Designing Social Funds
Key Questions and Options
Designing Social Funds: Key Questions and Options

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# TABLE OF CONTENTS

Acknowledgments .......................................................................................................................... iii
How To Use This Paper ...................................................................................................................... v

Section I: Key Questions In Social Fund Design .............................................................................. 1

Section II: Design Options, Pros And Cons .................................................................................... 11

Chapter 1: Social Fund Relevance And Appropriateness ............................................................... 13
Chapter 2: Welfare Impacts And Poverty Targeting ....................................................................... 18
Chapter 3: Sustainability Of Benefits .............................................................................................. 22
Chapter 4: Institutional Impacts On The Public Sector ................................................................... 29
Chapter 5: Community Capacity And Social Capital Impacts.......................................................... 40

Boxes:
Box 1: Social Funds Face Trade-Offs ............................................................................................... 5
Box 2: Lessons from Experience: Allocation Rules for Reaching the Poor ................................... 21
Box 3: Moldova Social Fund: Arrangements for Ensuring Sustainability of Benefits ....................... 27
Box 4: Zambia Social Funds: Engaging Local Government ............................................................. 37
Box 5: Incentives and Institutional Development ............................................................................. 39
Box 6: Social Capital: Some Concepts ............................................................................................. 40
Box 7: Different Kinds of Community Capacity Building and Social Capital .................................... 41
Box 8: Social Capital: Some Lessons ............................................................................................... 43
Box 9: Social Funds and Empowerment ............................................................................................ 44
Box 10: Romania Social Development Fund: Measures to Build Community Capacity and Social Capital .................................................................................................................. 45
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HOW TO USE THIS PAPER

This paper is intended for use at the policy level and for strategy and design development rather than during social fund implementation or execution. It is intended to help policymakers and program designers in client countries and among donor agencies identify relevant design options, weigh the pros and cons of each of the options, and make effective design choices in specific country settings.

The paper is divided into two parts. Section I “Key Questions in Social Fund Design” poses a series of questions that the program designer should address when considering a social fund and in designing the accompanying investments and activities. Section II “Design Options, Pros and Cons” presents the options available to a program designer, indicates the merits and limitations associated with each, and identifies the country situations in which each option is most likely to be appropriate. Section II is intended to help address the questions posed in Section I, and is organized around five issues: social fund relevance and appropriateness; welfare impacts and poverty targeting; sustainability of benefits; institutional impacts on the public sector; and community capacity and social capital impacts. A selection of quotes and paraphrasing of comments from the OED Social Funds Workshop is included in right hand column-boxes to illustrate the diversity of perspectives with the source indicated by the words “Social Funds Workshop”.

Social funds have evolved significantly from their beginnings in the late 1980s as emergency response mechanisms. Three generations of social funds may be identified based on their key objective: the first generation of projects focused on protecting poor and vulnerable groups from a shock through the rapid creation of employment opportunities; the second generation aimed at service delivery for the poor; and the third generation focused on building capacity among communities and local governments. This paper does not discuss specific options and trade-offs for each generation of social funds. Rather, it highlights generic choices and trade-offs. Depending on the program objectives and particular country circumstances, some choices will be more relevant and some trade-offs more pronounced than others. Needless to say, the options presented in this paper should be interpreted in relation to the particular context at hand.
KEY QUESTIONS IN SOCIAL FUND DESIGN

This section poses a series of questions that should be addressed when considering a social fund and determining the specific investments to be supported through it.

ENSURING RELEVANCE

The overall objectives of social fund projects — as poverty-targeted interventions — are normally consistent in broad terms with the government's Poverty Reduction Strategy Paper (PRSP) and with the Bank’s Country Assistance Strategies (CASs). But this does not necessarily mean that a social fund project is the best way to achieve (one or more of) the PRSP or CAS objectives. More specific criteria for ensuring the relevance of social fund projects should include:

- **Are the project objectives and proposed activities the “right things to focus on” given the country’s development priorities?** Do the project objectives address key development constraints in the country? Are the specific goods and services proposed to be financed through the project the right priorities in the country and sectors concerned? Is the balance between physical infrastructure, quality of service delivery, and capacity building appropriate to the country context?

- **Is the project sufficiently focused on long-term development impact and institutional objectives?** Do extreme country conditions warrant a focus on short-term objectives? If not, are project objectives adequately focused on development impact and institutional issues? Is there a clear and convincing linkage (or results chain) between social fund inputs and activities on the one hand, and poverty, development impact, and institutional effects on the other?

- **Does the project rationale adequately address the strategic role of the social fund within the broader country, poverty, and sector strategies?** To what extent do synergies exist between the social fund project and other government and donor initiatives in the country? Does the project avoid crowding out or undermining other priority initiatives (e.g., budgetary reform)? Is it consistent with sector strategies and policies in the relevant sectors?

- **Is the social fund the best instrument for achieving the intended development impact in the particular institutional context?** Is the nature and degree of autonomy planned for the social fund agency justified by the context (e.g., by the imperative for quick action when existing public agencies cannot deliver), or by a focus on pilot or niche activities? Is it clear that project objectives cannot be achieved equally or better through mainstream public sector channels? How will the social fund relate to existing public sector agencies? Does the development strategy include a vision for the future exit or transformation of the social fund?
fund’s community-based multi-sectoral approach the most appropriate approach for the types of goods and services proposed to be financed through the social fund?

- **Are the activities to be supported by the social fund relevant to community priorities?** How will the project ensure that the sectors of operation and menu of goods and services match the top (unmet) priorities of communities?

**ENSURING EFFICACY (ACHIEVEMENT OF OBJECTIVES)**

Performance with respect to physical objectives (civil works — including the quality of works) is important and should be taken into account in the design of social funds. But non-physical objectives, such as institutional, social, poverty alleviation, and gender objectives, typically tend to get neglected. The following questions should be considered:

- **Are any potential trade-offs between objectives explicitly addressed?** If there are multiple objectives, is the hierarchy of objectives clarified, and are potential conflicts/trade-offs between objectives identified and addressed (e.g., between emergency response and physical output targets versus demand orientation, poverty focus, longer-term institutional development and other non-physical objectives)? Box 1 presents some common trade-offs.

- **Are quality aspects being adequately attended to?** Is the design of civil works appropriate? Are construction standards and technology appropriate?

- **How will the project’s non-physical objectives be met and are there provisions to adequately monitor progress on the achievement of these objectives?** Are non-physical objectives (i.e., those relating to development impact and institutional effects) stated specifically enough to allow for adequate design and for continuous monitoring? Do project performance indicators include outcomes or do they include only inputs and outputs? Are the project’s institutional development objectives adequately reflected in the monitoring plan? Will beneficiary assessments and impact studies track subproject outcomes in terms of actual welfare impacts and institutional effects?

- **How does project design ensure that community participation and community capacity building objectives will be met?** Do the envisaged subproject selection processes at the community level ensure that selection is a unified expression of community demand, and not biased or manipulated by external agents, community elites, or prime movers? How sound is the design of any promotion, outreach, and facilitation campaigns? Is a community contribution required and are there enforcement mechanisms? Is the envisaged engagement with the community sufficient to expect lasting social capital or capacity building effects? Are there plans to support or monitor community development after the last subproject disbursement?

- **How sound is the project’s poverty targeting strategy?** Will the project use an explicit poverty map for targeting and, if so, what criteria will it be based on (e.g.,
income, access to basic social services)? Are the underlying data robust? Will the project use other targeting mechanisms (e.g., self-targeting through the subproject menu, income targeting)? How will the project's promotion, outreach, and facilitation arrangements ensure adequate uptake of funds by poorer communities? Are specific groups targeted, such as women or indigenous groups, and how will the distribution of subproject benefits be monitored on a disaggregated basis? Is there a strategy to monitor the effectiveness of targeting, especially inter-community and household-level targeting?

**Box 1: Social Funds Face Trade-offs**

The design of social fund projects involves a number of trade-offs, the balance of which depends on project objectives, the nature of services to be delivered, and the country context.

- Eliciting local demand can allow local participation in subproject decisions and management, but it may make it difficult to reach the poorest communities, which are often the least competitive in preparing and presenting proposals. Equally, local decision-making may help to overcome information asymmetries by bringing to bear local knowledge, but it does not lend itself to projects that require decisions to be made above the local level in order to deal effectively with externalities or to tap economies of scale.

- The subproject-based approach of limiting engagement with a community to the implementation of small, discrete investments, can make it possible to achieve speed and efficiencies through standardization, but may not, by itself, ensure that the necessary complementary inputs are in place for achieving a particular development impact. In addition, learning-by-doing benefits for any of the entities with which the social fund interacts are limited to activities of the subproject cycle rather than broader reform.

- The multi-sectoral scope of social fund projects can give voice to local actors and encourage local initiative by allowing communities to determine their own investment priorities, but it also places heavy demands on a single agency to meet the varying technical and institutional requirements for delivery of a wide range of goods and services.

- Autonomy of the social fund agency may enable it to adopt new processes and "rules of the game" for transparent and responsive operation, but these gains may not be readily transferable to permanent public sector agencies in the absence of specific incentives and a policy environment conducive to change. Autonomy makes necessary the creation of mechanisms to coordinate social fund projects with mainstream government agencies, in order to avoid negative implications for the management of public expenditure, accountability, and sustainability.


**Ensuring Efficiency**

Treatment of efficiency in social fund projects has usually been limited to assessment of the cost effectiveness of construction activities, sometimes in comparison with government agencies carrying out similar works, and to the share of administrative costs in project expenditures. Specific issues that should be addressed in ensuring social fund efficiency include the following:

- **Will the opportunity costs of subproject investments be fully considered?** Are expected benefits of subprojects to be clearly articulated at appraisal by the community and/or the local government concerned and how will they be subsequently monitored? How will the subproject selection process ensure the selection of investments with high rates of return? Will subproject selection
consistently involve an assessment of the opportunity costs of the investment (whether by the community, local government, or social fund management)? Will economic analysis (ex-ante and ex-post) be performed for a sample of subprojects?

- **Will cost-effectiveness be monitored in terms of outcomes in addition to outputs?** Does analysis of cost effectiveness include capacity utilization rates, operations and maintenance prospects, and the costs of ensuring specified outcomes (such as increases in school enrollment rates for girls, retention and achievement rates, vaccination rates, access to clean water, employment creation) in comparison with other programs?

- **What is the reasonable level for administrative costs?** How will administrative costs be calculated (will they include supervision costs, consultant costs, promotion and outreach costs)? Will they be reported as a percentage of total disbursements, commitments etc? Will there be a ceiling on administrative costs or any attempt to keep them from exceeding a certain level? If so, is this ceiling reasonable given project goals, or is it likely to discourage investments in facilitation, supervision, promotion, outreach, capacity building, etc?

- **What will be the overall impact of social fund investments on the efficiency of public expenditure?** Are there adequate measures to ensure that investments will contribute positively to the overall efficiency of public expenditure? Will they ensure an appropriate balance between capital and recurrent expenditure? If there is significant project expenditure in sectors where central or local governments are responsible for service delivery, how will this affect the structure and efficiency of public expenditure — especially capital versus recurrent — and the quality of service delivery? Is the appropriate scale and scope of social fund activities addressed at the project design stage, and will it be reassessed regularly during implementation with reference to budgetary processes and public expenditure analysis?

**ENSURING SUSTAINABILITY**

The likely sustainability of social fund operations through continued donor funding is not a sufficient indicator of sustainability as the existence of the social fund agency will generally not be required to sustain the flow of benefits from the financed subproject investments. Resilience of the benefit flows from subproject investments should carry most weight. Sector-specific differences in the issues of technical, financial, and institutional resilience should be taken into account. Appropriate institutional arrangements and division of operations and maintenance responsibilities between central government, local government, and community organizations vary depending on the sector as well as the country context. The flow of benefits over the operational life of the investment should be ensured. The following questions should be addressed:

- **What project mechanisms will ensure that subprojects are technically resilient?** Mechanisms are needed to ensure that the construction designs are appropriate and well-executed and avoid over- or under-design of subprojects; construction is
adequately supervised to prevent contractors from cutting corners or using substandard materials; subprojects across different sectors are subject to the full analysis and technical and safeguard standards relevant to the concerned sector.

