# Chapter 11 – Social Funds: Theoretical Background

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## A. Introduction

Social funds are agencies, based in government, which provide finance for small-scale projects, normally infrastructure schemes, proposed by local government or community organizations. These were initiated in Latin America in the mid-1980s, mainly in response to economic and post-conflict dislocations. The principal reason for the rapid growth of social funds has been their perceived "ability to deliver" in terms of making a relatively visible, quick and efficient impact on living standards in poorer communities.

The terms "social fund" and "social investment fund" are normally applied to the 108 loan projects that the World Bank (WB) has approved since 1987, mainly in Latin America and Africa.[1] However, many projects assisted by other donors have identical or similar characteristics to the WB social fund concept in that they establish funds, which canvass proposals for small-scale schemes from local government and/or community organizations. They usually operate in defined target areas, appraise the proposals in terms of the particular objectives of the fund, and provide finance for the proposers to implement the works themselves, or through contractors, normally with some degree of local financial contribution. This chapter reviews the experience to date of such social fund-type projects in the four Asian subregions (Southeast Asia, South Asia, the transition economies and the Pacific)—rather than just those projects officially termed "social funds" and financed by the WB.

In terms of their locus within social protection interventions, social funds can be seen as a recent variant of the public works approach to providing employment for the chronic poor or communities hit by economic or other

1. All social funds have been established with donor support, and most continue to be heavily reliant on donor finance. They therefore tend to have strong "project" characteristics.

 

disasters. However, while short-term employment creation is typically seen as the principal contribution of social funds to social protection strategies, different funds embrace five other objectives: upgrading social and economic infrastructures; developing civil society and social capital; promoting private sector contracting, developing non-infrastructure income generation; and supporting national programs of decentralization. The relationship between these objectives, and the inevitable trade-offs among them, are central issues for social funds. How well social funds select priorities from among these competing objectives; how well they manage the diverse expectations people have of them; and the efficiency and effectiveness of fund management in maximizing performance towards its priority objectives, are the principal determinants of the role of social funds within social protection and the wider field of social risk management.

## 1. Public Works, Infrastructure Development and Social Funds

The use of loan-financed public works as a policy instrument for tackling chronic or acute unemployment and poverty has a long history. In 1886, Liberal and Conservative members of the British House of Commons advocated publicly funded prison, road, harbor and house building programs to supplement the perceived inadequacies of Poor Law relief in tackling unemployment and avoiding the threat of civil disturbance. In 1924, John Maynard Keynes proposed tackling post-great war unemployment through public works, financed by borrowing and delaying debt-repayment—a decade before either his theoretical synthesis or the adoption of public works as a mainstream response to the interwar depression in Scandinavia and the Unitted States. All states in India have made extensive use of public works, normally targeted to the very poor, of which the Maharashtra Employment Guarantee scheme is perhaps the best known. In Bangladesh, food-for-work schemes are now a regular public policy intervention, and provide essential income support over the summer months before the summer (*amon*) rice crop is harvested.

The distinction between public works programs and normal infrastructure investment is that the prime objective of public works schemes is the creation of short-term, wage-labor opportunities; the quality, longevity and benefits of the infrastructures created are a secondary consideration.[2] Within mainstream infrastructure provision, the International Labour Organization (ILO) has done important work to demonstrate how the labor content of road-construction and

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2. In extreme cases, the impact of the infrastructure formed may even be negative: over-building of earth roads, which disrupt water flow and increase monsoon flood damage have been a common criticism of some food-for-work schemes in South Asia, for example.

similar schemes can be increased and the import-content reduced without loss of quality. The prime objective remains the social and economic benefit of the road or embankment created rather than the immediate social protection benefit accruing from the labor content of the scheme.

The social fund concept differs from the public works tradition in three ways. First, the social fund is a financier not an implementer. It is responsible for canvassing, shortlisting and selecting schemes proposed by local agencies, in line with the fund's specific conditions. The finance for the scheme is transferred to the proposing agency, which is then responsible for implementation. The fund is responsible for ensuring that works are properly completed, but it does this through specifying procedures, monitoring and supervision, rather than through direct implementation. The effectiveness of principal-agent arrangements is therefore much more significant in determining the performance of social funds, rather than the issues of public administration efficiency which dominate in public works programs. Second, short-term labor creation is commonly not the priority objective in social funds. The expected linkage between the fund's activities and poverty reduction may be through upgrading social and economic infrastructure or local capacity building, for example, rather than through the creation of labor opportunities alone. Third, the role of participation, local choice and control, and the benefits these are expected to induce, are fundamental: a social fund, which identified schemes from its head office and implemented them itself, would not be a social fund. The social fund approach is thus the obverse of typical line ministry operations. Rather than sector-specific interventions centrally selected, social funds finance priority schemes from a variety of sectors that are locally selected.

## 2. Social Funds in Asia

Social funds are much newer and less common in Asia than in Latin America or Africa. Table 1 sets out the approved and planned World Bank social funds in Asia as at September 1999.[3]

Four points are significant from Table 1. First, the total WB commitment to social funds in Asia to date is just 11.7 percent of its global total, and over two-thirds of that is accounted for by the large post-crisis project in Thailand. Second, other than Thailand, the rate of donor cofinancing is very low. In Latin America, bilateral financing of social funds is about the same size as the WB's Inter-American Development Bank (IADB) funding is twice as large. Third,

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3. The WB does not officially classify the International Development Association (IDA) Vulnerable Group credit for Mongolia, mentioned in this chapter, as a social fund.

**Table 1. Social Funds in Asia**
**Planned Investment (in US$ millions)**

| Country | Fiscal Year | Project Name | WB | ADB and Other IFI | Bilateral ODA | Domestic | Total |
|---|---|---|---|---|---|---|---|
| Armenia | 1996 | Social Investment Fund | 12.0 | 0 | 3.4 | 5.5 | 20.9 |
| Armenia | 2000 | Social Investment Fund II | 10.0 | 0 | 5.0 | 3.0 | 18.0 |
| Cambodia | 1995 | Social Fund | 20.0 | 0 | 0 | 2.2 | 22.2 |
| Cambodia | 1999 | Social Fund II | 25.0 | 0 | 0 | 2.8 | 27.8 |
| Kyrgyz Republic | 1998 | Social Services | | 13.5 | | 4.9 | 18.4 |
| Philippines | 1998 | Szopad Social Fund | 10.0 | 0 | 0 | 5.3 | 15.3 |
| Sri Lanka | 1991 | Poverty Alleviation | 41.2 | 0 | 3.5 | 12.5 | 57.2 |
| Tajikistan | 1997 | Poverty Alleviation | 12.0 | | | | 12.0 |
| Tajikistan | 1999 | Poverty Alleviation II | 15.0 | | | | 15.0 |
| Tajikistan | 1999 | Social Sector Relabilitation | | 20.0 | | 5.0 | 25.0 |
| Thailand | 1999 | Social Investment Project | 298.0 | 0.4 | 121.5 | 38.1 | 458.0 |
| Uzbekistan | 2000 | Social Fund | 15 | | | | 15.0 |
| **TOTAL** | | | **458.2** | **33.9** | **133.4** | **79.3** | **704.8** |

and again excluding Thailand, the average fund size of US$18 million is an order of magnitude smaller than the average US$240 million in Latin America. Fourth, most of the funds are very recent, and there is little to draw upon by way of evaluation evidence. Although social funds remain a relatively minor public policy instrument in Asia to date, they, and the projects with social fund features, provide important and interesting evidence about the potential role of such interventions in the future.

### 3. Approaches to Social Fund Design

All social funds and social fund-type projects share three basic characteristics:

(i) They finance small-scale schemes, typically social and economic infrastructure, but often including microcredit, business start-up funds, agricultural development etc.

