

## AACP: PCU

**COMMUNITY PROCUREMENT**  
**Strategy-Procedure**

**1. Community Contracting Background:**

Rural development projects in India increasingly attempt to hand over responsibility of development activities to local communities. Consequently, community involvement in procurement activities during project implementation has become a necessity, as community-managed projects have increased potential for sustainability. Over the past few years, the Multilateral & Bilateral financing agencies (such as DFID, ADB, World Bank etc.) have begun supporting a new breed of participatory, demand-responsive, community-driven projects. In these projects, communities have taken lead roles in planning, organizing, contributing and selecting their preferred subproject. However, in many of these projects, experience says that participatory approach often stops short when it comes to contracting. Government and Project staff often tends to control the contracting process by hiring the supply agencies that provide the goods and services to the communities. As a result, suppliers become accountable to the project rather than to the communities, even though the communities are ultimately responsible for owning and managing subprojects. AACP has initiated some pioneering work to simplify community-based contracting procedures to allow effective and speedy implementation of subprojects and to promote innovations by community in implementation.

**2. What is Community Contracting?**

Community contracting can be defined as procurement by or on behalf of a community. A community includes groups of individuals living in close proximity to each other and/or other social groups, grassroots entrepreneurs or associations able to identify a need & come together to access project funds.

**3. What is the Risks Associated with Community Contracting?**

Loss of economies of scale. Contracting at more central levels may provide greater economies of scale than community contracting. For example, it may provide lower prices because of volume-driven pricing factor by manufacturers/ suppliers such as for STW pumpsets. But viewed from societal cost benefit angle, the advantage of procurement by community out weigh centralized procurement by departments.

**4. Under what Circumstances Community Contracting is Appropriate?**

Community contracting is appropriate for community-level sub-projects, where beneficiaries are clearly identifiable group of households/ individuals in the same community. Implementing departments are to shift to a mode of “facilitator of community management”.

**5. What are its Main Characteristics?**

While there are many models of community contracting, they all share certain key characteristics and goals.

- Community members are involved in identifying needs and selecting a subproject.
- Community participation is encouraged throughout subproject identification, preparation, implementation, operations and maintenance, and is usually done through an elected community project management committee.
- Communities provide contributions in the form of labour, cash and/or materials. Their contributions promote community ownership and hopefully eventual subproject sustainability.

**6. Subproject Cycle for Community Contracting**

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| <ul style="list-style-type: none"> <li>• <b>Pre-Launch training: Need Assessment by community, Preparation &amp; submission of applications</b> <ul style="list-style-type: none"> <li>○ Project management</li> <li>○ Accounting, bookkeeping</li> </ul> </li> <li>• <b>Desk Appraisal</b> <ul style="list-style-type: none"> <li>• Sectoral screening</li> <li>• Geographical distribution</li> </ul> </li> <li>• <b>Implementation</b> <ul style="list-style-type: none"> <li>• Procurement</li> <li>• Labour contribution</li> <li>• Monitoring and supervision</li> <li>• Expenditure justification</li> </ul> </li> <li>• <b>Completion</b> <ul style="list-style-type: none"> <li>• Completion assessment</li> <li>• Completion Certificate</li> <li>• Hand over of asset</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>○ Project procedures</li> <li>○ Open bank account</li> <li>• <b>Field Appraisal</b> <ul style="list-style-type: none"> <li>• Rapid community appraisal</li> <li>• Technical appraisal</li> <li>• Environmental impact assessment</li> </ul> </li> <li>• <b>Monitoring and Supervision</b> <ul style="list-style-type: none"> <li>○ Release of trenches</li> <li>○ Technical supervision</li> <li>○ Progress monitoring</li> </ul> </li> <li>• Maintenance committee in place</li> <li>• Maintenance plan in place</li> </ul> |
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**7. Why Decentralization?**

AACP represents a greater degree of decentralization of decision-making and empowering stakeholders. AACP being a demand-driven project needs to respond to community's economic demand and therefore, anticipate that communities are willing and able to pay at least part of the cost of a subproject.

