# Social Funds and Poverty Reduction: A Background Note[*]

## I. Background

Social funds were first introduced by the World Bank in the 1980s to address the social and economic crises then afflicting Latin America. Government layoffs and budgetary setbacks aggravated high unemployment and poverty and depressed the already unstable economic situation. Social funds were then implemented to mitigate the negative impact of structural adjustment programmes on the poor.[1] They were, and continue to be used to respond to emergency situations such as natural disasters, economic crises or conflict. In Africa, the first social funds introduced in 1991, were aimed at poverty and human development.[2] Since then, social funds have targeted risk reduction, poverty reduction, employment creation, infrastructure development and decentralization modeling.

The effect social funds have had on poverty alleviation, social protection and risk reduction varies. Efforts to reduce poverty need to address the multi-dimensionality of the problem, and social funds are but one of the proffered solutions and, as such, do not provide a universal solution to the plight of the poor.

### A. Administration and Methodology

Social funds, also known as Social Investment Funds, Social Action Programmes and Social Emergency Funds, are investment mechanisms by which resources are channeled into local development projects. The projects are chosen by private or community groups according to specific predetermined criteria for the development of their area. This approach emphasizes local participation for poverty reduction and sustainable livelihood improvements. Participatory methods are used to empower marginalized groups by giving them a voice in the decision making process and facilitating community representation in local government. Social funds are considered an apt approach to encourage the participatory and decentralization process, through its focus on building local and community capacity to move people out of poverty.

The basic premise of a social fund is to supervise and appraise project design and implementation; it does not, however, implement or propose specific projects. Funds are channeled towards sanitation works, education, health care and infrastructure to manage the social and economic risks of natural disasters, conflict or fiscal crises, all of which have deep bearing in poor areas.

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[*] This note is based on a draft prepared by Ms. Ioli Filmeridis

## B. Social Fund Initiatives in the Community

Typically, social funds are financing mechanisms used for community development.[3] They are not considered direct sources of investment, but "second tier" agencies used to finance, appraise and supervise investment carried out by NGOs (non-governmental organizations), local governments and line ministries.[4] Agencies provide and finance cross-sector, small-scale projects that are selected by the community based on needs criteria. The central government also finances small-scale initiatives and projects that are carried out by local governments, line agencies, NGOs or community groups. Projects include microcredit programs, social investments and education initiatives. Social funds oversee projects by outlining procedures for monitoring and supervision. After submitting proposals to the social fund group, communities determine specific development needs and choose projects from a preset 'project menu'; they are then responsible for selecting, implementing and sustaining these projects aided by trained and skilled management and technical staff.

Participation at national, local and community levels is encouraged. Many social funds also require participatory co-financing of up to 10-15 per cent of project costs. This ensures a sense of ownership and responsibility to the project.[5] Funds contribute to increased input by the poor, empowering decision-making and the ability to create community groups. Further, funds can be used as examples of how partnerships between the community and [local] government can result in better poverty targeting and demand driven development projects.

Broadly, social funds can be described as multi-sectoral, community or demand driven projects that work with, yet independent of, government to address pressing social and economic risks facing poverty stricken areas.

## II. The Social Fund Approach to Poverty Reduction

What distinguishes social funds in this capacity? The key advantages of social funds in alleviating poverty are their size, their flexibility and their relationship with local government. By focusing on infrastructure and employment, training and productive projects, they encourage a demand-driven, participatory approach to project selection. Social funds target the poor by building social and economic capital, delivering services and projects in a decentralized, cost effective structure. Some funds focus on specific marginalized groups and encourage their input and participation in the project cycle. This process enables them to improve their livelihoods, contribute to their community and develop a permanent voice to influence their futures.

The role of social funds in poverty alleviation is based on their ability to reach those most in need. To do so successfully requires accurate poverty targeting techniques to disburse funds and a heightened degree of community mobilization to attract and contribute to projects. Specific targeting of poor areas is conducted through regional surveys of the very poor and through partnerships with local NGOs and government sectors. Subsequently, donor financing is channeled to projects that have been selected by communities according to specific development criteria based proposals.[6]

## A. Social Protection and Poverty Eradication

While not intended to replace national poverty relief plans, social funds do effectively raise awareness of poverty related issues among communities and governments. Multi-sectoral social funds integrated with PRSPs are instrumental to achieving intermediate goals in labor and employment, infrastructure development and health education. Social funds have the ability to integrate policy reforms into program design, providing an example of poverty reduction programs including targeting and transparent decision making to the local government. Their intended objectives, to reduce the negative impact of natural disasters and conflict implicitly aim to alleviate the plight of the poor. Social funds respond to these situations by targeted rapid response programs aimed to empower marginalized groups.