(ii) The schemes are proposed by local government or local organizations, which are also responsible for organizing the implementation, and commonly contribute to the financing and future operation and maintenance (O&M).

(iii) Specially created institutions, outside the government's established structure of administration, usually manage social funds.

These three characteristics define a method of operation. What makes social funds particularly interesting is: first, the wide variety of country contexts to which this methodology has been applied; and second, the way in which different combinations of objectives have been adopted to fit different country circumstances. In other words, although the method of operation is broadly common, the perceived linkage between the activities of different funds and the goal of poverty reduction over the short or long-term varies substantially.

These design specifics have been adapted to target different groups of people across the full range of crisis situations: economic reform and transition; conflict and refugee resettlement; chronic and acute poverty; and natural disaster. Social funds incorporate different combinations of the following six objectives:

(i) *Short-term labor opportunities.* This objective, shared by probably all social funds, places them within the scope of social protection interventions. In many funds, wages are set at or below the national or local minimum wage, to promote self-targeting and increase the likelihood of reaching the poorer sections of the poor. However, because a significant proportion of scheme investment (up to 80 percent in several studied funds) is for materials (cement, bricks, roofing, piping etc.), skilled labor, design costs etc., the share of investment reaching the poor as short-term labor opportunities is much less than in a well-targeted social assistance scheme or a well-managed public works scheme. Where a social fund has been created in response to economic crisis or natural disaster, rapid disbursement to create work for people is a priority, and this inevitably tends to be at the expense of other objectives.

(ii) *Infrastructure creation and rehabilitation.* In many schemes, the dominant objective is poverty reduction through improving economic and social infrastructure: drinking water supplies, irrigation, the condition of schools and clinics, access roads, etc. While the local poor are engaged to provide unskilled manual labor, the emphasis is on the selection of essential social and economic infrastructure, the quality and efficiency of works, and future O&M responsibilities and financing.

(iii) *Non-infrastructure income generation.* To increase the sustainability of benefit for the poor, some social funds have moved beyond infrastructure formation into direct income generation activities including microfinance, small business start-ups, agricultural extension and investment, food banks, etc. Such activities are commonly in high demand within local communities, but they pose more difficult public-private interface questions, including ownership, skill, and sustainability, than upgrading public infrastructure.

(iv) *Private sector promotion*. Where there is a long tradition of force account (direct labor) construction, and where the private sector is new or weak, increasing opportunities for construction firms to become involved in public sector contracting is often an important social fund objective. This commonly requires interventions to strengthen, organize and train the private construction sector and establish procedures within government and the fund in relation to design standards, skill levels, competitive tendering, supervision and enforcement.

(v) *Civil society strengthening*. For some funds, strengthening social capital and the ability of communities to organize, plan, implement and manage is central. The investment funds provided are seen as a means to catalyze more organized, self-determining and vocal communities. This objective requires significant investment in the software aspects of community outreach, participatory methods, building social trust, etc.

(vi) *Decentralization*. In countries which have a strong commitment to decentralizing government administration and strengthening local governance, incorporating social fund-type methodologies into local government has become a significant means of piloting how decentralized scheme selection, planning, financing, and implementation might operate. The emphasis here is on developing new governmental systems for planning and managing resources, institutional capacity building, staff training, testing of manuals and procedures and promoting community involvement. The prime objective is building good local governance rather than social protection.

All social fund designs incorporate more than one of these objectives—and the most ambitious decentralization initiatives include all six. While there is no right or wrong approach, two points stand out in the literature reviewing the experience of social funds to date. First, the different objectives and the relationships and priorities among them are not always clearly distinguished at the design stage. Second, there are unavoidable trade-offs among these objectives. If these are not explicitly examined and recognized in the initial design, the fund is doomed to be seen as having under-performed in one respect or another.

The following illustrate some of the trade-offs between objectives which have been an issue for different funds and which social fund designers have to confront:

*Trade-off 1: Quick disbursement vs. other objectives.* A short-term social protection objective, normally in the wake of an economic or natural crisis or conflict, always entails pressure to disburse quickly. The priority is to provide work for people without delay. Such time pressure makes it very difficult to launch a major program of community discussion and organization, of contractor training, or local government systems reform in advance. The input to preparing communities for scheme selection or future O&M responsibility will inevitably be limited; existing contractors rather than nascent firms will have the advantage; poverty-mapping and outreach to women, vulnerable groups, the poorest, least accessible and least vocal communities will be patchy; appraisal of schemes for maximum social or economic benefit will be rough and ready. The design can attempt to address these aspects at the margin. But if the priority is to maximize the number of people involved in work as rapidly as possible, there is an inevitable trade-off against other objectives. Even in non-emergency situations, social funds are constrained by prescribed project financing periods, and pressure to disburse will always tend to constrain the extent to which other objectives can be achieved.

*Trade-off 2: Incomes from labor vs. other benefits.* A fund determined to maximize social protection through the creation of labor opportunities would restrict scheme eligibility to different kinds of manual earthwork (as do typical public works schemes.) All other objectives progressively reduce the local labor content of a given quantum of investment and the number of person-days of social protection available in the short term. Water points, schools, clinics, bridges and culverts require cement, iron rods, rock, bricks, roofing, equipment and design and supervision expenditure. Even labor-intensive road construction requires hiring manual compactors, providing and transporting laterite or culvert pipes; community motivation and organization requires staff, training and logistics; decentralization objectives impose heavy investments in systems development, training and supervision. For all social funds, how the use of available finance is balanced between short-term labor creation and other objectives is a key design-stage issue. It also raises significant conceptual issues over the role of funds in providing social protection as a short-term coping mechanism as against investments that reduce risk and vulnerability over the longer term.

*Trade-off 3: Parallel structures vs. public sector reform.* Social funds are normally established as quasi-independent agencies, commonly under the President or Prime Minister, and parallel to existing line ministry and local government structures. An important reason for this has been the desire to bypass existing institutions that are variously seen to be incompetent, corrupt, or otherwise ineffective. Batch evaluations have found that all successful funds have managements with autonomy, flexibility (exemptions from existing government purchasing, contracting, and employment regulations), well-qualified staff (usually paid at private-sector rates), good management systems (an effective management information system, and simple, rigorous and transparent operational protocols) and a significant degree of political support. The growth of social funds with these characteristics is thus to a considerable extent at the expense of government and donor attempts to reform existing public sector institutions.

In view of the demand-driven nature of social fund investments, there are clear problems in making a single line ministry responsible, since sectoral ministries do not have the remit to canvass and finance multisectoral schemes. On the other hand, social infrastructure has high current cost requirements (teachers, nurses, drugs, equipment, etc.) and liaison with line ministries and national budget planning is essential. Local governments and governors do have multisectoral responsibilities but except in projects with a strong decentralization objective, they are largely bypassed in decision-making. Creating new structures for social funds, largely outside the rules and traditions of the public sector, has been positive in terms of fund performance, but the trade-off is that poorly performing line ministries, parastatal bodies and local government are left unreformed. The parallel social fund structure also poses significant questions about institutional and financial sustainability in the longer term.

*Trade-off 4: Public, private and civil sector involvement.* One attraction of social funds is that all three sectors of society have an opportunity to be involved. But there are unavoidable trade-offs in how this should occur. For example, some fund designers see communities (civil society) as taking prime responsibility for construction management and future O&M, as well as for scheme identification. Other fund designs have communities responsible for identification. But contractors, following tendering managed by the fund, undertake construction work. Ownership of the new facilities rests with the local department of education or health. There are many combinations and alternatives, depending on local circumstances and the fund's chosen objectives. The important point in terms of fund design is to achieve clarity over objectives and therefore over institutional responsibilities and implementation alternatives at the outset.

These four trade-offs, whether made explicit in the fund design or not, are common to all social funds. The boxed examples below illustrate the diversity of objectives different funds have adopted, and the difficult trade-offs that implementers have had to balance in practice.