**8. Why Contracting/ Procurement by Community?**

Contracting done by the community is more efficient, more transparent, and gets lower prices than centralized-bidding. Community contracting encourages a sense of ownership among beneficiary communities, therefore, assuring better operation and maintenance. The communities are more efficient when the subprojects are simpler. When the project is more complex, such as irrigation system, Fishery Schemes, the community needs support, mainly with respect to technical specifications, cost estimates, environmental protection etc. IEC messages should educate communities throughout the project cycle.

**9. Subproject Implementation: Participation and Accountability**

The sub-project management committees must be accountable to the community and should not be seen as an elite group having a monopoly over the subproject as well as subproject funds. Community contributions—cash or materials or labour should be collected up front. This is important because once a project is funded, it becomes difficult to maintain a high level of community contribution throughout the project cycle.

**10. Fund Flow Issues**

Flow of subproject funds to communities should be in tranches and should be done on a timely basis. Delays in releasing tranches may result in implementation-halt. As a consequence, community and wage labours might lose both interest and money. Hence, fund flow for community procurements should be efficient.

**11. Community Procurement : General Issues**

- (a) Procurement planning by community should take into account: what will be procured; who will procure it; when it will be procured; and how it will be procured.
- (b) National shopping method should be followed for procurement of goods, which enables greater savings at the community level purchases. Community group collects three quotations from potential vendors/ shops and takes decisions based on the quality, availability and price. Shopping procedure provides the community a bargaining tool to get a better price, so that their contribution for the sub-project get reduced. They may also be able to negotiate with a supplier to provide free delivery of goods, minimizing transport costs.
- (c) National shopping may also be used for hiring skilled labour, if required. Community Group can seek three quotations and hire a contractor after interviewing all the three. A procurement committee of the community group and a departmental technical supervisor may conduct interviews of the contractors. It would give them greater choice and bargaining power to get the best deal. Local contractors should be involved whenever possible as communities had a much better working relationship with local contractors and they would be much cheaper, more flexible, and more aware of the community's problems. It may also be useful to create databases at district level, *maintained by DACC*, of local civil work contractors recommended by communities, which other communities could access when searching for a contractor.
- (d) To ensure that in some isolated cases, where community group does not inflate prices in the subproject proposal, costs should be crosschecked against standard technical designs and unit cost data. This can be ensured either through publication of a State/ District Level Empanelled List of Suppliers, with prices to be determined following a 'Floating of Enquiry' (FOE) from potential Suppliers or District level reasonable prices established by DACC. While doing so, decisions should be made on the basis of comparable technical quality and the cost, and sole on cost. This support on prices and quality would assist the community in negotiating with suppliers. Information on performance, quality and prices for different items from various suppliers can be kept up to date in a district level supplier database. Implementing departments must update these databases bi-annually. Communities may use reference source and price lists developed when procuring goods.
- (e) In addition communities must be provided with a thorough understanding of the various stages when materials would be needed for each stage to ensure that the right quantities of goods are purchased at the right time, without exceeding the given price limits.
- (f) Internal Controls: Transparency of procurement also needs to be ensured. Steps to this end may include: i) developing a simple procurement plan for each sub-project activity endorsed by the community group, ii) informing community groups whenever goods are procured, the source, its prices and when delivered and iii) Rotating procurement committee of the community group may be

suggested to ensure that no cliques form and that the committee adheres to procurement procedures. The chairman of the committee, ideally should not be a signatory to the community bank account, but should be responsible for sanctioning procurement and ensuring that procurement is done according to plan. Transport issues must be addressed and costs included in the estimates of a proposal. Transportation is usually an expensive and an important part of a subproject budget, particularly for rural communities. Most subproject budgets, however, only cover costs associated with transportation of materials from the shop to the site, and do not account for back and forth travel to meet with suppliers before the goods are actually purchased. Furthermore, communities may also be trained on how to select an appropriate method of transport and to make best use of local transport. For example, hiring tractors and trailers, ox-carts, or small trucks depending on the goods to be transported may be much cheaper than hiring trucks, particularly in rural areas.

