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Social Investment Funds Are Here to Stay

Over the last decade, Social Investment Funds have evolved from ad hoc responses designed to ameliorate the effects of the structural adjustment crises of the 1980's to become one of the permanent instruments the Inter-American Development Bank uses in its fight against poverty. A strong feature of the Funds is their ability to tailor themselves to changing circumstances without sacrificing their efficiency and effectiveness as an instrument of government policy. In different times and different places they have taken on a variety of roles, including acting as social safety nets in times of economic downturns; serving as efficient and effective procurement agents for the construction of social infrastructure; and more recently, acting as social laboratories for the piloting of innovative programs and catalysts for ongoing processes of municipal and community development.

While the specific activities that the Funds undertake will depend on country circumstances, their overarching goal should be to contribute to the reduction of poverty.

Clarify Objectives at the Country Level

In future support of the Funds, the Bank must be flexible while at the same time urge that each Fund's objectives reflect the comparative advantage of this policy instrument given the specific country circumstances. The Bank cannot, and should not, decree what should be the appropriate objectives of Social Investment Funds. However, at the country level, the objectives and activity menu of each Fund need to be consistent with an understanding of how the Fund, as one instrument among many, will contribute to the fight against poverty. As a guiding principle Social Investment Funds should promote rather than replace needed social reforms. By giving voice to poor and marginalized communities who have previously had difficulty influencing public policies, the Funds can be especially effective in fostering a more “pro-poor” allocation of resources by traditional line ministries.

Increased Flexibility in the Project Menu

In general terms, Funds can help the poor augment their physical, human and social capital by building social and economic infrastructure, strengthening community organizations, providing training, or directly organizing productive projects. What proportion of Fund resources should be devoted to each such activity should depend on local conditions, taking into consideration the nature of poverty and the comparative advantage of the Funds vis-a-vis other institutions. If the objective of the Funds is to contribute to the fight against poverty one cannot decide in advance and without reference to local conditions what sort of activities can best reach this objective. The fundamental approach to this question should be greater flexibility and reliance on local choices. Whenever a new activity is added to the project menu, a Fund should conduct a rigorous ex-ante economic and social analysis to establish cost thresholds and measures of expected impact which can be used to evaluate the effectiveness of the new programs over time. Furthermore, the Funds must recognize the trade-offs involved in taking on a wider range of activities. We must be careful not to ask too much from any single Fund. No one Fund can, or should, undertake the entire range of activities described in this strategy. Rather, each Fund needs to carefully assess and justify its role as one instrument among many in a country’s fight against poverty.

Better Targeting

While the Social Investment Funds have a relatively successful track record at reaching the poor, especially compared with traditional line ministries, more
work needs to be done to ensure that they reach the poorest of the poor. There is an inherent contradiction between demand-driven investments (which tend to exclude the extreme poor due to their lack of time and resources to put together proposals), and poverty targeting which must be addressed and reconciled in order to improve the distributional impact of Fund investments and include more of the poorest strata. Possibilities to improve targeting include increasing promotion and technical assistance to the poorest; pre-assigning a portion of funds to communities where the extreme poor are concentrated, while introducing mechanisms for project quality control; more active incorporation of women and indigenous groups in all steps of the project cycle; including communities as partners in the identification of their neediest members; and refining eligibility criteria for subprojects to ensure that impact is maximized for the poorest. How individual Funds choose to address the issue of forgetting will depend upon the availability of reliable information on the distribution of poverty and reflect the administrative costs of different targeting approaches.

**Improve Impact Evaluation**

Social Investment Funds need to improve their capabilities to measure the socioeconomic impact of their investments. Impact evaluation will be greatly facilitated by increased clarity regarding each Fund’s objectives. Also necessary will be the building of information systems with data on the socio-economic profile of the beneficiaries of Fund investments and, ideally, control groups, in order to track the evolution of living standards. Partnerships with related line ministries will perhaps be necessary in the design and maintenance of these information systems, in order to assess the relative impact of the Funds’ contribution as compared to that of other actors. The Bank should encourage earmarking funds in future loans to the Funds for the design and implementation of an impact evaluation scheme using modern techniques. As Funds take on a wider range of activities in their fight against poverty, they need to be able to better measure the relative cost-effectiveness of different investments, as well as to assess changes in their own administrative efficiency in delivering a broader array of services. In order to increase transparency and accountability, and thus sustain long-term financing, Social Investment Funds must be able to demonstrate their impact in improving living standards with measurable outcomes.