## 4. Social Fund Financing

Social funds are heavily dependent on donor financing. In 16 countries in Latin America, the average fund size is US$240 million, with a range from US$31 million in Paraguay and US$44 million in the Dominican Republic up to US$890 million in Peru and US$1.25 billion in Colombia. For 12 of the 18 IADB-assisted social funds in Latin America, donor assistance accounts for over 80 percent of the total value of the fund. In three funds (Chile, Colombia and Guatemala) the national contribution is over 85 percent, but these are very much the exception. In Asia, the average size of WB-assisted funds is just US$23 million (excluding the post-crisis Thailand fund which is over twice the size of all the others put together). The average national contribution to the Asia funds is just 10 percent. Although social funds are historically associated with WB loan finance, other donors are highly significant sources of cofinancing. In Latin America, the IADB's total commitment of US$1.3 billion to 17 funds is over twice the size of the WB's US$554 million or the total cofinancing from bilateral donors of US$558 million. In Asia, such cofinancing arrangements remain rare.

National contributions are made up of a commitment to the fund from national resources and contributions from scheme beneficiaries, local government, community organizations, elites, churches, etc. There is no reliable comparative data on the average size of beneficiary contributions, which are highly influenced by the particular design of each scheme and the variable and notoriously difficult methods of valorizing local contributions in cash and kind.[4] However there is one clear lesson in relation to the community element of scheme financing: where there is real local choice in scheme selection, local contributions in cash and kind can be remarkably high.

## B. Key Issues, Options and Alternatives

Although formal social funds are rare in Asia, there is plenty of experience from other continents, and from projects in Asia with social fund characteristics. This illustrates the applicability of social fund methodology applicability in different contexts in Asia, and the issues that designers, governments and donors have to address.

### 1. Problem Contexts

Social funds and projects that include elements of social-fund methodology have proven to be an effective public response to a variety of problems, including:

(i) Chronic and/or acute poverty
(ii) Post-economic crisis
(iii) Transition to a market economy
(iv) Post-natural disaster
(v) Post-civil conflict
(vi) Refugee integration
(vii) Isolated and ethnic minority communities

Social funds are thus potential interventions in a wide variety of situations in countries in all four "subregions": South Asia, Southeast Asia, the transition economies and the Pacific.[5]

For many countries, the central issue is less whether a social fund would deliver benefits, than whether committing resources to a new institution outside government ministries and local government would divert resources and political attention from necessary reforms to existing state institutions, notably the financing, accountability and operations of local government structures.

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4. For example: a community agrees to build a second school building from its own resources, if the fund finances the first one. Is the local contribution 0 percent or 50 percent? And what if the community contribution is all provided by a wealthy benefactor?

5. Some accumulated lottery funds (the surplus after prize money distribution) in developed and developing countries are an example of how social fund methodology may be generally applicable: eligibility criteria are established, and groups invited to apply to finance. They are responsible for implementation, with a greater or lesser degree of supervision by the fund. The extent to which they contribute to social protection depends on the financing criteria.

**Box 1. Post-conflict Poverty Reduction and Community Building in a Former Command Economy**

Tajikistan is one of the 20 poorest countries in the world, with 80-85 percent of the population living below the poverty line. Tajikistan's poverty levels are a result of inherited structural poverty, the collapse of the former Soviet Union (FSU), and the aftermath of the civil war. Data for 1989 indicate that Tajikistan was already the poorest republic in the FSU. The breakup of the FSU precipitated the collapse of interrepublican trading arrangements; the resulting economic and social crisis ended in civil conflict (1992–1997). War completely disrupted the country's meager economic activities and intensified poverty. Budget allocations for military expenditures were increased to the detriment of other more productive or socially oriented sectors. Essential physical infrastructure—shelter, hospitals, schools, water systems, roads, and bridges—was destroyed or severely damaged because of the civil conflict. This situation was exacerbated by a series of earthquakes and floods (1992, 1993, 1996, 1998, and 1999) in various parts of the country. About 40 percent of the country's total 6 million inhabitants were directly affected by the civil conflict: approximately 50,000 people were killed, 600,000 were displaced, 60,000 fled to neighboring countries, and 500,000 (including many professionals and skilled workers) emigrated to other countries. Some 55,000 children were orphaned and 20,000 women were widowed. The WB and the ADB designed two social fund-type activities to contribute to the Government's reconstruction efforts, assisted by Save the Children Fund and United Nations Office for Project Services (UNOPS). The WB's TASIF (Tajikistan Social Investment Fund), for US$12 million, addressed (i) the restoration of economic activity at the local level and to get some productive incomes into poor households (microcredit activities); (ii) reconstruction of basic small-scale social an economic infrastructure (housing, water, etc) following participatory approaches at the local level. The ADB's Social Sector Rehabilitation Project, for US$20 million, complemented these efforts to promote social recovery by reactivating the delivery of essential social services at the local level, i.e., education, health, social protection, governance and community development, including (i) rehabilitation of existing infrastructure (schools, health and community centers), (ii) provision of essential supplies (medical, textbooks), (iii) strengthening the delivery of services and improving targeting of and access to services by vulnerable groups at the local level (training of government officials, public information campaigns, community funds). By focusing on rural districts and promoting local work and self-help initiatives, the projects aim to alleviate poverty, strengthen local governments and community participation in Tajikistan's new context of reconstruction and peace building.

In many countries, establishing a separate fund, with a more flexible and accountable management, outside the line agencies, has proven to be beneficial both for target communities and for politicians anxious to see their good intentions translated into real benefit on the ground. The extent to which social funds become a model for administrative reform, or a diversion from it, is unresolved, and depends on the country context. For governments committed to decentralization of services, or those seeking to introduce more open and participatory methods, incorporating elements of social fund methodology into local government is becoming an important means of fostering good local governance.

**Box 2. Responses to Economic Dislocation**

*In Thailand,* a consortium of international donors led by the World Bank funds the US$458 million Social Investment Project. In addition to expanding existing government job creation programs, the project has established a new Social Investment Fund to support community capacity-building and microcredit projects; and a Regional Urban Development Fund to provide loans for small infrastructure to municipalities.

*In Indonesia,* although it is not formally considered a social fund, the World Bank's "Social and Economic Recovery Fund" loan is designed to mitigate the social impact of Indonesia's post-1997 economic crisis. The fund has three separate activities:

a) Labor intensive works: Following the government's proposal for a fund of approximately 9 trillion rupiah (US$500 million), donor pipe-line support is being reprogrammed for labor creation programs. However, current public works programs are very varied, and operate under different rules; wage rates do not encourage self-targeting of the poor; reported leakages are high, and both monitoring and reliable audits are absent. The fund provides standard operating rules, aims to improve technical quality; improve benefits for women and other vulnerable groups, who have been largely bypassed; and strengthen monitoring and audit system for participating agencies.

b) Civil society safety nets: This approach is new for Indonesia and consists of two channels. Channel One is for NGO and local government proposals: field oriented, low-cost actions among the most vulnerable in both urban and rural areas. Proposals need to show positive poverty benefits and low overheads. Local governments can also participate. Proposals are vetted through an extra-governmental, autonomous review board set up in participating districts and managed through an independent national board. Channel Two enables direct contracting of larger civil society organizations for delivering emergency poverty services, including supplementary food and education programs run through the national church organizations.

c) Topping-up successful government programs: Several government programs work relatively well and can increase their coverage with extra funding. Identifying which programs to support is controversial, however. Preparation of this window will focus on developing a high-level, independent screening board made up of highly respected government and nongovernment figures to "pick winners" where there is a consensus that programs succeed in reaching poor beneficiaries. It is being tried on an experimental basis in three provinces with a view to scaling-up later.

