# Social Capital in the Operations and Impacts of Social Investment Funds

**Julie Van Domelen**
*The World Bank*
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## I. Introduction

Social investment funds, or 'social funds' (SFs), are a type of development intervention that has gained in popularity since their inception in the late 1980s. Social funds are agencies or programs that channel funds in the form of community grants for small-scale development projects that are identified, prepared and implemented by local actors, such as community groups, local governments and non-governmental organizations. Social funds typically finance some mixture of socio-economic infrastructure (e.g. schools, health centers, water supply systems, roads), productive investments (e.g. micro-finance and income generating projects), social services (e.g. nutrition campaigns, literacy programs, youth training, support to the elderly and disabled), and capacity building programs (training for community-based organizations, NGOs and local governments).

Because social funds operate at the community level, they have been on the forefront of the World Bank's efforts to operationalize concepts and development practices around social capital. This paper analyses how and why and the extent to which social capital became to be relevant to the operations of social funds. The first section provides an overview of the evolution of social funds and basic design principles. The second section traces the entry of social capital concepts into the discourse and what the main effects of this has been on social fund operations. The final section reflects on some of the remaining challenges in operationalizing the concept of social capital as applied to social funds and other community-driven programs.

## II. Social Funds

### A. Social Funds – A New Way of Doing Business

The first social fund was established in Bolivia in 1987. Bolivia's Emergency Social Fund was designed to provide temporary employment and stabilization of social services during a time of economic crisis and adjustment. Since that date, the World Bank has committed about US$3.5 billion to social funds through June 2000, covering 98 projects in 57 countries. Additional financing from other multilateral sources (US$630 million), bi-lateral assistance (US$2.1 billion), and local support (US$1.6 billion from

governments and community contributions) brings the total to about US$8 billion.[1] Although significant in terms of numbers of countries, social funds still account for only a small percentage of World Bank support – about 2 percent of total disbursements and 9 percent of specific poverty-targeted interventions in recent years (World Bank 2002 (b). While social funds represent a new approach, they have yet to represent a major shift in resources.

**Table 1: Expansion Path of World Bank Financing of Social Funds by Year of World Bank Loan Board Approval and Region**

| | **Latin America & Caribbean** | **Africa** | **Eastern Europe and Central Asia** | **East and South Asia** | **Middle East and North Africa** |
|---|---|---|---|---|---|
| **1987** | Bolivia | | | | |
| **1989** | | Sao Tome | | | |
| **1991** | Haiti, Honduras | Zambia | | Sri Lanka | Egypt |
| **1992** | Guatemala<br>Guyana<br>Nicaragua | Rwanda | | | |
| **1993** | Peru | Burundi<br>Comoros<br>Madagascar | Albania | | |
| **1994** | Ecuador | | | | |
| **1995** | Argentina | Angola | Armenia | Cambodia | |
| **1996** | Jamaica | Ethiopia<br>Eritrea<br>Malawi | Bosnia Herzegovina | | Algeria |
| **1997** | Belize | | Georgia<br>Tajikistan | | West Bank & Gaza<br>Yemen |
| **1998** | | Benin<br>Mali<br>Zimbabwe | Bulgaria | Philippines<br>Thailand | |
| **1999** | Panama<br>St Lucia | Ghana<br>Lesotho<br>Togo | Kosovo<br>Moldova<br>Romania<br>Togo | Pakistan | |
| **Since 2000** | Colombia | Senegal<br>Sierra Leone<br>Tanzania<br>Uganda | Ukraine<br>Uzbekistan | Bangladesh<br>East Timor<br>Laos | Lebanon |

[1] These amounts only include social investment funds financed by the World Bank and identified under the World Bank's Social Protection Department. This excludes funds that are either government-funded (Chile, Mexico), are funded by other multilateral organizations without World Bank participation (Dominican Republic, etc.), and do not include the expanding universe of social fund-type projects managed by other World Bank departments, for example by the Rural Development Network.

A key factor in explaining the rapid expansion of the social fund model was that it presented a new way of doing business for the World Bank and developing country governments that filled a niche:

- ***Speed in crises***. The first reputation of social funds has been for their speed and efficiency, particularly useful in responding to crises. Social funds tended to disburse funds quickly, in part due to simplified procedures, in part due to good management and operational autonomy, and in part due to the approach itself which harnessed a wide range of available implementation capacity.

- ***Streamlined and simplified procedures.*** Most of the World Bank's internal procedures for investment projects were developed to respond to large-scale infrastructure programs. Social funds were one of the first significant efforts at financing small-scale projects, usually on the order of US$20,000 - $50,000. The implementation of these required the development of streamlined procedures for disbursement and procurement that addressed many of the constraints and rigidities that can hinder implementation (Jorgensen et al 1992; Gopal and Marc 1994).

- ***Offered choice and direct access to communities***. This was one of the only avenues that not only allowed communities to decide whether they were going to participate, but also permitted communities to determine what kind of investments they wanted. At the time, this was a relatively untried concept for both the World Bank and developing country governments, where most public investments were determined by central departments of sectoral ministries, both in terms of type of investment and selection of location.

- ***Tapped into a wide range of local implementation capacity***. Social funds financed NGOs and community groups. This also dovetailed with the growing call for the participation of civil society in World Bank projects. This link with community-based organizations and the participation discussion in the Bank was significant in setting the stage for later discussions around social capital.

- ***Links to poverty – the evolving mandate of the Bank.*** One of the main observations about social funds was their ability to reach underserved regions and communities. Supervision visits to the field often reported that social fund financing reached where few if any other programs could.

Social funds offered the World Bank and other donors what were perceived as efficient channels for investments in direct poverty alleviation at the community level. This filled a need between macro-economic policies supported through structural adjustment lending and sectoral investment programs that often had longer term institutional reform and development objectives. The projects received positive evaluations and were considered successful. This allowed for a level of acceptance of the model that also furthered its expansion.

