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Social Funds: Assessing Effectiveness

- Social fund projects have been highly effective in delivering small-scale infrastructure, but less so in achieving consistently positive and significant improvements in outcomes and welfare impacts.
- While facilities are generally responsive to community needs and appreciated, they have not been immune to staffing and equipment shortages. Water and road subprojects have performed less well overall than education and health subprojects.
- Social fund agencies have gained capacity as effective and competent organizations and developed innovative procedures for project management. However, wider impacts on existing institutions have been limited.

What Are Social Funds?

The World Bank's social fund portfolio, although relatively young, is growing and is set to continue expanding at a rapid pace. As of end-fiscal 1999, about $2.4 billion had been approved for 66 projects in 42 countries. By May 2001, total Bank investment in social funds stood at $3.5 billion for more than 98 projects in 58 countries. This review responds to the interest of the World Bank's Board of Executive Directors for an independent evaluation of this portfolio.

Social fund agencies channel resources to small-scale subprojects proposed by stakeholders and screened using eligibility criteria. Unlike a typical project implementation unit, social fund agencies usually have a high degree of independence from line ministries and sectoral budgets and make decisions on allocation of resources among alternative investments—both across and within sectors and regions.

How Have Social Fund Projects Performed?

Outcome

The operational focus of these projects has been broadly consistent with Bank and government poverty reduction objectives. However, the discussion of social funds in the Bank's Country Assistance Strategies (CASs) has tended to focus on the activities that the social fund projects aim to finance, with little attention to the appropriate role of the social fund within the country's institutional framework. Social fund projects have been highly effective in delivering small-scale infrastructure, and this additional infrastructure has increased facility access and utilization. But the outcomes and welfare impacts—for example, enrollment rates; academic achievement; incidence of diarrhea, wasting, and infant mortality—have varied. While such projects have delivered slightly more than proportional benefits to the poor and the poorest, there have been a significant number of non-poor beneficiaries. Most beneficiaries were satisfied with the infrastructure, but the social funds' subproject choices and selection processes have not guaranteed that the biggest community problems are addressed, nor have they provided assurance that the selected subprojects delivered the highest net benefits to the community. Several factors were found to influence the "demand-driven" process, including the role of "prime movers" (i.e., local leaders) who were critical in the mobilization of support and preparation of a successful subproject proposal, and whose interests were driven by the nature of their position (e.g. headmasters mobilizing support for schools).

Sustainability of Benefits

Surveys of social fund facilities have found that staffing and equipment levels were at least as good as those in comparator facilities. But both types of facilities suffered from shortages. The sustainability of education and health investments has generally been better than in other sectors, such as water or roads. Overall, insufficient attention has been given to ensuring from the outset that the scope and scale of activities undertaken are guided by an assessment of relevant capacity in each of the proposed sectors of social fund intervention.

Institutional Development Impacts

Social fund agencies have been effective and competent organizations. They have developed innovative procedures for project management that have been adopted in other Bank projects. By fostering partnerships between government agencies, the private sector, and other stakeholders, social funds have mobilized community resources and stimulated private contracting capacity. Impacts at the *central government level* have been limited. Given that social fund agencies make decisions on allocation of resources, coordination with line ministries that also perform this function is crucial, especially for large-scale social funds. Coordination has, however, proved difficult, particularly regarding sectoral planning and the capital-recurrent expenditure balance. Impacts at the *local government level* have been more positive but have varied with the nature of social fund engagement, the degree of responsibility delegated to local governments or communities, and the alignment of social fund operations with the decentralization framework. At the community level, available evidence indicates mixed social fund impacts on capacity building and social capital in comparison with non-social–fund communities. Overall, social funds have operated as *users* rather than *producers* of social capital.

What Are the Implications?

Initially set up as emergency response mechanisms, the focus of the funds has shifted to longer-term development impact and institutional development objectives, a transition that is sometimes difficult to implement. The new focus requires significant changes in an agency's performance incentives, staffing, and skills mix.

Improving performance warrants more attention to:

- The appropriateness and effectiveness of the social funds' subproject menus and selection mechanism;
- Whether or when social funds can be expected to serve long-term development objectives;
- How they depend on, and affect, other public institutions and public expenditure management;
- What scale and sectors of operation are appropriate; and
- What transformation or exit strategies are indicated.

Addressing these issues may be a matter of modifying social fund institutional designs, better coordination with complementary interventions outside the social fund, or adopting an alternative instrument in a particular country context.

Recommendations

- *Strengthen Integration of Social Funds into the Bank's Country and Sectoral Strategies and Client PRSPs.* The Bank should not support a social fund unless priorities are explicitly identified and alternative approaches to address those priorities are weighed in the light of country conditions. The rationale and objectives of Bank support need to be clear and should drive the choice of instrument rather than the other way around.
- *Give More Attention to Long-term Impacts.* The tradeoffs between speed and efficiency of subproject processing and long-term impacts should be explicitly acknowledged and addressed, and reflected in performance indicators. Social fund agency roles, responsibilities, and relationships should be aligned with existing institutions.
- *Ensure Efficiency of Resource Allocation.* Strong measures are needed to ensure that beneficiaries are adequately informed and consulted on investment options, costs, and benefits. The community and/or local government concerned should choose subprojects based on an articulation of the costs and benefits of alternatives and they should monitor actual benefits in relation to their expectations.
- *Develop Policy Requirements.* Policy requirements for support to social fund projects should identify conditions for their introduction or continuation and their strategic justification within the CAS and PRSP.

External Advisory Panel Views

The Review also contributes to a more differentiated and nuanced appreciation of the advantages and drawbacks of this approach in different sectors, for varied objectives, and in widely divergent country contexts. Overall, the Review provides a carefully considered and balanced appraisal. The conclusions are more positive and "tender-hearted" than the evidence warrants with respect to social funds as an effective instrument of service delivery. More specifically, the panel believes the data and analysis in the report call for stronger conclusions with regard to the need to rethink the rationale of the Bank's expanding support to social fund projects.

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