## 2. Alternative Objectives

The discussion of design alternatives above indicates the various objectives that can be advanced through social fund methodology. Although the experience of the social fund approach to date has been mainly positive in terms of achieving poverty alleviation, the evidence is that, at the outset, fund designs have not been sufficiently analytical about the different objectives they are seeking to pursue. Many have not been sufficiently clear about the inevitable trade-offs, and have not made clear *ex-ante* decisions about which of the various objectives they seek to maximize.

The goal of all social funds is poverty reduction in the shorter or longer term, but the nature of the linkage between the fund activities and the poverty reduction goal varies substantially among funds. This is because different funds give different priorities to six possible objectives:

(i) Short-term labor opportunities
(ii) Infrastructure creation and rehabilitation
(iii) Non-infrastructure income generation
(iv) Private sector promotion
(v) Civil society strengthening
(vi) Decentralization

The trade-offs between these various objectives outlined above—and much of the adverse comment in evaluations of social fund activities –- is because fund designers were not sufficiently clear at the outset about the precise nature of the linkage between fund-financed activities and poverty reduction. In other words, which objectives are the priorities the fund is seeking to maximize, and which will be of lower priority. There is no right or wrong prioritization, but the evidence is that funds would have been more successful—in their own terms—if the hierarchy of objectives had been defined with more precision at the outset.

As part of a social protection framework, notably in post-crisis situations, the priority objective has been the creation of short-term labor opportunities. However, the relative inefficiencies of the social fund approach—where labor content is typically only about one third of total investment, and there are significant additional costs due to large numbers of small schemes, arranging community facilitation etc.—do not appear to have been fully recognized.

In short, unless social fund designs make explicit choices among the alternative objectives, the perceived success of a fund depends on which objective the evaluators believe ought to have been maximized in the fund design.

## 3. Policy and Institutional Issues

Social funds are a relatively recent, supplementary intervention, outside the framework of mainstream government programs. An important motivation for the explosive growth of funds in the past 13 years has been the frustration among governments and donors about the difficulty of translating financial commitments into tangible benefits for the poor through the existing bureaucracy. The key to success in most funds has been the relative autonomy, freedoms and capacity of the fund's project management unit (PMU), fostered by a close donor presence and external audit, compared with line ministries.

Even if social fund PMUs used a more traditional methodology—for example, acting as implementers, identifying schemes themselves—it is likely that their greater managerial competence and freedoms would have delivered greater impact, at least in the short term, than is normally achieved by line agencies. Social funds can thus be seen principally as an attempt to increase efficiency by linking an agency, which enjoys more of the freedoms enjoyed by the private sector or nongovernmental organization (NGO), on to government.

However, this independence poses important, and unanswered, questions about institutional and financial sustainability. Social funds are still "projects". They are new and heavily donor-dependent, and it is unknown whether they will succeed in maintaining their present perceived degree of efficiency and effectiveness, if and when they become a mainstream government function. Some funds hope that a positive side effect of their activities is that they will succeed in modeling a more efficient way of working for the civil service—although there are no known examples of such managerial replication to date.

Despite the generally positive performance of social fund PMUs, many still have problems. Some funds have faced allegations of corruption, improper relations with sponsors and contractors, and political patronage. The PMU systems for collection of baseline data, monitoring of financial and physical inputs and outputs, and beneficiary assessments are a notable weakness in many funds. Although social funds appear to have good monitoring systems compared with normal line agency practice, the absence of full scheme-level data, comparable data on unit costs of construction works, on why particular schemes were approved or rejected etc., makes cost-effectiveness studies and impact evaluations difficult.

It is important to recognize the extent to which social funds may tend to divert attention of politicians and senior officials from the task of making mainstream public services more efficient, effective and pro-poor. The opportunity cost of social funds has not been researched, but there are indications of two effects. First, any provision targeted to the poor tends to reduce the pressure on mainstream services to ensure that their policies, priorities and financial allocations are pro-poor. Second, both governments and donors need "success stories", and to the extent that social funds are perceived to deliver rather better than mainstream sectoral services and investment projects, increased resourcing of social funds inevitably diverts time, skills and resources away from line ministry and local government reform.[6] The decentralization projects are a significant, although ambitious,

6. In line with these two substantial concerns, the Asian Development Bank (ADB) has not sought to promote independent social funds to date but government-based social funds.

attempt, to co-opt the benefits of demand-driven local infrastructure planning as a means of local government reform and building good local governance.

**Box 3. Advantages and disadvantages of Independent Project Management Units (PMUs)**

The relative independence of social fund PMUs, their managerial and procedural freedom, and ability to attract competent staff, is one of the main reasons for their perceived success compared with line ministry and mainstream government programs. However, establishing a PMU outside line ministry control can also be a source of difficulty. In Mongolia, the locus and control over the PMU was a source of conflict and tension throughout the five years of the National Poverty Alleviation Program (NPAP)—a social fund-type program that financed credit and infrastructure schemes proposed by local government. The Ministry of Health and Social Welfare is responsible for "Poverty" under the law, and the 1994 NPAP Formulation Document specified that the program management unit would be located within that ministry. However, under considerable donor pressure, the program's PMU, the Poverty Alleviation Program Office, came to report directly to the Prime Minister and the specially created National Poverty Alleviation Committee, rather than to the ministry. Many stakeholders saw this as a beneficial arrangement, but the institutional conflict caused by the creation of a parallel body with a quasi-independent status was a recurrent source of problems, and a continual distraction for all concerned throughout the life of the program. The 1999 final evaluation found that the overhead cost of the PMU (staff, equipment, training, running costs, travel, monitoring, etc.) was relatively modest (13.6 percent of the value of activities delivered. If there had not been a succession of disbursement delays, it would have been under 10 percent). The creation of a parallel management structure arguably improved effectiveness and was relatively economic. However, it also provoked significant problems of institutional responsibility and control.

**Box 4. Social Funds or Public Administration Reform?**

A central issue for the future of social funds is the extent to which they divert attention and resources away from necessary reform of mainstream services. Some people argue that social funds model more efficient and participatory ways of working. Others claim that establishing parallel structures bypasses the real problems. The Mongolia National Poverty Alleviation Program is a vivid example of the danger that new, large and organizationally independent funds can divert the attention of senior leaders and policy-makers away from institutional reform and making existing government programs activities more pro-poor. In the design of this social fund-type program, the National Poverty Alleviation Committee (NPAC), chaired by the Prime Minister, was created to bring together all the key ministries with a view to achieving a cocoordinated multisectoral impact on poverty. However, following the approval of the IDA credit to finance the Program, the Terms of Reference of the National Committee came to focus solely on supervising the activities of the investment fund. The 1999 Evaluation reviewed the minutes of the NPAC's 20 meetings over the previous four years and found that it had been entirely concerned with policy and operational issues of the fund. At no stage had the National Committee acted as a forum to discuss or coordinate the poverty activities of other government ministries and programs.

## 4. Social Funds and Poverty Reduction

The alternative social fund objectives entail different linkages between the activities financed by the fund and the goal of poverty reduction. There is now considerable evidence about the impact of the various objectives of social fund methodology on poverty.

Although *short-term wage creation* is a greater or lesser objective of all schemes, and is appreciated within communities, social funds are a less efficient means of maximizing short-term employment than well-managed public works schemes, because of the hardware investment required for community-selected infrastructure and the software costs of community participation. In terms of the degree of benefit, the trade-offs which public works projects have long wrestled with—between the level of wages offered, the duration of employment and the number of potential beneficiaries—all apply to social funds. However the more significant issue for social funds is that because communities select their own priority schemes, highly labor-intensive earthwork-type schemes are much less common than in public works projects with a single job-creation focus. The only way of increasing the labor-efficiency of social fund schemes would be to make the scheme eligibility conditions much more restrictive (e.g., a menu of dykes, de-silting, embankments, or manual road improvement). However such restrictions in the menu of eligible investments undermine the concept of local choice, and bring social funds closer to traditional public works interventions. In short, if the priority objective is large-scale job creation, well-managed public works schemes are the preferable option.