## B. Building a Community of Practice

Another key factor in expansion of the model was the social capital created between World Bank and developing country practitioners. Very early on, an informal community of practice emerged around social funds.[2] People on both the Bank and developing country side were highly committed and exchanged information frequently. This allowed for rapid dissemination of the tools and experience.

It is worth noting that it was done from the bottom-up – there were no formal World Bank policy papers on social funds, no directives that they should be set up in every country, no lending targets, no overall strategy. The design and development of social funds was driven almost exclusively by frontline operational staff. Originally, a handful of staff working on social funds met informally in 'brown bag lunches' or organized study tours that brought in both World Bank staff and representatives from developing countries to see how funds operated in the field. At the social fund level, it was not uncommon for the Bolivia social fund, or the Zambia social fund, to receive a steady stream of visiting delegations. Indeed, the expansion path of the early social funds was tied to key people, both within the Bank and through direct government to government contacts. Several social fund staff, who had largely been recruited from the private and NGO sectors, moved into consulting on the establishment of social funds in other countries. These ties and contacts helped the experience leapfrog between the regions quickly.

As more and more social funds were created, these exchanges became more formal. By 1997, the first International Conference on Social Funds was convened in Washington, with over 200 delegates. At the same time, social funds were linking directly with each other through a series of regional social funds networks, first initiated in the Latin American and Caribbean region as a form of spontaneous south to south cooperation. Other regional networks in Africa, Middle East and North Africa, and Eastern Europe began in the late 1990's, with support for some exchanges and seminars provided by the World Bank Institute.

## C. Expanding Objectives and Mandates

The original objective of many of the early social funds, as in the case of Bolivia, was to create an agile, temporary mechanism to assist a country during economic crisis. As the model expanded and evolved, social funds began to be put to use addressing the more medium and long term needs of the poor. The basic mechanism of grant financing to small-scale projects was 'generic' enough, and given the successful track record of the institutions themselves governments and donors have continued to adapt the programs to evolving country needs.

[2] As the World Bank sought to formalize the experience of communities of practice into Thematic Groups under its Knowledge Management Strategy in the late 1990's, the social funds community was looked to as very effective example of knowledge sharing among peers.

Most social funds are now viewed as more permanent components of a country's poverty alleviation strategy. Today, objectives of social funds range from providing compensation to the poor during times of crisis, improving the access of the poor to basic social services and productive assets, strengthening the capacity of local governments and community-based organizations, and, more recently, social capital creation in marginal areas and populations.

With the expanding agenda of social funds, most funds juggle multiple objectives. All social funds have some combination of the following broad poverty alleviation objectives:

***Respond quickly to crises***, typical of the early stages of funds established during economic adjustment periods (Bolivia, Honduras, Egypt), to address the employment situation in transition economies (Bulgaria), in response to financial crises (Thailand), or as part of an emergency reconstruction effort in countries afflicted by internal strife (Rwanda, Angola, Sierra Leone) or natural disaster (Honduras and Nicaragua after Hurricane Mitch).

***Increase access of the poor to basic social services and productive assets***, an objective shared by most social funds, with some focusing more on basic social services (Bolivia currently, Jamaica, Zambia, Armenia, Moldova, Nicaragua, Belize, Ethiopia, Madagascar, etc.), and others adding a significant degree of support to productive investments like microenterprise development (Chile, Egypt, Albania, Yemen, etc.).

A growing number of funds have collateral objectives that look beyond the immediate benefits of jobs, infrastructure and services and seek to improve the ***underlying institutional capacity of poor communities***. These efforts are typically directed at strengthening local government (e.g. Bolivia, Nicaragua, Honduras, Zambia), developing capacity of NGOs and community-based organizations (West Bank and Gaza, Pakistan, Argentina, Chile), and/or strengthening the social capital of poor communities (e.g. Romania, Zambia, Thailand, Argentina, Chile, Moldova).

As social fund's objectives evolve and look more to the longer term, so have the impacts sought by social funds. At the outset of most social funds, the initial preoccupation was with quick disbursements and performance indicators that focused on the volume of outputs (number of temporary jobs created, kilometers of roads upgraded, classrooms constructed/repaired, children vaccinated, number of micro-loans, etc.). With the shift to greater concern over the long-run impacts of these community investments, greater attention has been placed on issues of sustainability and improvements in the welfare of poor households, including reduction in infant mortality, increased school attendance, improved prenatal care, reduced time spent collecting water and so forth.

In addition, social funds are increasingly looking to the potential broader effects on local institutions and the very social fabric of poor communities. It is more and more common to find among a social fund's development objectives that their intention is not just to leave behind a new water supply system or health center, but a community more

able to address its needs and solve local problems. This call to put social funds to the purpose of building social capital was explicitly acknowledged in the conclusions of the first International Conference on Social Funds held in Washington in 1997 that recommended that social funds support the development of social capital through the involvement of NGOs in the design, not only in the implementation, of subprojects, the training of community-based organizations, and facilitating the open selection of subprojects based on the needs of women. (Bigio 1997).

## E. The Critics Weigh In

The expansion of social funds has not been without controversy. The main criticisms come from three areas:

***"Not Enough Jobs; Not a Good Safety Net".*** Some of the first criticisms of social funds stemmed from their insertion within strategies designed to mitigate the social costs of economic adjustment processes. The overall level of job creation was not commensurate with the amount of unemployment in these countries and the social costs of economic adjustment programs had to be addressed through redesign of adjustment policies themselves rather than focusing on compensatory measures.(Lustig 1997; Stewart 1995).

***"Distorts the Public Sector"***. The main criticism from the public sector management viewpoint both within and outside of the World Bank has been that social funds set up 'enclaves of excellence' that do little to reform existing government institutions. Because of their popularity, there is a fear that they may distract resources and attention from reforming sectoral ministries to work better (Tendler 2000). There is the additional challenge of ensuring that recurrent cost financing is available from government budgets.