- **What project mechanisms will ensure that institutional arrangements for subproject sustainability are appropriate, well understood, and accepted by those responsible for subproject sustainability?** Mechanisms are needed to ensure that handover and ownership arrangements are clear to all concerned; the institutional arrangements (e.g., the structure of responsibilities and decision-making authority, the role of users' or maintenance associations, mechanisms for collection of fees or penalizing free-riders) are consistent with the scale and nature of the goods and services being provided (e.g., local governments are better placed than individual communities in providing networked services that cover multiple communities); there is a high degree of ownership of the investment on the part of those responsible for operation and maintenance; and the burden is perceived to be fairly shared.

- **How is the technical sustainability of the projects to be ensured?** Do the entities that will be responsible for maintenance possess — or have access to — the required technical (and managerial) skills for maintenance? Are there mechanisms to provide the necessary training in maintenance skills?

- **How is the financial sustainability of subprojects to be ensured?** In sectors where central or local governments are responsible for financing operations and/or maintenance, the scope and scale of activities being undertaken by a social fund needs to be guided from the outset by assessment of the existing composition and balance of public expenditure and projected fiscal capacity. Will coordination between the social fund and the relevant government agency on approval of subprojects be sufficient to ensure fulfillment of future recurrent costs? When the social fund is engaged on a large-scale over a long period in rehabilitating existing infrastructure, measures are needed in project design to ensure adequate budgetary provision for future maintenance of public facilities. If the community is to be responsible for financing operations and/or maintenance, is there evidence of ability as well as willingness to pay? How much will community members contribute to investment costs?

**ENSURING INSTITUTIONAL DEVELOPMENT IMPACT**

Good organizational performance of the social fund agency is not sufficient to ensure strong institutional development impact. Institutional development impact will depend on (i) the extent to which the social fund also promotes wider adoption (of values, behaviors, methods, processes, and skills) in national and local institutions, and (ii) “doing no harm” to existing institutions, either by undermining their accountability and authority or by reducing incentives/scope/resources for their development. Institutional development impact should be assessed at all levels (e.g., central government, local government, private sector, nongovernmental organizations, and community level), with the weight that is given to each level determined on the basis of the country context and goals of the social fund project. The following questions should be addressed:
• **What is the institutional role of the social fund?** What degree of autonomy will be granted to the social fund agency? Is the project justified in using an autonomous or semi-autonomous agency? If the social fund agency is performing core public sector functions (i.e., not niche activities but essential public sector functions for which government agencies are accountable), viable plans should be in place for the social fund agency’s transformation, handover to government agencies, or exit. Who is to be represented on the social fund board and/or steering committee and what is their effective role? Is the social fund accountable to parliament, where relevant? Design should recognize the danger of diversion of funds for political reasons and ensure that the social fund is integrated in budgetary processes at central or local government levels as relevant.

• **What will be the positive institutional impacts of the project?** Six possible channels of positive institutional effects should be considered:

  *Direct effects.* How will the effectiveness of the project’s training and technical assistance activities be ensured?

  *Demonstration effects.* What mechanisms are in place to ensure that the social fund’s new approaches, procedures, or methods are adopted by other agencies? Will the social fund prompt new thinking and approaches beyond the social fund agency?

  *“Learning-by-doing” effects.* How much responsibility and decision-making power will the social fund delegate to other agencies (the more delegation, the greater the prospect of positive institutional impact)? To what extent will other agencies gain experience in using new approaches, procedures, or methods through engagement in subproject decision-making/planning or implementation processes?

  *Competition effects.* To what extent, if any, will other agencies improve their own efficiency as a result of the social fund in order to stay in competition for resources and power?

  *Demand effects.* Will social fund activities generate additional demand at the community level for the services of government agencies, nongovernmental organizations, or private contractors — thereby stimulating enhancement of capacity in these entities to meet that demand?

  *Resource mobilization and rationalization effects.* Will the social fund mobilize previously under-utilized community/local capacity and nongovernmental resources, and contribute to a rationalization of resource use by government (e.g., will government resources be freed-up as a result of social fund investment in building schools, and instead be used to improve the quality of education?).

• **How will the project avoiding potential adverse effects in the public sector?** Three possible channels of potential adverse effects should be considered:
Negative competition effects. What measures are in place to ensure that other agencies will not withdraw from tasks and responsibilities that the social fund is taking on?

Negative resource mobilization and allocation effects. Will the social fund agency attract the most competent staff and critical resources away from government agencies, thus weakening them? Will social fund commitments bypass central and local budgetary processes? If so, what measures are in place to prevent undermining the inter-governmental fiscal framework or allocative efficiency of public expenditure?

Negative systemic planning and accountability effects. How will the social fund coordinate with line agencies and local governments to avoid duplication, gaps, or working at cross-purposes? Will the social fund inadvertently weaken the accountability of responsible central or local agencies in sectoral planning and resource allocation by bypassing them? Is there a danger that the social fund could allow/encourage postponement of sector reforms or decentralization processes?

- How will the project avoid potential adverse effects among nongovernmental organizations, communities, and the private sector? Will the social fund displace resources from nongovernmental organizations, or undermine their role? At the community level, will the social fund processes further stratify an already divided community? May one group of elite networks simply be replaced by another? Are there adequate mechanisms to promote participatory processes and conflict resolution? How will corruption in the contracting process, and distortionary impacts on private markets be avoided?
SECTION II
DESIGN OPTIONS, PROS AND CONS
CHAPTER 1: SOCIAL FUND RELEVANCE AND APPROPRIATENESS

Social funds have a clear and significant role when existing institutions are ineffective and the need for flexibility and speed is paramount (for example, in emergency or post-conflict situations), and when deficiencies in small-scale infrastructure are a significant constraint to development.

In the context of centralized planning, they can demonstrate both the feasibility of local decision-making (by working with community-based organizations) and the advantages of public-private-civil sector partnerships. They also have a comparative strength in piloting innovation.

But the suitability of the social fund approach to particular circumstances depends upon a number of country factors, such as: (i) the strength of existing institutions and public sector reforms in a country; (ii) the national budgeting process, structure of public expenditures, and sectoral planning; (iii) extent of political, administrative, and fiscal decentralization, community social structure and capacity; and (iv) nature of required goods and services.

The creation of new social funds — and increases in the scale of support to existing social funds — requires caution and careful analysis of the trade-offs between specific objectives in a particular country context.

ISSUES

The rationale and objectives of donor support should be clear and should drive the choice of instrument — rather than the other way round. The following issues need to be addressed in relation to specific objectives and country conditions:

- whether the social funds’ demand-driven mechanism is appropriate and effective;
- whether or how the social fund can serve long-term development objectives;
- how social fund operations depend on, and affect, other public institutions;
- what scale and sectors of operation are appropriate;
- what transformation or exit strategies are indicated.

Social funds are good when governments cannot deal with emergency situations, post-conflict, post-economic crises, acute poverty, minority groups, and refugees.

In Eastern Europe, whole governments have turned into construction companies. It is very positive to take this function outside to other institutions. Social funds have a role to play in helping government develop capacity.

Supporters of social funds argue that they bypass corrupt local government and ensure rapid disbursement, while critics say they bypass reform and capacity building.

Social funds should be subjected to strategic and policy discussions. If we want to create more pro-poor policies by governments, social funds might not be the instrument to use.

—Social Funds Workshop
Depending on the objectives and the country context, addressing these issues may require:

- modifying social fund design or operation;
- coordinating with complementary interventions outside the social fund; or
- adopting an alternative instrument.

**COUNTRY-SPECIFIC FACTORS**

Appropriateness of using the social fund approach depends on country conditions:

**Strength of Existing Institutions and Public Sector Reform.** Autonomous social fund agencies can compensate in the short run for failure or inertia in the public sector by establishing transparent procedures, mobilizing resources in the private and community sectors, and focusing on the speedy delivery of visible outputs, allowing time and helping to build public support for implementation of systemic reforms. The precise degree of autonomy — legal, administrative, procedural, financial — that is warranted will depend on the state of existing institutions and government commitment to reform. The creation of autonomous agencies should be questioned when promising reforms are under way in a weak but viable public sector, or when public institutions are quite strong. In such cases, it may be better to provide support directly to agencies that are integrated within the public sector, as in the case of Chile's Fund for Solidarity and Social Investment (FOSIS).

**National Budgeting Process, Structure of Public Expenditures, and Sectoral Planning.** When there is some degree of transparency and accountability in national budgetary processes, this can be undercut by a social fund which is responsible for allocating significant expenditure without full integration in the government’s budgetary process. The existing structure and balance of public expenditure (inter- and intra-sectoral) should be taken into account to ensure that social fund expenditures do not exacerbate any existing imbalances within and between sectors and, in particular, toward capital over recurrent expenditure. When reforms to restructure sectoral expenditure are under way, then measures are needed to ensure that social fund expenditures support, or at least do not undermine, these reforms. If the social fund operates on a significant scale in relation to sectoral expenditures, the ability of the relevant (central or local) government agency to allocate resources according to sectoral and other criteria is diminished, as the social fund operates its own parallel process of allocating resources.

**Extent of Political, Administrative, and Fiscal Decentralization.** The nature and extent of decentralization in a country should influence whether or how a social fund is used. Where no local governments exist, social funds introduce a mechanism for responding to local needs. Where local governments exist but have no clear mandate or resources for financial management, social funds can improve their capacity to manage small infrastructure projects and to respond to communities. Where there is growing national commitment to decentralization processes, however, and where local governments are viable, social funds can undermine the development of local government by working directly and primarily with communities for activities that are within the purview of local authorities. When the capacity building needs of local governments are best met through gaining experience in project management, then a social fund may be
appropriate. However, when development of systemic planning and fiscal systems at the local level is the higher priority, other options should be considered.

**Community Social Structure and Capacity.** The scope for effective community-level action through a one-time social fund subproject intervention may be limited to communities that: (i) have some existing organization; and (ii) are relatively homogenous and unstratified. The current orientation of social fund projects toward subproject processing may not be suitable to achieve significant capacity and social capital enhancements. It may also not be suitable to nurture a participatory process in communities or sectors where existing local organization is weak, where there is no “prime mover” to take the lead in seeing the subproject through, or where the “prime mover” represents interests different from those of the majority of community members. A different, more in-depth and long-term, participatory process may be needed to ensure adequate coverage of poorer communities with weak existing skills and organizational capacity, and/or lack of social cohesion.

**Nature of Required Goods and Services.** A social fund has the advantage of offering a multi-sectoral menu of investments from which communities may choose, and is appropriate therefore for goods and services that are suited to community-level decision-making. It is less appropriate if communities’ most pressing needs are for investments that require sharing of planning, financing, and oversight responsibilities among communities and across levels of government. A social fund is most likely to be appropriate when a primary constraint for poor communities is the deficit of small-scale infrastructure, for which the subproject-based approach is well suited. Even then, it must be established that the social fund can adequately address the relevant sector-specific technical and institutional issues. Investments in different sectors require a different nature and degree of participation, different definition of beneficiary groups, different degrees and sources of cofinancing, different technical expertise, and different allocation of responsibilities for operations and maintenance. In some cases, a sector-specific intervention may be more effective. Even when it is considered a high priority to allow communities to choose investments from a multi-sectoral menu, such a selection process does not necessarily imply that actual delivery (“provision”) of the infrastructure or service itself has to be managed by a multi-sectoral agency.