**Beneficiary Participation and Community Development**

There is good reason to believe that beneficiary participation in all stages of project cycle decision-making is a key factor in the successful execution and sustainability of small-scale development projects. When beneficiaries make commitments as part of project identification and participate in project cycle decision-making, projects are more likely to match what beneficiaries want and what they are willing to maintain. The increasing interest of Funds in promoting community or local development goes much further than this. The objective here is to build the capacity of local development actors, especially municipal authorities and civil society organizations, to collaborate in the selection of priority investment projects, deciding how they will be carried out and managing the implementation process. When appropriate under local conditions, Funds should devote more resources to community development and the Bank should encourage them to do so. The Funds can move beyond being simply a source of funding for small projects to become a unit which works with communities to help strengthen their organizations and which assists the poor in finding financing and technical assistance to carry out projects of their own choosing.

**Improve Project Sustainability**

Sustainability has proven to be the Achilles heel of many Social Investment Funds. At the macro level, the vast majority of Funds are extremely dependent upon external financing. In the long run there should be an increase in national financial support. At the micro level, returns to investments in infrastructure, particularly water and sanitation projects, are fre-
quently diminished or completely eroded through lack of appropriate maintenance. Ownership of the Social Investment Funds needs to be improved at every level, ranging from a clear understanding of their role as an instrument for poverty reduction with a concomitant allocation of local resources, to increased involvement of beneficiaries in decision-making at all phases of the subproject cycle so as to guarantee the usefulness of the investment and improve maintenance. Sustainability could also be enhanced if Fund staff were to continue to work with communities after project completion to help train local personnel and to set up financing schemes and maintenance schedules. Sound monitoring and evaluation activities can also strengthen sustainability, by providing the information on the Fund’s results that can serve to justify increases in future financing.

Integrate into Larger Processes of

Modernization of the State

Social Investment Funds can play a catalytic role in the ongoing regional process of modernization of the state. They have demonstrated that it is possible for governments to listen to the poor and marginalized, and to efficiently and effectively channel funds to these communities. Through active solicitation of community demands, Social Investment Funds can help to increase the voice of the poor in determining how government funds are spent. By building partnerships with line ministries and local governments, the Social Investment Funds can begin to transfer their expertise in working at the community level. The Funds’ streamlined administrative structures, revamped salary scales, and effective use of subcontracting can serve as potential guideposts for ongoing processes of public sector reform.
Introduction

The emergence of Social Investment Funds in most Latin American countries during the past ten years constitutes an important development in the field of social policy that has proven to be effective in rapidly channeling external funding to small projects in poverty-stricken areas.¹ The Funds represent a significant institutional and operational improvement over the traditional government programs. They have developed improved systems of targeting so that their projects are better able to reach the poor than those of the traditional line ministries. As the choice of Fund projects is demand driven, this implies that, for the most part they reflect the priorities of poor recipients. The Funds have successfully applied the procurement practices of the private sector and have become efficient, low-cost providers of social infrastructure. They have been instrumental in altering the climate of apathy towards social policies and have shown that government programs can work. Moreover, through their closer contact with poor communities, the Funds have opened new avenues for social action and have played a catalytic role in increasing public awareness of poverty issues. Social Investment Funds are perhaps one of the region’s, and the Bank’s, most important contributions to development.