"***Not 'True' Community Development"***. A more recent critique has been about how social funds work with communities. Here, the argument is that communities and community development is complex. Allowing access to funds can end up in elite capture of benefits given existing power relationships within poor communities (Platteau 2002; Rao and Ibanez 2003). Or worse, it can weaken a community's ability to bootstrap their way out of poverty (Ellerman 2001). True community development is not just improving access to and quality of services, it is building more egalitarian, participatory and transparent social relations[3]. This process can be distorted by the incentives that the

[3] Rao and Ibanez 2003 capture this view in their study of the Jamaica Social Investment Fund: "The JSIF does seem to have had a social impact – trust has increased, and people from JSIF communities are more likely now to be able to work with strangers in making community-based decisions. However, the JSIF process does not seem to have been very democratic with community leaders dominating decision- making. The data suggest that JSIF may have strengthened the hand of community leaders. When leaders are benevolent this could be a good thing, but if they are corrupt then this could result in bad outcomes. In these communities – overall - they seem to have been leaders who had the best interests of the community at heart. While it seems that respondents are for the most part happy with the project and with JSIF, and that JSIF has built good feelings within the community, it is not clear that the JSIF process has democratized decision making, any more than other processes present in Jamaica" (pg 33).

transfer of funds create. And to be well done, it takes long-term interventions by external facilitators and trainers (Platteau 2002).

## F. How Social Funds Work

To understand the relevance of social capital to social funds, it is necessary to understand the basic design and operating procedures of these agencies. Operations are meant to be 'demand-driven'. Project proposals should come from the community – as opposed to central planners and technocrats - and local organizations should have a major role in the execution and eventual operations and maintenance of these investments.

Even with different objectives, most social funds follow a similar pattern of operations. This grows out of the basic similarity of all social funds – they are second tier agencies that finance many small-scale projects. Social funds do not execute, but only promote, appraise, and supervise the implementation of investments by other parties, be they local governments, local offices of line ministries, NGOs or community-based organizations. Social funds offer fixed-term financing, usually grant-based, but do not engage in financing the longer-term operations and maintenance.

All social funds define a 'menu' of eligible projects (or a 'negative list' of non-eligible interventions) and determine which local agencies and organizations may apply for funding, in line with the general needs of the country, the overall objectives of the social fund, and the roles and responsibilities of other agencies and programs in the country. Social fund operations are typically organized along a 'project cycle' that includes:

(a) promotion/identification of a specific investment
(b) technical preparation.
(c) ex-ante appraisal
(d) approval and contracting of the project
(e) execution
(f) monitoring and supervision

No two social funds are alike, and there is a great deal of diversity in how the project cycle is organized and who does what, depending on the objectives of the fund and the country context. Chart 1 illustrates the range of variation in social fund project cycles. When social funds adopt operating procedures that are more participatory and more embedded in the community (towards the right hand side of the matrix), the underlying social capital of a community becomes a more important factor in program design and impact. Social funds with a greater focus on short-term job creation or emergency reconstruction, for example, usually place less emphasis on community participation, with project cycles that look more like the left-hand column in the matrix.

| Chart 1: Social Fund Project Cycles | | | |
|---|---|---|---|
| **Stage in Project Cycle** | **Specific Social Fund Operating Procedures** | | |
| | ***Lesser Relevance of Social Capital*** ⇒ ⇒ ⇒ ⇒ ⇒ ⇒ ⇒ ⇒ ***Higher Relevance of Social Capital*** | | |
| ***Determination of Eligible Sponsoring Agencies*** | Only formal intermediaries may apply (NGO, LG. LM) | More informal CBOs may also apply | Only community project committees may apply |
| ***Identification of Community Needs and Projects*** | Intermediaries identify projects (NGO,LG,LM) | Ad-hoc local discussions to identify needs | Formal community assembly and democratic selection of priorities |
| ***Appraisal/Approval*** | Social fund central board approves projects, appraisal only looks at technical aspects | Social fund approves projects, includes social assessment in appraisal criteria | Local development committees approve projects, social assessment included in appraisal process |
| ***Contracting*** | Social fund selects contractor | Intermediaries (NGO, LG, LM, CBO) select contractor | CBOs/CPCs 'contract' themselves directly (self-help) |
| ***Financing*** | No community contribution required nor solicited | Community contribution encouraged, accounted for in microproject financing | Mandatory community contribution up-front |
| ***Execution*** | Social fund controls finances – disburses directly to contractor based on work completed | Payments made through intermediaries (LG, NGO, LM) | All project funds managed directly by CBO/CPCs |
| ***Supervision*** | Social fund contracts external supervisor | Some of supervision functions delegated to intermediaries (LG, LM) | Community organizations given responsibility in supervising |
| ***Operations and Maintenance*** | Local agencies (LG, NGO, LM) fully responsible for all aspects of operations and maintenance | Shared responsibility for operation and maintenance between community groups and local agencies (LG, LM) | Community organizations responsible for operation and maintenance |

Note: NGO – non-governmental organizations, LG – local government, LM- line ministries, CBO-Community-based organization, CPCs – Community project committees

The design of the project cycle not only varies between countries, it is often adapted over time to reflect evolving objectives of the fund. For example, the social fund in Bolivia at the outset allowed project proposals from a wide variety of agencies (line ministries, NGOs, local governments, community-based organizations. Following fiscal decentralization in the country, all social fund proposals must now come directly from local government investment plans. In Zambia, a similar process of integration with local governments is underway. In the past, the Zambia social fund has largely financed micro-projects managed directly by community project committees. To support the decentralization process, it now has opened a window of grants to be managed by local

governments, and has involved local governments and district officers to a greater extent in the planning and execution of the community projects.

## III. Social Funds and Social Capital

### A. How Social Capital Entered the Discourse around Social Funds

Social capital was not explicitly discussed in the early days of social fund development. These programs were meant to be temporary, and did not look for longer-term impacts. Most were initiated in crisis situations, with a premium on showing results quickly. The main impacts sought were temporary employment creation and increased access to basic social services. Attention was focused on the machinery – the 'how to' which was adapted as more and more countries began to establish social funds.