**KEY QUESTIONS**

Whether or when is the use of autonomous implementing agencies to channel resources to poor communities likely to contribute to efforts to reform public planning and fiscal processes at central and local levels, and when is it liable to undermine them? Autonomous central implementing agencies are justified by urgent needs that cannot be met by dysfunctional public institutions. How should the judgment be made at the country level as to the point when the emergency is over and prospects for public sector reform are good enough that efforts should be focused on supporting this reform—and avoiding the use in donor-funded projects of parallel structures for allocating public funds to serve core public sector functions?

Whether or when do projects that allocate funds directly to communities risk undermining efforts to improve the performance of **All future proposed social fund operations should be subjected to tests of “value-added.” Can benefits be achieved in other (better) ways and in what time frame? Comparing social fund communities with those without is setting the hurdle too low. The real comparison should**
local governments? When projects are focused primarily on process objectives, financing facilitation and goods/services that are outside the core functions of local government, this risk would seem to be avoided. In many cases, however, these conditions are not met. A key question in this regard is: *How should the judgment be made at the country level as to the point when government commitment to decentralization and the capacity of local governments are sufficient that the bulk of donor funding for locally-determined investments should be channeled through local government (not through parallel structures and processes), and any projects focusing on community-level participation and capacity should avoid substituting for local government functions?*

**WHAT ARE THE EXIT OR TRANSFORMATION OPTIONS FOR SOCIAL FUNDS?**

Although social funds have usually been conceived of as temporary institutions, there is little pressure to phase them out or integrate them in mainstream government structures. This is especially the case when significant capacity has been built in the social fund agency and when donor financing continues to be readily available. Nevertheless, when social funds are allocating a significant share of public expenditure in sectors or activities for which line ministries or local governments are accountable, their *de facto* permanent status as autonomous institutions is difficult to justify. The following are some of the theoretical options for transformation or exit of social funds:

- Social fund maintains semi-autonomous status but is confined to pilot or niche activities (e.g., highly targeted interventions in remote areas).
- Social fund maintains semi-autonomous status but as an executing or technical support agency contracted by central or local governments in competition with other agencies.
- Social fund maintains semi-autonomous status on a temporary basis with adequate measures to ensure coordination with other agencies, and the transfer of knowledge, skills, and functions by the end of the period — or to integrate in permanent government structure.
- Social fund is transformed into an agency providing block grants and technical support to local governments.

*What are the consequences if the social fund were to disappear? What are the available institutional and financial delivery alternatives? A good transition policy is needed so that we don't lose the capacity built by the social funds.*

An exit strategy should involve the integration of social funds into state budgets, government systems, accountability rules, and parliamentary oversight.

In Tanzania and Zimbabwe, the social fund from the beginning decided to integrate within the local authority system. The issue of exit does not arise in these cases.

—*Social Funds Workshop*
### Options for Transformation or Exit of Social Funds

<table>
<thead>
<tr>
<th>Option</th>
<th>Pros</th>
<th>Cons</th>
<th>When is it appropriate?</th>
</tr>
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<tbody>
<tr>
<td>Social fund maintains semi-autonomous status but is confined to pilot or niche activities, outside core public sector functions.</td>
<td>Allows long-term operation in supporting other agencies without undermining their functions or accountability.</td>
<td>Limited impact on core public sector functions unless policy environment is open to innovation.</td>
<td>When improving social infrastructure is not the highest priority of poor communities.</td>
</tr>
<tr>
<td>Social fund maintains semi-autonomous status but as an executing or technical support agency contracted by central or local governments in competition with other agencies.</td>
<td>Allows efficient and responsive management of infrastructure delivery without undermining public sector accountability for coverage and quality of social services.</td>
<td>Limits exercise of choice at the community level.</td>
<td>When social infrastructure is a high priority, the social fund has demonstrated comparative advantage in managing infrastructure delivery, and line ministries apply sound criteria for prioritizing infrastructure investments.</td>
</tr>
<tr>
<td>Social fund maintains semi-autonomous status on a temporary basis with adequate measures to ensure coordination with other agencies, and the transfer of knowledge, skills, and functions by the end of the period — or to integrate into permanent government structure.</td>
<td>Allows rapid action to fund projects in poor communities when public institutions are unable to deliver, and time to strengthen these institutions.</td>
<td>Vested interests and incentives operate against achieving this transition.</td>
<td>At a time of crisis (such as post-conflict) when public agencies are not functioning, but when concurrent efforts are under way to strengthen governance and the public sector.</td>
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<tr>
<td>Social fund is transformed into an agency providing block grants and technical support to local governments.</td>
<td>Supports local decision-making through existing structures, instead of temporary parallel ones.</td>
<td>Loss of direct control.</td>
<td>When a viable decentralization framework is in place, including accountability and inter-governmental fiscal mechanisms.</td>
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CHAPTER 2: WELFARE IMPACTS AND POVERTY TARGETING

WHAT ARE WELFARE IMPACTS?

Social fund projects have historically had short-term objectives — channeling resources rapidly to poor communities in crisis situations — but are increasingly taking on longer-term objectives. The majority now aim explicitly to improve the welfare or living standards of the poor.

Given the typical sectors of social fund financing — education, health, water supply and sanitation, and transportation — the relevant welfare impacts include improved school completion rates, greater learning achievement, reduced mortality rates, reduced incidence of diseases, and higher incomes (as a result of better market access provided, for example, by roads or the availability of micro-credit). These welfare impacts are more likely to materialize when social funds ensure that the delivery of infrastructure (e.g., school buildings) is complemented by adequate availability of complementary inputs (e.g., teachers) and related investments (e.g., roads to get to the school), each is of sufficient quality, and the infrastructure is used over a long enough period of time. The social fund project need not itself provide the complementary inputs or related investments.

LESSONS

Many social fund projects have multiple objectives that are not always clearly prioritized. When projects attempt simultaneously to pursue short- and medium-term objectives, short-term output targets tend to prevail over medium-term impacts. Consistent achievement of welfare impacts would require additional time and resources for measures to overcome this tendency such as:

- Ensuring that the subproject identification process produces subprojects that match local welfare priorities. A variety of factors (e.g., the role of “prime movers” and existing organization in the community; specialization of social fund staff; differences in the level and form of community contribution requirements) can bias subproject selection toward particular sectors (usually education and health) or towards specific groups. And a simple invitation to submit proposals can lead to communities asking for what they think they can get, rather than what they most want and need. Some underserved communities may even be left out of the process for lack of knowledge or absence of a “prime mover”.

Elements to be considered in the identification process include:

- involving local governments where these exist;

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The impact of social funds on the development of social capital should be considered a welfare benefit. The empowerment of people — increasing social capital — is in itself a welfare impact.

—Social Funds Workshop

Tribal people did not have the voice to determine subprojects truly reflective of their needs. The social assessment provided a good basis for drawing up a menu that was more truly reflective of tribal peoples’ needs than if they were asked to articulate it on their own in a


- ensuring that potential beneficiaries are fully informed on the subproject options;
- where the existing community decision-making process is equitable and fair, rooting the social fund participatory process in it rather than creating new processes and structures;
- incorporating mechanisms to ensure that the ideas of the community leaders are also the most important ones for the community as a whole;
- examining alternative approaches (e.g., upfront social assessments) to identify priority problems;
- ensuring that opportunity costs of alternative investments are considered;
- ensuring that projected welfare impacts are articulated and are monitorable;
- requiring clear and upfront evidence of beneficiary willingness to pay.

- Coordinating with responsible agencies and ensuring that complementary inputs are available (e.g., qualified teachers, teaching materials, textbooks, relevant curriculum; qualified health workers, appropriate equipment, and drugs; access to technical, financial, and market information and services), and that related investments (e.g., access roads to get to the health clinic) and maintenance provisions are in place.

- Ensuring that the subproject approach that responds to individual community needs does not compromise the regional development strategy. For example, decisions on investments that serve or have implications for more than one community (inter-community road network) need to be made above the community level and will call for coordination across communities.

- Ensuring that the service delivery arrangements reflect the nature of the good being delivered (see Chapter 3 Sustainability of Benefits, section titled "Ensuring Sector-Specificity is Addressed").

- Carrying out systematic monitoring of outcomes and welfare impacts after completion of subproject implementation, and incorporation of lessons learned in future operations.

- Adjusting the menu of eligible investments to match country and community priorities, with room for re-adjustment over time based on actual welfare impacts and shifts in priorities.

- Establishing appropriate project staff performance incentives, based on outcomes and impacts — not on subproject completion and disbursement rates.

- Supporting "software" inputs through appropriate staff skills mix.
including social and other non-engineering specialists to promote community facilitation, social capacity building, coordination with other programs, and monitoring of welfare impacts.

- **Choosing the poverty targeting mechanism based on project objectives and types of investments**, for example, consumption poverty may not be a good criterion for allocating social infrastructure.
- **Improving poverty targeting, especially at the household and community levels**, based on allocation rules for reaching the poor presented in Box 2 below.

Refocusing the social fund on welfare impacts could imply a fundamental shift in orientation away from subproject processing. For existing social funds, the constraints to accomplishing this transition should not be underestimated.

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**PROJECT DESIGN OPTIONS**

<table>
<thead>
<tr>
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<th>Pros</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Open menu of eligible investments.</td>
<td>More likely to be able to address community’s priority welfare constraint. Promotes choice and initiative at community level.</td>
<td>Spreads technical expertise of social fund very thin, and makes it more difficult to ensure that complementary inputs are available.</td>
<td>When communities’ priority needs (as revealed by participatory research) are diverse.</td>
</tr>
<tr>
<td>Support subproject identification with up-front participatory research.</td>
<td>Allows more in-depth assessment of community needs and priorities and avoids prime-mover bias.</td>
<td>Adds time and cost to process, and requires scarce specialized skills.</td>
<td>In heterogeneous and highly stratified communities. When consensus on priority needs and the best way of addressing them is difficult to reach.</td>
</tr>
<tr>
<td>Restrict scope of activities to infrastructure.</td>
<td>Specialization in civil works allows standardization and more rapid subproject processing — and can reach more communities and beneficiaries.</td>
<td>Complementary inputs needed to achieve welfare impacts may not be forthcoming.</td>
<td>When the deficit of social and economic infrastructure is the most pressing constraint to improving services in most communities.</td>
</tr>
<tr>
<td>Restrict activities to two or three sectors.</td>
<td>Specialization by sector allows focus on complementary inputs needed for welfare impact.</td>
<td>Reduces community choice. May not address community’s priority problem.</td>
<td>When communities’ priorities are concentrated in a few sectors.</td>
</tr>
<tr>
<td>Intensive and extended community engagement beyond single subproject.</td>
<td>Allows follow-through to address community needs in holistic manner and keep focus on welfare impacts. Allows incentives for good community performance.</td>
<td>Reduces the breadth of project impact — reaches fewer communities and beneficiaries.</td>
<td>When project does not have short-term objective of making broad impact quickly.</td>
</tr>
</tbody>
</table>

are the people with the skills, interests, and networks to become activists? Who manages the funds? Who gets training? Who are the prime movers? These are important questions to ask. Social funds should avoid reinforcing inequitable power relationships.

The community is not a monolith. One must look at who is articulating demands, and the different power relations within the community.

—Social Funds Workshop
BOX 2: LESSONS FROM EXPERIENCE: ALLOCATION RULES FOR REACHING THE POOR

Social funds use implicit targeting mechanisms (e.g., financing activities of interest to the poor) and explicit targeting mechanisms (e.g., using poverty maps to target particular geographic regions). Explicit targeting mechanisms may be either proactive or reactive. Proactive targeting allocates funds in a pro-poor manner either by excluding the better-off (a cut-off) or using a progressive allocation rule. Reactive targeting waits for requests from communities, but favors those from poor districts by applying eligibility criteria, according them greater priority, or by reducing the required level of community contribution.

