chapter 14

# Why Are Social Funds So Popular?

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Why are Social Funds (SFs) so popular among international donors, who have committed more than US$3 billion to their creation and perpetuation in 40 countries since the late 1980s?[2] Ostensibly, SFs seem to do several things that are dear to our hearts. They are said to reduce poverty and unemployment and to bring services and small works projects to myriad poor communities in a way that is decentralized, demand-driven, participatory, low in cost, and fast-disbursing. By the donors' own accounts, however, SFs do not live up to the faith placed in them. This chapter explores this conundrum. More important than any particular judgment on SFs,[3] it seeks to assess the SF experience in a way that contributes to the larger debates about improving the quality of public-service delivery in developing countries.

Social Funds started in Latin America in the mid-1980s as a temporary antidote, according to the lore, to the adverse impact of structural adjustment programs and other reforms on the poor.[4] Originally, the programs were meant to provide quick employment through public-works projects and emergency social services, particularly in rural areas and towns, and partly in lieu of the increasingly faltering presence of fiscally strapped line ministries. Some were designed explicitly to compensate for layoffs caused by downsizing of the public sector and its state enterprises. By the early 1990s, donors judged the SFs to be so effective at temporary relief, and so appealing as a different and low-cost model of public-sector service delivery, that they provided follow-on funding to several SFs and started new ones, expanding first to Africa, and then to Eastern Europe and Southeast Asia.

Since 1987, the World Bank (WB) has committed US$1.4 billion worldwide to SFs, the Inter-American Development Bank (IDB) has committed almost the same in Latin America (US$1.3 billion), and in Latin America alone, the European donors have committed US$570 million. The pace of commitment shows no sign of slackening, with a new round of SFs cropping up in reform packages for crisis-afflicted Asian economies. Roughly one-third of SFs go to economic infrastructure; another third to education, health, nutrition, and population activities; and another third to miscellaneous activities such as microfinance, training, and environmental interventions. Social Funds are administered by a separate agency or unit within a department of the central government. They allocate grant funds directly to myriad communities for projects often chosen by them; the funding passes through local governments in only a minority of cases. Some of the acclaimed strengths of SFs are based on a general set of arguments about the superiority of more decentralized and "demand-driven" approaches in contrast to traditional public-service supply, with its "supply-driven" set of problems—overcentralization, rigid and top-down bureaucracy, and insensitivity to service users.

At the start, donors and the borrowing governments viewed SFs as a safety net for ameliorating the harsh effects of structural adjustment on the poor. More recently, SFs have also come to be seen as a refreshing new model of service delivery for poor communities, with their more independent project agencies or units and their involvement of beneficiary communities in choosing, monitoring, and financing projects. In typical descriptions, donor narratives commend the SFs as "an imaginative effort to make government actions and resources more beneficial to the poor"; as having "considerable potential . . . for *sustainable* service delivery . . ." (italics mine); and as succeeding, often, "in targeting the poor and in providing basic services more cheaply[5] and speedily than public sector agencies that have traditionally been charged with these functions."[6]

This chapter draws mainly on evidence about SFs from the donors themselves,[7] in addition to findings from outside researchers[8] and from my own research experience with four SFs in northeast Brazil.[9] The evidence raises questions about the effectiveness of SFs as a safety net for the poor and, more significantly, about the presumed greater desirability of SFs as an alternative to traditional government supply, or reformed versions of it. I therefore question the large amounts of funding and enthusiasm dedicated to SFs, as well as the distraction of attention and the diversion of resources from other paths toward these ends.

Many SF goals and shortcomings are not peculiar to them. Some of their main problems also plagued earlier, more supply-driven and centralized public programs, as well as recent attempts to decentralize power and responsibility to local governments, to rely more on market mechanisms and nongovernmental providers at the local level, and to involve citizens in user choice and monitoring. I hope, then, that this chapter will interest the development community in expanding its thinking beyond SF-type models to other ways of improving government performance. These ways may not be as new and exciting as SFs but, at the least, they would seem to have no more frailties than SFs do.

## The Claims

Although SFs vary widely across countries, they tend to have several common components. First, they make grant funds available to enable communities or municipal councils to choose among a menu of possible projects (such as a well, a health center, a school, a grain mill, or road repair). Second, project design and construction are partly outsourced to local actors ("partially privatized")—private firms, nongovernment organizations (NGOs), community associations, and sometimes local governments; community groups themselves find and contract a design or construction firm or equipment supplier, monitor project execution, and/or take some responsibility for operating and maintaining the project. Third, a local contribution is often required, roughly 10–15 percent of project costs. Together, these features add up to the "demand-driven" moniker by which these programs are often described.[10]

Donor evaluations characterize the SF success as a fast, flexible, and low-overhead model of service delivery—just the opposite of the stereotypical government agency.[11] Several organizational traits are considered key to this success. As noted previously, SFs are often run by semiautonomous units or agencies operating outside line agencies, sometimes newly created, and often close and accessible to the office of the country's president. They also work outside civil service regulations, particularly in hiring, firing, and setting salaries. They have therefore often been able to recruit excellent managers with experience in the private sector or to lure to their staffs the best of the public or NGO sector. They have also succeeded in operating outside government procurement regulations, simplifying and speeding up the construction of small works projects.

Social Funds vary considerably from one country to the next, sometimes even on the aforementioned key traits.[12] Although the variety among SFs sometimes makes it difficult to describe this group of programs in uniform terms, I follow the convention of the donors in treating and praising these projects as a single category called Social Funds. To the extent that this chapter dwells on issues relating to sustainability, participation, and demand-driven decisionmaking, it relates more to the ongoing or more permanent funds than to the earlier temporary and emergency funds. (Many of the latter evolved into the former.) In the same vein, I pay relatively more attention to the claims about SFs as a service delivery model—sustainable, decentralized, demand-driven—than to their effectiveness as a safety net for the poor.

For all the talk of SFs as decentralized, they are in some ways the opposite of real decentralization, even when they are demand-driven. They are run by entities of the central government (state government in my Brazilian cases), which are often newly empowered and transformed by their association with international donors and by the corresponding direct support they receive from the president of the borrower country. The majority of SFs do not formally devolve power and responsibilities to local governments. As agencies of the central government, they try to reduce their overhead and personnel costs by deploying some of their staff outside the capital and devolving some responsibility to community groups and local providers. But this is described more accurately as "deconcentrating" rather than as "decentralizing" responsibilities and finances. Deconcentration, of course, shares some of the traits and purported advantages of decentralization. But "deconcentration" does not have the cachet that decentralization has: It does not fit the image, now so popular, of "taking power away" from central government, of moving from a "top-down" to a "bottom-up" style.