One of the first Social Investment Funds the Bolivian FES, established in 1986, was an ad hoc attempt to provide employment and income support for people driven into poverty during the economic crisis of the 1980s.² It was designed to do this primarily by building small unsophisticated social and economic infrastructure projects in poor areas. As they evolved, employment creation was not the main channel by which the Bolivian Fund, or subsequent Funds, helped the poor. Rather it was the projects themselves that made a difference. Poor communities that never before had a decent school or safe water now had both, thanks to Fund projects. Communities that never before had seen a central government representative now were able to formulate projects of their own choosing, present them to the government and assist in their implementation. These are important activities, and help explain why the Funds have expanded in the region and why they have received the strong support of international financial institutions, particularly the Inter-American Development Bank.

At present, most of the countries of Latin America and several Caribbean ones are home to Social Investment Funds.³ Over time the original “emergency” rationale for the Funds has been replaced by longer term objectives and the Funds have effectively become the primary means by which many governments in Latin America and the Caribbean undertake actions in poor communities.

The Inter-American Development Bank has been the principal external backer of the Funds in the region. Its contributions represent about half of all the external financing that the Social Investment Funds

¹The information presented in this paper is in large part drawn from a study carried out by the Bank in partnership with the Swedish Agency for International Development (SIDA), the Canadian International Development Agency (CIDA), and the Kreditanstalt fur Wiederaufbau (KFW) of Germany. This study, Goodman et.al., Social Investment Funds in Latin America: Past Performance and Future Role, was published in March 1997 and serves as the background paper for this strategy document. Hereafter it will be cited as the background document.

²It is common practice to refer to the Bolivian FES as the first Social Investment Fund, as this was the first Fund that drew international recognition and support. However, the first Fund in the region was actually established in Costa Rica in 1977.

³The exception are Brazil and Mexico which, nevertheless, have institutions that are close substitutes to the funds.
have received. The IDB has financed Funds in 16 countries, largely through concessional loans, for a total of $1.3 billion (see Annex table A-1). All of these loans were made in the present decade (with the sole exception of the loan to the emergency Fund in Bolivia). It is also important to note that Bank support to the Social Investment Funds has gone far beyond the mere provision of financing. The IDB was a major force in building these institutions by providing technical assistance and expertise to assist in the creation of many of the Funds which received financing in the 1990s. The IDB’s efforts have played a central role in the development and dissemination of this model throughout the region.

The need for a Bank strategy document is justified on several counts. The Funds offer a potentially powerful instrument to aid in achieving the Bank’s Eighth Replenishment mandates of poverty reduction and modernization of the State. The moment is ripe for a reevaluation of the role of the Funds, as it has become evident within the region that their longevity far exceeds original expectations. The Funds have evolved over time and almost by default have become permanent instruments of government policy. If they are to remain in place for the longer term, a series of questions emerges as to their past effectiveness and future roles. As the major provider of financing to the Social Investment Funds, the Bank must have a response for these questions. Furthermore, the Bank is in an excellent position to analyze country experiences and distill the lessons that can be learned from the wide variety of examples in the region in order to pinpoint the relative strengths and weaknesses of the Funds. This strategy paper attempts to summarize the current thinking on these issues, as well as to point the way for IDB support of a new generation of Social Investment Funds.

Section II provides a summary overview of the Funds’ experience in the region. It answers the questions: “What is a Fund?” and “What do the Funds do?” It also reviews the limited information available regarding the Funds’ impact. This section draws heavily upon the background document previously cited. Section III addresses the questions raised by the move toward permanence of these instruments which originally had temporary mandates. The rest of the document examines the implications of continuing Bank support for subsequent generations of Funds. Section IV discusses the kinds of activities and funding criteria which would be most appropriate for future Funds. A series of operational issues which have received inadequate attention in the present generation of Funds and need to be better addressed in the future are raised in Section V. In Section VI, the role of the Funds within the larger polity is considered, focusing on organizational issues regarding their relationships with line ministries and local governments. The paper concludes with a series of specific recommendations for future Bank support of Social Investment Funds.