Reliance on reactive targeting makes it more likely that poor areas will be under-served, unless an aggressive promotion and outreach strategy is pursued. Even with proactive targeting, however, promotion and outreach are necessary to ensure that poor areas reach their spending targets. The following rules are relevant.

**Cut-off.** If a cut-off is not used and the least-poor districts are not excluded, adequate mechanisms are needed for targeting within districts (self-targeting may not be sufficient for this purpose).

**Progressivity.** The Zambia Social Investment Fund (ZAMSIF) formula for district allocations gives much more weight to the poorest districts than to those that are less poor: the poorest of all receive $30 a head and the least poor only $1.30. This differential could be narrowed to $11 and $2.30 respectively through a small change: raising the poverty term in the allocation rule formula to 0.5 from 1. (This would make the allocation less pro-poor, although this effect could be balanced by the introduction of a cut-off. This might be necessary because of lack of absorptive capacity and because there are poor people in non-poor districts.)

**Setting aside a reserve.** The poorest districts are likely to be among those with the least capacity, so spending targets are least likely to be met there. Perhaps, then, it is unwise to allocate all expenditures with the allocation rule, since this will eventually force a decision to “take” from some districts to “give” to others in order to meet aggregate spending targets. Strong facilitation among the poorest districts would improve their chances of accessing resources. Multi-year allocations in poor districts may be an option.

**Facilitation:** To ensure that poor districts can absorb as many resources as possible, promotion and outreach efforts need to be intensified in these areas, including assistance in sub-project preparation.

**Choice of indicators:** The targeting literature suggests that the indicator used to allocate resources should be related to the purpose of the funds. Targeting rules based on income-poverty may not be the best way to allocate what are mostly educational resources. In the case of education and health infrastructure, a facilities map may be just as important as a poverty map.

**Incorporating lessons learned:** Social fund projects and other projects in several countries are developing some of these targeting rules. A review of targeting mechanisms would be useful to enable all social fund projects to adopt good practices.

CHAPTER 3: SUSTAINABILITY OF BENEFITS

WHAT DOES SUSTAINABILITY OF BENEFITS MEAN?

The sustainability of subproject benefits — the extent to which social fund projects continue to produce net benefits as long as intended (or longer) and the resilience to risk of net benefit flows over time — depends on arrangements for ensuring technical quality of subprojects, clarity and awareness of roles and responsibilities for operations and maintenance, and both willingness and ability on the part of the responsible agencies to undertake these obligations.

In most sectors, however, at least some of these elements are beyond the control of the social fund agency and the community. When operation and maintenance of social fund facilities and the quality of service delivery depend on central and/or local governments, social fund activities need to be closely coordinated with them. At an early stage in project design, assessment is needed of the operations and maintenance capacity and constraints in each of the sectors of proposed social fund intervention, including the composition and balance of capital and recurrent expenditure, and projected fiscal capacity. Social funds should not add to the country’s capital stock unless there is adequate capacity to operate and maintain the new (and existing) infrastructure.

REQUIREMENTS FOR SUSTAINABILITY

- **Arrangements for ensuring technical quality.** Ensuring that design is technically sound and appropriate to the local environment and that construction standards are adequate and enforced.
- **Clarity and awareness of roles and responsibilities.** Ensuring that operations and maintenance responsibilities and obligations are clearly specified and that those concerned are aware of their roles and responsibilities.
- **Willingness to undertake operations and maintenance obligations.** Ensuring that those responsible are committed to fulfilling their obligations in operations and maintenance.
- **Ability to undertake operations and maintenance obligations.** Ensuring that those responsible for operations and maintenance have the technical, institutional, and financial capacity to fulfill their obligations.
- **Addressing sector specificity:** Ensuring that the varying technical, institutional, and financial requirements for operations and maintenance of different types of subprojects are adequately addressed.

*There is a very important relationship between social capital and sustainability. There is a need to understand the extent and nature of civil society in the local community as it bears directly on project sustainability.*

*Communities need support in the post-implementation phase. This can mean providing training, supplies, and or funding for rehabilitation of infrastructure.*

—Social Funds Workshop
TRADE-OFFS

- *Open versus closed menu of activities eligible for financing.* The more open the menu of possible investments, the greater the room for choice at the community level, and the more likely that the social fund is financing investments that are the top priority for the community. However, an open menu reduces the potential for efficiency through standardization and specialization, and makes it more difficult for the social fund agency to meet all the sector-specific technical and institutional requirements for sustainability.

- *Rehabilitation versus new construction.* The social fund can minimize the recurrent cost implications of its investments by concentrating on rehabilitating or replacing existing facilities. This constrains the impact of investments in expanding access to services. It may also reduce the scope for community mobilization. And it raises the risk, if the social fund operates over an extended period, that the social fund becomes an expensive substitute for funding maintenance adequately through public fiscal systems.

- *Ownership and capacity building versus quality control.* Projects maximize their community capacity building impact and local ownership of subprojects (meeting the “willingness” requirement above) by delegating responsibilities for subproject implementation and supervision to communities. Communities often lack the necessary technical skills, however, making it more difficult to ensure that the “technical quality” requirement for sustainability is met.

- *Poverty targeting versus sustainability.* The poorest communities are often the least organized and able to ensure the sustainability of subproject investments.

Arrangements for Ensuring Technical Quality

**WHAT ARE THEY?** Measures to ensure that subprojects meet adequate technical standards.

**LESSONS:** Maintaining technical quality requires:

- Design that is technically sound and appropriate to local needs, conditions, and maintenance capacity.
- Effective supervision of construction to ensure that specifications are met for the quality of materials and construction methods.
PROJECT DESIGN OPTIONS

<table>
<thead>
<tr>
<th>Project design option</th>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>Use of standard facility designs for construction.</td>
<td>Efficiencies in design, construction, and quality control.</td>
<td>Subprojects are not tailored to local needs and conditions and may be over- or under-designed for some communities. Less community participation and ownership when not involved in design.</td>
<td>Appropriate for buildings such as classrooms and health facilities, when geographic conditions and materials availability do not vary greatly.</td>
</tr>
<tr>
<td>Use private contractors for construction.</td>
<td>Technical quality is usually higher than when construction is managed by community groups.</td>
<td>Contractors may bias community choice in favor of their own interests. May result in less community participation and ownership.</td>
<td>When strengthening private sector capacity is a project objective.</td>
</tr>
<tr>
<td>Use social fund staff for supervision during construction.</td>
<td>Can ensure effective control of quality.</td>
<td>Expensive and reduces local &quot;ownership.&quot;</td>
<td>When local technical capacity is very weak and objective of infrastructure delivery is higher priority than capacity building.</td>
</tr>
<tr>
<td>Contract external supervisors for supervision during construction.</td>
<td>Allows the social fund agency to stay leaner and more flexible.</td>
<td>Can be costly.</td>
<td>When adequate capacity exists in the private sector.</td>
</tr>
<tr>
<td>Use community volunteers for supervision during construction.</td>
<td>Maximum local ownership. Builds willingness to operate and maintain.</td>
<td>Community volunteers may lack time and/or skills. Quality control weaker.</td>
<td>When building community capacity is priority objective and project provides the necessary training.</td>
</tr>
</tbody>
</table>

Clarity and Awareness of Roles and Responsibilities

**WHAT IT MEANS.** The extent to which roles and responsibilities for operations and maintenance have been clearly specified and are known and understood by all concerned. Responsibilities for operations and maintenance of an infrastructure investment are often shared among several parties, including community groups, such as user associations or parent-teacher-associations, and central and local government agencies.

**LESSONS:** Clarity and awareness of roles and responsibilities depends on:

- Allocating time and resources for consultation, coordination, and information dissemination to clarify operations and maintenance arrangements prior to subproject implementation.
- Including clear description of roles and responsibilities (as well as technical information) in project launch workshops and maintenance manuals.
- Ensuring that legal ownership of the subproject facilities is clear, and is consistent with operations and maintenance responsibilities through, for example, handover agreements.

Willingness to Undertake Operations and Maintenance Obligations

**WHAT IS INVOLVED?** The degree to which those responsible for operations and maintenance value the subproject, want it to be maintained, accept their obligations, and are prepared to put effort into fulfilling their responsibility.
LESSONS: Willingness to undertake operations and maintenance obligations depends on:

- Taking measures to ensure that the subproject selection process produces investments that address top priorities of the community.
- Ensuring participation (especially in decisions on subproject selection and design) at whatever level ownership is most needed for the subproject in question — i.e., where the onus of operations and maintenance resides. Willingness to operate and maintain is closely related to ownership, which in turn is related to degree of participation.

PROJECT DESIGN OPTIONS

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<td>Intensive participation of responsible government agencies in determining priorities and subproject selection.</td>
<td>Ownership at the government level ensures willingness to operate and maintain.</td>
<td>Less ownership at the community level.</td>
<td>For sectors and activities where operations and maintenance depends primarily on government agencies.</td>
</tr>
<tr>
<td>Intensive participation at the community level.</td>
<td>Ownership at the community level ensures willingness to operate and maintain.</td>
<td>Less ownership at the government level.</td>
<td>For sectors and activities where operations and maintenance is largely within control of individual community.</td>
</tr>
<tr>
<td>Enforcement of community contribution to investment costs.</td>
<td>Provides strong indicator of willingness to operate and maintain.</td>
<td>Requires application of variable rates and procedures of contribution depending on the nature of the investment and the poverty level of the community.</td>
<td>Usually appropriate especially when community carries obligations for operations and/or maintenance.</td>
</tr>
</tbody>
</table>

Ability to Undertake Operations and Maintenance Obligations

WHAT IS INVOLVED? Financial, technical, and institutional capacity on the part of all agencies concerned to carry out their operations and maintenance obligations.

LESSONS: Ability to undertake operations and maintenance obligations depends on:

- Determining ability to contribute to operations and maintenance or pay user charges at project identification stage and incorporating this information into the technical design of the project.
- Close coordination of the social fund with responsible government agencies on subproject approvals, backed by complementary measures where necessary, through other channels, for systemic fiscal or sectoral reform. Coordination agreements with line ministries or local governments may be sufficient to secure willingness, but not the actual ability in the face of recurrent budget constraints or a weak fiscal framework.
- Time and resources for training, and community-level organization. Where communities have been responsible for operations and/or maintenance, they have frequently lacked the necessary initiative, organization, and economic resources. Maintenance by communities is a regressive tax.

-Social Funds Workshop
• Ensuring that legal ownership of the subproject property is clear and consistent with operations and maintenance responsibilities.
• Realistic assessment of community financial capacity.

**PROJECT DESIGN OPTIONS**

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<tr>
<td>Concentrate on rehabilitating/replacing existing infrastructure instead of constructing new facilities.</td>
<td>Reduces the recurrent cost implications of social fund activities.</td>
<td>Can have less impact on expanding access. Risks becoming an expensive substitute for adequate arrangements for routine maintenance. Can reduce the scope for community mobilization.</td>
<td>When damaged or depleted small infrastructure is a pressing constraint. As a short-term measure only, to restore infrastructure that has been severely damaged, for example, due to conflict or natural disaster.</td>
</tr>
<tr>
<td>Establish dedicated maintenance fund to cover operational and/or maintenance expenses of subprojects.</td>
<td>Reduces the risk of unsustainability due to fiscal constraints.</td>
<td>Can jeopardize the integrity of national or local budgets. Has no positive impact on the country’s capacity to budget adequately for operations and maintenance in the long run, and risks distracting attention from the need for fiscal reform.</td>
<td>When short-run objectives are paramount, and there is no early prospect of establishing viable fiscal processes.</td>
</tr>
<tr>
<td>Invest in organizational capacity building at the community level.</td>
<td>Builds local organizational capacity for operations and maintenance.</td>
<td>Time-consuming and requires scarce skills for community facilitation.</td>
<td>In sectors (water, irrigation, roads) where user associations or other forms of local organization are needed for operations and maintenance management and/or cost recovery.</td>
</tr>
<tr>
<td>Provide technical training.</td>
<td>Builds technical capacity for operations and maintenance at the level needed.</td>
<td>Can be expensive and time-consuming.</td>
<td>When the necessary skills are not available at the appropriate level.</td>
</tr>
<tr>
<td>Confirm adequacy of community financial and organizational capacity for operations and maintenance, where relevant, prior to subproject approval.</td>
<td>Reduces risk of unsustainability.</td>
<td>Liable to exclude the poorest communities.</td>
<td>When targeting to the poorest communities is not a primary objective.</td>
</tr>
</tbody>
</table>

**Ensuring Sector-Specificity is Addressed**

**WHAT IS INVOLVED?** Measures to address the varying technical, institutional, and financial requirements for operations and maintenance in different sectors and for different types of investments.