By the late 1990s, this had changed. A small but growing number of social funds now had explicit objectives that could be considered related to social capital creation. Community dynamics and associative behavior had a more prominent place in the design of social fund operations. And, the research community had begun to look for ways to measure the phenomena of social capital around social fund interventions. There are several key factors that explain this evolution.

### Evidence From the Field

**Box 1: A Villager's Perception of the Moldova Social Fund's Influence on Social Capital**

"Before the fund was created, there was capital and community in villages, but until then they (the government) lacked trust in our capacities. Only later on, when they understood that we can design for ourselves did it become important. The community organized themselves, so that they could then follow (Moldova Social Investment Fund) procedures. The community talked about the needs of the community – those were very big. We chose to first rehabilitate the school. So what we understood was important was not the physical rehabilitation, but the rehabilitation of the human side of the school. The people of the village were involved from the very beginning in deciding what to do until the last minute when the project was finalized. We had difficult situations with procedures not followed exactly, but the community helped out and finally they got the skills of being able to obtain what they wanted. We got the school rehabilitated, but more important is the creation of a community development organization that will work on other needs, too." *Valentine Odobescu, school principal, Village of Recesti, Soroca County, Moldova ( at the Second International Conference on Social Funds, June, 2000, Washington DC)*

The most powerful indication of the links between social capital and social funds came from direct observations from the field – much of this due to the systematic use of beneficiary assessments. Beneficiary assessments (BA) were developed by the World Bank starting in the late 1980's as a tool to get direct feedback from citizens:

"Beneficiary assessment is a tool for managers who wish to improve the quality of development operations. This is an approach to information gathering which assesses the value

of an activity as it is perceived by its principal users. The approach is qualitative in that it attempts to derive understanding from shared experience as well as observation, and gives primacy to the centrality of the other person's point of view. As the Bank and others engaged in development activities seek to do their work better, one key indicator will need to be how the ultimate customer, or intended beneficiary, assesses the value of this work, project or policy, as it affects his or her life….One particular area of Bank activity where beneficiary assessment has shown itself to be a useful tool is in the design, implementation and evaluation of Social Funds." Salmen 2002, Pg 1-2).

Because social funds were demand-driven, there was a need to receive feedback directly from that demand as to how the program was operating. Thus beneficiary assessments were seen as essential tools for social fund managers to get quick feedback in order to improve and adjust program design, particularly in the aspects related to community participation. The extensive use of beneficiary assessments was due to a combination of good fit with social fund operating principles and the personal convictions and contacts of the Bank staff involved early on. One of the first beneficiary assessments done in the context of a World Bank project was of the Emergency Social Investment Fund, carried out by Lawrence Salmen, who has been the leading advocate and expert on beneficiary assessments at the Bank. In establishing this precedent, other social funds quickly picked up on this tool and it became a standard part of monitoring.

By querying aspects of participation and community dynamics, beneficiary assessments began to identify two important links between social funds and social capital (Box 2). First, that community dynamics around participation in a social fund microproject was directly related to the pre-existing forms and patterns of social and power relations in the community. And secondly, the action of organizing and implementing a microproject might have certain spillover benefits that relate to social capital. Here, the potential impacts on social capital were expressed through a number of manifestations, including increased perceptions of trust, greater willingness and interest in entering into mutually beneficial collective action, greater levels of optimism and self-confidence about the community, changes in the number and civic engagement of community-based organizations, and improved organizational skills.

**Input from Participation and Social Capital 'Thinkers"**

Social fund practitioners needed terms and concepts that could help them describe dynamics that they were seeing at the community level. Originally, this was couched only in terms of participation, the lexicon of the day. During the early and mid 1990s the need for participation of citizens and community groups in development projects was gaining a voice with the World Bank and within project design in particular. Social funds experience informed some of the first efforts to draw lessons learned from participatory techniques and projects at the World Bank. The hallmark World Bank Participation Sourcebook (1996) drew from background work on social funds and participation (Marc and Schmidt 1995). The broader concept of social capital and its relevance to development had yet to be clearly or forcefully articulated during the initial years of social fund development.

**Box 2: Examples of Beneficiary Assessment Findings**

***Participation is dependent on pre-existing relationships and social organization:***

- In Ecuador, a higher level of community participation in the pre-investments stage observed in water supply projects was explained, in almost all cases, by the presence of a local neighborhood association responsible for organizing and mobilizing beneficiaries (Desarrollo y Autogestion 1995)
- In Zambia, 86 percent of communities studied had undertaken self-help activities in the past and 40 percent of microprojects used already existing community organizations, mainly PTA committees, to spearhead the implementation. Existing tribal leadership also played a key role in mobilizing the community for action. (Rural Development Studies Bureau 1993).
- In Armenia, the most active implementing agencies and beneficiaries were those that in the past had shown a high degree of involvement in community initiatives. In all communities, a high degree of participation in a microproject correlated with a high degree of overall community participation. (Development Programs, Ltd. 1997)
- In Argentina, 60 percent of members of the local project committees had no prior experience in other community organizations before joining the committee. Of those that had previous participation experience, three-quarters were elected to representative positions on the local project committees, whereas less than half of those with no previous experience were elected to such positions. (FOPAR 1999).

***And the experience of participation can in turn affect the propensity for mutually beneficial collective actions:***

- In Moldova, many communities have subsequently established formal beneficiary associations that have gone on to receive other grants. A few have registered as NGOs (OPINA, 2001).
- In Chile, based on interviews of community members after having concluded a project, three-quarters answered that they had more trust in the organizations in the community, and they had greater trust in their leaders and neighbors, and 82 percent said they were more able to solve their own problems. (Centro de Estudios de la Realidad Contemporanea 1997)
- In Peru, 25 percent of households reported that the group formed by the FONCODES project has continued working on other local initiatives (Instituto Apoyo 1995).
- In Argentina, 97 percent of those interviewed felt that the local group formed to prepare and implement the project should continue functioning. Two-thirds of group members believed that the group would keep meeting, with a wide difference between rural areas (86 percent) and urban areas (58 percent). Reasons cited for continuing to meet were to initiate new projects, conclude ongoing one or to improve the on-going project. For those groups that no longer continued to meet, the principal reason for non-continuity was internal conflict between members, followed by lack of motivation and lack of time. (FOPAR 1999)
- Greater levels of trust and cooperation were noted in several social fund evaluations , for example in Moldova, Zambia, Malawi, and Chile.