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4 World Bank operations account for roughly one-quarter of total financing.
Overview of Past Experience

What is it that distinguishes a Social Investment Fund from other programs that governments use to help the poor? While there are significant variations in form and function across the region, all the Funds are small, flexible, special units of the government organized to make social investments in poor communities. Primarily, the Funds do this by building social and economic infrastructure. Yet some Funds are increasing their activities in training and productive projects as well (see Annex table A-2). Typically, Fund investments are “demand-driven,” based upon a predefined menu of projects with well-established eligibility criteria whose actual application and specific investment mix is determined by the presentation of requests from eligible groups. In most countries, the Fund depends directly from the President’s office rather than a line ministry. Funds enjoy greater autonomy than other government agencies. Usually, the Fund is organized somewhat along the lines of a private enterprise, with a small, highly qualified and well-paid staff, and a private sector management style. Most Funds are exempt from government salary scales and contracting regulations, and they also have the authority to raise international contributions for their operations.

Social Investment Funds have pursued a myriad objectives, individually and as a group (see Annex table A-3). Overall, the evolution of these objectives has shown some common trends over time. The first generation of Funds aimed to cushion the impact of adjustment on the poor. This entailed an emphasis on promoting temporary employment through infrastructure construction. In the twelve Funds studied in the background document, specific employment generation objectives have been gradually replaced by an emphasis on longer-term poverty reduction and community participation (as a contributing factor to poverty reduction and as an end in itself). For the most part, the Funds have interpreted the phrase “social investment” to mean that they should help the poor by undertaking construction projects (in particular, schools, health posts, and water and sanitation systems), rather than through the direct transfer of money or goods to poor people. In most cases they have stayed out of project execution and operation. As a rule, they have not focused on enhancing the demand for health care and education nor on improving the quality of social services. They have concentrated on mobilizing funds, providing support to communities in the development of project proposals, appraising proposals (on the basis of predetermined criteria), monitoring the project cycle, and ensuring that projects are properly executed (largely through small private sector contractors). The operation and maintenance of the projects carried out by the Funds has been the responsibility of government line ministries and the communities themselves, with the limited yet growing involvement of NGOs.

As noted earlier, a defining characteristic of Fund operations is that they are demand-driven. That is, requests for projects generally originate from the people who will benefit from them. However, choice is usually limited to a predetermined menu of options, with clearly defined eligibility criteria such as standard unit costs, minimum utilization levels, and availability of other inputs to provide the final services. Furthermore, the bottom-up approach is often complemented by targeting mechanisms that assign expenditures on the basis of regional poverty

5 Exceptions to the general pattern include the Chilean FOSIS which undertakes innovative anti-poverty and community-building projects that complement existing government programs; the Guatemalan FONAPAZ which aims to foster the peace process by promoting rural development; and the Uruguayan PRIS/FAS which develops new social policies and promotes social reforms.
studies, and through outreach mechanisms that elicit demand from the very poor.

The Funds’ biggest success has been their ability to develop the capacity to deliver useful projects to underserved areas with high concentrations of poor residents. Often, they are the only government presence in many areas where they operate. In a comparatively short period of time, the Funds have created new targeting systems or adapted existing ones to locate the poor and have developed an administrative structure which permitted them to build schools, health posts and water systems with relative efficiency and effectiveness in thousands of poor communities in the region. They have typically outperformed the line ministries in achieving these goals. Moreover, through their closer contact with poor communities the Funds have opened new avenues for social action and have played a catalytic role in increasing public awareness of poverty issues.

Despite the shared perception throughout the region of the Funds’ achievements, it is still difficult, if not impossible, to document in a quantitative and comparable way, how the different Funds have performed, and measure their accomplishments. Individual Funds vary greatly in the completeness of the information collected and the goals of their monitoring and evaluation activities. As will be discussed below, developing standardized performance indicators and providing technical support for the development of monitoring and evaluation components which can aid the Funds in better demonstrating how they are achieving their ever more ambitious objectives is a critical area for future Bank support. At the present time, the information available on the Funds’ achievements is incomplete, noncomparable, and fragmented. Following is a brief review of what can be said concerning some of the most important topics.