**LESSONS:** Addressing sector-specificity requires:

• Ensuring that decisions are made at the appropriate level, depending on the scale and nature of the proposed investment. For example, decisions on investments that serve or that may have implications for more than one community need to be made above the community level.

  * Water is a service that needs to be managed and paid for...It is important to have a real knowledge of community economic demand and commitment to paying recurring costs.
• Involving technically qualified donor and government staff in project design and supervision.
• Ensuring adequate sector knowledge, including sector-specific institutional requirements for operations and maintenance in the social fund agency.
• Ensuring local, regional, and national coordination vis-à-vis (sub)section-specific strategy and policy.

### Project Design Options

<table>
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<tbody>
<tr>
<td><strong>Focus on one or a few sectors (especially construction/rehabilitation of schools and health facilities)</strong> amenable to standardization, where social funds have proved best able to meet sector technical and institutional requirements.</td>
<td>Unit costs can be kept down and the risks of unsustainability are minimized.</td>
<td>Provision of qualified staff, equipment, and the quality of service delivery in the education and health sectors are largely outside the control of the community or the social fund. Sustainability of benefits in these sectors depends on adequate efforts through other channels to address systemic issues at the national and local levels.</td>
<td>When the deficit of social infrastructure is a major constraint to development, and adequate measures are being taken through other interventions to ensure quantity and quality of service delivery.</td>
</tr>
</tbody>
</table>

Box 3 presents the arrangements adopted by the Moldova Social Fund project for ensuring sustainability of benefits.

**Box 3: Moldova Social Fund: Arrangements for Ensuring Sustainability of Benefits**

To ensure technical quality, the social fund supported the promotion and implementation of new performance technologies (e.g., implementation of efficient heating systems in schools, use of non-carcinogenic materials for roofs, water lines, use of energy-efficient pumps with high output, and pilot of local sewerage systems for schools). Technical quality arrangements also included the promotion of new construction norms and standards, e.g., for the installation of heating systems (installation of the boilers into the school building or near the school building), promotion of energy conservation, and space utilization measures — this contrasted with the Soviet past when the trend was to build very large schools with both inefficient and ineffective heating systems. To build capacity in energy conservation and space utilization, the fund has organized 11 workshops at the county level, and one study tour in Sweden for the local public administration and school principals.

Regarding the building of a sense of community ownership, the fund aims to have a clear distribution of the roles between itself and the community. The fund delegated the following responsibilities to the communities: (i) social and technical preparation of the micro-project proposal; (ii) tender organization for procurement of design and construction companies, and local supervisor; (iii) investment collection; (iv) supervision of both quality and quantity of completed works; (v) signing of request for payment; (vi) maintenance and sustainability of the rehabilitated facilities; and (vii) participatory rural appraisal (verification of the quantity of work included in the budget before the micro-project approval, appraisal of community development performance at the post-implementation stage). The fund’s responsibility was to provide financial support up to 85 percent of the project cost, permanent facilitation, and mentoring.
Box 3 (continued)

For operations and maintenance, the agents are the local public administration, community-based agents (e.g., Parents and Teachers’ Association, Gas Users’ Association, Water Users’ Association, and Road Users’ Association), and economic agents. The role of the implementing agency and local public administration consists of: (i) development of the sustainability concept; (ii) identification of potential financial resources; (iii) presentation of the concept to the fund; and (iv) organization of beneficiaries meeting. Usually this meeting includes about 70-100 beneficiaries and a fund community development consultant. The role of the beneficiary association consists of: (i) institutionalization of community-based organization (registration); (ii) opening of a Bank account; (iii) development with local public authorities of a two-year sustainability plan and presentation to fund; (iv) sustainability fund collection; (v) supervision of the quality and quantity of executed works; (vi) receipt of the facility after hand-over; (vii) concluding of an operational management contract with the mayor’s office; and (viii) monitoring throughout the defect liability period of the renovated facility maintenance. The role of the Water and Gas Users’ Associations has been extended by the fund to include responsibility for: (i) collection of the reserve fund (in case some beneficiaries cannot pay); (ii) project extension (procurement of the design company for individual design, procurement of water, gas meters, etc). The fund introduced a procedure specifying that collection of the reserve fund, procurement of meters, and elaboration of design be done before the micro-project approval by the Executive Committee.

With respect to facilitation and mentoring of the implementing agencies, representatives of local public administration in micro-project maintenance and community development, the fund created an institute of community development and monitoring consultants. They are responsible for facilitating and monitoring the communities at different stages of the micro-project cycle and at the post-implementation stage. This facilitation includes: (i) community participation and responsibilities during the micro-project implementation; (ii) micro-project sustainability; (iii) registration of beneficiary association; (iv) financial management; (v) development of the sustainability plan; (vi) further development of the completed project; (vii) information dissemination about other projects and donors, and elaboration of design be done before the micro-project approval by the Executive Committee.

Post-implementation assistance by the fund includes the following: communities that have completed the process of implementing micro-projects, creating Beneficiary Associations and successfully implementing sustainability plans, have the possibility of signing performance contracts with the fund. Thus, the fund and the community enter into a two-year, post-implementation contractual arrangement — with the opportunity for the association to receive a matching grant. The fund also organized a competition between the communities that had completed micro-projects. The main criteria for the competitions were: (i) developing an active beneficiary association; (ii) creating a sustainability fund; (iii) generation of new investments for the project extension; (iv) newly-implemented projects at the community level; (v) level of children’s school attendance; (vi) level of students supported with books; and (vii) level of qualified teachers representatives and beneficiary association members as experts in different community development programs.

Challenges: First, developing the relationships with the ministries in the field in order to promote effective approaches in terms of sustainability at the national level (e.g., change of old norms and standards, reallocation of money from institutional care to community-based social services, etc). Second, developing the new strategy of the fund for monitoring project results, including sustainability at different levels, and disseminating good practices. In this context, social and economic development impact should be measured periodically using quantitative and qualitative techniques. Comparative approaches with the impact of different projects and interventions in rural areas should be encouraged. Third, enhancing the sense of community ownership and participation in decision-making processes by channeling funds from the fund account to the community. This will help the community develop financial management skills, including planning and distribution of resources. Fourth, enhancing capacity building of communities in strategic planning and management of resources, and accountability to communities.

Source: Ludmila Malcoci, Moldova Social Investment Fund Staff.
CHAPTER 4: INSTITUTIONAL IMPACTS ON THE PUBLIC SECTOR

WHAT ARE THEY?

The impacts of social funds on public sector capacity and performance — the capacity to use human, organizational, and financial resources effectively — may be positive or negative, and intended or unintended. They depend on the institutional status of the social fund agency and on the nature of social fund interaction with other agencies. Whether or not a social fund project has specific institutional development objectives, its potential institutional impacts need to be addressed in project design. The design options involve trade-offs that vary depending on project objectives, country institutional conditions, and the sectors of operation. Social fund impacts on NGOs and the private sector are important and should be taken into account, but are not discussed here.

CHANNELS OF SOCIAL FUND INSTITUTIONAL EFFECTS

Social fund projects can affect public sector institutions positively through several channels:

- directly, by allocating resources for training and technical assistance to central or local government (i.e., direct effects);
- or indirectly, through demonstrating new approaches, giving government agencies a role in social fund operations, making communities more effective in demanding government services, or spurring other agencies to improve their performance through competition for resources (i.e., demonstration effects, learning-by-doing effects, demand effects, competition effects).

Competition effects may also be negative, however, when the social fund displaces finance and human resources from other agencies, or weakens their function and accountability by bypassing them, or reduces the pressure for public sector reforms to address poverty more effectively. The challenge is to match project design to objectives and the country context so that positive impacts are maximized and negative ones minimized.

TRADE-OFFS

In terms of institutional effects, three trade-offs in project design are fundamental for consideration:

- Short-term objectives versus long term development impact and institutional objectives. The trade-off between the project’s institutional objectives and the speed and efficiency of subproject implementation needs to be addressed explicitly from the outset. In crisis conditions, when short-term objectives are paramount, the social fund may bypass existing agencies to achieve physical targets as quickly as possible. Achievement of institutional and capacity building objectives, on the other hand, depends on integration or at least close interaction with mainstream agencies, often at
a cost in terms of speed and efficiency in the short term. Unless this trade-off is acknowledged in the prioritization of objectives, and reflected in the performance monitoring plan and staff incentives, pressures to meet short-term physical targets tend to prevail.

- **Autonomy versus integration of the implementing agency.** Autonomy of the implementing agency enables it to demonstrate superior performance but makes it more difficult to achieve sustainable institutional effects beyond the agency itself. Integrating operations as far as possible in existing institutions and processes is liable to make implementation slower and more difficult in the short run, but increases the potential for sustainable institutional development impact.

- **Delegation to communities versus local governments.** Delegation of decision-making and implementation responsibilities to local institutions enhances the potential local capacity building impact of social funds. Specific tasks and responsibilities may be allocated either to community organizations or to local governments. Delegation to communities has a greater impact on community capacity but risks undermining the function and accountability of local governments.

### Direct Effects

**WHAT ARE THEY?** Direct institutional effects are the outcome of specific public sector capacity building activities financed through components of the social fund project. These activities may include training, technical assistance, study tours, and secondment of central or local government staff.

**LESSONS:** Direct effects can be maximized by:

- Recognizing that the impact of capacity building activities depends on the enabling environment and relevant incentives in the target institutions, and tailoring activities and expectations accordingly.
- Taking measures to ensure that capacity building components are not neglected in favor of physical targets, including social fund staff incentives that reward quality of the outcomes of capacity building activities.
**PROJECT DESIGN OPTIONS**

<table>
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<th>Cons</th>
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<tbody>
<tr>
<td>Focus on building capacity of central government staff.</td>
<td>May be necessary for sustainability of the benefits of social fund activities, including institutional impact.</td>
<td>Social funds are not in a strong position to ensure the necessary incentives for training at this level, or to address underlying issues for policy development and the enabling environment.</td>
<td>When administration is highly centralized in sectors in which the social fund is active. And when broader reform issues are being addressed through other channels.</td>
</tr>
<tr>
<td>Focus on building capacity of local government staff.</td>
<td>Staff at this level tend to be more receptive. They can play a significant role in social fund operations and capacity building activities can be directly linked to this role.</td>
<td>Liable to impede speed and efficiency of subproject implementation.</td>
<td>When local governments exist within a viable decentralization framework and are given a role in social fund operations.</td>
</tr>
</tbody>
</table>

**Demonstration Effects**

**WHAT ARE THEY?** Social funds can influence the performance of other agencies by demonstrating the feasibility and benefits of different approaches, methods, and procedures. Demonstration effects are confined by definition to the functions performed by social funds, including poverty targeting, promoting participation and demand responsiveness in public programs, and functions of the subproject cycle. They do not include potential benefits for systemic planning and budgeting or for sectoral policy. At the central level, they can include, for example: wider adoption of management information systems and poverty maps, as used by the social fund; and changes in procurement and contracting procedures, including the adoption of competitive bidding procedures by government agencies. At the local level, institutional effects depend more on learning-by-doing rather than demonstration alone.

