

# **Social funds, social policies and social development**

Paper presented to the Expert Group meeting on Social Funds and Poverty Reduction

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Social policies of some kind are implemented in all countries. It is their relevance to further social and human development, which tends to vary. However, social policies are often not conceptualised as social policies in the development context, but rather dealt with in a broader concept of social development or in the context of poverty reduction strategies. The aim of this short paper is to ask what kind of social policies social funds represent and what is their relation to social development. In the area of social policies it is further concerned about social services, such as education and health services.

I will discuss social funds in the context of three elements of social policies. Firstly, in terms of what kind of social policy approaches and models these represent, secondly how social funds relate to administrative matters or in other terms how effective are they as means of social policies and thirdly what kind of issues how relevant are social funds to the achievement of social development and Millennium Goals.

### **Social policies**

While models of social policies are often insufficient, they do provide a basis for analysing the ways in which countries engage in efforts of social development. This paper draws from the ways in which social policies have been presented by Titmus (1974) in terms of the basic distinction between the institutional redistributive model of social policy and the residual welfare model of social policy. The basic division between these models can be seen in the basic assumptions. In the residual model the basic assumption is that markets and families are the natural channels to fulfil citizens welfare needs and social policy measures should take place only when these do not function and as temporary replacement. In the redistributive institutional model social policy is an integrated part of public policies which provides for services and benefits for citizens outside markets on the basis of needs.

Korpi (1983) has further explored the potential differences between marginal and institutional models of social policy in terms of share of social expenditure, participating population, employment oriented measures, preventive measures, predominant type of intervention, main type of financing, progressivity of financing, role of nongovernmental organisations and role of means testing and social control. In many ways debates around poverty reduction and social funds still deal with many of these issues and divisions.

These two models can be seen as 'ideal types', but they do provide a ground for a basic analysis of social policies which could be useful also in the context of development policies and perhaps more useful in a development context than later comparative welfare state models contextualised mostly in the developed countries (Esping-Andersen 1990). Ginsburg has also brought further dimensions of class, race and gender divisions to the analysis of comparative social policy (Ginsburg 1992). In the 'real world', the United States model and to some extent the United Kingdom model of social policies can be seen as ideologically closer residual model, whereas the old nordic models of welfare states can be seen to have followed the institutional redistributive models of social policies. While most welfare states are based on mixed models, there are clear differences in emphasis and practice which to some extent follow initial divisions by Titmus and Korpi and can be helpful in providing possible alternatives and choices in social policies or at least in understanding the scope of social policies

In the context of development policies the model used tends to be implicitly a residual welfare model of social policy. In many countries poverty reduction also needs to focus on growth and could not be based on redistribution. However, social inequalities and relative inequalities are becoming more of an issue due to debates and concerns over impacts of globalisation, which have taken place especially around the WIDER Institute conferences and working papers (see e.g. Cornia 2001, Milanovic 2003). The linkage between economic and social policies have also been reflected in the work of UN/DESA and the Social Commission. The interface and linkage between economic policies and social policies has also been raised recently by Mkandawire (2001) and will be further dealt with in the context of the UNRISD research programmes. It is clear that there is also a continuous debate between requirements of macroeconomic frameworks of economic policies, poverty reduction and resource allocation to provision of basic services. Attention has been drawn to the meagre resources available to basic social services (Mehrothra and Delamonica 2002).

In terms of the initial purpose of social funds there is no doubt that they represent a very residual model of social policies and that their original role was meant merely to support implementation of economic reforms. The experiences of the early social funds and safety nets in poverty reduction have been very limited (Cornia 2001, Vivian 1995). However, in spite of the limited benefits the schemes have continued, most probably due to other reasons. The temporary structures have now become more permanent and widely utilised to disburse social sector funds. Furthermore, these seem to be seen also as a model for reform of the public sector and local governance for future.

## **Social funds as means of social policies**

This leads us to the second area of analysis, the assessment of social funds as means for social policies. The initial issues between the residual and institutional models are reflected also in here. Discussion and debate along the lines of the initial divisions can be seen, for example, in the organisation and financing of services and the emphasis on selectivity and targeting in service provision.

The provision of public basic services has been generally seen as a good means of social policies. The UNRISD review on public policies concluded that investments and commitment in basic services in education and health have been important in the so called success stories in social development (Ghai et al 1999). Amartya Sen has also promoted the so called 'support-led' approach of investing on basic social services on the ground that they are labour intensive and thus relatively inexpensive in poor - and low-wage - economies. A poor economy may have less money to spend on health care and education, but it also needs less money to spend to provide the same services. (Sen 1999).

The relationship between social services and social funds is, however, at best very mixed. Firstly, social funds have been used to finance services infrastructure and building and in general they have been seen as temporary and more concerned about capital funding. This has implied an implicit bias towards building things in comparison to longer term maintenance and recurrent costs. While the employment and poverty reduction-related aspects of social funds have been challenged, it is also necessary to see the role of social funds in the changing context of service provision.