Social funds complement social protection programs by attempting to relieve economic and social risks and enhancing the poor's capacity to manage these risks. Specific cross sector projects engage government, private groups and communities to refurbish and create infrastructure and frameworks that enable the poor to overcome the poverty cycle. Social protection frameworks for the poor are similar to those used in social funds. They include:

- Assessing vulnerable groups and their capacity to manage risk;
- Revealing gaps in coverage and finding cost effective ways of intervention;
- Defining the role of government, community groups and the private sector;
- Defining funding, delivery and administration processes;
- Building technical capacity of government and communities to deal with risk;
- Information disbursement and sharing;
- Monitoring and evaluation of projects; and
- Enhancing social capital of communities through participatory practices.

Common poverty targeted relief mechanisms include, improving education, improving access to health and education for women, establishing health and community networks and better use/sharing of common resources.

Most importantly, poverty relief stems from effective poor targeting mechanisms in developing countries. Good practices exemplified by the Inter-American Development Bank (IDB) match investments with needy communities to maximize the impact of projects. The degree of success is a culmination of effective targeting, needs based projects and proper implementation and management. Ownership, participation, sustainability and partnerships between local governments and communities are also indicators of social fund success. Yet many social funds are criticized for their focus on short-term provision rather than long-term sustainability.[7] Other critics suggest social funds are more likely to improve non-poor living standards than those of the poorest because of ineffective targeting practices.[8]

## B. Ensuring Success

A social fund's success depends on certain environmental and economic conditions to ensure that they reach the poorest communities and that these communities can support the project cycle. Two basic conditions are worth emphasizing: The first is that the donor, with aid from the government, must identify and assess the location or distribution of the poorest. To do this, government representation must exist in these areas so that project support and manager-government liaisons are established. These areas must also have road access to transport goods and resources.

Second, targeted areas should have the organizational and institutional capability, knowledge and resource capacity to prioritize community needs and assess expected project outcomes for pursuing community development. This requires a community organizing group or principal to voice community needs and priorities. While these two conditions are not required for social fund implementation, their satisfaction, however, raises the probability that the objectives of the social funds will be accomplished.

## C. Obstacles to Poverty Reduction through Social Funds

The literature on and evaluations of social funds over the last 20 years suggest that despite the popularity of the funds they are belied by numerous shortcomings. What are touted as the most promising aspects of social funds are sometimes considered intrinsic flaws in design, implementation and sustainability. Often criticism focuses on the inability of social funds to sustain the long-term impact of development projects. Other critics suggest that social funds circumvent government authority, weaken local capacity to implement development projects and work inefficiently in poor areas due, in part, to the dearth of community organization, illiteracy rates and minimal government presence. It has also been pointed out that the increasing information asymmetry that exacerbates development problems simultaneously weakens social fund poverty targeting mechanisms.

The major shortcomings of the use of social funds for poverty reduction are generally seen to include:

- The funds do not always reach the poorest or most vulnerable;
- There is insufficient financing from donors, community and government;
- There is a tradeoff between the speed of implementation and building institutional and technical capacity. In poor areas the time needed to do the latter is longer;
- The role of social funds in poverty reduction is presently unclear. Social funds must improve their ability to improve impact evaluation and measurement;[9]
- Social funds undermine government role in development as they are often viewed as ‘parallel governments’ that engage in development practices without the input or inclusion of local government. Minimal government involvement has some effect on the non-sustainability of social funds;
- The sustainability of projects is questionable. Dependence on external financing with minimal national support and inadequate monitoring and financing detracts from long-term project development. Ownership often remains unclear; communities remain dependant on external technical and managerial expertise;
- The funds tend towards dependency creating activities as the speed and timing of disbursements curtail the need for participatory decision-making.[10]

## D. Advantages of Social Funds

Despite criticisms questioning the effectiveness of social funds, multilateral financial institutions, notably the World Bank and the Inter American Development Bank, continue to advance and promote social funds as effective development tools and poverty targeting efforts. The popularity of social funds has resulted from their ability to channel money and resources to communities suffering from economic crises, natural disasters or conflicts. The World Bank continues to affirm that disbursement of funds and services through social funds are quick and 'timely' which underpins their role as an efficient crisis response mechanism.