In the small number of cases where SFs do work through local governments, they often do so ad hoc, not as part of a larger decentralizing effort nor following the fixed criteria of geographical allocation typical of systems of revenue sharing with local government. In the former cases, SFs channel resources only through some local governments, while avoiding others. This happens according to one or two informally held sets of criteria; one involves the perceived capability and "seriousness" of the particular government, and the other with whether it is run by the same party of the government or the opposition. Where a local government is run by the opposition party, the political calculus of the central government may dictate that the SF circumvent it and work directly with communities—or not operate there at all—while working through local governments in the districts headed by the party faithful.[13] It is for this reason, among others, that some view SFs as working at cross-purposes to decentralization reforms, or at least not advancing the cause of decentralization more generally.

### The Evidence: Reducing Poverty and Unemployment

By the donors' own accounts, SFs do not live up to the faith placed in them. They have contributed only insignificantly to the reduction of unemployment and poverty in the countries where they operate, even when compared to other programs with the same goal. The Latin American SFs are reported to have "created relatively few jobs" and reached only a small fraction of the labor force (in the Latin American case, less than 1 percent at best).[14] They also devoted only 30 percent of their expenditures to labor costs, a low share for programs dedicated to employment creation.[15] Jobs offered by the SFs were temporary, of low quality, and provided little or no training. Most of the better jobs went to skilled laborers brought in from elsewhere by outside contractors; skilled labor, for example, accounted for 42 percent of labor expenditures in the Nicaraguan SF.[16] Several employment-creation programs in Latin America, Africa, and Asia, which antedated the SFs, created significantly more jobs, employed a larger share of the labor force,[17] and elicited much greater budgetary resources from their respective governments. In comparison to the SFs, most of these programs were supply-driven, run by traditional public agencies, and funded by their governments rather than donors (at least initially).

Wages paid by SFs, although often set at the legal minimum, have nevertheless been typically lower than subsistence, and sometimes significantly so.[18] The wage in the Nicaraguan SF, for example, represented only 57 percent of a basic family food basket. Granted, most employment-creating programs deliberately set wages so low as to not draw labor away from private-sector employers and to keep the nonpoor from applying for these jobs. At the same time, however, the lower-than-subsistence level plus the short-term nature of the job add up to a weak instrument for reducing poverty and unemployment in a more sustained fashion. In the same vein, the voluntary labor often required of communities for SF projects, although meant to serve the goal of reducing costs and eliciting community "ownership" of the project, represents a regressive tax on the poor.[19]

The donor evaluations do not really bear out the claim that SFs are particularly good at reaching poor communities, or the poor within them.[20] Higher per capita SF expenditures often go to communities or provinces that are better off than to the poorer or the poorest.[21] In its 1997 study of four countries with SFs (Bolivia, Egypt, Sri Lanka, and Zambia), the World Bank found that "the higher poverty headcount index of the province, the lower was the actual per capita SF expenditure it received; or the actual expenditures lagged behind allocations in the areas with the highest poverty index while they far exceeded allocations in areas with low poverty indices."[22] Even in the "star" Bolivian SF, the richest of five income areas received two-and-a-half times as much SFs funds per capita as the poorest five (US$25 vs. US$10).[23] There are some exceptions,[24] though most of the data cannot distinguish between poor and rich within municipalities or other administrative units.

Some researchers comparing SFs to other programs have found that certain more traditional targeted programs have actually had more identifiable impacts in reducing poverty. They refer to employment-guarantee schemes, food stamp programs, food commodity programs, and school feeding programs in particular countries.[25] Others have pointed to broader entitlement or transfer programs, such as the extension of social security to poorer persons and rural areas, as having had significantly greater impacts in reducing poverty. Indeed, the magnitude of these latter impacts simply dwarfs the achievements of SFs in this area.[26] Although SFs are not direct-transfer programs like those just mentioned, these researchers nevertheless warn that the resources and confidence lavished by donors on SFs as a safety net have diverted attention, funding, and research to measures with only a fraction of the payoff of other measures affecting poverty and unemployment.

Despite the continued characterization of SFs as safety nets in donor documents, their evaluations report that the available data and its quality do not permit judgments as to whether SFs contributed to reducing poverty.[27] In most cases, it is not possible to determine whether poverty has been reduced or income increased in the regions served by SFs, or, even when such changes are detected, it is not possible to determine whether they are attributable to the program.[28] "[W]e have no way," a WB study concludes, "of comparing how well [SFs] target poverty compared with other programs."[29]

With respect to SFs' reputation for combating unemployment and poverty, then, they have "created relatively few jobs and generated little additional income for the poor,"[30] even though many of them included income and employment generation among their stated objectives. They were not "effective safety nets in any significant scale," and many countries therefore did not have "an effective mechanism to protect the poor from output, employment, and price risks."[31] "The message is clear," the IDB evaluators conclude, "that if these funds had an impact on poverty, it cannot have been from employment creation and income generation for the poor."[32] Despite these findings, all Latin American countries with SFs gave them a "high profile and a central role in the campaign to reduce poverty."[33]

### The Evidence: Service Delivery

The SF track record as a model of service delivery is, at best, mixed. A World Bank tracking of the performance of SF projects in relation to more traditional supply-driven programs found no clear superiority for SFs, though it nevertheless concluded on a positive note about the SF as a model.[34] The IDB evaluators report that evidence was not sufficient to form a judgment as to whether SFs have actually made a difference in the availability of basic economic and social services in the various communities where they operate.[35] In addition, they found that the most successful and innovative of the SFs were those conceived *without* donor input and financing (Chile, Costa Rica, and Guatemala), and were different from the typical SF in other important ways.[36] (More on the Chilean case appears later in this chapter.)

Both major donors themselves gave distinctly low marks to the SFs for "sustainability" and for "ownership" of the projects by the communities in which they were placed.[37] The WB evaluators could find no data on the extent to which SF projects were being operated and maintained.[38] At the same time, frequent reports appeared about health clinics without refrigerators for vaccines, school buildings without textbooks, and wells that were not maintained. What's more, the evaluators noted that ownership of these projects by communities often required distinctly different technical designs, at least for economic infrastructure. But a large number of the SFs were found to have been designed without issues of sustainability in mind.[39] It was "not clear" if communities even knew what the operating and maintenance costs and responsibilities would be, according to the evaluators, before they chose their project. And only a small percentage of the SFs turned out to have actually required community contributions, even though the SF projects presented for approval to the WB Board of Directors (the "appraisal reports") always included an estimate for upfront contributions from communities. Little ex-post information on such contributions was available.[40]

Social Funds financed many activities—such as schools, clinics, and wells—that needed sustained support from line ministries or other agencies of government, once completed. But either no formal arrangements were made or those that were made were not respected.[41] In many cases, no operating funds came through for staff and maintenance, particularly for schools and health.[42] According to the logic of decentralization, however, this should not have been a serious problem, at least for some types of projects: The demand-driven features of the SF should have led inexorably to ownership of the new projects by communities, who would have willingly taken responsibility for operations and maintenance themselves or have successfully pressured local governments to do so. But this kind of ownership was not forthcoming.[43] If, as the evaluators report, neither the donors nor the recipients designed many of these programs with sustainability in mind—especially the earlier ones—then it is not fair to judge them by these criteria. But the donors themselves have made strong claims for these programs as successful, *ex-post*, on the grounds of community involvement. Indeed, they have hailed the SFs as models of "sustainable" service delivery, as attested to by the aforementioned quotations.

