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Contrasting Theory and Practice: The World Bank and Social Capital in Rural Mexico

The World Bank and Social Participation: Cracks in the System?[1]

Public policy can make or break social capital. The state—or different actors within it—can promote differing policies that can contradict themselves. Some will encourage the development of social capital for specific social actors while, at the same time, others will inhibit the possibility of drawing on horizontal social relations as resources for development. The Mexican state, with its history of internal heterogeneity, has a relatively well-known track record of such practices. Throughout the postrevolutionary period, some peasant and indigenous organizations have been able to take advantage of limited cracks in the system to expand and strengthen their social capital, while

[1] This study was originally presented in Spanish at the XXIII International Congress of the Latin American Studies Association, LASA (2001), Washington, DC, September 6–8, 2001. This chapter is a translated and revised version of Fox (2003). Parts of the introduction and findings were also included in articles that compared World Bank rural projects in Mexico and the Philippines (Fox and Gershman 2000, 2006). The empirical research on the World Bank and the six rural development projects was carried out between 1995 and 2001. The write-up of the research was funded by the Soka Foundation. The author would like to express his gratitude to former participants in Trasparencia (1995–2005), a Mexican civil society organization that pioneered 'right-to-know' advocacy in Mexico, working to promote the informed participation of rural social organizations in the public policy process. I appreciate the many years of collaboration, debate, and *convivencia* with Trasparencia's founding director, Manolo Fernández. Thanks also to former Trasparencia director Fernando Melo. Trasparencia's role in the early phase of the fieldwork was funded in part by the Moriah Fund and the North–South Center, and was facilitated by a partnership with the Bank Information Center. Thanks also to Libby Haight, Jennifer Melissa Freeman, and Valeria Gama Rios for assistance with the translation from the Spanish. Thanks also for comments from David Bray.

many others have been divided or crushed by state actors. The considerable variation in whether autonomous membership organizations are subordinated or expand, thanks to cracks in the system, has yet to be explained with precision. The relative strength and weakness of more versus less authoritarian factions clearly matters, however, as does variation across agencies and regions. Here the World Bank's role matters, since its choice of which sectors, agencies, and programs to support constitutes a set of alliances with specific state factions and strategies.

In the 1990s, the World Bank and the Mexican state shared a contradictory pattern—both institutions were driven by a vertical, authoritarian, and insular governance process, and both invested substantial resources in social programs while broadcasting a pro-empowerment discourse. In Mexico, the World Bank's role is mediated by its partnership with the Treasury Ministry, especially since external loans do not increase the budgets of programs targeted for support. The Bank therefore lacks one of its key tools of leverage for influencing intragovernmental policy debates, known as 'additionality' (Fox 2000*a*). The World Bank nevertheless did influence the Mexican policy environments in which programs were designed and implemented, in ways that could either facilitate or obstruct processes of propoor social capital accumulation. This study analyzes the degree to which World Bank projects contributed to enabling institutional environments for poor people's social capital, based on comparative field studies of six 'post-reform' rural development projects.

The concept of social capital has followed a contested trajectory in the debate over how to describe poor people's social resources. Some frame social capital in terms of a broader, comprehensive theory of how the barriers to collective action can be overcome. Others see it as a descriptive term whose main value is to facilitate communication about collective action across disciplinary boundaries. Critics see it as yet another example of the increased domination of mainstream economics over other intellectual traditions. In the international development field, this debate reached a high point with the World Bank's (2000) use of the concept in its *World Development Report 2000/2001*.[2] This same

[2] For insider analyses of the social capital debate and the World Bank, see Bebbington et al. (2004, 2006) and Edwards (2006). See also Woolcock (1998) and Woolcock and Narayan (2000). For the point of view of an ex-Bank vice-president, see Serageldin (1996). External critics contend that the concept has the effect of depoliticizing development by embedding social capital in a discourse that excludes or obscures relations of power, domination, and inequality. See Harris and DeRenzio (1997), Harris (2001) and Fine (2001). Some analysts instead proposed a more politicized deployment of the concept, as in this chapter. See also Evans (1997) and Fox (1996), as well as Krishna (2002) and Moore (2004).

flagship analytical document also endorsed a limited notion of poor people's empowerment.[3] Rather than focus on the contested impact of the *concept* of social capital, however, this chapter documents the impacts of actual practices of the World Bank and its government counterparts. This involves assessing the degree to which the Bank's projects actually contributed to the 'enabling environment' that most would agree is key to permitting poor people to consolidate their own representative organizations. The central issue remains the enabling environment for the accumulation of social resources for collective action, whether they are understood as social capital or as social *capacity* (Smith and Kulynych 2002).

The idea of 'enabling environments' refers to the institutional context that either facilitates or blocks the collective action that is critical to providing leverage and voice to underrepresented people. This environment includes those institutions and actors that determine access to resources, the capacity to engage in autonomous, scaled-up collective action, and restrictions on freedom of association. This study 'operationalizes' this notion of enabling environments with a deliberately narrow focus, by analyzing indicators of the degree to which the World Bank's own relevant social and environmental policies were actually implemented in practice. The premise is that, had official Bank reforms that mandated public information access, indigenous peoples' participation in policy design, and power-sharing over resource allocation, actually been carried out, those changes would indeed have potentially encouraged the consolidation of existing poor people's organizations.

This focus on the potential for the creation of political space may appear to be counterintuitive, since the negative impacts of the World Bank on specific communities and large social sectors are so well known.[4] Specifically, many authors have documented in great detail the effects of structural adjustment policies, and the social and environmental impacts of Bank mega-projects. During the last twenty years, the extent to which these projects have had negative impacts on biodiversity, along with the 'involuntary resettlement' of literally millions

[3] For analysis of official development agency discourses and practice in support for poor people's participation, see Francis (2001), Francis and Jacobs (1999), Long (2001), and Miller-Adams (1999). Cooke and Kothari offer a more critical compilation (2001) and Hickey and Mohan respond (2004). For internal studies, see Gibbs et al. (1999) and Van Wicklin (2000. For a staff manual on participation, see World Bank (1996) and for more recent overviews, see Alsop (2004) and Alsop, Bertelsen, and Holland (2006).

[4] For critical analysis of the World Bank, see Caulfield (1996), Clark, Fox, and Treakle (2003), Fox and Brown (1998), Rich (1994), and George and Sabelli (1994), among others. For more recent civil society positions and debates, see links to international campaigns through the site of the Bank Information Center at www.bicusa.org.

of poor people each decade (including many indigenous communities), have become the focus of numerous civil society organizations and have contributed to uniting environmental movements with human rights and indigenous rights networks.[5]

The Bank's most relevant reform policies are of essentially two types: 'safeguards' and 'good practices'. The former are of the 'first do no harm' variety and include environmental assessment, indigenous peoples, and resettlement, and are supposed to be mandatory.[6] The 'good practices' policies are merely recommended and advocate, for example, good governance, gender equality, collaboration with NGOs, and informed participation by beneficiaries of World Bank-funded projects. If implemented, both kinds of policies could contribute to an enabling environment that facilitates poor people's collective action. The empirical question that follows is when, where, and whether these policies are implemented. The process of translating policies into institutional practice has been quite uneven so far, with significant variation occurring among countries and across sectors within countries.

Apart from the policies and the 'best practices', and outside of the *operational* apparatus of the Bank, there are additional areas and factions within the institution that produce research and discourse that favor social participation (as long as they do not interfere with the overall position of the Bank on macroeconomic issues). For example, official Bank discourse recognized that poverty is not due only to a lack of economic growth, but also is related to poor people's lack of power over the institutions that govern them (see the *World Development Report 2000/2001*). Both before and within this document, noneconomist factions within the Bank deployed the concept of social capital in an effort to support a social development agenda. Their proparticipation agenda did not extend to national or international arenas, however, reflecting their own limited room for maneuver.[7] Critics noted

[5] For a comparative analysis of diverse social and environmental campaigns against the Bank, both from the north and the south, as well as an analysis of the origins of the partial reforms that the institution implemented in response to those campaigns, see Fox and Brown (1998). For a political analysis of Bank norms related to 'involuntary resettlement', as an example of the interaction between external social and civic pressure and reformist internal currents, see Fox (1998). For information on involuntary resettlement in hydroelectric projects financed by the Bank in Mexico, see Aronsson (2002) and Nahmad (1999).

[6] The safeguard policies are bolstered by a relatively autonomous investigative body, the Inspection Panel, which produces reports that have sometimes had significant impacts. See Clark, Fox, and Treakle (2003).

[7] In the draft phase, this document was officially released by the Bank in order to be subject to an unprecedented formal international debate, which was organized by a coalition of civic organizations in England (www.brettonwoodsproject.org). For an in-depth analysis of the intense controversy that later resulted from the World Development Report, see Wade (2001).

that leaving national politics aside inherently confines notions of poor people's empowerment to the receiving end of policy (Joshi and Moore 2000; Moore 2001).

Though diverse definitions and implications of social capital continue to be widely disputed, influential studies have posited that some kinds of social capital contribute to economic and institutional development.[8] For the purposes of this study, social capital is defined as those *social networks and relationships that facilitate collective action.* The capital in social capital refers to ties that become resources that can help to overcome obstacles to collective action both within and between groups. These linkages are especially valuable for underrepresented social groups that have few power resources other than their capacity for collective action. This kind of 'positive' social capital is widely associated with social norms of trust and reciprocity, but the definition used here does not conflate the norms with the ties, nor does it assume that one drives the other. Most likely they are mutually constitutive. *Intersectoral* social capital facilitates cooperation between distinct groups, overcoming boundaries between neighboring communities, ethnic groups, or across the institutional divides between civil society, the state, and the World Bank.