**Employment Creation**

The original Social Investment Fund in Bolivia intended to reduce or alleviate poverty by creating income and employment for the poor. Indeed, income and employment generation is still stated specifically as one of the many objectives at least half the Funds in the region. This reflects the fact that the early Funds were created as a response to adverse adjustment shocks, and temporary employment was seen as a way of providing a safety net, e.g., a means of generating employment income to cushion the effect of adjustment on the poor. Experience has shown that despite their undoubtedly positive impact in poor communities, Funds have probably not significantly increased the income of beneficiaries (Goodman et al. 1997). One reason is because, as mentioned earlier, the Funds have not concentrated their efforts on employment generation, but rather upon the procurement of works and the completion of small-scale infrastructure projects. Furthermore, since in the case of some Funds the poor communities are required to contribute a substantial amount of free labor during construction, is further reduced the net income benefit of the project.

Another reason for the small impact of the Funds on employment and income for the poor is the nature of their projects. Most projects have been in social infrastructure where the jobs created are temporary (during project construction). Most of the good jobs for more skilled labor during construction were filled by contractors from outside the poor communities. Very little job training was provided to unskilled workers so that they were no better suited for higher paying jobs after the project than before. Despite some efforts, Funds have not had much success in developing directly productive projects that would provide long-term employment to the unskilled.6

**Social Infrastructure**

6 Comparable employment statistics are decidedly difficult to generate for the Funds. While all Funds compile some type of employment data, some do it only for certain sectors, others double-count beneficiaries, as many of the jobs created are short-term, and other Funds only have data for certain periods of time. This issue is discussed in more detail in the background document (Chapter Three).
Over time it has become clear that the Funds have helped the poor through the projects themselves. Funds have been seen more as instruments to improve the living conditions of the poor than as generators of income for them. They have built needed infrastructure rapidly and cheaply, thus improving access to education, health care and safe water in many impoverished areas. Perhaps even more importantly, the Funds have been perceived by the poor and other citizens as a good faith and effective effort to help impoverished communities, as well as an attempt to reverse the rampant inequity in both income and access to services in the countries of the region. These activities should be seen as meeting the objective of poverty reduction because they increase poor people’s access to basic necessities, even if they do not increase income.\(^7\)

**Targeting**

One of the undoubted achievements of the Funds is their use of improved mechanisms for targeting the poor. They have developed a system of national poverty maps based on unsatisfied basic needs and have used these maps to identify the poor and to set priorities in funding among regions and communities according to the number of poor people living in them. But since the final allocation of resource in most countries is based on project proposals, success in targeting depends on the ability and willingness of poor communities to prepare project applications. The poorest communities are often unable to do this. Thus Funds have found that while most of their projects go to the poor, they have been less successful in reaching the very poor.\(^8\) They are attempting to solve this problem by assigning more staff to project promotion and preparation in those poor communities which have not received Fund projects.

**Efficiency and Effectiveness**

The Funds are widely admired for their efficiency and effectiveness at channeling large amounts of funds to poor communities. Subproject execution usually takes less than six months, and cost overruns are low compared to other agencies. Administrative overhead is kept to a minimum, averaging between 6 percent and 15 percent of total costs. This figure is reasonable when compared to other financial institutions, and substantially better than most government agencies. The large backlog of projects that many of the Funds have, in some cases reaching into the thousands, results more from the success of the Funds in stimulating demand than it does from inefficient operating procedures. Once financing is committed, the lag to project disbursement is generally quite small. Cost-effectiveness criteria are used in the definition of the menu of subprojects, with maximum unit cost thresholds established for specific types of projects. Given the Funds’ movement away from simple infrastructure projects toward more complex service delivery or productive projects, the establishment of cost-effectiveness criteria ex ante has become more complex, yet even more essential in order to justify the inclusion of new areas in the activity menu.

**Ownership and Sustainability**

Since existing Funds build but do not operate projects, sustainability is a big issue in any attempt to evaluate their impact. The record was mixed for the twelve Funds surveyed in the background.