With respect to sustainability and ownership at the national level, finally, both donors lament the fact that most SF programs, 10 years after they were started, continue to be dependent for most of their financing on outside donors.[44] After noting that most Latin American governments with SFs have financed less than 20 percent of their SF operations, the IDB evaluators warn that "[d]onors cannot claim that the funds are successful and sustainable" until countries make a greater contribution. "[D]onors cannot be expected to provide 80–90 percent of the cost of fund operations indefinitely."[45]

The disappointing record of SFs in targeting poor communities may result from the demand-driven dynamics unleashed by the SF model itself. Poor communities are handicapped in responding to SF-like initiatives in that they require prior organizing, preparation of project proposals, and choosing and monitoring of outside contractors.[46] These communities are often less organized, less linked to official networks, and are spoken for more by single clientelistic figures than by inclusive community groups. The communities are often difficult to access, and they tend therefore to be less visited by private providers and NGOs. Whether for reasons of necessity or of maximizing profits and efficiency, these providers concern themselves with keeping down the costs of transport, salaries, per diems for travel, and time spent preparing proposals. In some cases, and with the best of intentions, the SF agency painstakingly mapped poverty and deficiencies of social services in the region served by the SF. But this still did not counteract the comparative advantage of communities that were better off—*within* the "poor-designated" municipalities or subregions—in competing for funds.[47] All this explains why it is often not the communities that choose project choices and designs, but firms, politicians, or SF staffs.

Some of the SFs' very strengths seem to be the sources of their weaknesses, which does not augur well for correcting the latter. For example, the flexibility and speed of SF disbursement frequently causes communities to have less choice, not more—undermining their ability to gather information about options for alternative projects, and to deliberate and choose among them. What's more, the prized autonomy and special privileges of SFs also reduce the opportunities and likelihood of their working complementarily with existing institutions of government, whose lack of involvement partly explains the frequent failure of maintenance and operation. Also problematic, the same donor accounts that laud the more flexible and speedy disbursement of SFs point disapprovingly to these traits as causing SF-served communities to have *less* choice—with less information about options, and less time to deliberate.[48] Finally, SF autonomy does not necessarily translate, as claimed, into more "apolitical," technocratic, or "private-sector-like" management styles. The less noted flip side of this autonomy is the SFs' vulnerability to political manipulation.

## Turning Assumptions into Questions

The evidence on SFs and other decentralizing experiences is somewhat muddied by the fact that many accounts treat as assumptions matters that should be treated as questions. For example, decentralization and outsourcing to local providers are assumed to create a special dynamic leading to better service—a dynamic that is said to be missing in traditional public programs. According to this logic, private firms and NGOs help reduce government's monopoly power as provider, an important source of its inefficiency. The ensuing competition among potential providers yields results that are more responsive to consumer needs and preferences, and more tailored to local conditions.

The evidence from donor evaluations and other studies, including my own, does not support these assertions. First, it revealed that private providers can be as standardizing and insensitive to user needs or local conditions as considered typical of the public sector.[49] Second, NGOs were barely present on the scene, accounting for no more than 15 percent of expenditures by most Latin American SFs.[50] When they *were* involved, their projects were among the least sustainable,[51] and often suffered from incompetence and politicization.[52] This raises questions about leaning so heavily on NGOs for decentralization's benefits to materialize.

Another troubling assertion is that many SFs are demand-driven. The evidence suggests that many of these particular SFs can be more accurately described as *supply*-driven in that they substitute a new cast of "supply-driving" characters for the traditional bureaucrats of faraway agencies. These new characters include building contractors, equipment suppliers, and project design firms, together with the more familiar political personages (mayors, legislators, ward bosses) and government technical agents themselves—this time from the SF.[53] To the extent that these actors determine the choice of projects, rather than community members, it is not surprising that sustainability and ownership often fail to materialize. But continuing to describe these programs indiscriminately as reflecting community preferences makes it difficult to understand exactly what goes wrong—and, more importantly if things work well, what goes right. If there is a distinction to be made between SFs and other government programs, then, it may lie less in bringing beneficiary choice into the picture than in substituting another array of supply-driven forces. Supply-drivenness, however, is exactly the critique that is made of *traditional* government provision. This shifts the focus of attention from the matter of demand-driven vs. supply-driven, and the SF model vs. traditional government, to which kinds of supply-driven programs are better than others.

## Information Asymmetries: The New Spoilers

Some of the afflictions of SFs and other programs serving poor and rural populations originate in "asymmetries" of information and power. These figure importantly in the recent literature of the new institutional economics. Information asymmetries can cause trouble in various kinds of contractual relationships—between buyers and sellers, service providers and users, and central governments and local governments. If one side knows much more than the other and keeps that information to itself, the underinformed and less powerful party to the transaction does not fare well. In fact, the new institutional economists have warned that when these kinds of asymmetries prevail, the usual bets on the gains to be made from decentralization and its associated measures are off. The economist Joseph Stiglitz played a seminal role in developing this literature of information asymmetries and transactions costs in the 1980s.[54] Later in the 1990s, when Stiglitz was Senior Vice President and Chief Economist for Development of the World Bank, he warned of the stranglehold that these asymmetries could exert on the benefits normally expected from decentralization, as well as from privatization.[55]

Those who worry about asymmetries of information and power typically assign to government the role of correcting or counterbalancing them—as regulator, mediator, and broker for the weaker party to the contract, and as provider of information. Indeed, this is exactly what SF units are meant to do. Social Fund project designs, or at least the evaluations of existing SF programs, typically call for strong public information campaigns about the new choices available to communities, and the procedures for taking advantage of them. But the evidence shows information and community choice to have been surprisingly low in many of the assisted communities, even in the Brazilian programs of my field research where project design included information campaigns and the donor paid serious monitoring attention to them. Combined with the typical political, bureaucratic, and market forces present in many SF environments, ironically, the model may actually reinforce the very asymmetry of information that it was meant to reduce.

The findings from my Brazil research projects shed light on this strange outcome. Three separate sets of actors turned out to have a distinct interest in *limiting* information rather than broadcasting it: contractors and project-design firms, elected leaders and other politicians, and SF management and staff.[56] It is important to note that their information-limiting behavior was not simply motivated by rent-seeking and other forms of mean-spiritedness. Just as often, these actors were doing what they thought was right—maximizing profits or efficiency, enacting a particular vision of the public good, insisting on standards representing the profession's consensus about best practice, or making the best of a work environment in which demand for projects exceeded supply. This means that even when actors thought they were serving the public good, or when firms were behaving at their best, the results were not that different from those said to be produced by rent-seeking behavior! This explanation for SF shortcomings is in some ways more troubling than that of rent-seeking and corruption: It suggests that even when the decentralization dynamic of the SFs is working as it should, it cannot produce the desired results.