**LESSONS:** Maximizing demonstration effects requires:

- Recognizing the constraints. Potential demonstration effects depend to a large extent on factors outside the control of the social fund — prevailing incentives in the public sector and a policy environment conducive to change.
- Coordination mechanisms for approval of subprojects can provide a forum for increasing awareness and understanding of social fund methods and procedures, and can be supported by regular dissemination of information on new approaches geared to the interests of central and local government staff.

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*Social funds can be another voice for change and put pressure on local and central governments.*

*Social funds can facilitate positive behavioral and attitude changes among government staff, facilitating responsiveness to community demands.*

—Social Funds Workshop
## PROJECT DESIGN OPTIONS

<table>
<thead>
<tr>
<th>Project design option</th>
<th>Pros</th>
<th>Cons</th>
<th>When is it appropriate?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent implementing agency.</td>
<td>Makes it possible to build team of result-oriented professionals, adopt and demonstrate new rules of the game for transparent and responsive operation, demonstrate feasibility and benefits of new approaches.</td>
<td>Often creates difficult relationship with mainstream public sector agencies, making new approaches of the social fund not readily transferable. Achievements of social fund tend to be attributed to superior resources and exemption from bureaucratic constraints.</td>
<td>For short-term, emergency objectives, when existing agencies are unable to deliver, or when the social fund is confined to niche or pilot activities. But significant demonstration effects cannot be expected in the absence of specific incentives and a policy environment conducive to change.</td>
</tr>
<tr>
<td>Taking measures to disseminate information to relevant government agencies.</td>
<td>Increases awareness about social fund approaches and methods and may encourage adoption.</td>
<td>Giving the social fund a high profile may attract unwelcome attention and jealousies, and may encourage political pressures.</td>
<td>When the policy environment is conducive to change, and incentives to learn and innovate exist among government agencies.</td>
</tr>
<tr>
<td>Focus on coordination at central level.</td>
<td>Involvement of central staff through steering committees, coordination agreements, etc., can increase awareness/understanding of social fund methods.</td>
<td>Effects depend on adequate capacity and incentives.</td>
<td>In centralized environment.</td>
</tr>
<tr>
<td>Focus on coordination at local level.</td>
<td>Helps make local government staff aware of potential benefits of participatory and transparent methods.</td>
<td>Time-consuming. And may impede social fund’s efficiency when capacity and the decentralization framework are weak.</td>
<td>When significant decision-making is devolved to the local level in sectors in which the social fund is active.</td>
</tr>
</tbody>
</table>

### Learning-by-Doing Effects

**WHAT ARE THEY?** Improvements in the capacity and performance of central or local governments as a result of experience gained in some aspect of social fund operations. These effects are most significant at the local level, where they can include: increased interaction between the population and local government; strengthened technical, administrative, and financial management capacity; and, when local delegates of line ministries are involved, support to deconcentration of government. More rarely, they may include planning and decision-making functions.

**LESSONS:** Learning-by-doing effects can be maximized by:

- Working through existing institutions rather than setting up separate structures for community participation.
- Delegating responsibilities and activities to the extent possible.
- Acknowledging the potential cost in terms of speed and efficiency of subproject processing.
- Aligning social fund staff performance incentives accordingly.
**PROJECT DESIGN OPTIONS**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Central government agencies eligible to submit subproject proposals.</td>
<td>Positive learning-by-doing effects at central level in using demand-driven approaches to project identification.</td>
<td>Subprojects sponsored by central agencies may be less participatory than those sponsored by local institutions.</td>
<td>When scale and nature of investment require central government decision-making.</td>
</tr>
<tr>
<td>Line ministries consulted on subproject priorities, specifications, operations and maintenance through steering committee/cooperation agreement.</td>
<td>The most common and recommended arrangement when the social fund is autonomous. Potential learning effects through exercise of veto power over individual subproject approvals.</td>
<td>In practice, line ministries often lack the capacity or incentives to live up to ambitious coordination agreements.</td>
<td>When social fund is autonomous and operating in sectors where central government carries significant responsibility for operational costs and service quality.</td>
</tr>
<tr>
<td>Line ministries determine priorities and contract implementation to social fund.</td>
<td>Learning effects in ensuring infrastructure investments are in line with sector priorities, strategy, and recurrent budget.</td>
<td>Lose benefits of the demand-driven approach. Less community choice and participation.</td>
<td>When community participation is not a high priority and sustainability depends on ownership at the central level. And when line ministry has viable strategy for sector development.</td>
</tr>
<tr>
<td>Local governments eligible to submit subproject proposals.</td>
<td>Positive learning effects at local level in demand-driven approaches to project identification.</td>
<td>May involve less community participation and initiative.</td>
<td>When a project priority is to build local government capacity and local governments are representative.</td>
</tr>
<tr>
<td>Local governments supervise subproject implementation.</td>
<td>Learning effects at local level in supervision of civil works projects.</td>
<td>Less consistent quality of works, when local government staff lack technical capacity, time, or incentives.</td>
<td>When local government capacity is adequate, and/or project includes relevant capacity building measures.</td>
</tr>
<tr>
<td>Local governments are involved/consulted in decisions on subproject identification, appraisal and supervision.</td>
<td>Learning-by-doing effects in functions of the subproject cycle.</td>
<td>Slows implementation. May leave ultimate responsibility and accountability unclear.</td>
<td>When local governments and the decentralization framework are weak.</td>
</tr>
<tr>
<td>Budget-led planning mechanism, with social fund based inside local government — all functions of the subproject cycle are delegated to local governments.</td>
<td>Maximum learning-by-doing on the part of local governments.</td>
<td>Variations in local government capacity — may have less community participation, efficiency, consistency of quality, speed of implementation.</td>
<td>When a primary project objective is building the capacity of local governments. Viable decentralization framework and adequate local government capacity are in place.</td>
</tr>
</tbody>
</table>

**Demand Effects**

**WHAT ARE THEY?** Demand effects occur when social fund activities generate additional demand at the community level for the services of government agencies, stimulating improvements in the capacity of governments to meet that demand.

**LESSONS:** Significant demand effects depend on:

- Extending engagement at the community level, usually beyond a single subproject.
- Concurrent efforts (through the social fund or other channels) to improve the means and capacity of governments to respond to community demand.
### Project Design Options

<table>
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<tr>
<th>Project design option</th>
<th>Pros</th>
<th>Cons</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Focus on direct delegation of decision-making and responsibility to communities, supported by facilitation, training, etc.</td>
<td>Potential positive impact on community capacity and demand for services/accountability of government agencies. When no viable decentralization framework exists, can have catalytic effect in demonstrating feasibility of local decision-making.</td>
<td>Does not address capacity constraints in local government and can undermine their budgeting functions.</td>
<td>When functioning local governments do not exist and/or when lack of community organization and participation is seen as the key constraint to effective decentralization or improving service delivery.</td>
</tr>
<tr>
<td>Focus on delegation of decision-making and responsibility to local government.</td>
<td>Can improve responsiveness, and participatory approaches of local government.</td>
<td>Less impact on community capacity and organization.</td>
<td>When capacity and responsiveness of local government is a more significant constraint to effective decentralization than community capacity.</td>
</tr>
</tbody>
</table>

### Competition Effects

**What are they?** In so far as social funds establish parallel channels of public development assistance, they compete with mainline public sector agencies for financial and human resources. The potential institutional effects of this competition are both positive and negative for central and local governments:

**Positive:**
- Social funds attract additional donor resources, facilitate partnerships, and mobilize underutilized non-government resources.
- Public agencies are stimulated to improve their own performance in order to stay in the competition for resources and power.

**Negative:**
- Displacement of resources in favor of the social fund undermines the functions and accountability of existing public agencies, as they withdraw from tasks and responsibilities that the social fund is taking on.
- The impact of social fund operations reduces the perceived urgency of reforming public sector institutions and decentralizing governance to address the needs of the poor.
- The social fund impedes ongoing efforts at central and/or local levels to reform budgetary and sector planning processes by bypassing these processes.
- The social fund distorts the balance of resource allocation, at local or national levels, in favor of infrastructure investment in its sectors of specialization, and exacerbates any existing bias toward capital over recurrent expenditure.
- The social fund inhibits transparency of the inter-governmental fiscal framework and inhibits effective local planning.
- Susceptibility of the social fund to political pressures encourages clientelism and undermines the fairness principle of governance.
Social funds are not necessarily in competition with the public sector, including governmental ministries and agencies. In some cases, there is a positive impact and synergy with local, regional, and national governments. Government must have the desire for public sector reform. If the government is not reform-minded, social funds cannot do much.

Social funds are not necessarily apolitical. Social funds can be hijacked for political purposes. They can go either way.

If social funds bypass democratic local government, a strange situation may ensue in which local councils groan under the burden of un-funded/under-funded mandates at the same time and in the same place where institutions connected to social funds have to cope with generous funding from an agency with no mandate.

In some countries, social funds work through local democratic structures, providing localities with significant decision-making powers. But social funds don’t do this in many countries where they exist... In this context, serious damage could be done to democratic local government.

--- Social Funds Workshop

LESSONS:

To maximize positive competition effects requires:

- Establishing both the means and incentives for competitive effort. For example, delegate decision-making authority and allocate grants to local governments on the basis of transparent indicators of their performance, and support this through direct capacity building activities.

To minimize negative competition effects requires:

- Basing project design on full country institutional assessment. Integrate social fund operations as far as possible in existing institutions and processes, including planning, budgetary, and accounting processes, at central and local levels.
- When autonomy of the fund is considered essential, ensuring close coordination with relevant line ministries — on technical standards, investment priorities, targeting, recurrent cost implications, and other functions — through:
  - line ministry representation on social fund steering boards;
  - framework agreements defining cooperative arrangements;
  - requiring line ministry endorsement of all subproject approvals.
- Recognizing the limits of coordination mechanisms. When public sector capacity is weak, these are unlikely to be sufficient to ensure that social fund investments are integrated in sound sectoral policies and public investment strategies.
- Working through local governments where these exist.
- Coordinating closely in project design and supervision with relevant sector specialists, within the government, and in donor agencies, to ensure that social fund operations are

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Negative effects with regard to public sector reform could be minimized by ensuring simultaneous reforms, including civil service reform. The social fund program must be implemented together with, or in parallel to, administrative reforms. Donors and governments tend to do community development separately — there should be an end to this. All stakeholders engaged in the reform process should work together, think through the issues, and address what is needed.
consistent with sector strategies and other sector interventions.

- Involving public expenditure specialists and ensuring (from the outset and through regular monitoring) that the proposed scale and sectoral distribution of social fund investments is contributing positively to the overall structure and efficiency of public investment, including the balance between capital and recurrent expenditure.

- Watching the scale of social fund investments in relation to public expenditure at central and local levels.
- Avoiding the substitution of core government functions over an extended period, and agreement on an exit strategy.
- Protecting the social fund from political pressures.