As the conceptual and research basis around social capital began to receive growing attention in the World Bank, the term entered the language of social fund operations. Social capital concepts helped enrich the way local dynamics were perceived, and it was a shorthand way of describing some of the spillover effects that were seen that extended beyond the immediate benefits of access to basic services and infrastructure.

One of the first applications of the term social capital in relation to social funds came when two of the principal World Bank researchers on social capital, Deepa Narayan and Katrina Ebbe, carried out with a review of social funds with the objective of "improving their effectiveness by becoming more demand oriented and focused on fostering community participation and building local organizational capacity. " This building of local organizational capacity is where the explicit link with social capital was made, because, as the authors posited, "local organizational capacity building involved fostering the ability of groups of people, especially the poor, to work together, trust one another, and organize their efforts to mobile resources, solve problems resolve conflicts and network with other groups in order to leverage resources and achieve shared goals". The authors found that social funds were evolving towards what they termed a community-driven development approach, but progress was uneven and could be accentuated with greater attention to participation aspects.

**Entry of New Countries with Different Characteristics and Objectives**

Another key factor was the expansion of the social fund model to very different country contexts. The challenges of rebuilding social fabric in post-communist Eastern Europe, bringing marginal and excluded groups and communities into development in Argentina and promoting peaceful demobilization and reconstruction in post-conflict countries helped draw in considerations about social capital. Here, the major difference was that social capital became an end in itself rather than a means.

The issue of generating local organizational capacity where none or little exists has been a particular issue in the countries of the former Soviet Union and Eastern Europe. In 1998, the Government of Romania launched the Romanian Social Development Fund. The RSDF was among the first social funds to explicitly place the creation of social capital among its objectives. The Bank-Government preparation team diagnosed that the country had a low level of social capital as a result of the systematic destruction of civil society and of private property. Values and norms such as trust, transparency, reciprocity and participation had been undermined. This was reflected in people's passivity, inability to articulate their needs and to participate at the community level in activities of common interest. The Project Appraisal Document stated that the most important policy supported by the Program would be the development of social capital at the community level by strengthening the local organizational capacity.[4] The second policy supported by the RSDF would be poverty alleviation at the community level. Through its demand- driven and participatory approach, the RSDF would increase

[4] Putting social capital as an explicit objective of investment was questioned in some of the internal reviews. Discussions centered on whether enough was known about impacts on poverty and the relative newness of the concept as a direct objective of a development program.

people's ability to trust each other and cooperate in mobilizing resources and solving problems (World Bank 1998).

The situation in post-conflict settings, like Uganda, calls for investments that contribute to maintaining peace. In the five sub-regions constituting the North, development had been stifled by both local and international cross-border conflicts as well as inter and intra-tribal conflicts. The traditional community safety-net systems and social fabric had been greatly disrupted and weakened by the armed conflict and displacements. As a result, people had 'lost the motivation and confidence, let alone the energy to play roles in the development process'. This led to the establishment of the Northern Uganda Social Action Fund (NUSAF) to channel grants to communities. The Project Appraisal Document is clear about the importance of social capital to its objectives – social capital is viewed as "a powerful entry point to address poverty… Peace building initiatives by the traditional leaders supported by civic organizations constitute the lynch-pin for survival in the insecure areas by enhancing integration and social cohesion among the displaced and vulnerable. The organizational integrity of these institutions enables them to influence local government structures to deliver services to the needy and to promote positive synergies between the state and civil society in support of the poor." (World Bank 2002b)

A middle income country, Argentina has relatively good coverage of basic social infrastructure, but faces challenges of high income inequality, social exclusion and pockets of structural poverty. In 1995, Argentina's Secretariat for Social Development launched a new program aimed at building capacity of poor communities to better manage the process to improve their welfare The Participatory Social Investment Fund (FOPAR) was designed to provide technical assistance and financial resources to the poorest communities to support training of community leaders in how to address social problems and how to build organizations; strengthening of community-based organizations; promotion of community development (for communities with no previous organizational experience to assist them in mobilizing, identifying their needs and formulating a project); and financing of community services and microfinance. All funds were channeled through newly-formed '*nucleo de beneficiarios'* designed to get broad citizen participation and development of capacity among groups that had largely been excluded from decision-making including primarily women, youth and, in selected areas, indigenous groups (World Bank 1995).

## B. Operationalizing Social Capital Concepts

The 'operationalization' of social capital is typically looked at in terms of how the community interacts with the social fund at each stage in the project cycle. Specific social capital concepts took shape in three areas: (a) building in participation mechanisms, (b) creating community capacity by learning by doing and (c) investing directly in social capital formation.

**Participation – What For and How?**

The concept of how local associations participate in identifying, implementing and sustaining small-scale investments has changed significantly over time. The first social funds considered 'demand-driven' simply to mean that the social fund did not determine investments – others came to the fund with proposals. Most were based on the principal of first-come, first serve. What happened inside a community to determine what would be requested or who would be involved was beyond the purvey of the fund. The fund would engage in promotion activities, via the general media or orientation sessions with NGO networks or local officials. The community itself was considered a black box – provided with an incentive and adequate information, they would self-organize (or relying on existing intermediaries like associations and local governments) to access program resources.

This assumption was, in fact, valid. Social funds were flooded with demand. In almost every case, this demand far outstripped available resources. Program objectives in terms of number of projects or communities reached could be easily met without any further efforts in capacity building. This was true even of the poorer areas. And, beneficiary assessments consistently revealed that citizens were satisfied with the investments made.