Most social funds, and evaluations of funds, emphasize the poverty impact of the social and economic infrastructures created, rather than the benefits of short-term employment. In view of the relatively small volume of employment created, and the visibility and local commitment to the infrastructure scheme that the community selected, this emphasis is not surprising. The poverty impact of improving schools, clinics, water supplies, access roads etc. are well established. The evaluation evidence is that the rehabilitations of schools, clinics and water points in poorer communities are highly appreciated, well used and have a marked impact on poverty. The ability to target investments to poorer areas, and to poorer communities within poorer areas, is a noted strength of the methodology. Despite the apparent beneficial impact identified in post-project evaluations, the effectiveness of arrangements for management, maintenance and financing over the longer term is less certain. Some projects devote considerable attention to achieving community commitments to future maintenance, including motivating communities to create maintenance committees and funds. All commentators

**Box 5. Social Fund Lessons from Latin America**

Social Funds began in Latin America, and there is more experience of their strengths and weaknesses there than in any other continent. The IADB completed a major evaluation of social funds in eight countries in Latin America in 1999. The key findings were as follows:

- The funds were well targeted to poorer communities, mainly through the use of national poverty mapping. There is a general tendency for wealthier and better-organized areas to propose more projects, but this can be compensated by active promotion in priority areas and prioritizing schemes from poorer communities.
- The funds have had a positive impact on welfare in most communities, mainly through increasing the quantum of investment in health, education, water and sewerage schemes
- Job creation was mainly temporary, at low wages and with little training. Few families "escaped from poverty". Directly productive income generation schemes were less successful.
- The funds have had positive impacts on local government and community organizations and on popular perceptions that the government is trying to help.
- The positive local outcome of fund activities is contingent on government maintaining sound economic policy and preserving and improving social provision overall.
- In relation to the trade-off with institutional reform, the evaluators see social funds as an interim solution with a view to eventual transfer to line ministries and local government. The evaluation notes the continued importance of administrative reform, and suggests this being modeled to some extent by the more flexible, goal-oriented and participatory approach of social fund management.
- Upgrading of training, community involvement and organization, public awareness, women's involvement, base-line information, gender disaggregated monitoring, objective selection and transparency is recommended.
- Increased flexibility in scheme selection, including investment in directly productive activities is recommended:
- Increased national financing is required to promote independence from donor support.

Several features of this evaluation are noteworthy. First, even through many of the funds were established in response to a national crisis (Peru, El Salvador, Haiti, Guatemala) the evaluators give little weight to the role of social funds in providing short-term social protection: *"Temporary jobs are a good expedient in a recession but they don't do much to a structural poverty problem unless they are permanent"*. Second, the evaluators recognize the self-targeting advantages of applying minimum wages to schemes, but note that *"...the minimum wage in most countries is insufficient to lift the worker's family out of poverty"*. Third, they note that only about one quarter to one third of investment went to labor, and the total number of temporary jobs created at a time was relatively small—typically under 0.5 percent of the national labor force. Fourth, the main benefit is assessed to come from upgrading economic and social infrastructures. Fifth, they emphasize the key importance of the funds' delivery mechanisms *"For perhaps the first time, the central government was not just promising that it would build schools and health posts in their villages, but was actually doing so in an efficient and relatively honest manner"*.

In short, the IADB evaluation of social funds in Latin America highlights their role in upgrading infrastructure and modeling institutional reform, rather than in providing a new instrument for social protection. The poverty linkage is seen to be mainly through the medium term impact of infrastructure upgrading rather than the modest numbers benefiting from short-term labor creation.

Source: Inter-American Development Bank, 1996: *Evaluation of Social Investment Funds,* Washington D.C.

agree that the local choice element of social fund methodology is critically important. Where there is real community participation in the selection process—rather than domination by local elites or bureaucratic selection by local government[7]—the prospects for future operations and maintenance appear to be much better. Although the great majority of social infrastructure schemes are refurbishments rather than new facilities requiring additional staff and running costs, arrangements for coordination with line agencies are very variable, and appear to be ad hoc rather than planned in many projects.

Because of the time-limited benefit of wage-labor, all funds face pressure to make a more sustainable impact on poverty through financing directly productive income generation activities. The record of such schemes is much more mixed than the generally positive poverty-impact of investment in small-scale infrastructure. There are two general lessons. First, the sustainability and effectiveness of non-infrastructure schemes (credit, agricultural extension, enterprise support etc) depends on the availability of qualified and experienced intermediaries. This is particularly true for microcredit supply schemes, the most common non-infrastructure activity financed by social funds. Success depends on the existence of professional agencies that know how to run a sustainable credit operation.[8] Where social funds supply capital to well intentioned but inexperienced credit organizations or to "beneficiary-driven" schemes (large loans, long terms, low interest rates, etc.) the cumulative impact on poverty is much weaker.

The second group of directly productive schemes, which appear to do well, are those with a strong public-good character: irrigation, community stores, common agricultural equipment and input supply schemes and agricultural training. These also depend on the existence of agencies with experience of managing such schemes, and with the institutional strength to avoid the management of the common resource pool created being taken over by local elites.

Some funds see *development of the private sector*, principally in the construction industry, as an important subsidiary objective. This objective is essentially a variant of the directly productive income generation objective, but achieved through the design of scheme procurement procedures rather than through direct financing. In countries where private building firms are new,

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7. The involvement of local elites is complex. Instances of poor communities consciously arranging for a well-connected and influential individual to act for them and lead the negotiations are very common. Because a proposal is fronted by a well-connected individual does not necessarily mean the poor will not be the main beneficiaries.

8. The success of a microcredit scheme is better measured by the institutional and financial sustainability of the provider, rather than by whether borrowers make good use of the credits received in the early lending rounds.

very small or disorganized, some social funds have programs for organizing building firms and providing training in technical skills, pricing and tendering procedures, complemented by system development and staff training in open tendering and effective procurement for local government staff and communities responsible for contracting. Some projects specify that scheme contractors must be from the local area, to avoid dominance by larger firms based in regional cities or the capital.

**Box 6. Infrastructure Quality and Institutional Development**

The final evaluation of Mongolia's 1995-2000 National Poverty Alleviation Program, mainly financed by the World Bank's US$10 million "Poverty Alleviation for Vulnerable Groups" credit, was positive about the quality, cost-effectiveness and running-cost sustainability of the infrastructure schemes created. They were seen to be appreciated by both users and staff and were having a measurable and beneficial impact on school attendance and the health of the poor. However, the evaluation report noted that procedures for designing and contracting schemes at local level were largely ad hoc, and there had been no institutional development effort to introduce systematic good-practice procurement and public contracting procedures into local government.

Quantifying the poverty impact of social fund methodology through the mechanism of *civil society strengthening and social capital formation* is methodologically difficult, and no one appears to have attempted it to date. However there is plenty of qualitative and anecdotal evidence about the benefits the methodology can bring, in promoting social cohesion and building community commitment to schemes, at least in the short term. This is evidenced, for example, by the high local contribution for schemes where there is an authentic sense of local ownership, and the continuing commitment of staff, users and community to maintaining social infrastructure in the longer term. Whether the increased degree of local organization and cooperation prompted by social fund methodology is sufficient to make a sustainable impact on the nature of social trust relations which have developed over centuries must be open to doubt. Funds are therefore probably right to view civil society strengthening as a secondary benefit rather than a central objective, and to plan use of resources accordingly.

**Box 7. Piloting Participatory Methods in a Transition Economy**

The Rural Infrastructure Development Fund (RIDEF) project in Quang Nam and Da Nang provinces of central Viet Nam is an example of locating a social fund within local government, as a means to develop more efficient and participatory systems for capital expenditure planning and implementation. The role of short-term employment creation as a social protection objective is minor compared with the more ambitious institutional development and participatory goals.