Unfortunately, SFs typically work in environments where asymmetries of information and power are particularly common—rural areas and poor communities. Population densities are lower, illiteracy is higher, and travel and other means of communication are more difficult. Government is less present, whether as provider or regulator, partly because this kind of presence is more difficult and costly under such conditions. For this and other reasons, then, the SF model might actually work *least* well in such environments, not better. An indicator of this problem can be found in the remedies suggested by the donors to fix SF shortcomings.

A representative sampling of such remedies includes: more monitoring and supervision, more transparent and objective selection criteria for projects, more training, more public information campaigns about project choices available to communities, more tolerance by project managers for "participation," more poor-targeted selection criteria, more "demand orientation" and community participation in helping communities to choose their projects, more attention to organizing users around operations and maintenance or to committing line agencies to that responsibility, and finally, more coordination with line agencies and their sectoral programs.[57] Many of these remedies would require a significant increase of SF agency presence in the countryside in terms of time, personnel, resources, and effort. This kind of change, moreover, would compromise one of the SFs' most acclaimed strengths—their "leanness" and low administrative costs. More constructively, if becoming more supply-driven is the solution rather than the problem, these conclusions suggest that donors might look with greater enthusiasm and diligence to reform prospects within existing public institutions.

## Getting Out of the Fix

The difference between my judgments about SFs and those of the donors turns less on the empirical findings—given that much of the aforementioned case evidence comes from the donor evaluations themselves—than on our differing interpretations of the problems revealed by this evidence. To their credit, the donors take the flaws they report seriously. But they also assume that these flaws can be readily fixed without compromising the strengths of the model. I see these findings, in contrast, as meriting greater pause. If informed community choice, sustainability, and reduction of inequities of service provision are incompatible with the SFs' most marked achievements, then they are not much better in the long run than existing approaches to reforming traditional agencies, or in dealing with similar problems in the recent decentralization experience.

Finding incompatibility among basic goals or instruments within a particular program is not unusual. Scholars of the behavior of organizations have long shown how the goals of any particular organization often conflict, one with the other. Indeed, a mix of conflicting goals often serves various organizational purposes and constituencies well. Treatises on organizational leadership show how the best agency managers are those who manage these contradictions artfully, and in a way that presents a unified face to the outside world. It is not the incompatibilities themselves that are cause for concern, then, but the lack of recognition of them and, hence, their implications.

Trimming the perception of SFs down to size would make it possible to look at the SF experience and that of traditional government agencies with a more open and curious mind. At their best, for example, SFs may represent a "deconcentrated" version of supply-driven service—rather than demand-driven or decentralized service—that leads to the construction of small infrastructure projects more quickly and at lower cost. It must be kept in mind, however, that these programs seem to do no better than traditional agencies in generating maintenance and operational support. Social Funds may also show the way for traditional public agencies to simplify procurement regulations. At the same time, no such demonstration effect has yet been reported in SF evaluation studies.

The reported achievements of SFs in rapid disbursement rates and lower unit costs, in turn, may represent such significant progress in service delivery that the approach is well worth pursuing.[58] If these gains are so palpable, it is important to pay attention to how they can be applied to reducing costs and delays in existing agencies and programs. At the same time, however, this mode of operation can also jeopardize participation, locally tailored solutions, and sustainability. Similarly, SFs may work at their best only for certain kinds of communities—better off, better organized, or less remote. But what works best for the rest, who are less well off and so much the object of policy concern?

Finally, it should be noted that one of the best SFs is actually most *unlike* the average SF—the Chilean SF. In this case, the SF is not an autonomous unit and works instead through a line agency of the central government. (A study comparing the Chilean with the Venezuelan SF cited the unusual integration of the Chilean SF with the line ministries as an explanation for why it was more successful.)[59] It does not circumvent procurement and civil-service regulations. And it is financed mainly by the Chilean government, in comparison to the continuingly heavy donor funding of most other SFs.[60] These traits place the Chilean SF closer to existing government than the average. Outlier cases like this raise questions about what actually makes SFs work when they do. More importantly, these cases should be mined for an understanding of how to reduce some of the important limitations of SFs, while at the same time showing how the experience can be made more germane to reform efforts in the traditional public sector.

The findings reported here, in sum, raise important questions about SFs and other reforms, whether decentralizing, deconcentrating, or neither. If SFs and traditional public institutions all tend to be supply-driven, that is, then we should be asking which of these interventions leads to better results, in which particular circumstances and places, and for which particular tasks. Correspondingly, what are the circumstances under which private firms providing public goods and services are, à la Stiglitz, actually likely to be more responsive than public institutions to user needs? These questions will not yield answers that are necessarily pro-SF or anti-SF, or pro- or antitraditional government. Importantly, however, they do not start out by assuming that programs with demand-driven designs actually *are* demand-driven, or that private and decentralized provision always elicits more user choice and customer-tailored results. Turning the assumptions into questions instead could generate considerable empirical material of value about how communities decide, how markets work under outsourcing and partial privatization, and how politics influences outcomes—whether for the better or for the worse.

## Gaining Favor

If SFs do not measure up to the broadly held understanding of how they work and what they accomplish, then why are they so popular? Why do the very documents relating the shortcomings previously cited conclude on such a positive note? If SFs are afflicted with some of the same grave problems that afflict existing government agencies, then why has this model elicited so much enthusiasm in comparison to efforts to reform traditional agencies working on similar problems? If many staff members of the donor agencies themselves share these skeptical views about SFs, then why has the more enthusiastic interpretation won out, and so strongly influenced policy?

In part, the popularity of SFs is itself supply-driven, but in this case the "supply-drivers" are donor agencies rather than traditional government agencies in borrower countries. The reason for SF popularity, that is, relates not only to the acclaimed features of the model, but also to the workings of the donors as large bureaucracies. As such, they are subject to the same dynamics that drive all large organizations, including their complex relationship with and sensitivity to their outside environments. For perfectly understandable reasons, many donor professionals find it more satisfying to work with SFs and on SF projects than with traditional agencies. The management and staff of SF agencies in borrower countries have far fewer bureaucratic masters to serve than ministries and other existing agencies, and are therefore more easily accessible to donor project officers and more able, if willing, to carry out their suggestions for improved service. All this provides a greater sense of control and accomplishment to donor project officers, making it easier to design such projects and monitor them, and to see things happen before one's eyes. To dedicated professionals working within the bureaucratic constraints of a large donor organization, this makes for satisfying work.