**PROJECT DESIGN OPTIONS**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Use autonomous implementing agency, independent of line ministries and exempt from civil service regulations (recruitment, staff terms and conditions, procurement and disbursement procedures).</td>
<td>By avoiding bureaucratic constraints, can pay competitive salaries for high-quality and motivated staff, promote innovation, and introduce more efficient and participatory methods.</td>
<td>May displace scarce skills from existing public agencies. Salaries and other privileges cause resentment. Parallel structure creates difficult relationship with mainline central, regional and local public agencies. Coordination mechanisms may help but responsibility and accountability remain unclear. Can undermine planning and budgeting processes and public sector reform initiatives.</td>
<td>In crisis conditions when existing institutions cannot deliver and speed of implementation is more important than institutional development. Or where social fund is limited to functions that do not overlap significantly with core government functions — goods and services financed by the social fund are not public ones for which governments are accountable.</td>
</tr>
<tr>
<td>Social fund acts as contractor for central (or local) government instead of inviting proposals.</td>
<td>Ensures consistency with sector strategy and budgetary processes. Supports accountability of responsible agencies by keeping decision-making on resource allocation and investment priorities in their hands.</td>
<td>Less community choice and incentives for participation.</td>
<td>When the social fund has demonstrated efficiency in delivering infrastructure, and when the line ministry (or local government) concerned has sound strategy with clear prioritization of infrastructure investments.</td>
</tr>
<tr>
<td>Integrate social fund in local government, providing technical assistance for management of subproject cycle.</td>
<td>Supports decentralization and local government capacity.</td>
<td>Implementation is likely to be slower and less efficient.</td>
<td>When the government is clearly committed to decentralization and complementary measures are being taken to build local government capacity.</td>
</tr>
<tr>
<td>Exclude schools and health facilities from the menu of potential social fund investments.</td>
<td>Avoids risk of undermining core public functions of addressing basic health and education needs.</td>
<td>Greater complexity of other types of investment, with less scope for standardization, puts pressure on quality of subprojects and/or speed of implementation.</td>
<td>When country conditions call for rationalization and consolidation of health and education infrastructure.</td>
</tr>
</tbody>
</table>
Restrict social fund to single sector.  Makes coordination and integration easier — with relevant government agencies, and other programs in the sector.  Community choice is limited to alternatives within the sector.  When there is a clear need in a specific sector to support community-based initiatives — to complement more supply-driven interventions.  Limit project activities to community facilitation and provision of goods and services that are outside core public sector functions.  Avoids risk of undermining public sector functions.  Limits potential scope of impact.  When public agencies are relatively effective or strong and promising efforts are underway for public sector management reform.

Box 4 presents an example of engaging local government in Zambia. Three consecutive social funds strengthened local institutional capacity by proactively engaging local governments — replacing an “empty” local planning process with the provision of resources and involving the local government in the management and supervision of those resources.

**Box 4: Zambia Social Funds: Engaging Local Government**

In the Zambia Social Recovery Project II, funds were sent directly to the communities. This had the beneficial effect of enhancing community ownership of the investments. But communities did not have adequate skills to implement the projects quickly and efficiently. They lacked adequate technical, financial, and management skills associated with project-cycle activities. This approach also tended to undermine the responsibility of the local government in the process of development and erode the trust of the communities in the local governments to provide social and economic services. The social fund was thus perceived to be a threat and a competitor to the local government. Further, the fund tended to supplement local government efforts, but there was no real link between them. The end result was that the local government staff felt frustrated and marginalized.

During the mid-term review of the project, various studies were conducted and helped to play a major role in identifying and analyzing problem areas. Capacity building activities in the form of on-the-job training and workshops were conducted for local government staff and communities. Guidelines and project implementation manuals were developed, and training was conducted. Desk appraisal committees in each district were formed under the chairmanship of the local governments. Field appraisals and project launch workshops were organized and headed by the local governments.

But certain institutional problems had to be addressed in order to build strong and reliable partnerships, and to ensure that the local governments played their role effectively and efficiently. The objective was to provide capacity building and institutional support in order to gradually transfer functions and responsibilities from the social fund to the local government and communities without compromising quality.

There were linkages at three points which required addressing and strengthening: (i) between the fund and the local governments; (ii) between the local government and the community; and (iii) between the local government and the central government.

The following problems and bottlenecks at the local governmental level were identified as impediments to establishing strong and reliable partnerships between the social fund, local governments, communities, and the central government: (i) the structure and development system in the local governments made institutional linkages difficult; (ii) very few local government resources to use for developmental activities, e.g., transport, funds, skilled personnel, poor revenue base, etc.; (iii) no legal framework to support the local governments (decentralization policy); (iv) inadequate skilled manpower in the local governments and the line departments (central government); and (v) poor planning because information and data were not properly stored, recorded, and analyzed in order to be useful in resource allocation for development.
Box 4 (continued)
The next steps for the fund were to address these issues by conducting the following activities: (i) Desk Appraisal Committees were formed in each district to approve applications, monitor projects and give technical support to the communities. This responsibility was placed under the local government, but the membership was drawn from all stakeholders in the district; (ii) capacity building activities (workshops and on-the-job training) in general project management, technical and financial management were continued; (iii) Manuals (e.g., project implementation, maintenance) were improved and made available and; (iv) financial support was also given to the local governments for appraising, launching, and evaluating proposals.

The Zambia Social Investment Fund (ZAMSIF) which followed the Social Recovery Project II aims to further extend the institutional gains. The subproject approval process of ZAMSIF involves all members of the District Development Coordinating Committee as well as the elected local government — the District Council. ZAMSIF also directly allocates resources to districts according to the poverty profile. ZAMSIF aims to build the capacity of provincial governments to monitor district performance and report to the National level. The ZAMSIF National Steering Committee addresses sector policy issues and its members include Permanent Secretaries from all social sectors and provinces.

Challenges:

- Decentralization policy has yet to be fully implemented by the government.
- Segmentation or donor “flags” on development tend to confuse local governments and communities.
- Donor dependency by the districts is still very high.
- Poverty reduction is not progressing as rapidly as envisaged.
- Coordination, information flows, and reporting horizontally and vertically will continue to be a challenge as long as the government’s decentralization policy is not implemented, and the roles of local government and district sector ministries remain unclear. This situation will tend to slow down the impact of the capacity building efforts of the fund.
- Capacity building and poverty focus versus physical targets. Pressures to meet short-term physical targets, in terms of numbers of projects financed and funds committed and disbursed, tend to prevail. There remains a tendency to support larger projects, which use contractors, as well as a tendency to approve by districts, as proposed by communities, of “easier” projects, typically education and health. The opportunities to learn-by-doing, build capacity and form social capital are missed. In addition, maintaining a poverty focus and mainstreaming HIV, gender, and the environment into project activities remains a challenge as the pressure to increase the speed of implementation remains. Communities that are better-off and have some capacity tend to access the information and support before the more remote, poorer and less able communities.
- The HIV/AIDS pandemic has had a devastating effect at the local level, undermining capacity building efforts. A recent assessment found that very few of the local government and district staff trained in facilitation skills were to be found 3 years later. Sickness and deaths from HIV/AIDS, retirement, and transfers were the reasons given.
- Collecting information and analyzing it (monitoring and evaluation) to assess the impact of the capacity building activities on development remains a weakness. An effective decentralized information system, which monitors critical indicators and informs districts, provinces and the Social Fund itself, is an outstanding challenge.

Sources: Cosmas Mambo, Program Director, Zambia Social Investment Fund and Clare Barkworth, Social Development Consultant, Zambia Social Investment Fund.
Box 5 highlights the importance of getting the incentives right.

**BOX 5: INCENTIVES AND INSTITUTIONAL DEVELOPMENT**

**Incentives**
- Positive and negative expectations of individuals affect their behavior.
- Incentives result from individuals interacting in the context of formal and informal rules, norms, and from biophysical processes.
- Incentives involve values including power, respect, and knowledge as well as financial rewards.

**Collective Action Dilemmas**
- Efforts to achieve joint outcome that requires contributions from multiple actors.
- If benefits can be obtained by an actor without a contribution, a temptation always exists to free-ride on the efforts of others.

**Coping with Collective Action**
- Rules and norms are ways to reduce the temptation to free-ride.
- To be effective, rules must be considered legitimate, fair (within cultural views of fairness which evolve over time), and broadly consistent with widely shared norms.
- Rules and norms must be common knowledge.

**Conformance with Rules**
- Conformance needs to be monitored and sanctioned regularly.
- Sporadic monitoring considered by most participants to be unfair.
- Simply passing formal laws is never sufficient.

**Aid and Development**
- Traditional "gap" theories — presumed that a mere transfer of resources would produce development.
- Inappropriate incentives were more important than lack of funds.
- Aid can be used to enhance the performance of institutions and the creation of appropriate incentives.

**Incentives and Social Funds**
- How do future plans for social funds change the incentives of national officials, local officials, NGOs, contractors, citizen groups, and donor representatives?
- Demand-driven competition generates efficient signals in some institutional settings but not all.
- What dynamic does demand-driven competition for donor funds generate?
- Funding subprojects in the short term gets physical capital built. How does public entrepreneurship get built for the long term? Getting the incentives right is a major challenge.

CHAPTER 5: COMMUNITY CAPACITY AND SOCIAL CAPITAL IMPACTS

WHAT ARE THEY?

Social fund projects have increasingly assumed explicit objectives of building capacity or social capital at the community level. Three types of potential impact can be distinguished:

- *Skills enhancement of community members.* Community members learn new skills — in subproject identification, implementation, accounting, organizational management, construction, maintenance — through receiving training or technical assistance under the project, or through learning-by-doing when they participate in social fund activities.

- *“Bonding” social capital impacts.* Improvements in social cohesion and the capacity for future collective, community-based initiatives.

- *“Bridging” social capital impacts.* Improvements in the community’s links with outside entities.

- *Negative social capital impacts.* Some interventions may actually harm social capital. For example, in stratified or conflict-ridden communities, financing of subprojects sponsored by a particular group may be seen as unfair by the other group and may exacerbate existing divisions and tensions within the community.

Box 6 below explains some social capital concepts and Box 7 presents different kinds of community capacity building and social capital.

**Box 6: SOCIAL CAPITAL: SOME CONCEPTS**

**Determinants of Development**

*Classical View:* land, labor, and **physical capital** (i.e., income generating assets) are the basic determinants of economic growth.

*Neo-classical View:* **human capital** is important in that a society’s endowment of educated, trained, and healthy workers determines how productively physical capital can be utilized.

*Contemporary View:* **social capital** helps realize the full potential of both physical and human capital by enabling individuals to combine their assets and skills in a spirit of trust, cooperation, and commitment to common objectives.

**Defining Social Capital**

Social capital refers to a community’s capacity for collective action.

Bonding social capital refers to a community’s internal cohesion and networks within the community.

Bridging social capital refers to the community’s external links and connections with the outside, for example, with other communities or government.

The poor may have a significant stock of bonding social capital that they leverage to *get by*, but they may lack bridging social capital which the non-poor typically use to *get ahead*.

BOX 7: DIFFERENT KINDS OF COMMUNITY CAPACITY BUILDING AND SOCIAL CAPITAL

The different kinds of community capacity building include at least the following:

- Helping to develop incentives to make public officials more receptive to the voice of citizens (not just that of large, organized interests).
- Helping the community to learn how to build local entrepreneurship and develop better problem solving skills.
- Encouraging public entrepreneurship within the community and the capacity to solve future problems.
- Enabling better book-keeping and financial control by the community.

Building social capital is necessary to make physical infrastructure effective and sustainable over time. One needs to unpack the various types of social capital, however, as they may have different impacts.

- How do communities learn to organize themselves to accomplish their own goals?
- What incentives do the builders of social capital themselves face (e.g., donors, traditional chiefs, prime movers etc)?
- What type of social capital is really built in a program?
  - Creating networks of mutual trust and reciprocity?
  - Cooperative endeavors aided by strategically important external funding?
  - Cooperative project seeking from donors?
  - Is all of the created social capital oriented toward gaining external help?

—Elinor Ostrom

TRADE-OFFS

- Speed and predictability of implementation versus depth of community involvement. Community mobilization can be extremely time-consuming and is not susceptible to deadline targets. Local availability of facilitators with the necessary skills may be more of a constraint than availability of funds.
- Standardization of processes versus adaptation to local initiative. Standardization of subproject cycle procedures and processes allows efficient and transparent operation, but limits the scope for adaptation to existing local level decision-making processes and for strengthening these through local initiative.
- Quality of infrastructure versus community development. Focus on community development requires delegation of initiative, decision-making, and responsibility for implementation to the community. However, gaps in the necessary information, knowledge, technical and managerial skills at the community level are liable to negatively impact the quality of the civil works carried out.