RIDEF grew out of three traditional infrastructure projects financed by the UN Capital Development Fund (UNCDF) in one district in Quang Nam Province. The RIDEF project was formulated in 1995, within UNCDF's new program approach of using infrastructure schemes to pilot local government decentralization and participatory methods which government can use in selecting and implementing infrastructure works. RIDEF's infrastructure fund was planned at US$7.7 million, with two thirds from UNCDF, enabling an average investment of US$104,000 for larger schemes proposed by Districts and US$54,000 for each of the 115 participating communes. RIDEF aims to work within and through local government and the PMU (the Rural Infrastructure Development Unit - RIDU) is based within the provincial authority, and led by senior provincial staff.

Key to the RIDEF approach has been the development of a local planning process suitable for government staff to use, which enables communities select their priority schemes, within the available budget, in an open and participatory fashion. This approach is in marked contrast to traditional methods of local infrastructure planning in Viet Nam, which are closed, centralized, and scheme-led rather than budget-led. Under the normal process, colloquially known as "two-up-one-down", the commune bureaucracy submits schemes to the district, which passes them on for decision by the province. In the traditional approach, the relationship between scheme selection and budget availability is tenuous.

RIDEF's first attempt to create a local planning process involved a conventional participatory rural appraisal (PRA) methodology introduced by a subcontracted NGO, and implemented in one village in each commune. This proved to be too lengthy, cumbersome and difficult for government staff to implement, and was replaced with a lighter and more inclusive process requiring just five days per commune. This process includes half-day meetings in all villages in the commune to prioritize infrastructure needs and prepare rough costing, followed by a meeting of all village leaders and the commune authorities to select schemes within the available commune budget. At these commune selection meetings, three criteria are used to choose among the various schemes proposed by villages: village priority ranking for the schemes, the village poverty level, and the degree of local contribution. Determining the size of the local contribution has been a difficult issue, and after trying different approaches, the project finalized a sliding-scale varying from 5 percent of scheme cost for very poor communes up to a maximum of 20 percent for richer ones.

This local planning process is implemented by district authority staff who receive modest extra allowances from the project for their work at commune and village level. The participatory selection mechanism is supplemented with technical feasibility studies and detailed design work provided by district technical staff and mainly state design companies.

*Continued*

Women’s attendance at the village and commune selection meetings was normally below 50 percent, although external evaluators found that women felt they had every opportunity to participate in the village meetings, but often did not bother to do so because they felt that women's priorities for local infrastructure were the same as men's. An external evaluation in 1998 commended the inclusiveness of the local planning process developed, and its suitability for replication by government, compared with traditional NGO PRA methods. The process was seen to be a practical way of implementing some of the provision of the Government’s “Local Democracy Decree” (29/1998), designed to increase transparency over the activities of local authorities and over the rationale for local levies on the community.

The RIDEF approach is also significant in that it introduces a budget-led rather than scheme-led planning mechanism to government. Unlike normal social fund methodologies, communities are informed in advance about the budget available for their area. Some senior staff at provincial and district level have come to support a budget-led approach and senior officials (including a Provincial Vice-Chair) are increasingly strong supporters of decentralization ideas.

This use of a social-fund approach to pilot local government decentralization and participatory decision-making is ambitious. Whereas social funds are traditionally independent entities outside established government structures, and have minimal institution-building objectives, the RIDEF approach takes the concept of demand-driven infrastructure and uses it to model a new way of working for the public sector. The institutional success of this approach depends on the extent to which the political leadership sees the benefits of popular consent, increased transparency and better scheme quality overriding traditional approaches and interests. The decentralization objective also poses difficulties for the PMU in balancing competing pressures for rapid implementation of infrastructure schemes with the need for developing concept, new and replicable systems, and training with government staff and the community.

The linkage between *decentralization* and poverty reduction is indirect, and dependent on factors such as local accountability, transparency and the quality of participatory procedures at local level. A decentralization objective is only appropriate where government is already committed to such a course, or where it is interested in piloting decentralized approaches. The experience of projects from Africa and Asia, notably those assisted by UNCDF, clearly indicate that a social fund methodology, based within local government, is a valuable incentive to developing new procedures for participatory scheme selection and implementation.

**Box 8. Social Fund Methodology and Decentralization**

The most ambitious use of social fund methodology "within government" is in Uganda. The District Development Project, managed by the Ministry of Local Government, is a 5-district pilot project to build systems which enable tiers of local government to plan and manage capital financing in a participatory and accountable manner. The World Bank's Local Government Development Program is now in the process of scaling-up the pilot project to most districts in the country. The Government is now reviewing how grants made from Uganda's Poverty Action Fund (financed by Highly Indebted Poor Countries (HIPC), donor budget support and government) can be better aligned with these decentralized funding mechanisms within local government.

The Uganda approach is much more ambitious than standard social fund approaches. It attempts to balance all six social fund objectives, within the overall priority of creating sustainable and accountable local government management systems. Promoting good local governance is the central objective—a long way from social protection.

Such an approach has major systems development and capacity-building costs and is only worthwhile where there is a strong government commitment to decentralized and participatory development. Decentralization is central to the post-conflict settlement in Uganda and underpins the country's 1995 constitution. The Uganda model is now influencing the design of social fund approaches within government in Senegal, Zambia, Tanzania, Ethiopia and Malawi.

The applicability of such an approach is different in Asia, although countries with a history of strong decentralization, such as India and Viet Nam, or those in search of new political and administrative systems, such as Cambodia and Mongolia, may be interested in adapting social fund methodology to support decentralization programs, principally by locating fund management within local government.

## 5. Targeting

Social funds can be *geographically targeted* relatively efficiently and offer a means of providing social protection in situations where acute or chronic problems are geographically localized. The potential for geographical targeting is constrained mainly by information requirements. In the Philippines, for example, a conflict zone can be precisely targeted; in Mongolia, infrastructure was allocated to rural rather than urban areas; and, in Viet Nam to mountainous poorer communes where ethnic minorities are concentrated. Good data on returning asylum seekers in Viet Nam enabled available investment funds to be proportionately allocated down to commune level.

**Box 9. Targeting Options in Remote Ethnic Minority Communities**

In Viet Nam the World Bank is currently preparing two large community-based infrastructure projects for the Northern Highlands and the Central Highlands as part of the Government's "poorest 1715 communes" program. These projects are likely to adopt a social fund methodology. Since the communes prioritized for inclusion under the program were mainly selected by the agency responsible for ethnic minority affairs, both projects should bring substantial benefits to these communities, which tend to be exceptionally poor and have a complex history of social exclusion. However, since the eligible communes have been predetermined, the projects are likely to face practical difficulties in optimizing the benefits obtained from public infrastructure investment. This is because the great majority of the selected communes are very thinly populated, while schemes in neighboring communes, which are equally or almost as poor, but more highly populated, would tend to offer higher social and economic returns. Further, planning network activities such as feeder road systems is clearly more difficult if the precise target areas are predetermined according to administrative boundaries at the lowest tier of local government.

A different approach to targeting is used in the two European Union (EU) rural development projects, each valued at US$25 million, covering four of the poorest northern highland provinces (Cao Bang and Bac Can in 1998, and Son La and Lai Chau in 2000). In these projects, the majority of the budget is for small-scale infrastructure. They are not strictly social funds, firstly because the eligible works are tightly specified in the project agreement (feeder roads, irrigation and village water supply) and, secondly, because EU procurement regulations make it difficult to transfer implementation responsibility to communities. Both projects were formulated prior to the government selecting the 1,715 poor communes, and offer greater flexibility in that they enable the fund managers to select the most beneficial schemes from within the whole of a poor province. The objective of both projects is to work within the *"poorer communes"* and to identify schemes that offer the *"maximum social and/or economic benefit"* in those communes. This leads to a methodology for scheme selection that involves a combination of local proposals (from commune and district) and appraisal (by the co-managed PMUs) to identify the most advantageous schemes. The inclusion of a welfare-maximizing provision at appraisal stage is important in ensuring that the best-organized and most vociferous communes and districts do not dominate the participatory selection process.