This study examines the degree to which the development ideas associated with the concept of social capital 'trickled down' to influence World Bank operations. Some Bank analysts began to make the connection between the intellectual recognition of social capital's potential contribution and its own institutional policies and actions. One early essay concluded by signaling four areas for action (Grootaert 1997). The first recommendation was: 'Do Your Homework, Do No Harm. Such assessments of how to avoid damaging the social fabric would prevent projects from weakening existing positive social capital, and suggest ways to strengthen it'. This approach was quite compatible with 1990s Bank policies on social and environmental assessments, but their implementation in practice was limited (Fox and Brown 1998). The second recommendation was to: 'Use Local-Level Social Capital to Deliver Projects'. This suggestion underscored existing Bank mandates on NGO collaboration.[9] The third suggestion was to 'Create Enabling Environments'. In other words, 'The scope for effective use and strengthening of social capital depends critically on the nature of the wider political and policy environment'. Notably, this suggestion was not linked to the Bank's separate discourse on 'good

[8] The literature is now vast, but the single most influential work in the development debate was Putnam (1993).

[9] See Covey (1998), Gibbs et al. (1999), and Nelson (1995), among others.

governance'.[10] The fourth recommendation was to 'Invest in Social Capital', which ostensibly involved supporting 'existing and emerging organizations'. This chapter assesses the degree to which six post-reform projects applied these ideas in practice in rural Mexico between 1995 and 2001.

The question of the impact of World Bank projects on poor people's social capital is quite broad, especially if one were to include indirect effects of macroeconomic adjustment operations.[11] This study pursues a more bounded approach, focusing only on loans that *directly* involved the institutional environments for already existing rural poor people's economic development organizations. The focus here is on sectors and regions where many poor people were *already* organized. Following Grootaert's propositions, the study's empirical concern is whether or not the Bank projects avoided harm, designed projects to tap existing social capital, contributed to enabling institutional environments, and invested directly in existing social capital.

Research Design

Conceptual Assumptions

This study is based on the following four assumptions. First, the investment of external resources, including the prestige of the World Bank's technical blessing as well as the funds themselves, influence the balance of power within the state, strengthening some agencies and policymakers over others. These external resource flows also influence power relationships within society, as they strengthen or weaken specific government policies, which in turn benefit different interests. Meanwhile, institutions that mediate the relationship between the World Bank and the rest of the state are inherently strengthened by their control over the terms of engagement, as in the case of the Treasury ministry's capacity to assign resources and external blessings (Fox 2000*a*). Second, this study is based on the proposition that the World Bank, national governments, and civil societies are often *divided* on the issue of whether and how to promote the consolidation of poor

[10] For an analysis of the 'disjuncture' between the discourse on 'good governance' and Bank projects in rural Mexico, see Fox (1997*a*).

[11] For example, adjustment-related increases in unemployment could be linked to breakdowns in community social cohesion, gender or ethnic conflict, as well as directly dismantling social capital embodied in trade unions (for analysis see Esman and Herring (2001).

people's social capital.[12] This view challenges the widespread external assumption that the World Bank is a monolithic institution. The research strategy looked for cases in which pro-social capital actors in each of these three policy arenas (Bank, state, and society) manage to form effective pro-reform partnerships.[13] Third, the research design assumes that the most direct impact of 'post-reform' World Bank projects on social capital development depends on whether or not the projects contribute to the consolidation of an *enabling environment.* The fourth assumption that guides this study is that reforms that can change the balance of power between the state and organized poor people will inevitably provoke opposition, both inside and outside the state.

Together these assumptions lead to the main proposition to be tested here, which is that 'enabling' institutional reforms required balanced, multisectoral coalitions to offset likely resistance from vested interests. In other words, the process through which a World Bank project can generate enabling environments that strengthen social organizations depends on a mutually empowering convergence of pro-reform actors inside the Bank, inside national governments, and inside civil society. Specifically:

1. At the international level, within the World Bank, projects must be supported by actors willing to spend resources (political as well as economic) in the intrinsically difficult process of opening spaces for autonomous civil society organizations.
2. At the governmental level, projects must support and be designed by agencies that are already controlled by *policymakers* who favor balanced partnerships with broad-based social organizations.
3. Projects must be designed to target sectors and regions where *pro-participation civil society stakeholders* have the capacity to act in support of reform policy implementation.[14]

[12] This proposition is based on prior empirical research on the Bank's environmental and social reform process, presented in Clark, Fox, and Treakle (2003), Fox (1998*b*), Fox and Brown (1998), Kardam (1993), Thorne (1998), and Wade (1997).

[13] 'Pro-reform' is defined here as institutional change that influenced the balance of power between the state and autonomous membership organizations in favor of the latter.

[14] This hypothesis is the result of previous studies regarding struggles surrounding the partial compliance with this new wave of Bank reforms (both in antipoverty and environmental programs) (Fox and Brown (1998). The approach is compatible with the Operations Education Department findings on NGO collaboration with the World Bank, which also highlights both enabling environments and intersectoral relationships (Gibbs et al. 1999). These are two principal differences, however. First, this study focuses on membership organizations while the OED dealt mainly with NGOs. Second, while the OED study refers to a general notion of 'close working relationships' (Gibbs et al. 1999: 15ff.), this study attempts to develop more precise indicators of such relationships,

The convergence between these three sets of actors is crucial to change preexisting power relationships *within* each set of actors (Bank, government, and society), as well as *among* them. The corollary is that if any of these three pro-reform actors are *not* involved in the project process, reform implementation would be likely to fall short, and state–society relations will not change. Three distinct kinds of social capital are involved[15]:

Horizontal. Local, horizontal social capital constitutes the basic building block for grassroots action. This kind of social capital is difficult for Bank-funded projects to create where it is absent, but easy for Bank-funded projects to destroy where it is present (most directly, through large infrastructure projects, but also indirectly through macroadjustment programs).

Scaled-up—horizontally and vertically. When base groups form networks and federations, the vertical and horizontal ties between them may be weaker than intragroup ties, but they play a critical role in terms of generating bargaining power vis-à-vis other actors.[16] This kind of social capital is more susceptible to consolidation in response to the institutional environment, including freedom of association and participatory policy innovations.

Intersectoral. In order for national and international policymakers to promote institutional innovations that create enabling environments for grassroots social capital on the ground, intersectoral social capital between diverse coalition partners needs to be created and consolidated.[17] These relationships involve coalition-building between pro-reform actors across the boundaries between international agencies, nation-states, and civil societies (organized locally, nationally, and transnationally).

This study focuses on scaled-up and intersectoral dimensions of social capital. While it is certainly difficult for policymakers to promote local social capital where it is absent, they *can* promote social capital

and of the specific policies that facilitate such relationships. For the OED study, close intersectoral relationships are a cause of positive development outcomes. This study, in contrast, treats such relationships as the *result* of Bank compliance with key social and environmental policy mandates and participatory project goals.

[15] For further discussion, see Woolcock and Narayan (2000).

[16] On the mutually reinforcing contributions of internal and external linkages in scaled-up community-based organizations, see Esman and Uphoff (1984) and Chs. 3 and 4. On the critical role of weak ties between strong subgroups, see the seminal work by Granovetter (1973).

[17] For background, see Brown (1991, 1998), Brown and Ashman (1996), Brown and Fox (1998), Esman and Uphoff (1984), and Woolcock and Narayan (2000).

between themselves and with already existing poor people's organizations, in order to promote the horizontal spread and vertical scalingup of *already existing* grassroots social capital. Chapter 3 discussed a series of government reform strategies that encouraged these regional scaling-up processes, and many of the membership organizations mentioned below are legacies of these earlier experiences with state–society synergy.

Comparative Methods

This study uses a layered comparative method, first comparing across projects, then comparing across regions within a project. Cases selected include the majority of World Bank Mexico projects that involve rural productive and infrastructure investments targeted to low-income regions during the five-year 1994–9 period, after the Bank's environmental, indigenous, and public information disclosure reforms.[18] This study does not address World Bank-funded investments in basic education and health, which did not even claim to encourage social participation.[19]

The rationale was to choose cases where, because of the Bank's 'safeguard' policy reforms, at least some degree of institutional change was possible. The projects studied were all designed ostensibly to combine targeted support for pro-poor economic development with sustainable resource management. In addition, all the projects were implemented in sectors or regions where some degree of consolidated social capital already exists, in the form of broad-based rural grassroots organizations and experienced development NGOs.

Reform policy compliance is assessed based on a series of indicators drawn from the official policies themselves (see below). All of the projects either partly or exclusively involved indigenous peoples.[20] The key provision of the Bank's indigenous people's policy is the ostensibly

[18] The World Bank 'safeguard' reforms that guide the project design process include its environmental assessment policy (1989, revised in 1991), its public information disclosure policy (1994), and its indigenous peoples policy (1982, revised in 1991). All three policies are designed to promote informed participation by key stakeholders in the design as well as the implementation of projects, among others. These reform policies, as well as more attention to project 'quality at entry', subsequently received high-level backing from World Bank President Wolfensohn.

[19] For two rare independent evaluations of World Bank health projects, see Battacharjea (1999) and Frade (2000). On the broader context of the Bank's Mexico strategy during the 1990s, see Fox (1996, 2000*a*).

[20] Official statistics on the indigenous population in Mexico were analyzed in a project called, 'Perfiles indígenas' (available at www.ciesas.edu.mx, under 'proyectos especiales', and also in Molnar and Carrasco (2001).

obligatory mandate for the 'informed participation' of affected indigenous peoples at all stages of the policy process, including the design phase.[21]

Indicators of Institutional Preconditions for Informed Participation by Social Actors

This study focuses on only some of the institutional changes that contribute to an enabling environment for social capital.[22] The first three indicators detailed below, all highlight the fundamental role of opportunities for informed public participation. The fourth indicator assesses whether any intersectoral coalition-building to promote these institutional changes took place. In order to see the broader patterns, each project is rated on a scale from zero to low, medium, and high, according to each indicator.