So why improve participation? First and foremost, because the potential Achilles heels of social funds was their lack of continued financing for operations and maintenance. Since social fund financing was finite, it exposed social funds to a great deal of skepticism about the sustainability of their investments, particularly against the poor track record of sustainability of development projects in general. While social funds established explicit coordination mechanisms with sectoral ministries, who committed in writing to staffing health posts with nurses and drugs or schools with teacher and books, it was considered a significant risk that neither the central or local governments would adequately provide for sufficient maintenance. Here, the worldwide NGO experience was instructive in terms of mobilizing community action around operations and maintenance of social infrastructure. The general mantra of the day was that effective participation increased the sense of ownership which turn generated a postive dynamic towards using and maintaining these services (World Bank 1996). As social funds became more interested in the long-term impacts and hence the sustainability of the community investments, participation became essential.

A further driver of increased attention to participation was the move to direct community management over social fund resources. Social funds were one of the first World Bank projects to transfer funds to community groups to manage directly (De Silva, 2000). Almost half of social funds now use this mechanism whereby community project committees are wholly responsible for selecting contractors or NGOs, setting up a bank account, receiving funds and accounting for the use of those funds to the community and the social fund. When community groups manage resources, this raises demands on participation. It requires more than attendance at meetings, it requires organizational

capacity, and this involves rules of the game for setting up or nominating those organizations and training in how those organizations will function.

And finally, there has been an evolution in the understanding of 'demand-driven'. Most social funds have moved from first-come, first serve to facilitated selection of community priorities using some form of participatory mechanisms. So from proposals that 'come from the community', demand-driven is now often conceptualized as project proposals identified in an open, participatory and egalitarian way by a fully informed citizenry and that reflect the top priority of the majority of community members (World Bank 2002 b). This 'raising of the bar' requires more intensive participation mechanisms, including community facilitation by external agents and/or strengthening participatory planning processes through local governments.

**Investing in Capacity Building via Learning by Doing**

The actual process of managing an investment project is viewed as an essential element in organizational strengthening. This contrasts with other approaches to community capacity building that focus on training alone, and include no investment resources or local management of funds. The social fund 'learning by doing' approach may be more compelling than just supporting broad organizational training to communities.

One perspective on this comes from Argentina, where they have experience with financing both stand-alone training interventions, as well as infrastructure and other investment projects that come with training (both technical and administrative). An in-depth assessment of projects in two peri-urban areas in northern Argentina found that:

> "The reality is that it is very difficult for these communities that are so oriented to concrete actions, so in need of many basic needs and/or so used to being 'given' things – it is difficult for them to realize the value of organization for its own merits….In a comparison of projects to train community leaders versus community development projects with an infrastructure component, the latter clearly display more stable attendance by community members at training sessions, more enthusiasm, and greater acceptance by the beneficiaries." (Benencia 1997)

The overall emphasis has been on strengthening community organizations around investments improve living conditions, rather than addressing power relations explicitly within communities. There is very little discussion of or differentiation between bonding and bridging types of social capital. The general assumption seems to be that strengthening local organizations, giving them a role in local development and linking them to other agencies, even if it is only the central social fund, works on both aspects of social capital simultaneously.

## Investing Directly in Social Capital

One effect of adopting explicit goals around strengthening social capital is that it has broadened the traditional menu of eligible investments. From a narrower focus on basic needs-type investments (schools, water supply, health services), social funds that have social capital objectives have expanded their menus. Some examples of specific microprojects which were oriented directly at increasing the social capital of the community while addressing basic needs include:

In Argentina:

- ***Training for volunteer fire protection services in Garza***: The project provides training to a group of 20, mainly youth, in the techniques of fire-fighting. Training is provided by a non-profit School for Voluntary Fire-Fighters. At the end of the training, the group formed their own non-profit community organization. They have received donations from other NGOs and direct community support. These volunteers have established relations with other sectors of civil society in the region and province.
- ***Community radio communications in rural Santiago del Ester:*** The project supports the establishment of a community radio network linking 10 communities in rural zone. The project included training in the use of radio equipment and in basic community organization. Radio links combat rural isolation and link disperse communities.
- ***Community Center in Los Blancos:*** The project was managed by a rural farmers' group and financed the construction of a community center to be used for community meetings, training and support to the organization. The project has helped link NGOs and governmental programs working in the area with the farmers' organization.

In Northern Uganda, the NUSAF finances:

- holding peace meetings and/or negotiations between clans and/or tribes;
- supporting inter-tribal dialogue including visits to other districts;
- counseling and provision of psycho-social support to returnees, ex-abductees, gun-drop-outs, and the receiving communities.

## III. Outstanding Issues and Future Directions

The integration of social capital concepts into social fund operations is not without its limitations, including a number of conceptual issues that practitioners will need to address in the future evolutions of these mechanisms.

### Working with existing or forming new organizations?

One of the main decisions in the design of a social fund is whether to allow for the creation of ad-hoc local project committees to manage local investments or restrict participation to pre-existing local organizations, or some combination of the two. Chart 2 highlights some of the main advantages and disadvantages of each option.

**Chart 2: Issue in Working with Existing Organizations or Creating New Ones**

| | ***Working through Existing Organizations*** | ***Creation of Local Project Committees*** |
|---|---|---|
| ***Advantages*** | • Builds on existing social capital<br>• Potential for longer-term impact on local organizational capacity<br>• Existing organizations may best express community priorities and needs<br>• Existing organization have established linkages within the community and often with external actors | • Allows program to operate in areas with little local organizational capacity or presence<br>• Promotes participation by those previously excluded (by choice or social norm)<br>• May increase program efficiency and transparency<br>• Can introduce new social norms (democratic selection of members, local accountability) |
| ***Disadvantages*** | • Local organizations may not exist<br>• Local organizations may not match with area of program interventions<br>• Perpetuation of local inequalities: Local organizations may promote elite capture and exclude marginal/vulnerable groups<br>• Country framework may discourage spontaneous civil society formation (restrictive registration laws, political oppression) | • May create leadership conflicts with existing organizations<br>• Organizational structure not designed to be permanent (although many continue with activities)<br>• Can undermine existing social norms (role of traditional leadership may change) |

There is very little clear, and often conflicting, guidance from the social capital theorists. To build on the stock of local social capital, social funds are instructed that it is usually advisable to work through existing organizations[5]. However, this may do little to increase the density of social organization, which is often one of the main performance indicators to measure social capital creation. In addition, it can leave out vulnerable and excluded groups and exacerbate existing inequalities. The standard answer to this is to use existing groups but somehow make their membership and operating procedures more

[5] Narayan, D. "Designing Community-Based Development" ESSD Discussion Note #17. However, in contrast, an evaluation of social funds by the World Bank's Operation\s Evaluations Department was critical of social funds as 'users rather than producers' of social capital because they built on existing institutions to develop collective capacity (World Bank 2002).

inclusive, but with little acknowledgement that there may be an essential contradiction to this and that external social engineering is not without its own dangers and limitations.