Adding to this liberating effect, the regulations of both the World Bank and the IDB endow SFs with something akin to fast-track status compared to other categories of projects. The World Bank suspends conditionality requirements on SF projects, which normally slow down and complicate the trajectory of project approval in the Bank. IDB rules require that funding for SFs and other projects falling in this more subsidized category must be approved before some other categories of projects offered on less subsidized terms can go forward. This requirement turns a more numerous and influential group of IDB professionals and directors into SF advocates—in itself contributing to faster project approvals. To the same end, the SF agency's association with an international donor is an important source of power and prestige in its own bureaucratic world. This helps counterbalance the jealousies and resistance of other bureaucratic actors on whom SF projects are dependent for maintenance and operation, and who resent the special status of SFs and their freedom from civil-service and procurement regulations.[61]

Borrower-government elected leaders also support SFs, though this is partly in reaction to donor suggestion. Because donors often suggest SFs as part of a larger lending package, borrower governments tend to favor their creation as a surefire way of obtaining donor financing. In addition, donors have invested considerable effort in creating and supporting a network of SF professionals from various countries, funding them to travel to international meetings where they share their experiences and learn about best practices in other SFs.[62] This nurturing has led to the formation of an articulate and visible support group for SFs within and across borrower countries themselves, which must surely boost morale and enhance learning. Support for such sustained cross-country networking is usually not available to public servants trying to carry out reform within line agencies, although they face at least as daunting and isolating an environment as those working at SFs.

Social Funds are also popular because of their crucial role in helping donors sell austerity reforms to borrower countries. Because donors present SFs to governments as safety-net measures that help reduce poverty and unemployment (despite the evidence that SFs do not really fulfill these goals), they help counteract the widespread public criticism of these governments that austerity measures fall disproportionately on the poor. The belief that SFs will help ease the adoption of austerity packages, in turn, attracts support from macroeconomists in international financial institutions whose task is to convince countries to adopt the macroreform packages. This support represents an influential and powerful voice for SFs—the voice of professionals who would otherwise have no particular interest in such programmatic interventions.

Social Funds also draw powerful support because they help leaders out of the political dilemma created by such austerity programs and other unpopular reform measures. The political assist from SFs does not necessarily work directly through their actual impact on the poor, but through their use by elected leaders to selectively court groups of voters, whether among the poorest or not. In that the macroreform programs inevitably cause governments to lose votes from important constituencies, this leads to the aggressive courting by leaders of new constituents to make up for the losses, often through the dispensing of patronage. Social Funds, like all "distributive" programs that provide numerous individual grants for small projects that are spatially dispersed, are an excellent vehicle for such patronage—as demonstrated in richly chronicled accounts of SFs and electoral politics in Peru and Mexico.[63] That elected leaders can distribute these funds in a discretionary manner to some districts and not others, and that they are exempt from existing formulas for revenue-sharing with local governments, also contributes to their suitability for patronage purposes.

Social Funds' prized autonomy and freedom from bureaucratic encumbrances, in sum, also makes them vulnerable to political meddling. While donors are praising SF autonomy, presidents and other elected officials are viewing it as almost the opposite kind of blessing. To them, SFs offer *easier* access than regulationbound ministries for meeting their electoral needs. This politics-as-usual side of SFs tends to be obscured by the accounts of SFs as a "modern" model of management, and by their inclusion in packages of "modernizing" reforms to be carried out by "serious" leaders.

The final reason for SF popularity among donors relates to their effectiveness as a powerful "development narrative," to use the words of Emery Roe and others. Roe writes that in environments with great ambiguity as to cause and effect, such narratives offer convincing and simple explanations for the causes of certain problems and provide appealingly straightforward blueprints for action (1991, 1999). Because of their power as narratives, he argues, these accounts are rather invulnerable to empirical evidence that challenges their accuracy—such as the evidence of SF shortcomings, and of insignificant impacts on poverty and unemployment.

Roe develops three examples from Africa of such development narratives and contrasts them with extensive empirical findings to the contrary.[64] In each of these cases, he shows how remarkably resistant these narratives have been to case evidence that contradicted them. He draws on his empirical material to make programmatic suggestions that differ from the "blueprint for action" attached to each of the three narratives. At the same time, however, he chides academics and consultants like himself for "naively" thinking that carefully gathered empirical evidence could have the same kind of power the narratives have in influencing the way institutions think about and act upon such problems. The talk about SFs would seem to meet Roe's qualifications of a successful development narrative, with a corresponding blueprint for action. This also helps explain why donors remain so enthusiastic about SFs, and so accepting of the causal assumptions underlying the model, despite the questionable evidence that they themselves have unearthed.

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## Notes

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2. These numbers are approximate and a few years out of date because of the difficulty of finding consistently defined cross-donor data on SFs. In May 1997, the World Bank (WB) reported having committed US$1.367 billion to SFs in 34 countries (WB 1997a: 5, and Attachment 1, end-fiscal year 1996); the Inter-American Development Bank (IDB) reported an additional US$1.3 billion in 16 countries, 8 of which involved SFs to which the WB also contributed, making a net total of 41 countries for these two largest donors (IDB 1997a: 10, Table 2.1). The IDB reported an additional US$558.2 million in its Latin American SFs as coming from “other donors”—mainly European donors, which does not include SFs funded outside Latin America by these other donors. For the latter reason, and because the numbers do not capture the past few years’ SF commitments in Southeast Asia and Eastern Europe in particular, the totals in the text are an underestimate. Also, in several countries, the WB and IDB have more than one project, or have given second loans to existing SFs; in the 34 countries with WB-funded SFs, 60 projects have been funded—some representing follow-on loans and others the creation of a second SF in that country. For the 16 countries with IDB-funded SFs, this includes 18 projects.

3. This chapter is not meant to be a thorough review of the SF experience or of the arguments for and against them. For this, the reader can turn to several comprehensive donor-funded reviews of the evidence and other excellent studies of SFs by outside researchers, cited in the endnotes throughout or appearing in the Bibliography at the end of this chapter.

4. Nora Lustig (1997) contests this statement persuasively, which has been frequently repeated in donor documents. With respect to the Latin American SFs, at least, she shows that donor-funded SF projects were actually underway well before the structural adjustment programs began to show any hint of adverse effects on the poor.

5. For example, WB (1997b: 104) reports savings of 30–40 percent in school construction in Mexico’s SF, PRONASOL; and savings of up to 35 percent in Mexico’s Mendoza Provincial Program for Basic Social Infrastructure (MENPROSF). (PRONASOL is one of the SFs initiated without donor assistance—though it has subsequently received donor funding—and to which the Mexican government has committed more funds than all of the Latin American SFs combined.)

The WB itself also spends less on SFs for project preparation and supervision than on other projects run through existing ministries or agencies in education and health, economic infrastructure, and for targeted or participatory poverty projects. The cost of WB input into the SF projects varied from 39 to 85 percent of equivalent costs for comparator projects [WB (1997a: 42–43, including Table 6)]. These lower costs, however, are not necessarily related to the SF model in itself, but to the fact that the WB does not make disbursements on SF loans contingent on “policy conditionality,” which can slow down disbursements on these other projects substantially [WB (1997a: 42, and note 55)].