Public participation in the project design process: To what degree did the project design process involve informed participation by a pluralistic range of organized low-income people, especially indigenous peoples and rural women's groups? This assessment involved specifying which organizations were involved, who they represented, at what phase of the project cycle, their access to relevant information, the nature of their input, and how they affected project design, if at all. If consultative meetings were held, was the input ignored? This would be considered a 'low' level of public participation. Medium and high levels would involve degrees of tangible impact, such as the creation of power-sharing bodies to allocate resources to subprojects.

Timely public access to information in the implementation: Did organized beneficiaries have timely access to the basic project documents at an early stage of the implementation process, in their languages? Which documents were available, when, to whom, in what language, and why? Key documents include government agency project operating manuals, World Bank Public Information Documents, Staff Appraisal Reports, social and environmental impact assessments, economic feasibility studies, broader World Bank environmental and participation policy directives, etc. If only the minimum English-language

[21] For background on the Bank's indigenous policy, see Gray (1998) and Thorne (1998).

[22] For example, this study does not assess the degree to which social organizations enjoy basic civil rights, such as freedom of association, or whether/where their human rights can be violated with impunity. While in many ways more important than the indicators we focus on here, they are not the main focus because they are not primarily determined by the World Bank and the government agencies responsible for project design and implementation.

Bank documents mandated by the public information disclosure policy were available, and only upon request to Washington, then for the purposes of assessing the institutional environmental for social capital consolidation, such projects would be ranked 'zero'. If such documents were available, still in English but in country, then the ranking would be 'low'. If no Bank documents were available in country but the key project information, such as the rules of operation, was in a publicly available Spanish language government document, the ranking would be 'medium'. If the government and/or the Bank made a systematic effort to translate and disseminate not only the basic documents but also ongoing project implementation information, such as regular progress reports, the rating would be 'high'. These rankings are national.

This indicator is also disaggregated, also including regional level information about 'subprojects'. Each of the six large loans allocated funds to numerous, sometimes hundreds of social, economic, and natural resource management 'subprojects'. The 'local-regional' indicator refers to transparency of resource allocation criteria between and within distinct 'subprojects'.

Institutional mechanisms for state–society power-sharing over resource allocation: This indicator refers to whether the projects included institutional mechanisms for pluralistic power-sharing over resource allocation between the state and representative civil society organizations, where the project involved indigenous groups. Since such bodies often existed only on paper, or participation was limited to clientelistic pro-government organizations, the key question was whether they actually existed, and if so, whether they included the full range of actually existing poor people's socioeconomic organizations in the specific region or sector. This indicator is disaggregated in terms of national and local-regional levels, where state–society power-sharing was more likely to be permitted. If state–society councils were created that included the key relevant social organizations but lacked actual authority over resource allocation, their contribution to the environment for social capital consolidation might be considered 'low-to-medium'. If, however, at most a small minority of regional councils created by a project were even partially inclusionary, then such a project would rank zero-to-low in terms of power-sharing. If a substantial minority of project councils were inclusionary and they actually had some authority, such a project would rank 'medium'. If a majority were inclusionary and had authority, such a project would rank 'medium-to-high', or 'high'. If there is a wide diversity of regional outcomes, such projects could be ranked 'low-high'.

Intersectoral coalition-building: This indicator describes whether international and national policymakers made efforts to reach out to form coalitions in order to promote the previously described changes. Note that this is a very specific kind of intersectoral partnership. Others exist, such as those partnerships between Bank and government officials *opposed* to engagement with civil society organizations, or coalitions between those national and local government officials who together might *reject* Bank entreaties to engage more with civil society. This raises the more general issue of social capital as a two-edged sword—sometimes these social resources permit people to come together for collective action in favor of broader inclusion, and sometimes groups coalesce in order to exclude others.

For this indicator, timid and erratic efforts to form coalitions would be rated zero-to-low. Discreet, selective efforts would be rated medium. More sustained, broader coalition-building efforts would rate medium-high or high. One key indicator would be whether Bank and/or government policymakers actually developed practical strategies and invested their own political capital to offset resistance from antiparticipation factions embedded in both the Bank and the state.

Rural Poverty in the Big Picture

To provide context for the case studies that follow, two broader trends warrant mention. First, during the period of study, the overall public policy strategy promoted by the Mexican government directed toward the countryside was openly supported both politically and economically by the Bank. Second, the *net* impact of these policies on rural poverty was not positive. Rural employment fell substantially (see Chapter 10). In 1998, more than 81 percent of the rural population in Mexico lived below the poverty line—in contrast to 73 percent in 1992, and 58 percent nationally. Almost 57 percent of the rural population was living in what was officially considered 'extreme poverty', in contrast to 45 percent in 1992.[23]

In the national policy context, none of the projects considered below were considered priorities in the shared agendas of the Mexican government and the World Bank. This is revealed most clearly by the very modest amounts of resources assigned to them, compared to the

[23] These statistics were presented in World Bank (2001). This annual document, previously confidential, was first released to the international press in 2001, after several years of being informally leaked (Cason and Brooks 2001).

Table 6.1 World Bank lending targeted to sustainable development in Mexico (1986–2000)

Period	Antipoverty targeted (%)	Environment (%)	Drinking water and sanitation (%)	Total per period (%)
1986–1990	7.54	0.25	0.20	7.99
1990–5	27.92	7.56	10.07	45.55
1996–2000	7.75	4.94	3.63	16.32

Note: Only projects that have *direct* 'sustainable development' priorities are considered here. They are defined here as those that are institutionally designed to target *most* of their resources to social investments in low-income people or regions, to environmental protection, and/or to drinking water, and sewage infrastructure. Five-year lending flows reflect aggregated annual new loan amounts, each attributed to the year signed. This approach indicates World Bank resource allocation decisions. Actual disbursements depended on Mexican government allocation of matching funds.

Source: This table updates the 1986–1995 data presented in Tables 1 and 2 in Fox (1996: xiii–xvi) and draws on World Bank *Staff Appraisal Reports* for categorizing specific projects.

overall Bank lending to Mexico. For more than two decades, Bank loans to Mexico prioritized structural adjustment, or in other words, macro and sectoral reforms that are considered necessary to attract large private investments. However, for a brief period of time the tendency shifted. Between 1991 and 1995, there was a significant increase in the percentage of new loans directed toward poverty alleviation, environmental protection, and building potable water and sanitation systems. This tendency reached its highest point in fiscal year 1994. In the five years following the peso crisis (1994–5), the composition of the Bank's portfolio in Mexico returned to the previous dominant trend.[24] Table 6.1 shows these trends from 1986–2000, in five-year intervals.

A study of the Bank's then confidential Country Assistance Strategies revealed the rationale for this unusual shift in the distribution of Bank resources. Three mutually reinforcing factors came together to encourage more social and environmental investments: apparent macroeconomic stability allowed greater attention to social investments during the period preceding the 1994 elections, the US congressional debate over NAFTA gave greater political weight to environmental issues; and the international momentum of environmental and social advocates within the Bank, thanks to the Rio UN Summit in 1992 (Fox 2000*a*).

[24] For information on the general relationship between the Bank and the Mexican government, from semi-official perspectives, see Bonnick (1994) and Urzúa (1997). From civil society, see Purcell and Heredia (1997) and Fernández and Adelson (2000).

Case Analysis

This study documents the history of the design of the six case study projects, based on review of the official documents and extensive interviews with World Bank staff, national and local government officials, and representatives of grassroots stakeholder organizations. The official goals of each project are summarized briefly in Table 6.2, based on their 'founding' operational documents. All the projects explicitly stress their official intention to target benefits to the rural poor, and/or to protect local natural resources, and some refer to supporting producer organizations. The case discussion that follows focuses on synthesizing the assessment of each project in terms of the four main indicators. The results are summarized in Table 6.3, which highlights indicators of participation and information access. The discussion of the sixth case provides an additional layer of comparison by analyzing interregional variations in the degree to which autonomous social organizations were included in the project's regional councils (Table 6.4).

1. Decentralization and Regional Development 2[25]

Two of the Bank's largest loans for social development in Mexico in the 1990s were directed primarily to local governments in rural areas. The first loan (for US$350 million during 1991–4) was called Decentralization and Regional Development 1 (DRD1) and was targeted to four of the poorest states in Mexico. The Municipal Funds program began as a key piece of the National Solidaridad Program (1989–1994), and were later reinforced by the President Zedillo's 'new federalism' (Ward and Rodríguez 1999). Decentralization and Regional Development 2 (DRD2) (US$500 million during 1995–9), had broader geographical coverage, reaching eight of the poorest states, and the Municipal Funds program was allocated 70 percent of the investment funds (World Bank 1994*a*). Both loans were key elements in the Bank's geographically targeted 'social strategy' for Mexico, which focused on health, education, infrastructure, and agriculture in the poorest states (Fox 2000*a*). The choice of states covered by DRD1 and DRD2 did not take into account their respective track records in terms of government accountability and community participation.[26]

[25] This section synthesizes some of the findings from Fox and Aranda (1996*a*, 1996*b*) and from Fox (2002).

[26] In fact, the 'Implementation Completion Report' indicated that only two out of the four participating state governments had truly launched key institutional mechanisms

Table 6.2 Official goals of six World Bank projects for rural Mexico (1994–7)

Projects	Official goals related to creating policy space for rural smallholder organizations
1. Decentralization and regional development (1994)	'To alleviate poverty by increasing the access of rural poor and indigenous communities to basic social and economic infrastructure.... The project would strengthen mechanisms for participation of these communities in public decision-making at a local level'. (World Bank. 1994*a*: 1)
2. Rainfed areas development (1994)	'To raise agricultural productivity in selected rainfed areas [and] to give additional emphasis to the creation of producer organizations.' (World Bank 1994*b*)
3. Rural financial markets (1995)	'To augment the participation of rural entrepreneurs in rural financial markets, especially of the poor ... [and] to demonstrate that it is possible to supply financial services to small and microentrepreneurs in small rural localities—in a sustainable manner' (World Bank 1995*c*: 3)
4. Aquaculture (1997)	'Promote sustainable aquaculture development by increasing the productivity of the aquaculture sector within a framework of social consensus and environmental soundness [by assisting] the government in completing and implementing its regulatory framework ... provide key public goods and support productive investments and training for social sector producers and develop a more level playing field for social sector participation.' (World Bank 1997*b*: 13)
5. Community forestry (1997)	'Designed to empower the communities and *ejidos* in their decision-making as to the nature, extent and timing of the training and technical assistance on sustainable forestry management they would receive' (World Bank 1997*a*: 21)
6. Rural development in marginal areas (1997)	'Improve the well-being and income of smallholder in about 24 targeted marginal areas ... fostering community socio-economic development, organization and participation' (World Bank 1997*c*: 2)

Note: Each statement is drawn from the official project document, formerly known as the Staff Appraisal Report (currently known as Project Appraisal Document). Because all of these projects were signed after the World Bank's public information disclosure policy became effective in 1994, these project documents were available to the public through the World Bank's Public Information Center, and later became accessible on-line at www.worldbank.org/mexico. Some of these project documents were also translated into Spanish, but those versions were not available online.