## **12. PROCEDURES FOR COMMUNITY DRIVEN PROCUREMENT UNDER AACP:**

### **(a) Community Procurement: Farm Equipments:**

- Direct Contracting from the manufactures for irrigation pump-sets, farm machinery and associated equipment. For this purpose, Floating of Enquiry (FOE) would be published by the Directorate of Agriculture seeking willing ness from a range of equipment manufactures to sell to Agro Service Groups (ASG) (i.e. communities/ beneficiaries, FMCs, SHGs, WUAs etc) at predetermined prices.
- ASGs would be free to choose between brands and models and purchase directly from the approved list of manufacturers/their authorized agents. Thus, pumpsets will be procured by ASGs as per their choice from the approved brands/ models from the manufacturer's local outlet/ or authorized dealer out of an approved list of manufacturers to be published by the Director of Agriculture, Assam.
- However, ASGs will also be free to select pumpsets from other manufacturers, which are outside the approved list, but this would be subject to prior concurrence from the Director of Agriculture, Assam, particularly in respect of technical specifications, quality and cost of the alternative proposed.
- Funding pattern of this component is: 70% contribution from ASGs ( 20% from ASG and 50% from commercial Bank to ASG), 30% from AACP as Grant,. The concerned commercial bank will release payment to authorized dealer in case of procurement of pumps, tractors, power tillers, and to the ASGs or agency authorized by ASG in case of boring cost for pumps bearing the cost of materials.
- A Sample FOE is annexed herewith for procurement of STW pumpsets, which may also be suitably amended for procurement of other farm equipments.

### **(b) Community Procurement: Fishery Activities**

- Shopping procedures for all fish production inputs (such as fish fingerlings, fish feed etc.);
- For the purpose of the above, DACC (District AACP Project Coordination Committee) headed by Deputy Commissioners would establish the local market price for various fishery-inputs, through local Chamber of Commerce, Supply department etc.
- The market price so established, would be the reference price at each district for the fish-farmers/ community groups [herein after - Common Interest Groups (CIG)] for procurement from any local vendors.
- Decision on procurement would be taken by a 'procurement committee' of the CIG comprising atleast 30% women;
- To identify the source of procurement, the procurement committee of the CIG will collected three quotation from three different vendors and select the lowest if of comparable quality; However, the price of the selected vendor shall be either at par or lower then the district reference price for the product;
- A separate 'Audit Committee' of the CIG (where the 'procurement committee' members should not be included) shall audit all procurement and expenditures by the CIG.
- **Funds** should be released through to the CIG in tranches (3 for Ponds/ Tanks and maximum 5 for beels) by the DFDO as detailed below- (*Modalities for release funds for beel fishery schemes will be finalized in due course.*)
  - First Installment (Pond/ Tank): After the CIG has completed 50% of the cost of Civil Work, and the same is duly verified jointly by the DFDO or his official representative, NGOs and the CIG and properly recorded. Payment to be released: Balance 50% cost of the civil work

plus 90% of the total input-cost for the initial four months of the production cycle, based on approved estimates and agreed production program, through account payee cheques to the CIG. Procurement for fisher inputs for initial four months production cycle shall be completed by the end of third month.

