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POLICY ARENA

THE WORLD BANK AND SOCIAL CAPITAL: CONTESTING THE CONCEPT IN PRACTICE

JONATHAN FOX*
Latin American and Latino Studies Program, University of California, Santa Cruz

Abstract: World Bank loans influence the environment for social capital formation. They may have positive or negative effects. This paper reviews experience in rural Mexico, concluding that in many cases the Bank appears to be contributing to the dismantling of social capital more than to its construction. © 1997 John Wiley & Sons, Ltd.

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1 THE INSTITUTIONAL CONTEXT

How is the concept of social capital contested in the world of development policy debates? The most notable appropriation of the concept by international policy-makers so far is at the World Bank, as Harriss' introductory essay points out. However, few researchers have yet focused specifically on the concept's implications for actually-existing development projects and policies. Since many critics of the Bank have focused on the impact of its policies and lending on local communities, the concept of social capital may indeed prove to be a 'missing link', insofar as many Bank-funded projects may produce economic capital accumulation for some, but social *decapitalization* for others. Infrastructure projects that involve large-scale forced resettlement and the disarticulation of indigenous communities are perhaps the most well-known examples.

Some Bank analysts are now beginning to make the connection between the intellectual recognition of social capital's potential contribution and actual institutional policies and actions. One nuanced recent essay concludes by signalling five areas for action. The first recommendation is: 'Do Your Homework, Do No Harm ... Such assessments would prevent projects from weakening existing positive

* Correspondence to J. Fox. e-mail: jafox@cats.ucsc.edu

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social capital, and suggest ways to strengthen it'. This approach is quite compatible with existing Bank policies on social and environmental assessments, whose implementation is uneven and impact quite limited. The second recommendation is to: 'Use Local-Level Social Capital to Deliver Projects'. This too simply underscores existing Bank mandates on NGO collaboration. The third suggestion is to 'Create Enabling Environment'. 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'. This is a newer suggestion, giving the 'good governance' discussion more social and democratic content than is usual within the Bank. If actually applied, such an approach would lead to significant conflict with less-than-democratic regimes, which may explain why it is rarely tried. The fourth recommendation is to 'Invest in Social Capital', which means supporting 'existing and emerging organizations'. Indeed, some of the Bank's recent 'participatory projects' are based on this premise. It will be difficult to track how they are actually implemented, however, because few independent researchers are following them closely, and the Bank's own monitoring system appears to have put them on the back burner. The essay's final recommendation is the obligatory (and in this case appropriate) exhortation to 'Promote Research and Learning'. The measurement of social capital and the assessment of its contribution certainly are in their infancy and much more research will be needed to offset economists' scepticism.[1]

Social capital's new conceptual legitimacy within the World Bank coincides with recent efforts by non-economist staff to challenge the ideological hegemony of the strict neoclassical economists. Led by noted sociologist Michael Cernea just prior to his retirement, diverse senior Bank social analysis specialists convinced President Wolfensohn early on in his term to open up the question of how to 'mainstream' social development concerns within the institution. The Social Development Task Force followed, chaired by Javed Burki, Vice-President for Latin America and the Caribbean. The Task Force convened ten thematic satellite study groups (including one such group focused on social capital). Within the confines of internal Bank debate, the semi-confidential 'Report of the Social Development Task Force' was quite critical of many of the assumptions of neoclassical economics (for example, the assumption that macroeconomic growth will necessarily reach the poorest of the poor). As is customary, the report's policy reform recommendations were much more modest than the body of the critique.

This ongoing conceptual debate paralleled a separate process of research, networking and lobbying, supported in part by NGOs, in favour of funding 'participatory' projects. By the spring of 1996, President Wolfensohn declared that participation was 'common sense' at the public launching of the publication of the *World Bank Participation Sourcebook* (the book is a combination of 'it can be done' staff testimonies with 'how-to' manual, published by the Environmentally Sustainable Development Department). He called on the operational staff in each region to report regularly, directly to him, on the progress of their respective 'participation flagship' projects (this reporting process has since stalled, as noted above, apparently lost in the current reorganization). The fate of these potentially 'new-style' projects and their

[1] See Grootaert (1997, p. 90). For a different approach to social capital, which defines it as a residual category (resources that are neither economic, human nor natural capital), see Serageldin (1996). He defines it as 'the glue that holds societies together'. Serageldin is the World Bank's Vice-President for Environmentally Sustainable Development.

implementation on the ground will certainly be a revealing indicator of Bank reformists' degree of *political* capital.