The experience with DRD1 showed both federal and World Bank social development officials that state governments preferred to allocate resources to urban municipalities, and smaller municipalities preferred to allocate investments to their town centers. Because these

to foster community participation in the Municipal Funds program (World Bank 2001: 7). An internal WB report, done when the project was halfway through, concluded that 'community participation in assignment execution, selection and maintenance is minimal, and none in design and control' (Lemmet, Nahmad, and Carrasco 1997).

Table 6.3 Indicators of project-level enabling environments for autonomous social organizations

Projects	Participation in project design	Stakeholder access to policy information during implementation		Power-sharing in resource allocation for subprojects		Cross-sectoral proparticipation coalitions
		National	Local–regional	National	Local–regional	
Decentralization and regional development II (1994)	None–low	Low	None–low	None	None–medium (regional variation)	None
Rainfed areas (1994)	None	None	None	None	None	None
Rural financial markets (1995)	None–low	None–low	None	None	None	None
Aquaculture (1997)	Low–medium	None	None	None	None	None
Community forestry (1997)	Medium–high	High	Medium–high	Low	Low–medium (regional variation)	Mutual support between WB officials, Environment Ministry, social organizations, and NGOs
Rural development in marginal areas (1997)	Low–medium	None–low	None–medium (regional variation)	None	None–low (regional variation)	Initial outreach efforts not sustained by WB or adopted by Agriculture Ministry

Definitions of indicators:
Participation in design: Informed participation by autnonomous, representative membership organizations in project design.
Information access: Availability of basic project information to stakeholders in Spanish (e.g. Staff Appraisal Report, operations manual and/or other basic project documents, information about resourece allocation criteria).
Power-sharing: Representation of autonomous membership organizations of the poor in state–society decision-making bodies that influence resource allocation to subprojects.

Table 6.4 Degrees of inclusion of autonomous indigenous producer organizations in marginal areas program regional councils

Exclusion	Incipient inclusion	Partial inclusion	Full inclusion
Oaxaca			
		< Mazateca Alta	
		< Cuicatlán	
	Mazateca Baja >		
		< Mixe Alto >	
		< Mixe Bajo—Istmo >	
Mixe Bajo—Cuenca			
Huasteca region			
	< Huasteca—Hidalgo		
		Huasteca—San Luis Potosí sierra >	
	Huasteca—San Luis Potosí (llanos) >		
Huasteca—Veracruz (no regional council)			

Note: The indicators reflect varying degrees of inclusion at the time of field research interviews with local leaders of producer groups and human rights organizations (August 1999). The arrows indicate which direction each regional council was moving in at the time, toward more or less pluralism. For additional details regarding patterns of exclusion and inclusion in the councils in the Huasteca region, see Macehualiztiztin (2004), Rangel (2004), and Trasparencia (1998), and for Oaxaca, see Trasparencia (1999) and (2000) and Velásquez (2000). For details on the Mazateca, Huasteca Veracruzana, and Sierra Norte of Pubela, see also Nahmad (2000).

funds were intended to be invested with an antipoverty targeting logic, DRD2 was quietly redesigned to include new administrative requirements for intrastate allocation formulas that favored rural areas, as well as ceilings on the amounts of municipal funds that could be spent in the town centers (Fox and Aranda 1996*a*, 1996*b*). These measures created new entitlements for the poorest and most rural communities *within* each municipality, though this mechanism was later eliminated due to a 1998 pro-decentralization fiscal reform (World Bank 2005). This law trumped social policy, removing federal agency oversight of municipal social investments.

During the DRD2 project design process, there was little participation by peasant or indigenous organizations in the project design, but the Bank's project Task Manager did take into account some suggestions from NGOs and academic studies regarding the importance of targeting rural areas. Following the Bank's public disclosure reforms, the project's information document was translated into Spanish, but it was only very narrowly circulated within the Social Development

Ministry. The executive summary of the actual project document was not translated. The project's operation manual, produced by the government, only began to circulate many years after it was produced. At least in Oaxaca, the manual only began to reach rural mayors in 1998, the same year that the new law invalidated the pro-rural targeting policies. While the project did encourage greater participation and accountability in a substantial fraction of rural municipalities in Oaxaca, it appears that the same municipal funds program in Chiapas had a major role in the 'low-intensity conflict' strategy that followed the Zapatista uprising.[27]

The state-level formulas intended to reduce discretional resource allocation between municipalities combined variables of poverty and population, and they were required to be published in the state governments' official daily bulletins. Because the bulletins circulated almost exclusively among government officials, and because the formulas were highly technical, this formal transparency had little practical effect.[28] Governors could also choose the timing of the actual disbursement of the funds. Because the grants were annual, they had to be spent in the year delivered, so end-of-year disbursements to mayors not considered loyal could prevent them from effectively investing the funds, In general, the municipal funds program managed to empower the state governments more than rural municipalities.

The national Municipal Funds strategy did call for the formation of municipal councils, in order to broaden participation in processes of resource allocation. However, as discussed further in Chapter 8, in practice they rarely functioned as pluralistic, deliberative decision-making bodies. Where these councils did function, however, and where the program offered outlying villages some entitlement to investment resources for the first time, the Municipal Funds did contribute to new power-sharing arrangements for resource allocation, and therefore the Table 6.3 ranking takes into account this regional variation.

2. Rainfed Areas Development

This project was designed to buffer the social cost of NAFTA by helping small-scale rainfed corn producers invest in higher-value

[27] This hypothesis was indicated in Fox and Aranda (1996*a*). One of Chiapas' leading analysts of municipal politics suggests that municipal social investments had a very important role in the division of the civil movement in favor of municipal autonomy, particularly during 1994 (Burguete Cal y Mayor 2001).

[28] Indeed, State authorities actively suppressed their own official bulletin to keep municipal fund information from mayors.

crops.[29] Producer organizations were not involved in project design, however, nor were they informed about its existence. After the 1994 change in presidential administration, the Agricultural Ministry decided that such investments were not its priority, and instead used the funds as part of its conventional investment programs, which focused instead on better-off producers, those with cattle or irrigation, through the Rural Alliance program. The project was renegotiated in 1996, and most of the potentially pro-participation provisions were eliminated. Much of the project's funds were then used for the government's Temporary Employment program, which was more of an ad hoc, politically discretionary transfer payment window than an investment program that could strengthen producer organizations (Adelson 1999). Under the original project, producers were to apply for support in organized groups (World Bank 1994*b*: 13). No institutional mechanism for coordination with the producer organizations was created, however, and under the renegotiated project producers no longer had to be organized. The goal of strengthening producer organizations was eliminated (Adelson 1999).

Overall, this project ranked zero for participation in the design phase, no information about its activities was made public during the implementation phase, and no power-sharing bodies were created to allocate resources. In spite of its explicit intention to strengthen producer organizations and to encourage alternatives to rainfed corn, the project ended up subsidizing better-off, individual producers, with no apparent complaint from the World Bank. A new, larger follow-on loan called 'Agricultural Productivity' reinforced the Bank's support for the Agriculture Ministry's conventional programs, not specifically targeted to the poor (in contrast to the same ministry's Rural Development in Marginal Areas project, discussed below).

3. Rural Financial Markets

This project was designed after a Bank-funded study discovered that rural financial markets in Mexico do not work equitably or efficiently (World Bank 1995*c*). The project design assumed that only private commercial banks had the potential to provide efficient financial services to the rural poor. The study had surveyed families in three

[29] This project was part of a broader trend in the Bank's Mexico strategy during the early 1990s, which attempted to contribute to the NAFTA process through unprecedented levels of investment in antipoverty and environmental projects. After NAFTA was approved, followed by the peso crisis, this component of the portfolio dropped sharply (Fox 2000). For background on NAFTA's impact on corn producers, see Nadal (1999). For a Bank assessment of NAFTA and Mexico's southern states, see Esquivel et al. (2003).

regions about their access to rural financial markets. The pilot project proposed to address these issues by subsidizing private banks willing to experiment with low-cost banking systems appropriate for rural areas (as exist in Indonesia and Thailand). The technical assistance element of the project (with less than 10 percent of the budget) was the only provision that could conceivably have reached NGOs or social organizations, but in the end they only received a small fraction of that.