In aid policies the relation between general budget support to social sector and support to social funds is an issue and requires attention especially if these are not seen as competing areas. There is a problem, if financing and most capable personnel working in the provision of social services is shifting to social funds and fund governed projects. The concern over negative institutional effects on public planning processes and budget accountability have also been raised by the OED department review of social funds (World Bank 2002, Carvalho et al 2002).

It seems that even the World Bank seems to have mixed feelings about their role as means of new social policies and rather sees them in a more limited role and as complementary to provision of basic social services (van Domelen 2002). However, they have been seen also as an example for the

modernisation and public sector reform (World Bank 1998). If social funds are to be seen as the example for public sector reform and benefits of community-based and demand-based approaches, then a proper evaluation needs to take place to what extent social funds themselves represent these (see e.g. Tendler 2000, Tendler and Serrano 1999) and to what extent these represent a more efficient way in providing public services.

Social fund projects gather own financing which is reflected in user charges and fees. While there seems to be flexibility in the issue there also seems to be preference towards projects with larger own funding. Cost-recovery is also seen as important in terms of sustainability assessment. This is actually a problem with respect to social and education services. Cost-recovery in schools and health care is known to be problematic for the access of those poor to these services and a very regressive way of financing services. Furthermore, health care still still requires central planning and larger than community-based organisation. There is thus a danger that the future running of social fund -related services will be based on user charges and cost-sharing in a way which will not be sufficient to meet the requirements of appropriate service provision. This could not only run the risk of further marginalization of those poor, but also of creating a system of financing and organising of health care and education, which may not be the most appropriate in terms of its distributional impacts and overall technical efficiency. It could also overestimate the capacities of communities to actually run the services in the long term and result in a kind of community-based dumping.

It is clear that social funds fit in principle to the idea of contracting out services for those poor and increasing use of ngos and private for-profit agencies in providing services (see e.g. OECD 2003). This new emphasis on new public management -type functions or output-based aid orientations has however substantial problems. There is little, if any, evidence that the contractual approach would have been very useful in terms of overall financing and organisation of services in areas such as health services in which larger risks and resource pools as well as focus on public health interventions are needed. Private sector is much more problematic as provider of health services than it is as constructor of health centres. This may lead easily to fragmented health care systems, which are costly and difficult to regulate. The current understanding in health care is that more pluralist health systems are in general more difficult to manage and more costly.

Social funds have been praised for their ability to disburse quickly funds for the poorer sections of society, but this praise also contains a fundamental concern as there is a danger that it paves way to

the more than known troubles of the project-based aid in longer term. Social Funds are generally seen as a donor driven mode of support. In this context it is necessary to be reminded of Tendler's claim that the popularity of Social Funds is itself supply-driven with strong influence of donor agencies and that social funds, as all 'distributive' programs that provide numerous individual grants for small projects that are spatially dispersed, are an excellent vehicle for electoral policies and dispensing patronage (Tendler 2000).

### Pro-poor policies, targeting and social policies

The implicit assumption of a residual model of welfare is often assumed when pro-poor policies are discussed. These give an impression as if there would be a choice to be pro-poor without anything to do with those rich and wealthy. While it is difficult for good willing people to say they are not pro-poor, it is problematic, when all public social policy activities are to deal with those poor - or poorest of the poor - only. The danger is that the use of this term is implicitly based on an expected division between those rich served by the market and those poor provided for through the public policies. However, it is not clear if this is the most sustainable and effective way to provide for social policies in general and social services in particular. The arguments given in favour of a broader approach can be divided in three main three main claims: 1) The need to cover both rich and poor and both healthy and sick people is necessary as part of risk pooling, 2) Ensuring financial sustainability, redistribution and willingness of people to contribute, 3) Ensuring quality of services as the services for poor have a tendency to become poor services.

The debate on social funds is often strongly focussed on targeting those poor and how this has been achieved. As expected the extent to which social funds have been able to target those poor has been challenged and debated (see e.g. Cornia 2001, Cornia and Reddy 2001, van Domelen 2002, Tendler 2000). This is an important debate and should be of concern when so called when demand-based approaches are promoted. However, it has also problems if sole targeting those poor becomes a guiding principle as it may lead to shifting away from social services which tend to cover poor and not so poor. The provision of education and health services has been presented as the reason for not adequately targeting those poorest. However, if the reason for this is too high cost-recovery requirements as part of projects leading to a biased participation from only those who can afford to pay, the situation would be different.

The issue of targeting those underserved is of importance to ensure that whole population is covered especially in the context of public health interventions, however one cannot only focus on those most vulnerable and selectiveness is not a very useful means in vaccination programmes and many aspects of health services provision. The same applies to some extent to schools. The recent experiences have shown that costs of health care and illness can easily drag also those non-poor to poverty. As the line between non-poor and poor in many countries is not a large one, the approach of targeted health services for those poor and private sector services for the rest may not be useful in longer term.