In practice, the dichotomy between pre-existing organizations and local project committees is not so clear. As in the Argentina experience: "when promotion begins in a community, there exists a structure of social relations that is reflected in the level of organization. This structure is a result of the internal dynamics of a community and the actions of distinct institutions, such as the state, churches, political parties, NGOs, etc. In this sense, the constitution of a local project group takes place over a base of a particular social configuration already existing in a community"[6]. Because this derives from the existing framework, these newly- created local project committees are not necessarily incompatible with strengthening the existing social capital of the community.

Moreover, it is not clear that the continuity of specific organizations is an ultimate goal. Even where the group is not based on an existing organization or ceases to function after a specific intervention is accomplished, its lack of permanency may not mean it has no long-term impact on social capital. The skills and experience of the community members may well be put to service in other areas of social networks. As other researchers have found, as goals are met, such organizations may disappear and then reappear in other forms to solve other problems [7]

**How to address potential negative effects?**

There is evidence that in a small number of communities, introduction of participatory mechanisms and the demands of community collective action have caused tensions and a potential weakening of social capital.[8] For social fund managers,

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[6] FOPAR (1999)

[7] Ebbe and Narayan (1997)

[8] In a 1996 evaluation of the impact of FOSIS projects in Chile, 60 percent of projects had a positive impact on the communities, 12 percent had no discernable impact (neither positive or negative), 8 percent had mixed results, 14 percent had not enough evidence to determine impact, and 6 percent were judged to have had a negative impact on the communities. When the nature of the negative impact was probed, the study found "these negative impacts are seen either in situations where there has been a weakening of the social organization – generation of community conflicts and breaking of pre-existing social relations, or in the weakening of the community in a psycho-social sense (frustration, dis-motivation, lack of trust vis a vis the external intervention), or in the worsening of material conditions (indebtedness, unproductive investments, etc.). CIEPLAN and CyS (1996). This potential for generating conflict and undermining self-help initiative was also described in one of the beneficiary assessments of the Zambia social fund (Milimo 1994), where three distinct pictures emerged on the possible impact on community organization and the spirit of self-help. The first pertains to projects were there is no impact, whether positive or negative, on community organizations and on the spirit of self-help. This is usually so when the community is not at all involved in the implementation of the project. The second picture emerging is that of a community whose cohesion and organization has been greatly enhanced by the social fund microproject. A third picture emerges in SRP funded microprojects that unwittingly cause divisions in the community and kill the spirit of self-help. For example, Henry Kapata's Parent Teacher Association caused divisions within the community when they decided to hire skilled labor from only one village. The excluded villages felt alienated.

communities without the requisite motivation or capacity to participate, or communities with high levels of conflict and internal fission present a real challenge. In such communities, not only are the chances for successful local management of investments reduced, but there is a potential for exacerbating conflicts and causing further divisions.

**What role local governments?**

Most discussion on the interactions between social funds and social capital focuses on the level of civil society organizations and networks. However, there is a growing subset of social funds for whom their main objective is to strengthen local governments and the decentralization process (e.g. Bolivia, Nicaragua, Honduras). These funds tend to work less closely with civil society. Most or all projects are identified, designed and managed by local governments. Technical assistance and training is focused on improving local government capacity to manage investments. There is little mention of social capital in the context of these programs.

As social funds, and community-driven development programs in general[9], move closer to supporting decentralization processes, there is a question as to how, and if, social capital will remain a primary interest. A recent study on social funds and decentralization cautioned that social funds that work directly with community-based organizations may undermine the prerogatives of local government (Parker and Serrano 2000). However, the study also reinforced the idea that social funds can act positively on local government by making local government more responsive to civil society by virtue of the procedures for microproject identification and implementation. Here, we might expect a positive effect on social capital by bringing local government closer to the people and holding it more accountable. Closer and more accountable local government is likely to be more responsive to local needs and more involved in the solution of community problems – which in turn may generate greater trust on the part of civil society. Closer governments also tend to encourage community-wide participatory initiatives, such as the formation of groups and associations, providing an 'enabling environment' for social capital to flourish. These links between local governments and social capital have been little explored to date.

[9] The importance of local governments to CDD programs is clearly enunciated in the World Bank's guidance to countries contained in it Poverty Reduction Strategy Sourcebook: "Regardless of the mode of CDD intervention (CBO partnerships with local government, private support organizations, central government, or central funds), local governments can be critical to the success and sustainability of CDD. Local governments are often well positioned to facilitate coordination across communities and allocate resources. When local governments interact with communities and informal groups in a participatory way, it is possible to achieve economies of scale in producing and providing goods and services that could not be achieved by CBOs operating independently. Furthermore, in many cases, local governments are needed to support operation and maintenance of services, and for continuing funding of community groups" (World Bank 2002a).