The project's design phase involved considerable debate with one of the Mexican peasant movement's networks of regional economic organizations, the Mexican Association of Social Sector Credit Unions (AMUCSS). AMUCSS raised concerns about the Bank and Treasury Ministry's rejection of their point of view, and cited Bank policies mandating consultations with indigenous peoples (AMUCSS affiliates in Oaxaca and Chiapas are broad-based indigenous credit coops). The Bank's response claimed that its field research surveys had fulfilled this requirement, and even 'went beyond the World Bank participatory guidelines'. However, these surveys were designed as research, not consultations. They did not ask, for example, for views regarding possible solutions to the problem of credit access. Moreover, they did not survey community-based economic organizations. The Bank's written reply also asserted that the proposal to hire local individuals to staff the proposed experimental rural bank branches would be sufficient to count as indigenous people's participation, assuming that would somehow guarantee accountability and responsiveness. The Bank's response also noted that AMUCSS affiliates had attended a Bank-Treasury Ministry seminar, and they had therefore been 'consulted'.[30]

The AMUCSS credit union association was not associated with the political opposition. Though autonomous from the government, it was led by a member of the peasant wing of the then ruling party. AMUCSS's views were rejected because World Bank and counterpart Treasury Ministry officials considered all credit unions to be inherently flawed, because of weaknesses in the national legislation that induced their creation years before. Indeed, the weak institutional framework did permit corruption at several major credit unions, mainly in urban areas. The Bank-sponsored study did not consider those credit unions linked to small farmer associations, to see whether, in spite of financial weaknesses, they might have created compensatory pro-accountability structures and embodied considerable accumulated social capital. Indeed, at least one of the main flaws identified by

[30] AMUCSS represented during that time 35,000 families in 17 states. See Cruz (1995) and the letter from AMUCSS's elected leadership to President Wolfensohn of the World Bank, May 23 1996, as well as the reply from Task Manager Rodrigo Chaves, September 27, 1996 (also sent in Spanish translation).

the Bank as inherent in all credit unions—the possibility of owners lending to themselves—was also shared by Mexico's private banks—the very institutions assumed to be the solution to Mexico's rural credit problems.

Project design reflected Bank economists' faith that large private commercial banks would respond to subsidies intended to induce them to offer credit to the rural poor. In practice, however, they did not respond. This was not surprising, given the short-term orientation of most Mexican private banks. Indeed, the project document itself recognized that the rural financial situation was likely to get worse before it got better. As a result, after three years few funds had been disbursed and the project was cancelled—an unusual admission of failure.[31]

On balance, this project contributed nothing to enabling the accumulation or strengthening of poor people's organizations. Indeed, the project's Task Manager would have preferred to liquidate poor people's existing financial organizations rather than attempt to, for example, restructure them to harness their accumulated social capital. Since there was some serious debate with social organizations in the design phase, one could rank that as zero-to-low participation, but then the doors closed and the project rated zero.

4. Community Forestry

Mexico's situation is almost unique in the world in that 70–80 percent of its forest resources are in community-based landholdings (World Bank 1997*a*: 1). Over the last three decades, Mexico's forest policy shifted from promoting corporate and state firm logging, to encouraging community-based self-management, and then to promoting private forest plantations (Bray and Wexler 1996; Bray, Merino-Perez, and Barry 2005). These different policy priorities have coexisted within the Mexican government since the 1990s. While observers might easily have expected the World Bank to support the Mexican government's program to support large commercial forestry plantations, instead this modest project's goal was 'to empower the communities and ejidos in their decision-making', above all regarding their access to technical assistance for sustainable logging and related conservation measures (World Bank 1997*a*: 21).

This project was designed in response to the failure of an earlier World Bank forest project and is an instructive case of 'social learning' by the relevant actors in the Bank, the state, and civil society (Brown

[31] Interviews, Mexican Finance Ministry, May 1999.

1998). The previous project had focused on subsidizing logging roads in ancestral indigenous lands in northern Mexico, without taking into account the corresponding environmental or social costs.[32] A Mexico-US cross-border human rights and environmental advocacy coalition that had challenged the project in 1991 was empowered by the growing debate around NAFTA. In addition, indigenous rights advocates within the Mexican government quietly shared critical information about the then secret forestry project with NGOs, suggesting a coalition between civil and state actors.[33] The external pressure shed a spotlight on the project's inadequate environmental and social assessments, leading Bank staff to suspend the project in 1991. According to the official Bank retrospective, administrative problems along with 'mounting public criticism of the operation' led the government to perceive the project as 'problematic', lose interest, and eventually cancel the balance of the loan (World Bank 1995*d*: iii). This was the first World Bank project ever cancelled in Mexico in response to civil society concerns.[34]

Rather than move on to a new project quickly or just pull out of the sector, new Bank staff chose to reflect and convene a collaborative analysis of the forest sector with the Mexican government, including some of Mexico's most socially and environmentally concerned nongovernmental forest policy experts. This produced an overview study that provided the framework for the participatory project design process that followed (World Bank 1995*b*). Close collaboration between pro-reform Bank staff, Mexican Environmental Ministry officials, Mexican forest policy researchers, and NGOs encouraged a series of participatory workshops with community-based indigenous timber enterprises (Martínez et al. 1995*a*, 1995*b*). The project that emerged was targeted geographically to the state of Oaxaca, where many of Mexico's most consolidated, community-based indigenous economic enterprises are found, many of which have years of experience managing their timber resources.[35] The project was designed to bolster access to diverse forest management services, including subsidies for

[32] For details on the critique from US and Mexican public interest groups, see Lowerre (1994).

[33] Interview with former Mexican government policymaker involved with the project, Mexico City, May 1999.

[34] 'Official' lessons included the lack of local participation and 'poor external relations' (World Bank 1995*d*: iv). These lessons learned did not specifically underscore the need for more informed and effective indigenous people's participation. The need for more participation was conceived more in terms of official stakeholders, such as state governments—this would have eased the flow of funds, but would not have encouraged indigenous peoples' participation in the process.

[35] See, for example, Asateco (2002), Bray (1995), Bray, Merino Perez, and Barry (2005), Chapela (1999), Klooster (2000), and Mitchell (2006).

sustainable logging plans and market research studies for possible nontimber forest enterprises (such as bottled spring water and ecotourism ventures). The idea was to increase quality, promote conservation, and raise the level of accountability of service providers for the forestry social organizations, which own the resources. To convince the economists, the initiative could be presented in terms of strengthening the forestry services market. The project intervened primarily on the 'supply side' by making resources available for professional services.

Project implementation included regular consultations and information sharing between a wide range of stakeholders, building partnerships between project managers in the Environment Ministry, forest management NGOs, and community forestry organizations. However, the project had to face serious opposition from the Treasury Ministry, which blocked and then slowed allocation of most counterpart funds.[36] Resistance from within the Environment Ministry itself came from traditional forest engineers, who did not share the project goal of forester accountability to community organizations.[37] It was difficult for Environment Ministry managers to be accountable to their civil society partners when they had few funds with which to operate the project, but the intersectoral relationships were sufficiently strong to survive this test. Indeed, World Bank project staffers were consistently supportive of their Mexican counterparts in their internal debates with Treasury and other Environment Ministry officials.[38] These challenges to the implementation process suggest that the combination of broad-based horizontal social capital with diversified intersectoral social capital is necessary but not sufficient. Such coalitions must also mobilize their own *political* capital to offset opposition that is inherent in the process of encouraging the empowerment of poor people's organizations.

However, what effects did the project have on the community forestry sector? The project was designed to subsidize the service providers, rather than to provide direct support to the organizations.[39] The project could fund the design of alternative investments, but could not provide the capital needed to carry them out. At first, under pressure to produce results with few resources, project efforts favored

[36] See the project implementation progress report (Subsecretaría de Recursos Naturales 1999) and Oaxaca press coverage, which highlighted the Treasury Ministry's opposition (Bermúdez 1999*b*).

[37] Interviews with Oaxaca-based forest NGOs and program managers, May 1999.

[38] Interviews, World Bank and Environment Ministry officials, August 1998 and May 1999.

[39] For detailed project implementation research, see Castellanos (2000), DeWalt, Guadarrama Olivera and Betancourt Correa (2000), DeWalt (2001), Maldonado (2001), Reed Segovia, González Vicente, and Segura Warnholtz (2004), and SIPA (1999).

the most consolidated organizations. After several years, the less consolidated organizations gained increased access to projects. The Community Forestry project's track record with both public information access and consultation with stakeholders was consistently stronger than any other World Bank project in Mexico.[40] Moreover, the project survived and expanded to other states, with support from a follow-up World Bank loan and a complementary GEF grant, which increased the prospects for impact on the less consolidated forestry organizations.

5. Aquaculture

Mexico's commercial aquaculture sector was poised for a boom after the mid-1980s legal reforms liberalized the sector. Rapid growth in commercial aquaculture in other countries had provoked widespread controversy because of its high environmental and social costs. This World Bank project was designed to provide basic infrastructure, and to strengthen the capacity of the Environment and Natural Resources Ministry so that it could regulate the impacts of aquaculture growth, and would promote it within the 'social sector' of low-income agrarian reform beneficiaries. This proposal, together with the community forestry initiative, were the first World Bank projects in Mexico where institutional design was significantly influenced by civil and social stakeholders.

Mexico's Environment Ministry was a recent institutional creation at the time. Socially minded, committed environmentalists held the highest positions but they presided over a ministry that was composed primarily of several powerful, more conventional, historically autonomous agencies that had been reassigned from other ministries. The fishing agency was not under the control of the environmentalist policymakers, and would have preferred a clearly industrial approach to aquaculture. The first World Bank project summary reflects this

[40] For progress reports and the minutes of multistakeholder state level project implementation committees, see www.coinbio.org. In spite of this high degree of participation, in November 2003, several community leaders from southern Oaxaca wrote to the World Bank Inspection Panel, alleging violation of the indigenous people's policy mandating the right to informed participation due to personnel and administrative changes in the project. Their request is posted at www.inspectionpanel.org. The Inspection Panel found the 'requestors' to be eligible and made a field visit. Most other stakeholders did not appear to share the requestors' concerns, and expressed support for continuation of project implementation. The Inspection Panel did take issue with some aspects of the Bank's role, but held off on making recommendations that would slow project implementation (Inspection Panel 2004: 16). A review of recent state implementation committee minutes suggests that a high level of community participation and engagement continues.

bias, where priority was given to conventional industrial aquaculture parks.[41] Civil society concerns resonated with the Bank's own social and environmental assessments, which encouraged World Bank project staff to attempt to build more participatory power-sharing features into project design.[42]

Internationally, the Mangrove Action Project and later the Canadian Sierra Club plus its international allies called on the World Bank to cancel project preparation because of the environmental risks.[43] These Northern NGOs took this position without consulting Mexican fishers or environmental organizations, which did not support cancellation. Their policy agenda with the Environmental Ministry was broader, and instead they proposed redesigning the project to be more socially and environmentally sensitive. When a Washington-based public interest group, the Bank Information Center, together with a new Mexican NGO watchdog group, Trasparencia, alerted grassroots fishers' organizations from Oaxaca about the project, the local organizations faxed various World Bank officials directly to alert them to the fact that the project violated the World Bank's policy on indigenous peoples. This allowed a senior Bank anthropologist to contact their Legal Department, which in turn temporarily suspended project preparation until the project design took impacts on indigenous populations into account.[44] Even though this provoked friction both within the Bank

[41] See the early Project Information Document (World Bank 1993).