It is certainly a positive sign that the World Bank's internal debate over how to carry out its anti-poverty mission has come to focus on the need to support existing poor people's organizations and to take into account the institutional context that either encourages or represses them. The impact of this intellectual debate on actual projects and funding flows remains to be seen. What one might call the 'pipeline effect' makes it inherently difficult to assess the meaning of reform trends at the World Bank, since the long-term project cycle postpones the actual impact of current policy shifts until the distant future, while today citizens on the ground face the results of policy and project decisions made years ago. Nevertheless, it is worth disentangling, at least conceptually, the different ways in which Bank lending influences social capital and its environment. One approach, developed to assess the impact of the Bank's 'sustainable development' reforms more generally, conceptually divides the portfolio into three main categories: 'the good, the bad and the ugly'. These categories refer not to conventional sectors, such as energy versus education, but rather to the degree to which loans are consistent with some minimum sustainable development criteria (including their impact on poor people's social capital). If the Bank's changes in policies and discourse managed to influence its actual lending patterns, the *relative weights* of 'the good, the bad and the ugly' within the portfolio would also presumably change.[2]

One set of projects might be 'good' from a sustainable development point of view, including some of the new green, gender-focused and 'participatory' projects. Some fraction of this set of projects is no doubt much less enlightened in practice than in theory, as in the case of social service projects that require onerous 'cost recovery' charges for poor people, or 'decentralized' projects that end up strengthening authoritarian local governments (as in Mexico, noted below). Much has been made of NGO collaboration at the project level. Until recently, most such NGO involvement was limited to 'retail' service delivery, but this pattern may be beginning to change, with some reported NGO involvement in project design and evaluation. More independent assessments of these official claims are needed.[3]

From the point of view of minimal 'sustainable development' criteria, another category of projects might be considered simply 'bad'. This category includes projects or policy-based loans that contribute to on-going environmental degradation and social inequity, or are largely wasted through corruption, patronage and/or support for local elites and international contractors. The main point here is that a large fraction of World Bank projects can be considered 'more of the same', in that they do not encourage change towards more equitable and environmentally sustainable development paths. 'More of the same' would also describe loans to government agencies that actively dismantle social capital, as in cases of programmes and regimes that would certainly survive anyway without the loans (such as the larger non-democratic Asian borrowers, for example). This category is considered here to be 'bad' rather than 'ugly' because it mainly reinforces *existing* trends in borrowing government development policies.

The third hypothetical category is even worse in terms of sustainable development criteria: 'ugly' projects *directly* immiserate large numbers of low-income people,

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[2] The framework that follows draws on the concluding chapter in Fox and Brown (1998).

[3] For further discussion of public interest research challenges and the World Bank, see Fox (1997).

endanger fragile indigenous cultures, encourage the dangerous spread of toxics, promote irreversible biodiversity loss and prop up dictatorships that might otherwise fall. The conceptual distinction between 'bad' and 'ugly' would be quite difficult to operationalize empirically, but it serves to illustrate the analytical dilemma of how one needs to 'unpack' the diverse set of Bank activities to determine the relative weights of different kinds of project impacts. It matters how much money goes to each category.

2 ASSESSING A BANK PORTFOLIO IN TERMS OF SOCIAL CAPITAL IMPACT

Here follows an example of an effort to apply the term in the context of the ongoing debate between the World Bank and public interest researchers. The basic assumption underlying the 'discussion note' that follows is that Bank loans *inherently* influence the 'enabling environment' for social capital formation. By strengthening or weakening different agencies within the state, Bank loans necessarily influence the balance of power between state actors who are more or less hostile/sympathetic to autonomous, horizontal social organizations. The analytical and empirical dilemma that follows is how to trace the impact of external money and power on the actually-existing national and local institutions that shape grassroots capacity for collective action. In order to understand the impact of Bank loans on the institutional environment within which horizontal social organizations operate, researchers must 'unpack' each relevant arena: the Bank itself, the state apparatus, and the realm of civil society targeted by the loan.