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\(^7\) Information is equally difficult to compile on the true impact of physical outputs. While Funds typically keep track of actual production (e.g. number of schools, health posts, latrines, etc. that are built...), their contribution to reducing the overall infrastructure deficit is not normally monitored. Nor is there complete and consistent information as to the actual use of social infrastructure which the Funds have constructed. Furthermore, difficulties in defining direct and indirect beneficiaries of specific projects, and double-counting of beneficiaries in communities where more than one project is undertaken, impede a precise understanding of the number of people who have actually benefitted from Fund projects.

\(^8\) For example Chile’s micro credit programs reach the “better off poor” and 57% of project beneficiaries in Uruguay have incomes above the poverty line.
In most cases, beneficiaries reported that projects were operating as planned. However, there were serious problems of maintenance, particularly in water and sewer projects. This type of project requires a financial contribution that poor communities were often unable or unwilling to make. Schools and health posts have a better record in this regard, partly because there are line ministries to assume responsibility for project operations. In most cases this sort of project cannot be approved without a specific guarantee by the relevant line ministry that it is willing to assume the responsibility for operating the school or health post. In order to improve the record on sustainability, it is important that communities and Fund partners be involved at an early stage of the discussions regarding the definition of the menu of eligible investments, to ensure that real needs are being met and that the community understands and accepts the financial commitment it must make to maintain the project.

Monitoring and Evaluation

The Funds’ record on monitoring and evaluation is inadequate, which is understandable as this is a weakness shared by the social sectors in general. While broadly reliable information is available on how much has been spent, and on what (often, the quality of input and output information available in the Funds is better than that of the line ministries), the quality of the information deteriorates rapidly as one attempts to measure the actual impact of the investments. All the Funds surveyed in the background document combine internal and external monitoring and evaluation with an emphasis on verification of works. The type of information collected has changed over time with the evolving objectives of the Funds themselves. With support from external donors, the Funds are undertaking more and more qualitative beneficiary assessments to evaluate the impact of individual subprojects at the local level. What seems to be lacking, however, are information systems for combining the quantitative data and better measures of impact.

Social Investment Funds need to improve their capabilities to measure the socioeconomic impact of their investments. Impact evaluation will be greatly facilitated by increased clarity regarding each Fund’s objectives. Also necessary will be the building of information systems with data on the socioeconomic profile of the beneficiaries of Fund investments and ideally, control groups, to track the evolution of living standards. Partnerships with related line ministries may be necessary in the design and maintenance of these information systems, in order to assess the impact of the Funds’ contribution relative to that of other actors. In future loans, the Bank should encourage earmarking funds to the Funds for the design and implementation of an impact evaluation scheme using modern techniques. As Funds take on a wider range of activities in their fight against poverty, they need to be able to better measure the relative cost-effectiveness of different investments, as well as to assess changes in their own administrative efficiency in delivering a broader array of services. Improvements in impact evaluation can provide the information needed to better justify continued investment in the Funds, based upon an accurate appraisal of their contribution, as one instrument among many, in each country’s fight against poverty.

Looking Forward

As a result of the apparent success of the Funds in channeling funds from international agencies to the poorer communities, and given the persistent problem of poverty in the region, there is now a trend toward transforming Funds from temporary into permanent units of government. Indeed, if anything there appears to be an upward trend in total IDB lending for these operations. A clear understanding of the role of Social Investment Funds in the fight against poverty and their comparative advantage relative to other instruments of government policy is a
precondition for their success and an important element in justifying their continued existence. Given the heterogeneity in economic and institutional development observed among countries in the region, there is no single recipe or unique set of objectives for the Social Investment Funds. The strength of the Funds as a policy instrument lies exactly in their ability to adapt and innovate in response to changing local circumstances.

