Arazaiz

Iguatu

13. Coiguatu
14. Barro Alto
15. Santa Clara
16. Baixio dos Ferreiras
17. Alencar
18. Barrocas
19. Agua Branca
20. Santa Rosa
21. Recreio
22. Baixas

Quixelo

23. Antonico
24. Riacho do Meio
25. Coop. Quixelo

Interviews with technicians from municipalities of Carius, Cedro (FUMAC), Baixio, Ico, Lavras da Mangabeira

PERNAMBUCO (10)

MACHADOS: 1 assoc. com das costureiras de machados

ITAPISSUMA: 2soc. colonia de pescadores

CARUARU: 3 Assoc. Prod de Batatinha

SAO CAETANO: 4 Coop.

ARCOVERDE: 5 Coop.

BONITO: 6 Assoc. Prod. de Pedra do Rodeadouro; 7 Floresta

PARANATAMA: 8 Assoc. Com Bom Jesus

AFOGADOS DA INGAZEIRA (FUMAC): 9 Assoc. C. Prod de Baixio da Carapuca

FLORES: 10 Coop Agropecuaria dos produtores de Flores

BAHIA (5)

SAPEACU 1

GAVIAO 2. dois barragens

JACOBINA 3 Junco

VARZEA DO POCO: 4 Assoc. Beneficente Cultural Esportiva y Recreativa Varzeana

PIRITIBA (FUMAC), 5 Sumare.

ANNEX 2
Eligible Projects

Infrastructure	Productive	Social
Electrification Rural Urban Rural Water Supply cisterns deep well piped water small ponds Community Centers Road repairs Pavement Sanitation Latrines Community Laundries Small Bridges Warehouses	Community Tractors & Tools Irrigation Mills Manioc Rice Agroprocessing Rapadura? Livestock Cattle Goats Pork Chicken Bees Microenterprises Clothes-Making Soap-Making Hammocks Ice-making Fishing Equipment Ship Intensive Breeding	Day-care centers House-improvements Health equipments Education Ambulances

ANNEX 3
Selected Indicators for the Municipalities of the Iguatu Region

	Population	Renda Interna	Renda per capita	Urbanization	Poverty Rate	PROJECTS					
						Solicited	%	Approved	%	Impleme nted	%
Umari	7,897	256,971	33	33.89	70.5	0	0.00	0	0.00	0	0.00
Baixio	5,408	280,332	52	39.13	72.0	1	0.37	1	0.49	1	0.60
Saboeiro	15,446	934,440	60	35.37	67.0	9	3.33	6	2.94	5	3.01
Carius	17,393	1,362,725	78	n/a	n/a	23	8.52	17	8.33	13	7.83
Lavras de Mangabeira	30,751	2,709,876	88	47.97	64.3	2	0.74	2	0.98	2	1.20
Jucas	21,104	2,569,710	122	35.96	65.8	23	8.52	20	9.80	14	8.43
Quixelo	15,955	2,203,721	141	n/a	n/a	16	5.93	14	6.86	13	7.83
Ico	62,650	13,993,239	231	n/a	n/a	39	14.44	30	14.71	27	16.27
Oros	21,193	5,240,651	238	64.62	61.8	30	11.11	23	11.27	16	9.64
Cedro	23,289	5,598,853	244	n/a	n/a	22	8.15	14	6.86	12	7.23
Ipaumirim	11,295	3,184,883	279	46.41	67.9	4	1.48	2	0.98	2	1.20
Acopiara	49,307	21,196,214	430	36.01	57.6	22	8.15	18	8.82	14	8.43
Iguatu	75,691	62,841,090	831	70.22	56.0	79	29.26	57	27.94	47	28.31
						270	100.00	204	100.00	166	100.00

Source: IPLANCE, 1994.

Annex 4
Number of Projects Demanded in Each Municipality
by Type of Project– Iguatu Region

	Acopiara	Babdo	Carius	Cedro	Ico	Iguatu	Ipaumi- rim	Jucas	Lavras de Mangab.	Oros	Quixelo	Sabo- eiro	Umari	n	%
1.Piped Water						11					1			12	4.4%
2.Acude	1													1	0.4%
3.Ambulance						1								1	0.4%
4.Fishing Tools						3		1		10	4			18	6.7%
5.Input Supply Store	9		16	9	5	19		5		4	2	1		70	25.9%
6.Apicultura			1			1								2	0.7%
7.Artesanato	3													3	1.1%
8.Armazem											1			1	0.4%
9.Avicultura							1							1	0.4%
10.Barragem			1		1			1						3	1.1%
11.Rice Processing	1		1	2		2				1				7	2.6%
12.Benef. Rochas								1						1	0.4%
13.Cattle										2				2	0.7%
14.Calcamento da Rua											1			1	0.4%
15.Caprinocultura												6		6	2.2%
16.Manioc flour mill	1			1		3						1		6	2.2%
17. Comm. Center			1	2	4	3	1	3	1	2	1			18	6.7%
18.Chafariz			1											1	0.4%
19.Cj.Residen			1			1								2	0.7%
20.Clothes-making				1		3		1		1				6	2.2%
21.Day-care Ctr.			1		5	2		1						9	3.3%
22.Electrification	1				1	4								6	2.2%
23.Eng. Rapad	1			1	1									3	1.1%
24.Sweets Fabric					2	1								3	1.1%
25.Fossas					1				1					2	0.7%
26.Warehouse						1								1	0.4%
27.Ind.Racao								1						1	0.4%
28.Irigation					1	2								3	1.1%
29.Latrines					11	3				1	1			16	5.9%
30.Comm. Laundry						1								1	0.4%
31.Brick-Making								1						1	0.4%
32.Others	1					1		1						3	1.1%
33.Bakery						1				1				2	0.7%
34.Passagem Mothada				1	2	1		1						5	1.9%
35.Piscicultura						1		3		3				7	2.6%
36.WaterDistrib. Network					2									2	0.7%
37.Silos											1			1	0.4%
38.Farm Tractor	4	1		5	3	14	2	3		5	4	1		42	15.6%
TOTAL	22	1	23	22	39	79	4	23	2	30	16	9	0	270	100.0%

Source: World Bank Database, Recife Office.

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