With the World Bank's 'sustainable development' policy reforms dating from the late 1980s and early 1990s, the widespread assumption that the institution is monolithic and that its impact is uniform has become clearly untenable. Researchers interested in the impact of the World Bank on 'social capital formation' now face the challenge of disentangling both its positive and negative institutional influences, in order to determine the *net* (and often contradictory) effects. Not surprisingly, given uneven civil society bargaining power and insider reformers' limited leverage, the World Bank's net impact on enabling environments for social capital formation is often negative, but the *mix* of impacts will vary across countries, over time and across sectors. This changing mix is reshaping the terrain of debate and conflict between the World Bank, states and civil societies.

The unedited discussion note that follows was presented to World Bank Mexico staff involved in agriculture and natural resources in February 1996 at their invitation (once they discovered that they were being studied). This study of the Bank's Mexico portfolio was funded independently, while the author was a visiting researcher at the Bank Information Center, an independent public interest group, and continues to be carried out jointly with the new Mexican NGO Trasparencia.[4]

[4] The author's ongoing study of the role of the World Bank in Mexico was funded by the Social Science Research Council, the John D. and Catherine T. MacArthur Foundation and the Council on Foreign Relations. In the interests of full disclosure: the author had previously co-ordinated a field research project with partial Bank funding, commissioned by its Participation Learning Group (on the condition that the findings could be published autonomously). See Fox and Aranda (1996a) and in Spanish, see Fox and Aranda (1996b). These findings were summarized but substantially misrepresented in the *World Development Report 1997* (p. 122; original sources not cited).

Discussion Note: The World Bank and Institutional Change in Rural Mexico

February 1996

Throughout most of rural Mexico, the lack of accountable governance undermines the government's reformist development efforts, especially in indigenous regions. The Chiapas rebellion underscored the limited effectiveness of increased anti-poverty spending in the absence of pro-accountability changes in the governance of rural development institutions. Such changes are currently at the top of Mexico's national agenda. What is the World Bank's role in this process? To answer this question, the necessary first step is an assessment of the 'accountability impact' of the Bank's current rural portfolio. That is, what is the World Bank's impact on Mexico's on-going debate, between and within both state and society, over whether and how to move towards more accountable, transparent and participatory forms of governing the development process? This discussion note sketches out initial propositions for discussion and analysis.

- **World Bank projects have only barely begun to recognize the development potential of Mexico's rural social capital**.

Mexico is currently undergoing an uncertain political transition, as civil society becomes more organized, more diverse, more 'propositiva' (constructive proposal-oriented) and more independent of political parties, both official and opposition. Most importantly from the point of view of rural development, Mexico's rural and indigenous citizens have managed to 'scale up' their long-standing social capital to build broad networks of community-based economic and civic organizations. Until recently, the Bank's approach to rural development in Mexico has tended to reproduce the conventional public–private sector dichotomy, and has not recognized the potential importance of development partnerships with the 'third sector' of autonomous, community-based development actors. Only a tiny fraction of the Bank's vast indigenous-related Mexico portfolio can be considered to have applied its own Indigenous Peoples Policy [Operational Directive 4.20] key mandate for 'informed participation' by ostensible indigenous beneficiaries in all phases of the project cycle. In contrast, two small new Bank projects, for community forestry and sustainable development, are designed to tap this scaled-up social capital.

- **Mexican government's political reforms have yet to reach most rural and indigenous regions**.

Significant progress has been made towards increased public sector accountability and transparency in some regions of Mexico, but little institutional change has occurred in the 'hard core' of 'subnational authoritarian regimes' that still dominate many rural and indigenous states. Oaxaca is a notable exception, but the state governments and most rural local governments in the other poorest states remain clearly authoritarian. Widespread human rights violations by these state and local officials persist with impunity, most notably in Guerrero, Chiapas and Veracruz. Unless these systemic 'governance' obstacles to rural 'social capital accumulation' are recognized, the potential of even the incipient 'new generation' of sustainable development projects could be limited.