LESSONS

Impacts in building community capacity and social capital can be maximized by:

- Allowing time and resources for intensive engagement, facilitation, and, if necessary, training at the community level.
• Combining capacity building activities with learning-by-doing. Facilitation or training for its own sake with no tangible outputs to work towards can have limited impact.
• Delegating responsibility for relevant decisions, activities, and management of funds to the community level with any necessary technical assistance and checks and balances to prevent elite capture.
• Matching social fund staff skills and incentives to community development objectives.
• Ensuring that project structures and processes are rooted in — and build on — existing community traditions where these are equitable and effective.
• Continuing to monitor and support community collective activities after subproject completion.
• Evaluating outcomes of specific technical or organizational capacity building activities and using them to improve ongoing and future efforts.

**PROJECT DESIGN OPTIONS**

<table>
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<tbody>
<tr>
<td><strong>Focus project resources, staff skills and incentives on community mobilization and community management with infrastructure delivery being a secondary objective, and extending engagement beyond an individual subproject.</strong></td>
<td>Prospect of sustainable improvements in community capacity and social capital.</td>
<td>Loss of speed and efficiency in delivering infrastructure.</td>
<td>When community development objective is higher priority than infrastructure delivery. When &quot;bonding&quot; social capital is identified as a major constraint.</td>
</tr>
<tr>
<td><strong>Focus project on single sector, or single identity shared across communities (e.g., farmers' associations).</strong></td>
<td>Can be effective in building &quot;bridging&quot; social capital, facilitating creation of inter-community ties (e.g., among farmers' associations across communities) and increasing leverage of the poor in dealing with state managerial structures and other external institutions.</td>
<td>Depending on the sector or interest group, may do less to address priority needs and cohesion of the community as a whole.</td>
<td>When lack of &quot;bridging&quot; social capital is identified as a major constraint.</td>
</tr>
<tr>
<td><strong>Use in-depth participatory research to assess community needs instead of simple invitation of subproject proposals.</strong></td>
<td>Allows more comprehensive participatory process and can encourage new thinking at the local level on ways to address priority needs. Allows emergence of &quot;prime movers&quot; in new sectors and activities.</td>
<td>Time-consuming and depends on scarce facilitation skills.</td>
<td>When the project is focused on long term objectives including community capacity building. In stratified, heterogeneous communities with high levels of social exclusion. And when consensus on priority needs and the best way of addressing them is difficult to reach.</td>
</tr>
<tr>
<td><strong>Rely on traditional community structures and organizations (versus creating new ones).</strong></td>
<td>Using traditional community structures and organizations may save time and have greater ownership.</td>
<td>Traditional community structures and organizations may exclude the least organized communities or households.</td>
<td>When traditional community structures and organizations are equitable and inclusive in their decision-making and distribution of benefits.</td>
</tr>
</tbody>
</table>
Box 8 presents some lessons of experience with respect to building social capital and Box 9 discusses social funds and empowerment.

**BOX 8: SOCIAL CAPITAL: SOME LESSONS**

**Main Channels Through Which Social Capital May Be Enhanced**

- Social capital may be enhanced through collective action by community members in undertaking the following project activities: selecting priority investments, designing and implementing project investments including procurement and contracting of goods and services, undertaking operations and maintenance of the investment, and monitoring and evaluating project inputs and outcomes. Social capital effects will be high or low depending on the level and nature of community engagement in these various project activities.

- The exact degree and nature of collective action to be supported through a project should derive from the project’s objectives, nature of investments, and the community’s initial conditions with regard to social cohesion (in overly divided communities, community involvement in project activities will have to be carefully planned and may be more modest than in cohesive communities). Not all goods and services are best managed through collective action at the community level.

- Unless the nature of collective action is equitable, all members of the community perceive their interests to be fairly served, and any conflicts (say from misappropriation of community resources by project committee members) are amicably resolved, social capital may fail to be enhanced—and may even be depleted.

- Project committee members will typically be more engaged in a number of the project activities and may gain more than the community at large. But it will generally be important to ensure that participation is broad-based and any capacity or social capital benefits accrue to more than just a handful of project committee members.

- In addition to learning by doing, social capital may also be enhanced through formal training, say in project management or in technical skills, provided by a project agency to community members (either directly or through NGOs and other agencies contracted by it).

**Desirable Characteristics and Activities of an Agency Aiming to Support Social Capital Building**

- An agency that aims at supporting community capacity and social capital will have a significantly different role at the community level compared to one that aims at service delivery. When building community capacity and social capital is the key goal, the agency should facilitate—not lead—the process by which community groups assume control and authority over decisions and resources. Such a facilitation role would have the following implications for the agency’s orientation and activities:

  - The agency should understand how decision-making and demand expression takes place in the community, and should support the process making sure that the community remains in charge and the process is inclusive of different community members.

  - The agency should offer options and choices to the community including about types of investments, technology, and service levels, and provide impartial information about the costs of each option, associated community obligations, project objectives, funding criteria, and rules of engagement and disengagement—leaving the final decisions to the community.

  - The agency should clearly specify roles and responsibilities of each actor during each stage of the project cycle. Communities should be fully aware of, and accept, their roles and responsibilities.

  - Agency staff skills, incentives, and rewards should support community control and capacity building rather than speed of infrastructure delivery. This is particularly important since the success of projects aiming at social capital building is influenced by staff behaviors that are not typically part of bureaucratic cultures.

  - The agency should be clear about its ends versus means, for example, whether social capital building is its end or only a means to other objectives. When tough decisions and choices are to be made, the agency should be driven by its ends.

  - The agency should focus not only on building the community’s technical capacity but also its organizational skills. The poorest members of the community may not be able to articulate demand, and special mobilization and training will be necessary to help them express demand and collectively develop project proposals.
Box 8 (continued)
Risks and Challenges

- Agency's social capital building goals should be reflected in its performance indicators. The agency must collect and use data on indicators such as: (i) the extent to which the new social networks that are created are inclusionary; (ii) the speed with which a community agrees on a decision; (iii) the ease of enforcing responsibilities and obligations; (iv) the nature and effectiveness of conflict resolution mechanisms; (v) the extent to which the newly created social networks are utilized in activities beyond the project; (vi) and the extent of new community links with those outside the community, for example, members of other communities, government officials, etc (bridging social capital).

- When a project aims to respond to community demand, it introduces greater uncertainty than is usual in projects where most decisions have been made by the end of project preparation. Projects cannot be responsive to demand if they are predetermined. The agency must be flexible enough to respond effectively to community demand.

- Social capital effects can be negative. They include resentment among some groups within the community because of the perception of favoritism by decision-makers, the emergence of exclusionary networks (elite capture), or the exacerbation of conflict within different groups in the community over the choice of an investment, its location, or a contractor. Mechanisms will be needed to ensure that the decision-making process within a community is democratic and perceived as being fair, and there are effective conflict resolution mechanisms to address any differences among community members.

- When working with poor communities it is very easy for intermediary organizations to take over the decision-making process or to impose on poor clients their perspective of priorities. For example, in northeast Brazil, while the official menu of investment options in a Bank project included 100 items, the technical background of agency staff and consultants (primarily agriculturalists in that case) influenced communities to choose agricultural projects over other options.

- The poor and marginalized groups typically lack a “voice” and are at particular risk of being left-out-of, or inadequately heard in the participatory process. Special efforts will be needed to involve them in key project decisions. Local organizations that have traditionally excluded indigenous groups, women, youth, or other minority groups will not automatically involve or benefit such groups.

- Giving communities responsibility for implementing projects runs the risk of poor technical execution and manipulation by contractors. It can also result in a bias towards small and simple community investments (rather than more complex ones that the community may most benefit from).


Box 9: SOCIAL FUNDS AND EMPOWERMENT

Social funds have to incorporate four principles of empowerment if they are to achieve community capacity development: (i) Access to information. Information is power. Informed citizens are better equipped to take advantage of opportunity, access services, exercise their rights, and hold state and nonstate actors accountable. (ii) Principles or mechanisms of inclusion and participation. Inclusion of poor people and other excluded groups in decision-making is critical to ensure that limited public resources build on local knowledge and priorities, and bring about commitment to change. (iii) Social accountability, i.e. accountability of governments to communities. State officials, public employees, private providers, employers, and politicians must be held to account, making them answerable for their policies and actions that affect the well-being of citizens. (iv) Local organizational capacity. This refers to the ability of people to work together, organize themselves, and mobilize resources to solve problems of common interest. When membership-based groups federate at higher levels, they can gain voice and representation in policy dialogues and decisions that affect their well-being.

One of the measures taken in the Thailand Social Fund to address sustainability is through creating a network of learning among the provinces, villages and tambons (administrative units), and between villages and tambons. A web page is being built for network learning using the community-based approach.

There are three types of community groups: self-formed or natural groups; (2) project-created groups (project committees); (3) groups tied to local governance (gram panchayats as in India). This third type is important for long-term and sustainable improvement in governance.

Box 10 illustrates the various measures adopted by the Romania Social Fund to build community capacity and social capital.

**BOX 10: ROMANIA SOCIAL DEVELOPMENT FUND: MEASURES TO BUILD COMMUNITY CAPACITY AND SOCIAL CAPITAL**

The Social Development Fund (SDF) project in Romania seeks to contribute to poverty alleviation in the poor, small and isolated rural communities that usually have a passive population. During the recent communist past of the country, like in other East European countries, freedom was repressed, association was banned, collective action was forced and thus perverted, civil society was destroyed and people became suspicious, not trusting each other as well as the authorities. The Romanian SDF responded by aiming to promote social capital enhancement and civic engagement.

It adopted several measures to achieve this objective: (i) proposals for sub-project financing are accepted only if communities can bring evidence that community members have met, discussed their problems, established priorities and selected a sub-project that will respond to their needs, communities have registered signed minutes of the meetings with the mayor’s office, and thus obtained legal status in their relationship with the Fund; (ii) poor communities from the poorest counties receive facilitation, facilitators are local people who were trained in community capacity building, they contact community members and help them come together, listen to each other, express their demands and agree on priorities; (iii) once a proposal is approved, the elected leaders of the community based organization (CBO) are trained by the SDF on community organization, project management and implementation; (iv) communities implement sub-projects, by being the recipients of the grant and doing all procurement; (v) the sub-project cost is partially covered from community contribution (in kind or cash); (vi) appraisal and supervision by the Fund is conducted in a formative manner, appraisers and supervisors are trained by the Fund in order to give up patronizing behaviors and adopt positive, constructive attitudes; (vii) facilitation is also conducted during sub-project implementation whenever the social dynamic of the community needs it; (viii) SDF supports networking and knowledge sharing activities for the participating communities.

The idea is that local governments that are not always responsive and accountable and, in some cases, are bureaucratized and corrupt, would be challenged by active community members. A bottom-up pressure for change would thus be exercised. The experience of working together has led to an increased community cohesion and voice. Partnerships with local authorities and NGOs were also strengthened.

SDF is an Adaptable Program Loan (APL). Beneficiary assessments contracted by SDF after the first phase of the project indicated an increase in social capital (both bonding and bridging). Further social capital monitoring and evaluation activities are planned during the second phase of the program currently under implementation.
Box 10 (continued)
Challenges:

The Romanian Social Development Fund (RSDF) faces several challenges:

- Scaling up the community driven development approach and influencing the national and regional poverty alleviation strategies and implementation plans;
- Coping with the pressure induced by many requests on the institution to serve as implementation unit for several projects, given the fact that the law establishing RSDF put a ceiling on the permanent staff of the fund (35);
- Broad diffusion to policy makers of the information available to the fund from grassroots activities;
- Supporting networking activities, such as productive associations of recipients of income generating activity grants.

Source: Ana Maria Sandi, Romania Social Development Fund Project Task Manager.