[42] The social assessment, carried out by independent anthropologists had an upbeat tone but stressed the many obstacles to effective grassroots participation and the lack of positive relationships between the relevant government agencies and local communities (DeWalt and Toledo 1994). As one Bank social specialist noted at the time, 'the Fishing Ministry project smelled like "raw fish", but who knows, maybe it can still be saved with some dignity' (personal communication, October 1995).

[43] See the exchange of letters between Robin Round, Canadian MDB Campaign Coordinator (September 18, 1995) and James Wolfensohn, President of the World Bank (October 2, 1995). After debate among NGOs, the Mangrove Action Project shifted its position to call for 'halting' the project 'until more accountability can be provided as to the ecological impacts of large-scale shrimp aquaculture' (*Mangrove Action Project Quarterly News* June 1995). The Mexican NGOs led by Environment, Development, and Society and Greenpeace-Mexico took the position that 'the few attempts made to incorporate public participation have been absolutely insufficient, and the steps proposed for mitigation of environmental impact are inadequate' (Whizar, Salazar, and González Franco 1995). For the results of a grassroots forum on the issue, see Salazar and Whizar (1996).

[44] The Bank manager in charge of Mexico reportedly responded by throwing the lawyer and senior social development specialist out of his office. In terms of the relations between the Task Manager and Oaxaca fishers, see their exchange of letters. On September 20, 1995, the organized fishers wrote to criticize the Bank for claiming in its Project Information Document that they had been consulted during project preparation. The Task Manager responded on January 2, 1996 that they had been consulted because of their attendance at a forum convened by a Bank consultant (who did not consider himself to 'represent' the Bank). Note the contrast in response time with the Canadian letter mentioned above. The letter, written in English, ends on a positive note, encouraging the fishers' participation in the new targeted investment fund. Trasparencia's director

and between the Bank and local fishers, it also led to information-sharing meetings with fishers' organizations.

Subsequent negotiations between the Bank and the Environment Ministry led to significant changes in its original top-down, industrial emphasis. By the time the loan was signed, only one large-scale conventional shrimp aquaculture park of the kind emphasized at the beginning was left, an elaborate scheme for ongoing social participation, environmental assessment, and public transparency was devised, and a separate social fund for low-income indigenous fishers was included (accounting for 11 percent of project funds), as well as another 11 percent for social sector training (World Bank 1997*b*). The combination of civil society scrutiny, combining confrontational international pressure with more 'propositional' Mexican input from social and civil organizations, both pressured and empowered the project Task Manager to try to bring the project into compliance with some of the Bank's most important safeguard policy reforms. As she put it, 'they've been trying to promote commercial aquaculture since the very first mission, while we've been trying to carry out aquaculture of a social nature'.[45] One of the lead social assessment specialists was more critical, concluding that 'what finally was approved in the Aquaculture Project for Mexico essentially ignored most of what was said in the social assessment report and the indigenous people's development plan'.[46]

The result was a project full of compromises that did not generate much enthusiasm among any of the different stakeholders. After the loan was signed, the Mexican government did not allocate counterpart funds to the project, and therefore, almost none of the Bank funds were disbursed.[47] Therefore, none of the safeguard provisions built into the project were ever tested in practice. The project was frozen in part because it lacked a strong pro-reform coalition behind it. Both the Bank and the Mexican government were divided over whether to pursue the reform agenda in this sector. The potential beneficiary grassroots

suggested that they write back to her in Huave (an indigenous language spoken by fishers in eastern Oaxaca). Earlier, Greenpeace had also complained that Bank claims that they had been 'consulted' were inaccurate—instead, they were merely informed of Bank plans (*The News*, March 10, 1995 [Mexico City]).

[45] Interview, Washington, DC, January, 1996. The task manager added: 'I'm concerned that they [government counter parts] are giving lip service to the social goals without really believing in them. Let's go ahead anyway because the lip service makes it hard to say no—but let's get the NGOs in'.

[46] Personal email communication, October 1997.

[47] The Mexican Treasury Ministry was reluctant to allocate budgetary resources to this project because the large-scale park appeared to be another state enterprise, in spite of its joint venture provisions (interview with World Bank staff, May 1999).

organizations lacked leverage and public sector allies, and at most were only involved with a small part of the project. Overall, while on paper the project design was influenced by the Bank's environmental and social reform mandates, intersectoral social capital was weak in face of official resistance to participatory innovations.

6. Rural Development in Marginal Areas

This project emerged from the recognition by a World Bank institutional development specialist that more participatory, targeted approaches were needed to reach low-income, indigenous small producers in Mexico. She learned this from her experience with the Decentralization and Regional Development project, which succeeded in funding many small-scale public works projects in low-income rural areas, but failed in its effort to support productive investments in the same regions. She set about finding a more viable 'fit' between rural development agencies, rural producer organizational capacities, and institutional designs. She invested her own political capital toward the construction of bridge-building intersectoral social capital, making the effort to meet relevant NGO leaders, to learn about the actual functioning of Mexican institutions, and commissioned the first ever Spanish translation of a World Bank pre-project summary document (1995*a*).

The project design process began in Oaxaca and involved studies and consultations that expressed a wide range of views (Velásquez 1996). In their recommendations, Oaxacan public interest groups and indigenous producer organizations insisted that the project allocate its resources through participatory regional councils that would include regional producer organizations. In their view, these councils should have had a significant degree of autonomy from government agencies, in order to avoid problems previously experienced with 'power-sharing' bodies that either excluded the larger (and therefore potentially more vocal and autonomous) organizations or lacked real decision-making power.

This project design drew lessons from the National Indigenous Institute's experience with co-managing regional development funds with producer councils (discussed in Chapter 8). However, control of the project shifted from the Social Development Ministry (which lacked expertise in productive projects but had a track record of partial power-sharing with civil society) to the Agriculture Ministry (which gave priority to productive projects but lacked any track record of balanced power-sharing with autonomous indigenous producer organizations). If Bank project managers had sustained their emphasis on participatory approaches, they perhaps could have influenced the balance of power within the Agriculture Ministry to favor participatory approaches. However, the Bank project manager was transferred to another country long before the project proposal was finalized. Most subsequent Bank project managers either lacked power (one was just a temporary consultant) or did not prioritize participatory approaches and power-sharing with producer organizations. In addition, the project's geographical coverage was expanded far beyond the original focus on Oaxaca to include the Huasteca region, which covers parts of three other states—apparently in order to allow federal officials to offer to bring in four governors rather just one. In most of the Huasteca region—in contrast to most of Oaxaca—consolidated regional economic development organizations and positive partnerships with the public sector were both lacking.

The final version of the project retained some of the original ideas, such as regional councils, but the design limited their potential for significant power-sharing, granting veto power over council decisions to a wider range of potentially unsympathetic government agencies. They were designed to be even less autonomous than the INI's regional funds. For example, project proposals that were supported by the regional councils also had to be approved not only by the relatively sympathetic rural development department within the federal Agriculture Ministry, but also by the ministry's dominant faction, which consistently favored better-off producers through its Rural Alliance subsidy program. Moreover, if and when regional councils were divided over whether to support a project (quite possible if the councils were to be pluralistic), then the decision moved 'up' to state level councils controlled by conservative government officials and a few exclusively government-allied producer organizations (SAGARPA 1998).

These constraints did not necessarily predetermine the outcomes; often Mexican rural development programs have followed more participatory paths than observers first predicted. In past experiences, however, as previous chapters have shown, the degree to which programs could 'outgrow' their initial constraints depended first on the capacity of already-existing social organizations to respond to small openings for participation within the system, and second, on the capacity of pro-power-sharing policymakers to gain actual control over program implementation. In this case, the implementation process shows that many autonomous social organizations did consistently *try* to participate, but they did not find policymakers willing to invest their political capital in building partnerships. At the federal level, the program was assigned to a department of the Agriculture Ministry that was managed by a nominally sympathetic undersecretary, but one whose views were not shared either by his key operational subordinates, nor by the four state governments directly involved in managing the regional councils—all of which were hostile towards the idea.

The World Bank manager responsible for the project at the time of its closure offered this retrospective assessment:

> There were a lot of problems with the first one (PDRAM), the goal was just to pump money into the countryside, don't expect it to be different. The government had dismantled the extension system and was trying to put it back in an ad hoc fashion, through privatized services, just trying to make sausages. They had to spend their time on administrative processing, with little time for follow-up with communities, high turnover. Federal requirements defined technical asssistance as a cost, not as investment. Plus they pushed inappropriate technological packages for upland, poor areas. Structural changes were needed, a *paratécnicos* approach.[48]

When pressed to assess the project's relationships with autonomous producer organizations, he recognized that 'social capital conditions were ripe but that there was a lack of an enabling environment. Oaxaca was the model, divide and conquer—in contrast to Chiapas, where the approach was "we'll just shoot you"'.[49]

Independent field study of ten of the original regions and subregions found two broad patterns, a predominant trend toward exclusion of actually existing autonomous producer organizations, combined with a weaker trend of partial inclusion, varying by region.[50] Partially inclusive councils are defined as those in which autonomous producer organizations had a 'seat at the table' in the regional councils, and at least nominal access to resources. As the program implementation proceeded, the Agriculture Ministry began to subdivide its original councils into smaller, subregional councils. According to federal officials, this would facilitate participation and inclusion, but in practice it did not change or weaken those state and federal government officials who were managing to block power-sharing. As Table 6.4 illustrates, the program had ten distinct regional or subregional decision-making processes in its six original regions by August 1999. Of those ten

[48] Interview, James Smyle, December 10, 2004, World Bank, Washington, DC.

