



Publication of the World Bank Administrative and Civil Service Reform Thematic Group

# Working on Administrative & Civil Service Reform



NOVEMBER 2001

VOL. 1 NO. 2

space

## Inside This Issue:

space

World Bank & IMF  
Generating Consensus  
on Approaches to Civil  
Service Reform

A Debate on Social  
Funds: empowering  
communities for  
development or charity  
relief in disguise?

The World Bank's  
Poverty Reduction  
Support Credit (PRSC)

New Resources  
Available on the  
Administrative &  
Civil Service Website

Sharing Knowledge on  
Governance

Recent Developments  
in Advisory  
Organizations

Upcoming Conferences

HOME

Go To ACSR Website

Previous Issues



## A Debate on Social Funds: empowering communities for development or charity relief in disguise?

- At the Heart of the Matter: Differing Views of the Public Management Impact of Social Funds
- Social Funds: Communities Taking the Lead
- What's Wrong with Social Funds?

If you wish to comment on any of the arguments presented here, please reply to [civilservice\\_mail@worldbank.org](mailto:civilservice_mail@worldbank.org).

### At the Heart of the Matter: Differing Views of the Public Management Impact of Social Funds

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There are some credible propositions maintained by public sector specialists that Social Funds have a corrosive effect. There are some equally credible arguments that any external damage is marginal relative to the immediate benefits from establishing a social fund. Either case could be correct and doubtless both are at different times.

The strongly held but unproven suggestions that Social Funds can bolster weak public management arrangements can be summarized as follows:

1. Social Funds may represent an improvement in accountability (through external audits, use of Board of Directors, direct accountability to community members, more open information and reporting to the public) particularly when existing reporting and audit systems are weak.
2. Social Funds have increased the efficiency of public expenditures (lower overheads, faster disbursements, lower unit costs).
3. Social Funds present demonstration effects in public sector management (through competitive recruitment and remuneration of staff, use of performance objectives, routine client feedback surveys, etc.).
4. Social Funds have increased the amount of resources going to investments among target populations that would not have been

served otherwise, and through offering sectoral choice and direct voice to the local level, increase the allocative efficiency of public investment.

The persistent but unproven public management allegations concerning Social Funds are:

1. Social funds poach staff from existing agencies and pay significantly higher wages, thus creating unmanageable tensions and resentments with existing public sector staff.
2. Social funds have greater financial autonomy and may be less accountability to government than other spending units. They may not be subject to the same frequency or style of audits, may follow different reporting practices regarding commitments and balances, may be more insulated from the Ministry of Finance and thus limit government fiscal flexibility necessary for macro adjustment.
3. Social funds implementing large programs or overlapping with mainstream implementation of government programs can suffer from lack of accountability and lack of coordination with sectoral strategies, including problems with recurrent cost financing.
4. Social funds can undermine the development of local government by channeling public resources elsewhere and reducing the share of local expenditures undertaken by local government and subject to local accountability; fragmenting local government planning; disconnecting financing of investment and maintenance costs; and even where local governments are involved, creating a soft budget constraint thus reducing local accountability

These claims remain unsubstantiated and these allegations remain unproven because of basic gaps in the available data. We do not have enough quantitative data or practitioner insights to provide a clearer picture.

We encourage debate on this topic, and hope to stimulate more objective descriptions of the public management impact of Social Funds. To start the debate, we include two opposing views.

### **Social Funds: Communities Taking the Lead**

**▲TOP**

Julie Van Domelen, The World Bank

Social funds have proven to be a creative complement to "top down" programs that have long been a mainstay of development thinking. By giving communities the power to identify and implement their own local development priorities, social funds have given voice and responsibility to local organizations. As such, social funds are similar to other efforts in both developed and developing countries that promote decentralization of control through a wide variety of alternative service delivery mechanisms as part of reform and modernization of the state.

The results are compelling. Central governments finance small-scale initiatives and projects at the community level which are identified and carried out by local governments, line agencies, NGOs and/or community groups. These local investments have expanded access to primary schools, health facilities, water

supply and sanitation, improved rural roads, provided opportunities for training and other social services, benefiting millions of people. This increased access had been accompanied by higher quality service delivery and increased utilization, resulting in improvements in well-being of the poor.

Over the last ten years, there has been a great deal of adaptation and experimentation in the basic model. With its origin in addressing the social costs of economic adjustment, the social fund approach is being applied to emergency employment creation, natural disasters and post-conflict reconstruction, longer-term poverty reduction, support to decentralization and social capital creation, depending on country circumstance. As objectives have evolved, so, too, has institutional design. In some countries, social funds are merging with the decentralization process, as in Bolivia where the social fund operates entirely through the municipal planning and budgeting process. In other countries, social funds are bringing communities more directly into the development process, improving local governance from the bottom up, and strengthening civil society, particularly in post-conflict and transition economies. There is no "one size fits all" blueprint of a social fund because no single set of objectives or institutional arrangements is appropriate in all contexts.

Does this 'undermine' the public sector or is this an example of reform of the public sector? One of the main criticisms has been that social funds represent 'enclaves of excellence' that operate outside of government. According to a survey carried out by OED, the most common institutional arrangement was under the Prime Minister or Presidency, but this only applied to about 40% of the cases. The second most likely spot was under a ministry (sector or core) at 20%. In addition, there are several social funds that are fully domestically-financed and created as on-going programs of sectoral or core ministries. Legal autonomy is not intrinsic to the model, but rather a reflection of institutional contexts, government (and donor) preferences and program objectives in each country - and may vary over time in the same country.