6. IDB (1997a: 71), and WB (1997a: vi).

7. See, in particular: (1) *Portfolio Improvement Program Review of the Social Funds Portfolio* (WB 1997a); see also WB 1998a

(by Wiens and Guadagni); WB 1998b (edited by Bigio *et al.*); and WB 1998c (by Owen and Van Domelen); (2) *Social Investment Funds in Latin America: Past Performance and Future Role* (IDB 1997a, 1997b; see also IDB (1998); (3) a chapter on SFs in *Safety Net Programs and Poverty Reduction: Lessons from Cross-Country Experience* (WB 1997b); and (4) a review for UNICEF by Sanjay Reddy, *Social Funds in Developing Countries: Recent Experiences and Lessons* (UNICEF 1998). All these studies are thoughtful and candid attempts to review the SF experience. To the extent that half of the Latin American SFs are funded by both the WB and the IDB (9 out of 18), there is a significant overlap in the experience on which they both report. As of May 2000, the Operations Evaluation Department of the World Bank is initiating a comprehensive study of SFs; in addition, the WB has undertaken a set of six case studies of SFs to look into their relationship to local government.

For the interested reader, I have included in the Bibliography to this chapter additional relevant works that were cited only in its longer version (Tendler 1999).

8. See, in particular, Lustig (1995, 1997); Stewart and van der Geest (1995); Cornia (1999); Cornia and Reddy (2000); and Hutchful (1994).

9. I report on this research in a longer version of this chapter (Tendler 1999), where extensive evidence and citations for the claims made here can be found; see also Serrano (1996). The field research looked into the SFs of four states in Northeast Brazil—Ceará, Maranhão, Bahia, and Pernambuco.

10. Not all SFs are explicitly demand-driven. A recent WB review reported that between 10 and 40 percent of the SFs use demand-driven mechanisms (WB 1997a: 24). The narratives about SFs and their strengths nevertheless often describe them as "participatory," if not demand-driven.

11. The evidence on quick disbursement is actually somewhat mixed, as reported by the WB study of three social funds in Latin America (1998: xvii), Stewart and van der Geest (1995), and in the complaints of project agency managers about the way community decisionmaking "slows down" the rate of disbursement. The WB report attributes cases of slow disbursement to delays by the central government in providing counterpart funding to the projects. Stewart and van der Geest attribute the problem to the demand-driven structure itself, which results in a time-consuming process of community- and municipal-level organizing and decisionmaking. They also point to the concern of project agencies about "clientelism" and political meddling in such decentralized project selection and location, which causes agency managers to impose criteria and requirements that slow things down. Their concern about reducing delay is at odds with the WB study (1997a) that suggests that *more* time and attention be paid to imposing project criteria that assure better participation and inclusion of the poor.

12. Most importantly, the earlier funds were fashioned to be temporary and emergency interventions—usually bearing the name of *Social Emergency Funds* (SEFs). Subsequent SFs, or later phases of earlier ones, were viewed as more permanent—both in terms of their institutional design and the community projects themselves, and as reflected in the slight name change to Social *Investment* Funds (SIFs); the WB made an even later distinction, stressing those SFs with particularly explicit demand-driven features and designating them as *Demand-driven Rural Investment Funds* (DRIFs). I thank Maurizio Guadagni for pointing out this latter distinction to me in reacting to an earlier version of this chapter (see also his co-authored contribution, WB 1998a). The programs I researched in Brazil, funded by the WB, are now characterized in the WB SF lexicon as DRIFs.

13. This dynamic is chronicled for Peru's SF by Schady (1999), Roberts (1996), Roberts and Arce (1998), and Graham and Kane (1998); and for Mexico's SF, by Gibson (1997). See also endnote 63.

14. IDB (1997a: 71). Lustig reports that even the most well-known, older, and highly praised Latin American SF, the Bolivian Social Emergency Fund (starting in 1986), employed roughly only 6–8 percent of workers in the two lowest income deciles. The Honduran fund employed only 7 percent of the unemployed (1990–1995), the Peruvian fund, 2.7 percent (1991–1995), and the El Salvadoran fund, 2.5 percent (starting in 1990). (For the Guatemalan fund, no data on employment generation were even gathered.) Data are from Lustig (1997: 4–5), citing as sources the WB (1997a) for Bolivia; and IDB-funded studies of El Salvador, Guatemala, and Honduras.

15. IDB (1997a: 71). In a study of the employment-creating works programs in various developing countries funded out of U.S. agricultural surpluses (Food for Work), Thomas (1986: 26) reports an average 52 percent of total expenditures on labor, with a maximum of 77 percent; von Braun et al. (1992) stipulate at least 60 percent for labor expenditures as desirable for African programs. Studies of the Maharashtra Employment Guarantee Scheme in India (Costa 1978; D'Silva 1983) show how labor intensity varies with the kind of project—water projects using the largest percentage (80 percent) and road projects the lowest (55 percent). More recently, the Maharashtra Scheme has required that at least 60 percent of total costs be spent on unskilled labor (Deolalikar and Gaiha 1996).

16. IDB (1997a: 22, 71). The WB found similar results in Honduras (Webb et al. 1995). The evaluators also note that estimates of SF job creation are often overestimated because of the large amount of temporary employment that usually lasts only a few months (p. 22).

17. In reporting these findings, Stewart and van der Geest (1995) note that these unimpressive outcomes for benefits are partly a result of the fact that governments in SF countries committed more resources to these non-donor-funded programs than they did to the SFs. But even if SF countries had committed more resources, the authors claim that their calculations show that the SFs would still have reached only a smaller share of the unemployed in the lower deciles because of their greater difficulty in targeting (p. 126).

18. IDB (1997a: 22–23).

19. IDB (1997a: 23).

20. Peru is one of the exceptions, and perhaps for this reason one of the most studied cases with respect to this particular kind of outcome. Schady (1999), among others, show that the Peruvian SF succeeded in concentrating a large percentage of its expenditures in the poorest districts. (Because of difficulties of available data, as is typical, measures of the distribution of project benefits within districts could not be made).

Given the bad name that political meddling has in these types of programs—and the donor claim that SFs can operate autonomously—it is important to note that this success at targeting is directly attributed to President Fujimori's electoral strategy to court this most marginalized rural population in his second electoral bid (they had not voted for him in a previous referendum on allowing him a second term); more generally, he needed to find a new constituency to make up for voter disaffection in urban areas resulting from his macroreforms (Schady 1999; Roberts 1996; Roberts and Arce 1998).

Similarly, it is interesting that the Peruvian SF has also been characterized negatively for this political direction as one of the most "politicized" programs—where support for projects was centrally directed according to political criteria (Graham and Kane 1998; Schady 1999). It is ironic, in this case, that one of the SFs' most important objectives—reaching poor communities—was achieved through means that are considered antithetical to the program model: SFs are said to be better at service delivery, that is, partly because they are "autonomous" and "apolitical."

21. As reported by WB (1997a: 18, WB 1998a: xv), IDB (1997a), Lustig (1995, 1997), IDB (1997a), and Stewart and van der Geest (1995). For the 1990–92 period with respect to Mexico's PRONASOL, Cornelius et al. report that middle-income states received more funds per capita than poor states (as measured in terms of indices of poverty and underdevelopment) (1994: 22–3). Graham (1994) reports that, more generally, none of the poverty alleviation programs in Latin America, Africa, or Europe has been particularly successful in targeting the poorest members of the population. The IDB study points out that even after its own calculations, it is very difficult to determine targeting from the data, which does not distinguish between rich and poor within municipalities or higher-level administrative units from which the data are drawn.