Largely autonomous from government or institutional constraints, social funds are seen as being able to focus on community needs and the participatory process during project selection, management and resource distribution. The proximity of consultants and professionals to community groups and targeted areas also results in a degree of responsiveness to local needs. Social funds are also seen as flexible, cross-sectoral instruments to adapt to changing circumstances, serving a variety of objectives simultaneously.

The multiple actor system is said to improve coordination among international donors, local level governments, NGOs, the private sector and community organizations, who are then able to coordinate programs and eliminate conflicting incentives. Other advantages of social funds for poverty alleviation include;

- Lower transaction costs, efficiency of public expenditures, low unit costs of social infrastructure;
- Demand driven, hands on learning for community and participatory methods which reflect needs of poor;
- Accountability and transparency due to external audit and open information requirement;
- Demonstration effects of competitive recruitment, good wages and performance objectives;
- Direct provision of resources to target population and allocative efficiency of public investment;
- Social funds benefit the decentralization process. Reform and modernization are an alternative service delivery mechanism, complementary to bottom up programs;
- Improves prospects for government responsiveness to marginalized and poor.

## III. Geographic Presence

Social funds generally address broad themes of employment, infrastructure and community development, social services and decentralization, and the extent and existence of these approaches varies from country to country. Social funds are predominant in South and Central America and Africa, with growing presence in Central Europe and South East Asia. Often integrated into or contingent upon poverty reduction strategies, social funds have reached marginalized groups to provide goods and services and establish interactive frameworks of cooperation between community groups, NGOs and government.

Net results have shown improved standards of living together with accountable and transparent methods of delivery and financing. Yet, the evidence suggests that social funds still often bypass the poorest of the poor in these countries and often do not integrate national policies to define ownership, operation and maintenance of projects.[11] It has been found that the levels of decentralization, qualifications of civil servants, commitment of government offices and availability of institutional and financial resources are all factors that affect the extent of success of social funds.

<u>East/South East Asia</u>

In the region, World Bank commitment to social funds is 11.7 per cent of its global total.[12] There is otherwise low levels of donor financing here. Social funds are present in Cambodia, Thailand, Laos and the Philippines. In Vietnam, poverty reduction strategies have reduced the number of poor in the country but have not reduced their vulnerability to social and economic shocks.[13] In Thailand, the social fund was a response to the economic crisis in the late nineties and the subsequent restructuring of the country's financial system. Cambodia's poverty reduction focuses on harnessing environmental technologies to improve agriculture development and rural livelihoods while also focusing on education, health services and gender roles.

<u>Africa and the Middle East</u>

Social funds are present in various countries in Africa including Tanzania, Uganda and Zambia. In Mali, social funds look at private sector development and micro enterprises while others throughout the continent target water sanitation and irrigation. In the Middle East, the largest social fund is in Egypt and includes financial resource mobilization. In the West Bank social funds have targeted employment creation and water irrigation, with measured degrees of success.

<u>Eastern Europe and Central Asia</u>

Social Investment Funds in the Eastern European and Central Asia Regional Network (ECA Net) focus on horizontal cooperation among institutions and instruments to combat poverty, aid the vulnerable, transfer experiences and best practices and strengthen institutional and financial frameworks. Processes to implement monitoring and evaluation tools within social funds are also an important consideration for these funds. While social funds are increasingly integrated into national plans, certain development needs identified in communities, especially in Armenia, were excluded from the list of projects provided by the existing social fund agency, suggesting the projects were too narrow in scope for local requirements and needs.[14]

In Moldova the transition to a market economy has steered the social fund to successfully focus on the infrastructure and capacity adjustment needs in village areas. The Bulgarian experience has been largely positive with job creation and cost efficiency exceeding or maintaining projected expectations.

<u>Latin America</u>

Social funds in the LAC countries are used to target the poor, cope with structural adjustments, privatize and improve basic education and health services. Many social funds focus on decentralization, while others in the Caribbean and Central America remain centralized entities. Social funds in Latin America and the Caribbean have evolved from emergency crisis response systems to government assisted poverty reduction mechanisms. In Bolivia, for example, the Social Emergency Fund is now a social investment fund targeting sustainable practices. Two of the largest poverty programs are in Peru and Colombia, representing large portions of those governments' poverty alleviation budgets. The IDB has supported the majority of funds in the region.[15]

The number, variety and success of projects varies between countries in the region. Generally, long-term employment has not been sufficiently generated in these countries; short-term employment has risen in communities while income has not.[16] In contrast, living conditions have improved; this includes infrastructure development and increased access to health and sanitation works.