[49] Interview, James Smyle, December 10 2004, World Bank, Washington, DC.

[50] This assessment is based on extensive interviews with two key federal program officials in May 1999, field visits and detailed interviews with social organization participants from five of Oaxaca's six councils in April, May, and August of 1999, the government's own commissioned evaluation of implementation in Oaxaca (Sánchez et al. 1998) on Rangel's detailed evaluation of the San Luis Potosí experience (1999, 2004), and August 1999 interviews with independent policy analysts based in Veracruz. See also studies by Castellanos (2000) and Haight (2004), the press account in Bermúdez Santiago (1999*a*) and the producer organization testimonies reported in workshop minutes (Trasparencia 1998, 1999).

regions or subregions, one lacked any participatory mechanism at all (Mixe Bajo—Cuenca), two only involved incipient inclusion (Huasteca Veracruzana and Huasteca Hidalguense), three involved some combination of incipient and partial inclusion (Mixe Alto, Mazateca Alta, San Luis Potosí—Plains), three involved partial inclusion (Mazateca Baja, Mixe Bajo-Istmo, and Huasteca San Luis Potosí—Sierra) and only one council could be considered fully inclusionary. In this last case, all of the representative producer organizations in the region were involved. Not coincidentally, rural civil society in this Cuicatlán region had an unusually high degree of organizational and social cohesion, with all the representative organizations unified under a single umbrella group (*Unión de Ejidos y Comunidades Cuicatecas*).

Cuicatlán's regional indigenous producer organization had extensive experience participating in and directly managing other government rural development programs (Fox 1994*b*). Though autonomous in practice, this organization was also actively affiliated with the ruling party, and therefore less likely than more overtly autonomous groups to be excluded from a government program. Indeed, the most important leader of the *ejido* union reported that the state government, together with the state-level representative of the Agriculture Ministry, decided unilaterally to dissolve their regional council in favor of creating three new 'microregional' councils. He reported that:

> They [the Agriculture Ministry] say we are a model, a pilot, and then they want to disappear us. We asked them what does this mean for our [elected] delegates, and for our technicians [support staff assigned to their regional council], and they had no answer. The Agriculture Ministry officials in Mexico City say they want to support the communities, and we met with them to review the 1999 program, but then they never did any follow-up and now it's Sept. already. Now they're dividing us and the folks don't agree.[51]

As a result, this government-affiliated organization began considering taking militant direct action for the first time in its more than fifteen years of co-management of government rural development programs. Even in this case, where one would expect all of the necessary conditions for an inclusionary council and the construction of intersectoral social capital to be in place, the council's views were systematically rejected by the Agriculture Ministry.[52]

[51] Telephone interview, September, 1999.

[52] Interviews with the leaders of the *Union de Ejidos y Comunidades de Cuicatlán*, Oaxaca (Cuicatlán, Oaxaca, April 1999). For example, in spite of being in charge of the regional council, they only received a copy of the program's Operational Manual after joining with other regional organizations and the NGO Trasparencia to inform the Undersecretary of Agriculture directly about their exclusion from decision-making processes. While they were able to leave with a copy of the Manual, the visit made no

These findings were confirmed by an extensive field study of three regions commissioned by the World Bank, carried out in 1999 by a team led by one of Mexico's leading anthropologists (Nahmad 2000). Two of the three regions overlapped with those studied independently (Mazateca Alta—Oaxaca, Huasteca Veracruzana, and the Sierra Norte of Puebla). This study found that

> (P)articipation was not able to mobilize the funds. . . . (T)he implementing agencies . . . were surprisingly reluctant to invest resources in the complex of activities associated with social participation . . . and therefore frustrated the strengthening of the organizations' and communities' social capital . . . It is common for the planners, administrators and technical staff to see the people as 'the problem' and to assume that they have the solution . . . In the process of decentralization at the core of the project, we have identified that the power groups at the state and microregional levels are not willing to cede power to the beneficiaries, to the communities, and above all not to the regional councils. (Nahmad 2000: 10–11).

This was the logic that drove the Agriculture Ministry to divide regional councils that were gaining autonomy into small subregional councils (as in the Mazateca region), to exclude the most consolidated and representative producer organizations from the councils (as in the case of the *Tosepan Titataniske* Cooperative in Puebla) and to avoid forming a regional council in the first place in Veracruz, where the program was incorporated into an existing state government ministry. Indigenous women's producer organizations were systematically excluded, and the Puebla evaluation concluded that the program 'was helping to *socially decapitalize* the productive activities that could have been carried out jointly' with the leading producer organization. This pattern of exclusion was reinforced by the program's systematic lack of transparency (Nahmad 2000: 38). The authors' intent to publish their findings was vetoed by the World Bank.[53]

After several years, several of the regional indigenous producer organizations in Oaxaca began to openly claim their right to be taken into account in the project. In 1999, they formed a new statewide network of regional Sustainable Development Councils, primarily involving leaders excluded from the official councils and with technical support from the public interest group Trasparencia. These alternative councils turned out to lack the social cohesion and political unity needed to survive the state government's hostility, especially in the absence of access to government resources, and the network fell apart.

other noticeable difference in terms of their capacity to share power with the rest of the Agriculture Ministry apparatus.

[53] Personal email communication, Salomon Nahmad, May 17, 2006.

Policy advocacy by Trasparencia, together with regional producer groups in Oaxaca and the Huasteca region, did not manage to influence resource allocation with the councils. However, their campaigns did have a modest impact at the federal level. They sustained a tense policy dialogue with the Agriculture Ministry and proposed a series of changes in the program's operational manual. Some of these changes were accepted, with possible subsequent multiplier effects in other regions.

In 1998, before the pilot regions had consolidated, the federal government expanded the program to other predominantly indigenous regions, and the World Bank prepared a follow-up loan. One sticking point was whether the World Bank would fund the program's activities in Chiapas. National news reports charged the program, with World Bank backing, of becoming a tool of counterinsurgency in Chiapas (Henríquez 1999). Program operations in conflict zones had been contracted to a private consulting firm closely linked to Adolfo Orive, a former leftist leader who had become a counterinsurgency advisor to the Interior Ministry. A senior World Bank social development specialist confirmed that this private contractor concentrated on 'trying to penetrate regions with a high Zapatista and PRD presence'.[54] The only independent study of the program in Chiapas found that regional councils were consistently government-controlled, and only progovernment organizations were invited to participate, in apparent violation of the World Bank's indigenous people's policy (Perola and Burguete 1999). At the time, World Bank officials claimed that they were not willing to fund program operations in the regions of conflict, and subsequent internal documents support that claim.[55]

In 2001, the government passed a new Sustainable Rural Development Law that called for the creation of municipal councils throughout the country, and they rendered the regional councils of the Marginal

[54] Personal email communication, August 1999. Orive had been a leader of the semi-underground organization Línea Proletaria, which secretly allied with the Salinas de Gortari brothers in the 1970s.

[55] As the project manager reported in an internal aide-mémoire, which summarized discussions with the federal government: 'The regions of the Altos, Cañadas, and the Selva were studied and evaluated as part of the group of marginal areas that could be integrated into the second phase of the adaptable loan 7004-ME in June, 1999. Nevertheless, at the time of negotiations it was preferred to leave these regions out of the funding because they were not considered to have the conditions for adequate Program operations, because of the precarious situation involving social cohesion within the communities, which could even be considered one of latent conflict, accentuated by the electoral climate at the time' (Brizzi 2001: 4–5, translated by the author). This same document mentions specific states where councils include only individual producers instead of organized producers (Puebla, Guerrero), and does not cite any specific councils that met the desired criteria of balanced participation of producer representatives (2001: 12).

Areas program obsolete (World Bank 2004). Some government policy analysts consider these municipal councils to be a major success, while other independent assessments are much more critical—as discussed in Chapter 7's analysis of municipal democratization. According to the World Bank manager who oversaw the project's past several years, the shift to promoting municipal councils nation-wide meant that the project's outcome was 'satisfactory' because the Agriculture Ministry's rural development department got 'pointed in the right direction.... Maybe in a decade, they will be useful, if there is anyone left in the countryside'.[56]

Overall, the Rural Development in Marginal Areas did not encourage an enabling policy environment for the consolidation of autonomous rural producer organizations. Federal and World Bank policymakers adopted a participatory discourse but did not make the partnerships or invest the political capital necessary to actually overcome the obstacles to balanced power-sharing with representative social organizations. An initial opening toward public information access was not sustained. In some of the project's initial pilot regions, autonomous producer organizations took the official discourse seriously and managed to get a foot in the door. However, none of the original regional councils became a fully inclusionary power-sharing body.

Conclusions

Most Institutional Environments did not Enable

Three main patterns stand out from the six projects. First, only Community Forestry clearly contributed significantly toward encouraging more balanced relationships between the state and poor people's organizations. Though initially limited to one state, this project served as a pilot that was later expanded to other states. The second main pattern was that the other incipient or partial openings were unstable and limited to a minority of the regions involved. This municipal and regional variation underscores the limitations of taking national policies or projects as the main or only unit of analysis. Third, the government and World Bank's official pro-participation discourse served largely to mask the persistence of exclusionary, nontransparent decision-making over resource allocation.