- **The World Bank has begun to recognize the depth of the accountability problem, but the impact of this diagnosis on the portfolio remains limited and uncertain**.

While some Bank documents have made reference to issues of accountability in Mexico in the past, a serious Bank diagnosis of the impact of governance problems on poverty reduction efforts was lacking until the recent Southern States Initiative report. For example, the designs of huge Bank projects in the areas of regional development, health and education rely on the assumption that decentralization of resources and power to state governments will *necessarily* increase public accountability, even though most of the state governments involved are far from democratic. Indeed, little generalizable empirical evidence exists on the actual anti-poverty performance of governments of Mexico's poor states. Moreover, these World Bank social sector projects do not include 'compensatory' institutional changes that would create new windows of opportunity to give civil society actors increased leverage in the policy process. One could therefore hypothesize that increased power for still-authoritarian state governments could actually *slow* democratization in the short-to-medium term.

- **President Zedillo's recent discourse creates a potentially hospitable environment for rethinking the portfolio's 'accountability impact'**.

President Zedillo has made declarations that recognize the importance of increased transparency in the public sector and has promised a 'new deal' for Mexico's under-represented indigenous peoples. His leverage over much of the state apparatus is uncertain, however, especially in the 'hard core' of authoritarian rural poverty states (e.g., Guerrero, Chiapas, Puebla, Veracruz). Fortunately the government team at the on-going Chiapas negotiations has promised significant institutional reforms, but whether and how they will be put into practice is far from clear.

- **Projects take sides**.

Large international loans necessarily strengthen or weaken different public institutions and actors within borrowing states, depending on project design and the priorities of those state managers controlling budgetary allocations at the macro and sectoral levels. It is not new for the Bank to strategically 'take sides' in domestic policy debates. It would be new, however, for the Bank to expend political capital by advocating specifically pro-public accountability institutional reforms. Even though encouraging greater public accountability for state and local governments is stressed in the World Bank's most recent overview of governance issues (1994), this has not been a strategic priority for the Bank in Mexico (as evidenced by its absence from the Country Assistance Strategy).

- **Given this divided state, a mobilized society and a large and influential lending portfolio, World Bank lending cannot be assumed to have a neutral effect on whether Mexico's rural development institutions become more accountable and transparent**.

With the regime in transition, Bank projects will tend to either help or hurt Mexican efforts to build greater public accountability into their development institutions.

- **At the same time, Bank projects are diverse in terms of their institutional impact on Mexico's development institutions**.

Several different trends are unfolding at the same time, varying across projects and in some cases within projects. Each project, broken down into its distinct sub-components, can be analysed in terms of its 'net public accountability impact'. This would require developing a series of 'pro-accountability' institutional change indicators (discussed below).

- **In spite of the size and influence of the Bank's portfolio, it appears to have little information about the actual impact of rural poverty projects on the ground**.

Any analytical exercise about the institutional impact of Bank projects is limited by the availability of reliable, independent, field-based data. Thanks to the post-94 'information disclosure' policy, most Bank project documents do provide much more information about the Mexican public sector than is available to non-governmental policy analysts within the country. However, Bank information about most rural project performance is based on government data. Not only is this data uneven in quality, it is also usually input-based rather than output-based. Such data therefore does not reveal actual system-wide performance patterns. The Bank's useful supervision or consultant reports are limited in their usefulness because their usually anecdotal nature cannot capture system-wide patterns or inter- and intra-state variation in public sector performance. Since most social sector investments are divided into hundreds or thousands of subprojects, less than systematic performance assessments are far from sufficient for making informed decisions about what institutions actually do on the ground (not to mention Mexican policy-makers or civil society). For example, the Bank's 'first round' of large social sector investments in the early 1990s did not include serious performance-based monitoring and evaluation components. This is evident from the limited public sector performance information presented in the mid-90s 'second stage' social sector projects (see Staff Appraisal Reports for education, health, decentralization). Even these 'second-stage' projects include only incipient monitoring and evaluation capacity-building efforts (note the symbolic $2 million assigned to the Treasury Ministry in the billion-dollar PROSSE post-peso crisis social sector loan). From an institutional reform point of view, however, even more problematic is the lack of support for building up the capacity within Mexican civil society for independent, on-going monitoring and evaluation of public sector performance.