## IV. Conclusions

In the span of 20 years, social funds, initially designed and used to rapidly respond to crises in poor areas have evolved into mechanisms aimed at poverty reduction, risk management and community driven development projects. As a poverty reduction tool, the focus is on providing immediate results, which often bypasses long term solutions and goals and inadequate attention is given to addressing deep-rooted social problems. While the rapid response mechanism reaches a large number of affected people, there is less opportunity and funding to tackle non-crisis problems such as the underlying causes of poverty. In essence, energy and resources used for the short-term deployment and restitution of services, diverts investments in long-term solutions.

The impacts of social funds have not yet been thoroughly assessed. Further monitoring and impact evaluations will reveal the long term affects of social funds, including their cost efficiency and cost effectiveness. Many social funds have been criticized for offering limited options on the project menu. Those included often do not address the crux of local needs. Expanding project options on the menu would improve and broaden the extent to which social funds and collaborators could successfully respond to the needs of the poor. These would include long-term employment opportunities, gender targeted involvement in projects and infrastructure works to provide education and sanitation.

To capitalize on poverty targeting techniques, improved analysis and research of the disadvantaged and poor would reflect more proactive efforts to address the roots of regional poverty. Most approaches have managed to improve basic living standards but have not been able to reach out to the most destitute.

Social funds have both contributed to decentralization and bypassed government potential to enable the participatory elements and momentum of effective poverty targeting. Present approaches focus on devolution of government administrative procedures rather than structural adjustments. If social funds continue to circumvent government's role in poverty reduction, the national response system will jeopardize poverty alleviation efforts at all levels.

In order to effectively contribute to poverty reduction, social funds must emphasize community and government partnerships, needs assessments, resource capacity building and donor technical and managerial support. On their part, social funds have enabled donors and governments alike to assess the possibilities of direct funding to communities. Results and efforts have varied, but success is found in activities such as employment creation, infrastructure works and community mobilization and empowerment. As with any other development program their continued use must be part of a multi-pronged framework that distinguishes between the implementation possibilities and risks posed to target populations.

## *Notes*

[1] Judith Tendler (2000), "Why are Social Funds so Popular?" in *Local Dynamics in an Era of Globalization: 21st Century Catalysts for Development*, Simon J. Evenett , Weiping Wu , Shahid Yusuf (eds), Oxford University Press, World Bank, p.114.
2 Laura Frigenti and Alberto Harth with Rumana Huque (1998), *Local Solutions to Regional Problems*, The World Bank, Washington, D.C., p.1.
[3] Andrew Batkin (2001), "Social Funds: Theoretical Background" in Social Protection in Asia and the Pacific, Isabel Ortiz (ed), Asian Development Bank, p. 431.
[4] Steen Jorgenson and Julie Van Domelen (1999), "Helping the Poor Manage Risk Better; The Role of Social Funds", Social Protection Discussion Paper No. 9934, The World Bank, Washington, D.C., p. 1.
[5] Tendler, op. cit., p 115.
[6] Inter-American Development Bank (Poverty and Inequality Advisory Unit), "The Use of Social Investment Funds as an Instrument for Combating Poverty," Washington, D.C., (12/98, POV-104), p. 4.
[7] Batkin, op.cit., p. 430.
[8] Sameer Dossani (2002), "Sideswiping the State: Social Funds and the Future of Health, Education and Water Services," Citizens Network On Essential Services, Policy Series on Essential Services, Paper No. 3.
[9] Inter-American Bank, op. cit., p. 15.
[10] Tendler, op. cit., p 118.
[11] See Anthony G. Bigio (ed) (1998), *Social Funds and Reaching the Poor: Experiences and Future Directions*, World Bank, Washington, D.C., Chapter 1.
[12] Batkin, op. cit., p. 431.
[13] International Monetary Fund and the International Development Association. Vietnam Assessment of the interim Poverty Reduction Strategy. March 21, 2001. p 3.
[14] Daniel Owen and Julie Van Domelon (1998), "Getting an Earful, A Review of Beneficiary Assessments of Social Funds," Social Protection Discussion Paper No. 9816, The World Bank, Washington, D.C., p. 24.
[15] Inter-American Bank, op. cit. p. 1.
[16] Ibid, p. 4.