However, the evidence is that the extent to which targeting is effective in practice in concentrating resources on the most needy areas depends on the quality of the outreach achieved by the fund, and the objectivity and independence of decision making. The evaluations of Latin American funds clearly indicate that where the fund simply responds to local requests, and does not reach out to remoter places and poorer groups in a proactive way, the better off and more vocal communities obtain a disproportionate share of the fund.

**Box 10. Refugee Resettlement, Targeting and Building Social Trust**

The European Community's US$80 million "International Program for the Reintegration of Returnees" (ECIP) from camps in Hong Kong, China and other countries in Asia offers interesting lessons about the potential benefit of a social fund approach in reintegration situations, the role of public good provision in building social trust, and about targeting.

The ECIP was one of the first large donor programs to be launched after Viet Nam began to open up, following the break-up of the former Soviet Union. The program covered 28 mainly coastal provinces in Viet Nam, which were home to the majority of returning asylum seekers. The microprojects component of ECIP financed a variety of small-scale infrastructures (roads, irrigation, electricity and water supplies, schools, clinics etc.). These schemes were proposed from different levels of local government (commune, district and province) for approval by the EU's four co-managed regional offices. The methodology differed from standard social fund approach in that the EU offices organized the contracting of works for approved schemes, rather than the scheme sponsor, although in practice the sponsor was commonly engaged as the implementer.

The first lesson from this program is the importance of good information in maximizing efficiency, through targeting financial allocations very precisely to where requirements are greatest. For example, in the provinces of Hai Phong and Quang Ninh in northern Viet Nam, which are closest to Hong Kong, China, and had much the largest number of people returning from camps, the allocation of the investment fund was made at commune level, the lowest level of local government, in direct proportion to the number of returnees expected. This precise targeting was possible because excellent information was available from United Nations High Commission for Refugees (UNHCR) in the camps about the home locations of the returnees.

Second, because of the public-good characteristic of social and economic infrastructure, the locally selected schemes were highly beneficial in building local government and community support for smooth reintegration of the returnees. While cash-in-hand reintegration payments (from UNHCR) and preferential access to credit (from the EU program) to the returning "boat-people" were more attractive to the returnees themselves, such provision was unpopular in local communities, who saw it as a reward for "running away and doing nothing". By contrast, the availability of finance for desperately needed infrastructure works proposed by communities encouraged local officials and residents to support the reintegration effort and to ensure that there was no victimization of returnees. Bluntly, they understood that good treatment of returnees was the price for their new school.

Analytically, the cash transfers to returnees were a means of providing individual incentives to return, and a short-term individual social protection instrument after they had done so. The availability of finance for community-selected infrastructure provided the vital complement of building trust and social capital within the host community, which is equally important in facilitating reintegration. The strength of the EU program was that it combined both aspects.

Second, *minimum wage rates* for short-term labor can be targeted quite precisely according to local circumstances. This both increases the efficient use of resources (although labor is normally only about one third of total costs) and increases the precision with which unskilled and semi-skilled labor on infrastructure works can be made self-targeting, through setting wage rates at, or even slightly below, the locally prevailing minimum wage.

Third, it is well established that the types of infrastructure most commonly created through social funds (clinics, schools and water points) are of particular benefit to *women and children*. Further, the extent to which fund activities benefit women can be increased through measures such as imposing minimum shares for women's employment, equal wage provisions and the establishment of schemes with women-only access conditions. There are examples of "women labor only" in social fund design, although this appears to be a more common practice in public works schemes, notably in South Asia. There may, however, be trade-offs between the degree of benefit accruing to women and to the poor. For example, sewage schemes in urban areas may achieve a higher share of female beneficiaries because the incidence of female-headed households is higher in urban areas, whereas poverty is higher in rural areas.

**Box 11. Achieving Women's Participation**

A 1998 study to measure the extent to which the Sri Lanka Poverty Alleviation Project (which has social fund characteristics) found that poor women in general (as compared to poor men) participated significantly in project activities (in terms of their numerical presence, as well as in the nature of their participation). Although their participation varied from component to component, the majority (82 percent) of female participants reported a positive transformation in their lives, tending to confirm that the project enabled poor women to access development resources to an extent unachieved by most other development efforts in Sri Lanka. The study analyzed three project components: women's access to credit and microenterprise development, benefits to women through social mobilization, and women's participation rates in rural infrastructure development. Since social mobilization activities were the project's entry point to poor communities, the study focused particularly on the level of poor women's empowerment as a result of their participation in social mobilization activities.

In Mongolia, the final evaluation of the National Poverty Alleviation Program, mainly financed through the World Bank's "Vulnerable Groups" credit of US$10 million, found that the program had successfully targeted women in a number of ways. Women and female-headed households were assessed to have been the main beneficiaries of the credit fund, and of the maternity center, kindergarten and health interventions. The establishment of a women-only credit fund, alongside the main fund open to all, had been particularly important in ensuring that employment ideas initiated by women received a positive response.

Fourth, it is difficult for social funds to target the *poorest of the poor* and the most vulnerable households, which do not have able-bodied laborers.

Although social infrastructure (clinics, schools and water points, etc.) is of benefit to such families, social funds are a blunt instrument in dealing with idiosyncratic crises and assisting the poorest.

**Box 12. Protecting the Poorest of the Poor**

In Mongolia, the social fund-type infrastructure and credit components of the National Poverty Alleviation Program (NPAP) were not seen as sufficient to meet the social protection needs of the very poorest. The Program created a separate "Targeted Assistance Fund" (TAF) to supplement the Government's Social Assistance Fund, by providing in-kind assistance to the vulnerable poor. The evaluation of the Mongolia Program in 1999 found that the TAF had attracted donor commitments totaling US$372,000, which were used to provide fuel, food, clothing, footwear and school materials and school meals during the hardest winter and spring months. The evaluation report found that selection of beneficiaries through the local poverty alleviation councils had been well done; that funds had been well used, and that the majority reached those most in need.

### 6. Participation Analysis

Social funds are commonly understood to offer a higher degree of community participation than traditional government infrastructure programs implemented through line ministries or local government. While this is generally the case, the degree of real community participation—in the sense of local democratic involvement in identifying, prioritizing and selecting schemes and being involved in their construction and future O&M—is contingent on the detailed design of the fund procedures. Several social fund evaluations have found that the reality of "participation" is that it is restricted to the involvement of the community in providing semi- or unskilled labor and contributions in cash or kind. The fact that small-scale economic and social infrastructures are the end product of social fund investments is a poor guide to the reality of community participation. If the fund procedures enable schemes to be proposed by local governments or local elites, without a specified procedure of community consultation and involvement, the expected participation benefits—in increasing the efficiency of allocations, and local ownership (and hence local contribution and commitment to future O&M)—are not realized. Where there is a density of NGOs and community-based organizations with a background in participatory methods (notably in South Asia) social fund-type projects commonly subcontract the community organization and scheme identification and selection procedures to them. Where such organizations are absent or inexperienced, participation has been increased through procedures that require local government to identify, prioritize, select and implement schemes as a result of a process of community consultation.

Further, the tendency to see social funds principally as a means of introducing community participation into infrastructure provision risks diverting attention from the roles (and non-roles) afforded to other stakeholders. Table 2 provides a more comprehensive participation analysis of standard social fund methodology. In terms of social funds' contribution to the overall development process, the virtual exclusion of some key actors may be as significant as the potential increased role for civil society.