22. WB (1997b), as cited in WB (1997a: 18).

23. Lustig (1997: 5), citing WB (1997b). More recent commentaries have suggested that in the Bolivian cases, the units of study are so large and diverse—whole departments—that intradepartmental comparisons would be more valid.

24. Some of the studies show that whereas the SFs did not reach the poorest communities, they often reached communities that were poor. The IDB study found that the poorest decile municipalities received less than the others, but that the nonpoorest poor received more than the best off. As noted earlier, a study of the Peruvian SF FONCODES (Schady 1999) found that poorer communities actually get more SF funding per capita.

25. Lustig (1995, 1997) for the comparator programs and SFs in Latin America, and Stewart and van der Geest (1995) for comparator programs in Latin America, Africa, and South Asia. In Lustig's review of the Latin American SFs (1995: 31), she noted that they "compare unfavorably" with such direct-transfer programs (she is considering only the direct-transfer aspects of SFs in the comparison). Lustig, a researcher at the Brookings Institution at the time of her study, drew on various SF evaluation studies by the donors.

26. Cornia (1999) and Cornia and Reddy (2000).

27. The IDB review of SFs found that, for all but one of the countries (Peru), it was not possible to determine the extent to which those employed by SFs were poor. [In Peru, an unrelated survey from the ongoing WB Living Standards Measurement Project had included a question about employment in the SF; 36 percent of the jobs went to the extremely poor, and 57 percent to the poor (IDB 1997a: 32).]

28. IDB (1997a: 15). The study notes that baseline data are not available for employment and income in the regions served by SFs, making the estimate of changes in poverty and income not possible. Data have been collected in several cases, however, on the employment and income generated by the projects themselves, their benefits, and surveys of project beneficiaries.

29. WB (1998a: xv–xvi, edited by Wiens and Guadagni). The WB text uses the acronym "DRIFs" rather than SFs; DRIFs are a subspecies of SFs called "Demand Driven Rural Investment Funds" that, according to this classification, support mainly productive infrastructure and natural resource management. The study reports on three DRIFs in Latin America—in Mexico, Colombia, and Brazil—the latter being the same program looked at in my Brazil research. (Actually, the Brazil SFs/DRIFs did not exactly fit this particular description.)

30. IDB (1997a: 71).

31. Lustig (1997: 2–4). Stewart and van der Geest (1995) arrive at similar conclusions in a study including African as well as Latin American countries.

32. IDB (1997a: 23).

33. IDB (1997a). The citation (p. 16) comes from a December 1996 version of this report, as cited in WB (1997a: 47, note 58).

34. The evaluators also pointed to the inability to truly compare the demand-driven SFs to other programs due to the lack or poor quality of the data, the classic apples-and-oranges problem of such a comparison, and the limitations of their data and methodology. The sample size was small (ranging from 8 to 69); they did not compare SFs to non–Bank-funded programs [as Stewart and van der Geest (1995) did]; and they were not able to separate out, on the SF side, the sectoral piece of the SF program that corresponded to the comparator project in a functional ministry—health, education, water, roads, and so on. (They also did not rank the kinds of impacts of unemployment and poverty reported above.) WB (1997a)

35. IDB (1997a: 68). The study notes that this is because of the reliance on *ex-post* beneficiary questionnaires for these evaluations, and the lack of *ex-ante* data. The report does mention, however, that the impact evaluations are a valuable source of information on whether projects are operating and whether selection and construction were satisfactory.

36. IDB (1997a: 6, 46, 73). The evaluators attributed this finding to the "inflexibility" of the donors, and their "rules and limitations," which inhibited the ability of local officials to experiment with innovative solutions. One interesting example of this donor "inflexibility" related to the use of private contractors for works projects. In trying to serve the poverty-reducing goals of the SFs, donors typically emphasized works projects that trained and employed local people. This stipulation faced the resistance or noncompliance of private contractors, who usually preferred bringing in their own workers from outside, particularly for skilled work, and complained that this would compromise their efficiency. In focus-group meetings convened by the IDB, interestingly, mayors and community representatives expressed more concern about project quality than local employment, and therefore preferred that contractors use their own skilled labor. With respect to "inflexibility," then, the IDB evaluators were making the same critique of the donors that the latter had been making of line ministries.

37. The WB review of African and Latin American projects reported concerns about sustainability, particularly with respect to the economic infrastructure and microfinance components of such projects, noting that such concerns had "been raised in other reviews as well" (WB 1997a: vii, 15–16, including footnote 9). Another WB study (1998a: xvii–xviii, 46) found that none of the three Latin American projects (DRIFs/Demand-Driven Rural Investment Funds) it reviewed "performed partic-

ularly well in achieving" sustainability, and that "information from local or partial surveys suggests that a high proportion of subprojects may not be sustainable." A WB appraisal report for a Senegal SF/AGETIP noted that the "sustainability of many AGETIP investments is uncertain," due to a lack of ownership and participation in the project identification and preparation phase and in the post-project operations and maintenance phase [WB Senegal PAR Public Works and Employment Project, 1996 draft, page 2 notes, as cited in WB (1997a: 15:note 9)].

The IDB came to similar conclusions (1997a: 35–41), and an earlier 1994 IDB study cautioned that "[s]ustainability remains a potentially serious problem . . ." [Glaessner, Lee, Sant'Anna, and de St. Antoine, "Poverty Alleviation and Social Investment Funds: The Latin American Experience," p. 22, as cited in WB (1997a: 15)].

38. WB (1997a: 31).

39. Eighty percent of the project descriptions did not mention sustainability, nor concern themselves with its three key components: (1) evidence of demand (range of options offered, information made available, evidence of commitment through contribution in cash or kind); (2) appropriateness of technical standards; and (3) soundness of arrangements for operations and maintenance (funding, and training) (WB 1997a: 30).

40. WB (1997a: 30–31).

41. WB (1997a: 15–16, and note 9). The WB evaluators reinforce their concerns about sustainability with citations from their sister SF financing institution, the IDB, and from other reviewers within the WB itself. They also question whether SF designers and managers even thought about project designs and technical standards that would be more likely to elicit user maintenance and financing for recurrent costs. They point out, it should be noted, that their findings relate more to "likely," as opposed to actual, sustainability, because only a limited number of the individual country evaluations it drew on involved SF projects with long-term objectives (p. 4).

42. WB (1997a).

43. The aforementioned study of SFs now being studied will hopefully yield more evaluation information on this issue. In addition, six country studies now being carried out by the WB by Andrew Parker (Africa) and Rodrigo Serrano (Latin America) to explore the impact of SFs on local governments may also provide illuminating findings on the issue.