Flexibility on the part of the Bank in supporting Funds with a wide range of objectives should not be misconstrued as a willingness to finance anything and everything the Funds propose with no strings attached. Issues for the future that will be addressed in the remainder of this document include an assessment of the different roles that Funds can play in the fight against poverty, ranging from serving as a social safety net through contributing to permanent reductions in poverty; an exploration of options for expanding the activity menu of the Funds, with a careful discussion of criteria to be used in adding new items; recommendations for improving the Funds’ operational performance, including maintenance of Fund projects, impact evaluation, targeting and financial sustainability; and suggestions for improved coordination with the line ministries and local governments. The paper concludes with some recommendations for specific actions that the Bank can take, in addition to the provision of continued financing, that will contribute to making the Funds more effective in combating poverty.
A Moving Target: Clarifying Objectives for a New Generation of Funds

Most of the Funds in the region were set up as an ad hoc response to the rise in poverty during the adjustments of the 1980s. Because those conditions were expected to be temporary, the Funds too were considered temporary. However, as long as there is a serious poverty problem in a country, there is a need for some unit in the government whose specific objective is poverty reduction and which does what the Fund does; namely, to design, promote, coordinate and efficiently carry out projects that benefit the poor. That is the rationale for converting temporary Funds into permanent units of government. Whether or not that is a particular country should be primarily a local decision. The Bank should not attempt to block the conversion. Where Funds are made permanent, their objectives should be clearly defined to reflect their comparative advantage in fighting poverty, be that continuing to improve the coverage of social infrastructure, serving as a social safety net during economic downturns, functioning as a laboratory for piloting innovative social programs, or more ambitious goals such as promoting community and municipal development. The guiding tenet for future Fund operations must be a clear vision of how the Funds, as one instrument among many, can contribute to the long-term reduction of poverty.

People and communities are poor because they lack the human, social and physical capital necessary to permit them to achieve a minimum standard of living. That is, they do not have the education, equipment and land necessary to earn an adequate income, and they do not have the social organizational skills necessary to acquire the education, sanitation, clean water and basic health services that are generally provided by government. If the Funds are going to become permanent, they should focus on supplying those needs, particularly in the poorest areas.

People may also be temporarily pushed into poverty by short-run changes in economic conditions due to war, natural disasters or economic shocks (including the short-run adverse effects of economic reforms). Society should maintain mechanisms (safety nets) to guarantee a minimum subsistence level to those affected by adverse shocks. This is an important form of poverty alleviation and was a core function of some of the Funds in the region, particularly the early ones. In responding to shocks, the main rationale for projects is the income and employment that they generate during construction. Because the early Funds proved to be good at executing rapid disbursing construction projects in poverty-stricken areas, subsequent generations of Funds are likely to be used in the same capacity in response to future shocks.

While it may continue to play a role in the overall portfolio of the Funds, the emergency employment approach to fund activities is fundamentally different from permanent poverty reduction. Permanent poverty reduction means helping the poor overcome the deficits in human, social and physical capital that make them poor in the first place.\textsuperscript{10} When a Fund attempts to contribute toward reducing poverty, the rationale for projects shifts from employment creation to long-run improvements in living conditions or employment that come from the

\textsuperscript{10} Safety net programs can be seen as contributing to long-term poverty reduction in a preventive sense: If inadequate response is given to adverse shocks with severe negative impacts on the poor, increased poverty could have longer term implications in terms of loss of assets and intergenerational effects.
operation of the projects themselves. In like manner, the evaluation of the Funds must focus on empirically sound measures of the impact of the projects themselves in addition to the information they already keep track of (input indicators such as the amounts of money or the months of employment during construction, and output indicators such as the amount of infrastructure completed).