If these propositions make sense, then the next step would be to attempt to assess the rural poverty portfolio, project by project and even state by state, in terms of its institutional reform impact. Even a limited, desk-based review would produce important results if each project's design were analysed in terms of the following starting set of accountability, participation and transparency indicators:

- **Informed participation of pluralistic range of organized beneficiaries of anti-poverty projects, especially indigenous peoples, at all phases of the project cycle**.

(Specify: which organizations were involved, how representative were they of project beneficiaries, at what phase of the project cycle were they involved, what was the nature of their input, how did it affect project design and/or implementation.)

- **Translation into Spanish and timely public availability in Mexico of all officially public project documents**.

(Public Information Documents, Staff Appraisal Reports, social and environmental assessments, etc.) Without the rapid creation of a Mexico-based, Spanish-language Public Information Center, informed participation is inherently impossible. So far, only one Mexico PID has an official Spanish translation, and no Spanish version of an SAR is officially publicly available (apparently few exist, even within the government).

- **Institutional reform components that involve new mechanisms for power sharing between the state and representative organizations in civil society**.

(Specify determinants of civil society access to project decision-making process, plus criteria for including civil society representatives, such as NGOs and grassroots organizations.)

- **Public and explicit criteria for geographic resource allocation and the selection of sub-projects**.

(Specify: transparent criteria for allocating anti-poverty resources between and within states, mechanisms for making regional and community-level allocation and access criteria public, and means for assessing whether they are respected by the resource allocation process in practice.)

- **Capacity-building for both public sector and independent project monitoring and evaluation**.

(Specify: performance-based indicators, channels for making results public, strategies building up still-incipient non-governmental policy evaluation capacity, mechanisms for maintaining their independence.)

3 POSTSCRIPT

Since early 1996, only a few changes are visible in the World Bank's role regarding the 'environment' for social capital formation in Mexico. The Bank has decentralized its own operational managers to Mexico, though this has yet to have much impact on projects. The Bank also has hired an NGO–civil society liaison consultant, who is progressive but lacks leverage. Under pressure from a Mexican NGO/grassroots campaign, the Bank now has a Public Information Center in its Mexico City office, though almost all key documents remain monolingual in English. The most positive news is that three relatively small new projects (Community Forestry, Aquaculture and Sustainable Development) contain partial reforms that could contribute to an 'enabling environment' for tapping social capital's potential contribution in certain regions, most notably Oaxaca.[5]

In spite of these potential steps forward, the World Bank's post-Chiapas rebellion internal review of its massive anti-poverty investments in southern Mexico appears to have been shelved. That assessment had highlighted the potential contribution of greater social participation and institutional accountability to fighting poverty (without using the term social capital). As a result, the dominant pattern of Bank funding, including its huge social sector investments, is more of the same. This means that the World Bank continues to pay for social programmes in 'low-intensity conflict' situations where all government funds inherently take sides, including anti-poverty funds (especially in states like Chiapas and Guerrero). Patronage resources are critical to violent bosses' use of carrots as well as sticks to control the ostensible

[5] For details on these innovative projects, see their Staff Appraisal Reports available from the World Bank's Public Information Center (pic@worldbank.org), as well as summary Public Information Documents readable on the web.

beneficiaries of anti-poverty programmes.[6] The World Bank therefore appears to be contributing, on balance, to the *dismantling* of social capital, especially among the many independent community-based economic organizations on the front lines of grassroots development. In short, most of the World Bank's Mexico funding continues to ignore social capital's potential contribution to the fight against poverty.

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[6] For more on the evolution of clientelism in the context of new anti-poverty programmes, see Fox (1995).