44. IDB (1997a: 74). In Latin America, out of 16 countries and 17 SFs (Guatemala has two), Chile's FOSIS has the lowest level of external financing—11 percent. The next lowest are Guatemala's FONAPAZ (12 percent), and Colombia's RED SOLIDARIDAD (20 percent). (The IDB evaluators, as already noted, ranked these three as the most successful in terms of innovative practices.) For the rest, external financing ranges from 58 to 94 percent, with only three countries being lower than 80 percent (albeit higher than 60 percent)—Peru, Uruguay, and Venezuela (IDB 1997a: 10, T. 2.1). The Mexican SF, PRONASOL, is also one of the SFs most "owned" by its government: It was also initiated by the Mexican government without donor funding and is one of the largest in terms of absolute resources, share of the budget, and coverage (Cornelius *et al.* 1994: 14). It does not appear in this particular table of the IDB because it is currently not receiving donor funding, though it has in the past.

45. IDB (1997a: 64, 74).

46. WB (1997b); IDB (1997a: 15, 43). Based on studies of the Bolivian and Honduran SFs, Stewart and van der Geest (1995: 128) reported that poorer communities present fewer proposals for funding than richer communities. Herring (1983) and Gaiha (1998) found the same kinds of results in similarly targeted and deconcentrated programs in India. A study of the education projects financed by the Mexican SF found that the program's requirement that a community have an effectively functioning Solidarity School Committee before seeking funding explained why fewer per capita funds went to poor indigenous communities as compared to others (Gershberg 1994: 249–51).

There may be an inherent tendency for exacerbation of this problem in that the better-off communities that are successful in getting one project will come back for subsequent ones, and prepare them better, while communities that are turned down or have a difficult time will become discouraged and desist, a point made by Schady (1999). I thank Mick Moore for pointing out the importance of looking at subsequent choices of projects because of the learning that results from "repeated games."

47. IDB (1997a: 15).

48. In another twist on the tradeoff theme, the Stewart and van der Geest (1995) comparator study of SFs with earlier supply-driven programs claims that SFs actually disburse less rapidly than the comparators, and pointed to the consultation process and the demand-driven design: if taken seriously and at its best, it resulted in a time-consuming process of organizing and decisionmaking by communities or municipal councils.

49. See Serrano (1996), and Tendler (1999, Sections III and IV).

50. IDB (1997a: 39). In many communities, the report said, NGOs are not that active. In addition, NGOs tended to specialize more in training and community development programs than in managing the construction projects that constitute an important activity of many SFs. In the SFs where NGOs played a greater role, then, it was because the program did not focus on building infrastructure (like Chile's FOSIS). Other exceptions were cases in which the government was "institutionally extremely weak" to the point that NGOs had more capacity to generate projects than government (Haiti) and, in general, because the SF was formally required to use them. The usual tension that exists between NGOs and government also seemed to get in the way. The NGOs disliked being the mere executors of a "paternalistic" government program and wanted to participate more in early phases of the project cycle. The SF managers and staff, presumably, were not anxious to do this.

51. The IDB review reported that the "recurrent-cost problem" was most acute in the case of NGOs (IDB 1997a: 41). A WB Project Completion Report [cited in WB (1997b: 107) and also in the previous IDB reference] noted a study of the Bolivian SF showing NGOs to be disproportionately represented among the projects that were *least* likely to be sustained. The projects were in health and education, and the study was conducted one to two years after completion. (Lower performers on the "sustainability" measure also included projects requested by regional government, as opposed to central-government, institutions.)

52. Reddy's review for UNICEF (1998: 58) noted that "[f]avouritism in the disbursal of contracts to NGOs" was a serious issue in various countries, as was the "proliferation of NGOs of dubious grassroots credentials" as a result of the new availability of SF funding.

53. Some SF managers expressed a certain distaste for, and therefore sometimes discouraged, genuine processes of community decisionmaking. These processes, they said, "slowed down"

the rates of disbursement so prized by these managers and their donors (WB 1997a; IDB 1997a). [Other managers, interestingly, actually liked the eligibility criteria which, even though slowing down disbursement, gave them some kind of protection against political interference (Stewart and van der Geest 1995)].

54. See, for example, Stiglitz (1985).

55. See, for example, his speech to the World Institute for Development Economics Research (WIDER) (1998).

56. Rodrigo Serrano (1996) reported this three-part set of actors in driving community decisions, which emerged from the larger Brazil research program; see also Tendler (1999), Sections III, IV, and V. The IDB evaluation also points to the importance of contractors in driving community decisions in many cases. The practice was apparently common enough that the IDB evaluators baptized it as "persuasion by contractor," and cautioned that "the real beneficiaries" in these cases might well be "the contractors" rather than the final users (IDB 1997a: 41, 43).

57. For example, WB (1997a: vii, ix, 15).

58. Some question the evidence on this claim on the grounds that systematic and comparable cost data are not available or not collected (sometimes even across different SF offices in the same country), and important costs—such as donor monitoring—are not included. Some SFs, for example, do not include their own overheads in reporting unit costs; for Peru, see Schady (1998: 5).

59. Angell and Graham (1995).

60. IDB (1997a: 34, and 1997b: 38–76, particularly pp. 46, 48, 73, 74). Also different, the Chilean government viewed FOSIS as a *permanent* program from the start (it was created during a time of high economic growth of 7 percent a year); this contrasts with the originally temporary status of the majority of Latin American SFs and the origins of most SFs in "temporary" periods of low growth, high unemployment, and structural-adjustment or other crises.

61. It should be noted that this recognition of the problems of special autonomous institutions is definitely not new, particularly the way such special status exacerbates the fabled lack of interagency cooperation. This same problem plagued the earlier integrated urban and rural development projects, so much in vogue in the 1970s and 1980s, with their autonomous project units. The problems of this autonomy contributed to the keen distaste today among the donors for such integrated projects, and hence their rapid fall from grace in the late 1980s. An even earlier donor penchant for creating special autonomous state enterprises, in the 1950s and 1960s, also fell out of fashion, for partly similar reasons. If donors were slapping their own hands about the pitfalls of independent units created solely for their programs in the 1980s, what is different about SFs or the 1990s that would reverse this judgment?

62. One such recent meeting was held in Mexico in December of 1999, and another is planned for Washington, D.C. in June of 2000.

63. These arguments have been made at great length and with detailed case study evidence by Gibson (1997) for Argentina and Mexico, and, for Peru, by Schady (1999), Roberts (1996), and Roberts and Arce (1998). In developing the evidence from their cases, these authors specifically link the compensatory patronage-dispensing policy to the SFs in Mexico and Peru. I elaborate on this point and the evidence in Tendler (1999, Section VI).

64. The examples are (1) the tragedy of the commons, which predicts that collective-action attempts to prevent overuse of grazing lands and other common-property resources will always be doomed to failure because of the free-rider problem; (2) the belief that the lack of secure and privately held land titles holds back farmers from investing in increased productivity, which formed the basis for much policy advice and intervention directed to convert common holdings to individually held parcels; and (3) the concept that the integration of economic activities (such as livestock management in his study) into larger systems requires that programmatic interventions also be integrated by bringing together various agencies in one program and requiring them to coordinate—which led, in turn, to a generation of "integrated" rural and urban development programs.