Even with autonomous agencies, almost all of the social funds surveyed, expenditures were included in the national budget process and audited by the government. A Board of Directors comprised of key Ministry and civil society representatives typically guides the operations of the social fund to ensure transparency and coordination within the public sector. Social funds often use competitive pay, hire based on merit, use term contracts, and sub-contract key services to NGOs, community groups and the private sector. They have also introduced modernized procurement practices. While this may be viewed as 'distorting' or 'undermining' unreformed segments of the public sector, such approaches have been at the core of administrative and civil service reforms worldwide.

Some also question the appropriate role of the local level and civil society in the development process. The criticisms range from 'transferring any responsibility to community based organizations undermines the prerogatives of government' to 'allowing access to resources by poor communities spoils them, they should be able to bootstrap their way out of poverty.' Initially, there was a great deal of skepticism about the capacity of poor communities. However, over the last ten years experience governments and donors have found that, given the opportunity, communities engage fully in the development process, with the added benefits

of leveraging of local resources, an increased sense of ownership, lower unit costs of investment, and better prospects for sustainable service delivery. Rather than turning communities into passive recipients of central government largesse (often the status quo in developing countries), these more demand-driven approaches have made communities partners in the development process through hands-on learning by doing, one of the best capacity building approaches in development. Social funds account for only 2 percent of recent World Bank disbursements, but the approach is now viewed as an important complement to the Bank's mainstays of adjustment and sectoral investment lending by mobilizing action and capacity at the local level.

## What's Wrong with Social Funds?



David Ellerman, World Bank

After a half century of official development assistance with such meager results, there is considerable frustration in development agencies at the difficulties of governmental reform and institutional development. Why can't we just use clean and efficient mechanisms, like social funds (SFs), to quickly and directly deliver resources to poor and needy people? Isn't that what it's all about?

Actually no; that is not what it's all about. That is the charity and relief business; the business of quickly delivering fish to hungry or starving people. The World Bank is in the development and capacity-building business, the time-consuming business of helping people learn to fish for themselves.

Understand that difference, and you will understand the heated debate about social funds: why some think SFs are "obviously great" while others think the SFs are "not so good." Unfortunately, the impulse to "deliver resources to needy people" and the fostering of capacity-building are more substitutes than complements. There is disagreement less about the facts than about the choices between the conflicting goals of relief or development.

By using a new, separate, and clean organization of the central government, supporters argue that SFs bypass unresponsive, incompetent, and perhaps corrupt regional and local governments to help satisfy the needs of poor people. Critics see the same reality as central government largesse and as "bypassing" sustainable reforms and capacity-building in the lower levels of government. Since no one argues that SFs should actually replace local and regional governments, the net result is a plus for short-term relief and a minus for long-term government reform.

Supporters see local people choosing their preferred local infrastructure project from a menu to be funded by the social fund as being bottom-up demand-driven community empowerment. Critics see the same reality and argue that local people soliciting and receiving largesse from an agency funded by and solely accountable to the central government is more top-down paternalism than bottom-up "community empowerment." "Empowering" people to buy outcomes with an external grant (a soft currency grant funded, in part, by a hard currency loan to be repaid by future generations) is rather different from building the community's own capacity to reach those outcomes in a sustainable manner.

Supporters argue that they have "done the research" and have the impact evaluations to show that SFs are basically a good thing. Critics argue firstly that impact evaluations are independent of cost. A true project evaluation would have to look at whether the impact was obtained with ten dollars or ten million dollars. Secondly, the impact evaluations compare communities that receive social fund grants with otherwise similar "counterfactual" communities that receive no grants. Not surprisingly, the studies tend to show that the communities that receive the funds have better facilities than the communities that don't. Sometimes the difference is not that significant but the real point is that a genuine counterfactual would be a community that had the same resources available for the best alternative approach to community development (e.g., see the 18 cases in Krishna, Uphoff, and Esman's book *Reasons for Hope*).

External assistance to community development requires special human skills in the role of the animator or community organizer, and it takes years of patient effort. Money is not only of decidedly secondary importance; if it does become the leading edge, the whole process will be corrupted into grant-seeking and dependency-creating activities.

To return to the question of "What's wrong with social funds?" the answer is that nothing is wrong with them for a relief agency. The world is awash with disasters which require such mechanisms for aid and relief. But as a mechanism for capacity-building and development, social funds are more of a minus than a plus. Smothering relief-oriented funds in a rhetoric of "bottom-up development" does not really address the problem. By separating the partially conflicting tasks of relief and development, perhaps we can finally foster better approaches to the vexing problems of empowerment and development. But this will not be easy since the moral satisfaction of "providing" relief operations (albeit funded by hard currency loans) is immediate and salient while the failures of development assistance are off in the distant future-like the loan payments.

For further development of the author's own views expressed here, see the recent Policy Research Working Paper 2693: *Helping People Help Themselves: Toward a Theory of Autonomy-Compatible Help* at: <http://econ.worldbank.org/view.php?type=5&id=2513>.