In all of the projects that actually underwent implementation, the key institutional obstacles were grounded in state–society coalitions

[56] Interview, James Smyle, December 10, 2004, World Bank, Washington, DC.

that opposed power-sharing with poor people's organizations, particularly indigenous people's groups. These coalitions were well entrenched both in state governments and within national agencies. Though federal agency managers were more likely to deploy pro-participation discourse, few were willing to invest their political capital—as in the notable case of the Agriculture Ministry. Project managers in both the Bank and the national government tended to at most react to these obstacles, rather than to develop proactive strategies that took them into account. In other words, the mixed cross-regional results—even in initially promising projects—were in part the result of policymakers' 'underinvestment' in promoting more enabling institutional environment(s, plural, at the subnational level) for social capital.

Gender and Ethnic Dimensions of Social Capital were Largely Ignored

Policymakers generally did not take into account the ethnic and gender dimensions of social capital. None of the projects studied were influenced by gender perspectives. This follows the broader pattern in which World Bank gender sensitivity is limited to considering women as mothers, rather than as economic actors as well, such as peasants, workers, natural resource managers, or merchants (Buvenic, Gwin, and Bates 1996). Indeed, in at least one case in Oaxaca, organized rural women engaged in militant direct action to press for their right to be included in the program, holding Agriculture Ministry officials hostage in their offices for three days.[57] In terms of ethnicity, only the Community Forestry project promoted partnerships that systematically respected the autonomy of Mexico's many and diverse indigenous producers' organizations. In contrast, the once-promising Rural Development in Marginal Areas project excluded the most consolidated autonomous indigenous producer organizations in most of its areas of operation. Federal officials blamed state government counterparts for these problems, but the entire project design was based precisely on reinforcing state officials' leverage over resource allocation.

Intersectoral Trust Meets 'Rational Wariness'

The patterns of variation support the hypothesis that funding implementing agencies that were already under the control of pro-social

[57] Interviews with grassroots leaders, Tuxtepec, Oaxaca, April 1999.

capital policymakers would be more likely to encourage an enabling environment. In the case of the Community Forestry project pro-reform Bank staff and policymakers 'found each other', as well as social organization and NGO counterparts. This cross-sectoral coalition generated a virtuous circle of mutual empowerment. They built trust, which was enhanced by the project's unusually high degree of transparency.

The role of trust raises a broader conceptual issue. There is a great deal of confusion in the social capital literature over whether trust is an *element* of social capital, built into its definition ('norms and relationships'), a factor that *encourages* social capital, or whether it is the *result* of social capital. Conflating norms and networks under the same conceptual umbrella makes it difficult to understand causal flows: is trust generated by relationships, or do relationships generate trust? In practice, the process is often reciprocal, but it may also be path-dependent, which suggests that it matters whether the chicken or the egg comes first. To avoid this problem of endogeneity, the definition of social capital used here does not incorporate norms, and is instead limited to practices and relationships.

The findings here suggest that levels of trust reflect previous experiences with relationships. For example, where trust is initially lacking—for example, between government officials and grassroots leaders—then relationships must be built that can *justify* trust. This is clearly a challenge for those attempting to build coalitions across the state–society divide under less then democratic conditions, where, based on past experience, state actors are not widely perceived as pluralistic or motivated by the public interest. From the point of view of autonomous membership organizations, the reaction to the promise of participatory inclusion in the policy process is often one of *rational wariness*.

As a result of this dynamic, development policies that attempt to encourage an enabling environment for state–society partnerships face a problem of strategic interaction. Pro-participation policymakers often start out relatively weak, with limited leverage over the rest of the state apparatus, so they need social actors to mobilize in support of their efforts. Yet those social actors may be quite skeptical about whether to invest in untried promises of change. This is where the subjective factor of trust becomes relevant: for a mutually reinforcing coalition to emerge, each potential partner must make an investment with a high degree of uncertainty regarding the commitment, capacity, and intentions of their potential partner.

The Rural Development in Marginal Areas experience is especially revealing of the central role of trust in the building of state–society coalitions. Here was a case that began with an unusual degree of communication and trust between the initial World Bank project manager and key social organizations and NGOs in the relatively densely organized state of Oaxaca. After the key Bank manager moved elsewhere and the project design rejected key civil society recommendations for power-sharing resource allocation decision-making processes, years went by before the project itself was launched. Even after the loan was signed, funding flows at best trickled—in turn leaving the regional councils to 'dry up', as one senior federal Agriculture Ministry manager put it.[58] In short, the intersectoral social capital accumulated during project preparation was dissipated rather than invested.

This experience suggests a possibly generalizable dynamic, a vicious circle of unmet expectations that would account for why some participatory projects start off well but then veer offtrack. To understand this pattern, one needs to start by assessing the strategic calculus of the key subjects of the development process. Broad-based, autonomous producer organizations may choose not to invest their scarce leadership resources and political capital by getting involved in ostensibly participatory development programs because of low expectations; they expect little or no return to their organization's investment. Based on their extensive past experiences with rural development programs, producer organizations are often well-informed about which kinds of government programs are likely to respect their autonomy and to deliver what they promise. Leaders who are accountable to their base will be especially sensitive to the risks associated with raising their members' expectations about the possible benefits from investing organizational resources in a government program. Leaders' time and credibility are especially scarce resources, and they will be understandably wary about risking their own members' trust in them. This 'rational wariness' underscores that it is critical for government and Bank officials to take tangible measures designed specifically to generate trust, and to only make commitments that they can in fact comply with.

If, because of the target group's rational wariness, few broad-based organizations choose to participate in the government program, then the perverse effect will be that pro-participation officials in the government and the Bank will lack the organized constituency that they would need in order to offset opposition to social participation. As a result, program managers will be unlikely to be able to deliver on their promises to the few organizations that do choose to participate, further eroding prospects for state–society coalitions. At the same time,

[58] Interview, Mexico City, April 1999.

those organizations that decided not to participate will see their rational wariness to have been vindicated, in turn raising the minimum threshold policymakers will need to establish credibility and trust in the future.

This downward spiral describes the Rural Development in Marginal Areas program experience in Oaxaca over the 1995–2000 period. The largest and most influential of the state's autonomous producer organizations, the Oaxaca State Network of Coffee Organizations, participated in initial consultations but chose not to invest further resources after the delayed and watered-down project design process eroded incipient trust. Those organizations that stuck with the participation process, such as the Union of Ejidos and Communities of Cuicatlán, ended up feeling that their investment had been wasted. National policymakers repeated their pro-participation promises, but they remained either unwilling or unable to prevent state and federal operational officials from breaking those promises.

The obstacles were even greater in Chiapas, where the evidence suggests that program operations were turned over to political strategists of the counterinsurgency program. This raised issues of trust for autonomous indigenous organizations in other regions. While it appears that the World Bank tried to keep some distance from the Chiapas operations, its support for the program in other regions, combined with its unwillingness to make public any skepticism about Chiapas operations, sent a public signal of unqualified support for the Agriculture Ministry's activities.

In the case of the Community Forestry project, in contrast, even though the federal reformers also faced serious obstacles from within their own ministry, not to mention Treasury, the intersectoral social capital that had been built up between state, Bank, and civil society participants had generated sufficient trust to sustain the pro-participation coalition even when it was difficult for officials to meet their commitments. The more general proposition here is that intersectoral trust is a resource for policy reform, but it requires a substantial, sustained investment to generate and sustain partnerships, especially in the face of inevitable resistance.

Unpack the State Horizontally and Vertically

The original research design focused on the three-way relationship between the Bank, the implementing government agency, and civil society. The field results suggest two important modifications of this schematic triangular relationship, both involving further 'unpacking' of the state (both horizontally and vertically). At the national level, the cases highlight the important role played by the national financial intermediaries between the Bank and the rest of the state. Because the Treasury Ministry controlled disbursements, including national counterpart funds, it had the power to either inhibit or promote the enabling environments for social capital accumulation.

In Mexico, the Treasury Ministry systematically undermined the Community Forestry project by withholding counterpart funds. In this case, World Bank staff allies who had helped to shepherd the project through Treasury during its design and launching, lost most of their leverage once the loan had been signed and the project moved into the implementation phase.[59] Treasury systematically micromanaged Environment Ministry budget plans, and retained more than sufficient autonomy to resist entreaties from Bank staff. The Treasury Ministry could exercise this leverage in part because this was a very small project that was marginal to the broader Bank-state policy agenda.

The second way in which the national state needs to be institutionally 'unpacked' in order to understand prospects for encouraging social capital consolidation involves decentralization. This is the 'vertical' dimension, in which state and local governments gain increasing responsibility and autonomy for the implementation of national social and environmental policies. In those cases where notable pro-social capital initiatives were found, they consistently came from within federal agencies.

Truly Enabling Environments will Threaten Vested Interests, therefore *Political* Capital is Required

Social capital is often discussed in ways that emphasize shared norms and negotiated, consensual understandings. Conventional approaches focus on those who *share* social capital, eliding the inherently conflictive process of collective action in defense of the excluded. In the cases where serious institutional reform was attempted, conflict ensued—both within the state and between state and social actors. In this context, Bank actors—as sources of funding, prestige, and ideas—inherently took sides.[60]

To have a possibility of being effective, strategies to create enabling environments need to identify and intervene to weaken, sidestep,

[59] Interview, Environment Ministry officials, May 1999.
[60] For an elaboration of this point, see Fox (1997*a*).

or neutralize vested interests from the beginning. Otherwise, pro-participation forces will be caught in the inevitable backlash, and will be forced to continuously fight rearguard, defensive battles, focusing primarily on minimizing losses rather than maximizing gains. Conflict should be seen as a likely and perhaps necessary outcome, to be foreseen by creative institutional design and managed by the investment of *political* capital, rather than treated as an implicitly unusual outcome and dealt with through ad hoc, after-the-fact damage control measures. These challenges suggest that the combination of broad-based horizontal organizations with diversified state–society coalitions is not enough to 'enable enabling environments'. Pro-poor coalitions must also mobilize their political capital to offset the opposition inherent in the process of encouraging the empowerment of poor people's organizations.