**The relationship of social capital to dynamic individuals?**

Behind a community's more passive or active posture in the world is the existence of effective leaders. Community leadership was a crucial factor in being able to effectively present and execute projects, as illustrated in Box 3.[10]

**Box 3: Dynamic Leaders: A Key Ingredient**

Interviews and evaluation at the community level have consistently flagged the importance of community leadership:

- In Chile, the most important exogenous factor in the positive impact and sustainability of projects are characteristics of the beneficiaries, particularly the degree of entrepreneurial spirit, pre-existing leadership, and previous experience with social projects (CEIPLAN and CyS 1996).
- In Argentina, the election of representation within the project committees reflected the broader role certain individuals have in the civic life of a community – 94 percent of those with previous experience in community organizations had held a leadership position in those other organizations. In Armenia, one-third of communities had respondents who said they did not want to get involved in order to avoid stepping on the prerogatives of a strong leader (FOPAR 1997).
- And in Malawi, poor leadership was seen as a handicap. Communities without effective leaders could not unite for joint action to meet local counterpart requirements: as described in this picture of two rural communities in Malawi: "In one case, Chivala, a rural growth center was quoted as an example of a village which is now totally transformed, all because of a dynamic, able chief who commands respect and mobilizes citizens for development action. In Matandani, for example, poor leadership was voiced as a handicap and communities could not unite for joint action to meet requirements for local contributions." Malawi Institute of Management (1997)

The interplay between these leaders and the formation and capacity of local groups and organizations has not been very well explored in the social capital literature. Some of the operational issues facing program designers include: Can communities with many social networks but weak leaders participate as effectively? Is the capacity of leadership and the existence of social networks positively correlated? How should a program address issues of strong local leaders when those leaders display exclusionary behavior? Can leadership substitute for denser social organizations, or conversely can greater levels of social capital improve program performance in communities with low education bases and weak leadership?

[10] Owen and Van Domelen (1998). This was echoed in a more recent social fund evaluation (World Bank 2002c) that highlighted the role of 'prime movers'(that is local leaders) who were critical in the mobilization of support and preparation of a successful subproject proposal". (pg xvi). This observation is consistent with findings on other community-driven development programs. For example, an evaluation of the Aga Khan Rural Support Program found that strong leadership seemed to be one of the most important factors in the capacity of the community organizations studied (Ebbe and Narayan (1997).

**How to measure impacts?**

If strengthening social capital is to be an objective for which governments are willing to devote scarce resources, impacts need to be measurable. The issue of social capital measurement is relatively new and there appear to be as many measures of social capital as there are researchers. The usual approaches to measuring social capital appear to take two paths: (a) an emphasis on the number and density of associational behavior, i.e. the number of groups, level of group membership, etc.; and (b) levels of overall trust and civic engagement.

However, some of the simplest and easiest to capture variables, like the number of local organizations or associations, may be the least appropriate to use as measures of program performance. For example, the absolute number of groups does not differentiate by type size, or internal cohesion or effectiveness of the group. Using this as a measure can induce perverse program effects, where the formation of community groups is valued above improving the performance of existing groups. Other, more subjective measures, such as perceived levels of trust, are affected by many factors both inside the community as well as external factors, making it exceedingly difficult to isolate program affect. It is unlikely that any one measure will be sufficient to truly capture the multi-dimensional nature of social capital.

Social fund managers must be able to overcome these limitations if they are going to be able to assess the impacts of their interventions on community social capital. To date, most analysis has rested on qualitative information gathered at the community level. This is usually done in the context of evaluating more broadly social fund performance, so the questions pertaining to social capital are typically few and only loosely formulated around any analytical framework that would explain the effects of and on social capital.

Constructing useful measures of social capital for social funds is top on the future research agenda. Any framework for evaluation will need to be carried out over a period of time, preferably institutionalized with a social fund's monitoring and evaluation system. A combination of periodic in-depth focus group interviews and community case studies should be combined with more objective information collected from communities (either sample-based or census-based depending on resources) as part of the ex-ante and ex-post evaluation process of the specific social fund.

## VI. Conclusions

With over US$8 billion in investments so far in about 60 developing countries, social funds have been one way in which governments, with the support of donor agencies, have attempted to reach poor communities with investments to improve their well being. Social funds have benefited from the development of the concepts around social capital in terms of a richer understanding of community dynamics and a greater

focus on community organizational capacity to drive sustainability of social fund investments. And, focusing on social capital as an outcome has expanded the basic mandate of a handful of social funds. In turn, social capital concepts have gained greater weight by being linked directly to investments for poverty reduction – rather than just a set of interesting theories about how communities function.

However, the fit is imperfect. There is much speculation about whether social funds are the best (or even a valid) way to support social capital strengthening. On the other hand, social fund performance is ultimately judged on poverty impacts, not building trust and social cohesion. The links between social capital and poverty alleviation at the community level are often not obvious nor direct, compared to reductions in infant mortality or increases in school enrollments through provision of basic infrastructure and services. This adds to the difficulty of justifying lending millions of dollars for social capital strengthening.

There has been a rapidly expanding universe of adaptations and 'close cousins' to social funds, including demand-driven rural investment funds, indigenous development funds, community poverty reduction programs, demand-driven community water supply programs and the like. They sometimes draw from social fund experience and sometimes not. They are often supported by different departments in the World Bank as the basic practice of funding community grants has proliferated. In the early 2000's, the Bank's efforts to integrate these experiences into a more coherent strategy and body of practice under the term community-driven development was initiated (2002a).

The future positioning of social funds (and of social capital) is much dependent on the evolution of the broader debate on community-driven development. To a certain extent, the community-driven model is here to stay. This has been clearly enunciated by senior World Bank management, as stated by President Wolfenshon at the Second International Conference on Social Funds in 2000:

"If you have got problems of poverty, do not try and make the decisions in Washington or London or Paris or in some UN agency or at the World Bank. Trust the people to know what they need. Engage people so that they become owners and drivers of development….And if you give them the chance to be participants, you can usually be sure of several things: First, that the money is not wasted; secondly that they own the project; thirdly, as you know, that they contribute between five and 20 percent to the projects; and fourthly, if they do the project, that it will be there when you go back ten years from now." (Levine 2000)

As social fund approaches evolve towards longer-term community impacts, at the same time that understanding of the characteristics and potential importance of social capital grows, each one's ability to help shape community-driven development theory and practice will deepen.

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