## 7. Sustainability

The sustainability of schemes financed by social funds and the benefits flowing from them is variable. The purpose of short-term job creation is to provide immediate income support rather than longer term benefit. Some public works schemes in Asia have included elements such as compulsory savings and/or skills training with a view to increasing the sustainability of benefits from cash-for-work or food-for-work schemes, but there are no known examples of such requirements being applied in social funds. The administrative costs of introducing such an approach for a large number of small-scale and geographically dispersed schemes, where much of the labor is provided through contractors, make such requirements less viable for social fund schemes than for large public works projects.

The sustainability of small-scale infrastructure schemes is better in projects where there has been authentic local choice in scheme selection. In this respect, social fund methodology offers substantial advantages compared with centrally planned implementation by line ministries. The sustainability of credit schemes and other income generating activities depends on the quality and institutional strength of the implementing agencies financed by the fund.

There is little evidence to date about the financial or institutional sustainability of social funds in terms of becoming mainstream government functions. With the exception of three funds in Latin America they continue to be heavily donor dependent. Whether there would be a sufficient political constituency in many countries to maintain both the management freedoms enjoyed by social fund PMUs, and the level of hardware and software financing required to maintain social fund operations at an efficient scale, against the pressure from under-resourced line ministries, must be open to doubt.

**Table 2. Social Funds: Participation Analysis**

| Stakeholder | Typical Role | Comments |
|---|---|---|
| President's/Prime Minister's Office | Selection of Fund Management Board and Chair<br>Formal agreement with donors<br>Formal approval of schemes, accounts and reporting to donors<br>Selection of senior PMU management | Social funds normally established parallel to existing line agencies |
| Social Fund Management Unit | Fund Management, procedures and financial control<br>Reporting to government and donors<br>Scheme appraisal and selection | Establishment of social fund MU as parallel structure poses sustainability questions<br>Staff commonly drawn from outside government, with higher salaries and allowances<br>Nongovernmental planning, procurement, supervision etc. procedures are the norm.<br>Integration with government planning (e.g. recurrent cost of new infrastructure) tend to be ad hoc<br>In large social funds, a regional office network improves sensitivity to local conditions |
| National Parliament and Local Councils | Minimal—information only | Most social funds attempt to avoid 'political interference' |
| Ministry of Finance | Minimal: social fund funds normally off-budget | Except in the (very rare) cases of a significant national contribution |
| Line Ministries | Minimal/No role in scheme selection or approval<br>Technical standards (roads, schools, water supplies etc.) | Most social funds exclude Line Ministry Involvement by design<br>No linkage between social funds and sector strategy or planning<br>Most social funds include explicit or implicit requirement that built infrastructure according to national standards |
| District/Provincial Local Government administration | Proposing larger schemes<br>Design, costing, and technical support to community schemes<br>Scheme appraisal (subcontracted by social fund management) | Little linkage mechanism between LG planning systems and community–driven scheme selection |
| Lower levels of local government administration | Scheme identification, selection and design<br>Force account contracting | Authentic community participation only occurs where procedures explicitly require it |
| NGOs & CBOs | Sub–contractors to social fund management<br>Community organization<br>Community sensitization about social fund methodology<br>PRA, needs assessment and prioritization<br>Training on procedures (e.g., local contracting, supervision, O&M, user groups etc.) | Use of NGOs/CBO's depends on their coverage and capacity. Where NGO coverage is dense (esp.South Asia) they can play the main role. In transition economies, working through lower levels of local government offers a more even coverage. |

**Table 2. (Continued)Social Funds: Participation Analysis**

| Stakeholder | Typical Role | Comments |
|---|---|---|
| Villagers/ Communities | (Normally with LG or NGO/CBO facilitation)<br>Needs assessment<br>Scheme identification<br>Scheme prioritization<br>Local contribution (in cash and/or kind)<br>Contracting (for small simple schemes)<br>Labor supply (for collecting and transporting materials and construction work)<br>Contractor monitoring (in addition to, not instead of, monitoring by a contracted firm or social fund staff)<br>O&M (water user groups, school management committees, maintenance funds etc.) | In the less–participatory social funds, scheme prioritization is done by local government or elites alone, and community participation is restricted to manual labor and cash or kind contributions.<br>Where there is a tradition of local “voluntary labor”, this can be indistinguishable from forced–labor, and cannot be viewed as “participation”.<br>In countries where there is a tradition of local government exacting levies for poorly specified purposes from the community, local contribution may be a poor indicator of participation. If the community as a whole has not met to agree on the contribution they will make, what it is for, and how it will be made (labor or cash), local contribution alone cannot be assessed as participation. |
| Marginalized groups | Normally only involved where the scheme identification, prioritization and selection criteria require that the needs of marginalized groups are explicitly considered. | social funds are not good at reaching the poorest of the poor and marginalized groups directly |
| Private companies | Large established companies: contractors for larger schemes and implementation supervision.<br>Small local companies: contractors for simple buildings, water points etc.<br>“Community companies”: non-formal village groups which undertake simple schemes. | Good social funds prioritize developing small and medium-sized private contractors by preferred selection of local firms and offering contractor training in technical skills, pricing and bidding. |
| Donors | Social fund Financing<br>Audit<br>TA (to establish social fund management, prepare manuals and& procedures, accounting systems, assist appraisal of proposed schemes, etc.)<br>External evaluation | The great majority of social funds remain highly donor dependant. |

Legend: SF—Social Fund; MU—management unit; TA—technical assistance: LG—local government, NGO—nongovernmental organization; CBOs—community-based organizations

## 8. Social Funds and Social Protection

From the foregoing the role of social funds within social protection can be summarized as follows:

(i) Social funds have proven to be practical and effective responses in a wide variety of situations, including economic crisis and transition, natural disaster, resettlement, post-conflict, and in addressing chronic and acute poverty. The ability to target benefits geographically makes them a relatively efficient means of concentrating resources in particularly distressed areas. Within a target area, active promotion and outreach is required to ensure that poorer and less vocal communities are not excluded.

(ii) The efficiency, effectiveness, and accountability achieved by establishing social funds outside mainstream administrative structures and procedures, with accountability to the highest level of government and to donors, have produced clear benefits both for target communities, and for governments anxious to be seen to be delivering results.

(iii) The coverage achieved by the short-term labor element of social funds creation is considerably less than for well-managed public works schemes.

(iv) The impact and sustainability of public infrastructure provided through social funds with effective procedures for local selection which engender a real sense of local ownership, appear to be considerably better than for traditional line agency programs. To the extent that improved social and economic infrastructure and services achieve a sustainable improvement in living standards over time, social fund investments have a preventive and mitigating role, in addition to the coping benefits flowing from short-term labor creation.

(v) In supporting farm and non-farm enterprise development, the impact of social funds depends on the existence of experienced and effective providers of credit, training, extension and other business development services. Social funds are financing agencies, not implementers, and in the absence of suitable credit and business-support intermediaries, social funds are faced with either supporting infrastructure facilities alone or diverting resources to strengthening the capacity of local agencies to provide other services.

(vi) Social fund methodology offers a potential means of strengthening the skills and experience of private construction firms.

(vii) Locating social funds within local government, together with systems development in relation to participatory planning, implementation and accountability, provides a means of piloting decentralized systems for planning and implementing capital schemes and strengthening local governance institutions.

(viii) Social fund methodology brings significant additional benefits in building social organization and civil society, although these are difficult to quantify in terms of social protection impact, and are highly dependant on the intensity and quality of the methods of participation adopted by the fund.

(ix) Despite the proven achievements of social funds to date, two central and important questions remain unresolved: their institutional and financial sustainability, and the extent to which they tend to divert attention and resources away from the institutional development task of strengthening central and local governance and helping mainstream public sector functions become more efficient and pro-poor.