The operation of social funds and their projects are often promoted on the basis of their support to community-based initiatives and co-financing at community level. As part of decentralisation process local governments have become important in social services delivery. In terms of equity an important issue is to what extent there are resources to cross-subsidise so that it can be ensured that harder to reach and poorer regions also have services. It is even more important as provision of these services is usually more expensive than in other areas. However, the relationship between the work of local governments and social funds seems not to be very clear and while there are few exceptions mostly separate. In the field of health services it is unlikely that communities can be the sole unit. The focus on community-based activities may also lead towards a kind of community-dumping of services through lack of cross-subsidisation between poorer and wealthier areas or insufficient population and resource-base for appropriate sharing of risks and resources. The issue of reinsurance has already emerged to the development debates in this context. On the other hand, social funds have also been seen as a questionable example of decentralisation and community involvement due to their close connection to central government (Tendler 2000).

### **Social development**

The issue of attainability of Millenium Goals is a crucial one, with both the hopeful (Vandermoortele 2002, UNDP 2003) and critical assessment of capacities of countries to actually reach the goals (Sahn et al 2003). However, it can be said that in the light of the past performance of social funds in poverty reduction, it is unlikely that they will be a significant actor in the achievement of the Millenium Goals. It is thus unlikely that the impact of social funds would be major in terms of social development in many countries, even though in some countries some real benefits may have been gained.

It is clear that the attainment of Millennium Goals will be dependent on rather traditional development processes and the extent to which these can be realised. This will also have importance in relation to the role of macroeconomic frameworks of countries and measures to promote social development as there is a danger that Millennium Goals have become the sole and only responsibility of social development efforts. In other words failure of achieving the Goals becomes a problem of targeting and effectiveness of residual social policies without extra resources, not an issue of relevance to economic policies.

The provision of public services has been seen as an important prerequisite for the achievement of Millennium Development Goals. At the same time the UNDP has assessed that the global public spending on basic social services falls short by about 80\$ billion per year of the level required to ensure universal coverage. The underinvestment in basic social services remains both in the context of ODA and national budgets (Vandermoortele 2002).

It is also likely that very basic 'basic services' alone may not be sufficient to deal with some of the Millennium Goals. In maternal mortality, for example, it is anticipated that further reduction in many countries would require better access to hospitals in emergencies. The very basic services are thus not sufficient in delivering results, but a functioning health system is needed. The emphasis on outcomes can also be problematic for the building up of social policies. It is known that the achieving of immunisation targets was reflected afterwards by a decline. They may also divert resources and efforts in a way which is problematic to the overall development of services. Maternal mortality reduction is important and large variation exists between countries. However, in terms of mortality also other issues explaining larger part of mortality could be found.

### **If social funds are the answer, what is the problem ?**

The fundamental question is whether they are part of the problem or part of the solution. If social funds become a means for actually dismantling public responsibilities and legitimating economic policies, which increase social and income inequalities they will remain a poor means of social policies, however effectively they would disburse the donor funds available. In the past welfare states were built on the basis of community activities and ngos, but there seems to be a current trend to use the same activities to down-size government involvement in service provision. If social funds are to be part of social policies, they need to be part of the answer and not the problem. On the basis of many assessments of social funds these can be seen in many cases a part of a broader



problem rather than an answer. Perhaps resources could be better used by supporting social policies through government programmes and public budgets. But, if social funds can't be the answer to social policies, then can they be an answer as part of social policies ?

It is clear that social fund -type arrangements exist in many welfare states and have been used as means to fund community activities, nongovernmental organisations and their work. This would imply that social funds are seen as complementary actors and part of broader social policies, not the social policies. It would mean a more marginal role, but one with some of the current elements of social funds with emphasis on distributing grants to projects and services of community organisations and ngos in a smaller scale. When social funds are in a complementary role there are also more possibilities to envisage innovative mechanisms for financing of social funds. In Finland, for example, a social fund type of activities geared towards financing of nongovernmental organisations have been financed through the lottery fund and national monopoly on lottery. This can be an important way to finance services especially for groups which easily become underserved, such as people with disabilities or with mental health problems and enable them to have a voice in policy development. This is especially important if decentralisation is to take place as one should not assume that community-based activities are automatically good for all in the community.

The final more practical question is that if social funds is to be the answer to all problems due to donor policies and priorities, then what kind of questions should we ask and what kind of issues should be raised. What are the relative merits of social funds in comparison to other policies and when are not ? How to ensure sufficient evaluation ? To what extent they function as means to bypass government activities in practice ? Finally, if social funds will remain the answer, to what extent there is scope to ensure that social funds would be moving towards a direction which would best ensure that they make a positive contribution to social development.

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