- 2<sup>nd</sup> Installment(Pond/ Tank): Upon receipt of utilization/expenditure Statement of the first installment supported by vouchers. The statement should be submitted at the third month of the cycle and shall be signed by the Procurement & the Audit Committee members of the CIG. Payment to be released: 90% of the total input-cost for the next four months (4 to 8) of the production cycle based on approved estimates and agreed production program, through account payee cheques to the CIG.
  - 3<sup>rd</sup> Installment(Pond/ Tank): Upon receipt of utilization/expenditure Statement of the 2<sup>nd</sup> installment supported by vouchers. The statement should be submitted at the seventh month of the cycle and shall be signed by the Procurement & the Audit Committee members of the CIG. Payment to be released: 90% of the total input-cost for the next four months (8 to 12) of the production cycle based on approved estimates and agreed production program, through account payee cheques to the CIG.
  - Final Utilization Certificate (UC): As soon as the community group completes the scheme, final utilization certificate against the 3<sup>rd</sup> installment should be submitted supported by vouchers. The statement shall be signed by the Procurement & the Audit Committee members of the CIG. The final UC shall be submitted with maximum 5 months from the date of 3<sup>rd</sup> installment and any un-utilized amount should be refunded by the community group to the DFDO.
  - Ensuring CIG Contribution: Two Options may used for input procurement -
    - The CIG must deposit 10% of the total cost of inputs to the Bank account of the CIG and produce copy of the pass book to the DFDO to obtain the release of installments of Project contribution. **OR**
    - The CIG or the individual members shall be responsible for the procurement of categories of inputs items equivalent to the value of 10% of the total input costs. And the Project contribution (i.e 90% of the total input costs ) will be paid directly to the supplier for the remaining items.
  - For community **Civil works for Fishery Pond/ Tank activities**, the CIG shall undertake/ complete 50% of the cost of Civil Work the works themselves;  
A sample format (W-10) for Civil Work contract through Farmers Organizations is also annexed herewith which may be used after suitably modification.
- (c) **Procurement through ATMAs** shall be as per guideline issued vide PCU's No. AACP/AES/6/04-05/ dated 11/4/2005.
- (d) **Other Community procurements:** Shopping procedure shall be followed.

### 13. AACP: Cost Sharing: Beneficiary Contribution matrix

Investment Activity	Farmer/ Community Contribution % (Cash or Labour)	Commercial Bank Loan %	Matching Grant % (Project Share)
Irrigation Development	20	50	30
Drainage Schemes	30	-	70
Farm Mechanization	20	50	30
Fisheries			
Farm ponds Community Tanks -			
civil works	50	-	50
1 <sup>st</sup> year inputs	10	-	90
Community Beels - civil works	30	-	70
1 <sup>st</sup> year inputs	30	-	70

### 14. Legal Issues

- (a) The legal status of community user organizations is considered essential; however, organizations should not necessarily need formal registration. Rules and regulations to do so, however, do not have to be complex. For example, meeting minutes, which report the formation of a user committee, should be sufficient basis for gaining legal status, opening a bank account in the name of the committee, and eligibility to receive public funds for community projects.
- (b) A joint community-contracting model may be used when communities lack legal status. Joint contracts may take place with NGOs, district level office of the implementing departments of the

government, or even the project implementation unit. This may be ideal for the JFM Committees under the Pilot Forestry component.

- (c) More research would focus on legal issues related to contractual obligations under community contracting. Some basic guidelines and training packages on this topic need to be developed for all stakeholders.
- (d) For community civil work, whenever required, a simple standard contracts should be used. The contracts should include: what the work consists of; how much the person will be paid for the work; how long the work should take; who decides if the work is acceptable; at what times the person gets paid; how to settle disputes; and details of any retainer.
- (e) Further, contracts should include warranty and penalty clauses. It is important to ensure that communities fully understand the conditions laid down in the agreement signed between the community and contractor/supplier. Communities should be made to understand the full implications of a warranty for farm equipments, wherever provided by the manufacturer, and demand that free services be provided by the suppliers to them during the warranty period. Inclusion of a penalty clause in the contract would help protect the community against poor workmanship or failure to provide warranty services.

#### **15. Maintenance and Recurrent Costs**

A plan to cover maintenance and recurrent costs once a scheme is completed should be prepared at the conception stage. Communities may be advised to set aside money for maintenance and other recurrent costs early on during project preparation, and/ or ensure collection of user fees or contributions on an as needed basis. Communities may also need information and training on maintenance. In particular, they need to know where to go for goods and services after the scheme is completed and the link to appropriate government/ private agencies for technical assistance. This is especially true for irrigation pumpsets where technical assistance is not readily available. Maintenance Manuals with information on how to manage & maintenance, using cartoons/ sketches and simple instructions, in local language would benefit communities post completion of the scheme.

#### **16. Monitoring and Evaluation of Subprojects**

Participatory audits should be conducted to review technical, financial, and social issues and to assess the performance of the community organizations. It is critical to evaluate the process by which communities identify, plan and manage subprojects.

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