Whatever the role (and no one Fund can do it all) that an individual country decides for the Fund at any given moment in time, there must be internal consistency. The Fund’s objectives need to be consistent with the country’s comprehensive poverty reduction efforts, take into account the comparative advantage of the Fund, and realistically reflect what the Fund can achieve. The Fund’s activity menu must derive clearly from the Fund’s stated objectives, and avoid duplication with the efforts of other agencies. Monitoring and evaluation efforts need to keep track of the Fund’s success in achieving its stated objectives, which must be measurable. Moreover, when a Fund is converted from temporary to permanent, there must be an increase in national financial support for it.
Rethinking the Activity Menu

The Project Menu and the Importance of Increased Flexibility

The composition of the activity menu of the Funds should reflect each Fund’s specific objective, and should not be decreed by the Bank ex ante. In the past the Funds have pursued the objective of poverty reduction by building things that augmented the physical and human capital of the poor. In the future they are likely to continue with the same sort of activities although the Bank will urge them to devote more resources to training and the strengthening of community organization and participation as called for in each circumstance. One cannot decide in advance and without reference to local conditions what sort of activities can most effectively help the poor. The fundamental approach to this question should be greater flexibility and a greater reliance on a careful analysis of the causes of poverty in the particular area of the country in question. It is likely that the bulk of Fund poverty reduction will continue to be through the construction of small-scale economic and social infrastructure projects because that is where they have a comparative advantage. This should not exclude the possibility of other functions for the Funds, including a return to safety net objectives when warranted, or as in the case of Chile’s FOSIS, given existing high levels of social services coverage, a focus on a completely different set of activities, in particular credit programs and training.

Increased flexibility in the addition of new items to the Fund’s menu of activities does not mean abandoning analytical rigor or the careful definition of eligibility criteria. The trade-offs involved in adding new activities must be considered. In general, the Funds must balance the cost of adding a new area to the activity menu with expected benefits, taking into account three factors: that expected social returns justify public investment in the area; that the Fund has a comparative advantage in the area and does not duplicate or undermine other government actions; and that the change to the activity menu does not lead to an unseemly increase in the administrative overhead of the Fund. Engaging in research and development for new activities, and utilizing pilot approaches to try out new lines of investment, can help to minimize the risks of expanding the menu. A significant increase in administrative overheads may well be an indication that the Fund has stepped outside of its area of comparative advantage. Whenever a new activity is added to the project menu, it should be based upon a rigorous ex ante economic and social analysis that will establish cost thresholds and measures of expected impact which can be used to evaluate the effectiveness of the new programs over time. And, as Funds add on new activities, they must also consider abandoning others which are no longer relevant or necessary. The Funds need to maintain their focus as an effective and efficient instrument for combating poverty, which will be defined specifically for each country and at each economic and historical juncture. Funds should not try to do it all.

Social Infrastructure

As we have seen, many Funds have concentrated on building small-scale social infrastructure. In general, this happened because it was badly needed in poor communities and also because it was relatively easy to supply rapidly and efficiently. As long as there are poor communities that lack adequate social infrastructure and as long as the line ministries or the municipalities are not able to provide that infrastructure, (or choose to delegate this function to the Funds), it makes sense for the Funds to continue to build schools, health posts and water projects. But in these cases, it is essential for them to develop mechanisms and incentives to coordinate with the
relevant units of government, especially in order to achieve better targeting in the delivery of nonconstruction related inputs.

The main reason is overall consistency or coordination. Ministries have to worry about delivering services in the most efficient way possible. That means balancing capital and current expenditures among other things. However, Funds often only worry about building, that is the capital spending part of the problem. They don’t have to think about whether the funds they spend upgrading a primary school might have been better spent on school books or teacher salaries. Nor do they have to think about a strategy for the optimal placement of all the schools in a region or a country. They don’t compare the net benefits of putting a school in a community which asks for a school with another which doesn’t, perhaps because that other community did not have the right promoter. Ministries, at least in theory, must deal with the entire problem of service delivery. Funds do not usually have such a comprehensive mandate.

Funds should not consider requests for schools or health posts in isolation. Rather the evaluators need to investigate whether the problems in the local school or health post will best be solved by new or reconditioned buildings or by some other input. Where the latter is the case, the Fund should not go forward with construction. Rather, Fund staff should be able to work with the community to improve education or health service delivery. That does not mean duplicating the expertise of the line ministries or operating education and health programs, but rather helping the communities to define and isolate their problems, and then supporting them in the process of applying for assistance to the appropriate government agency that can do something to improve service delivery. Funds can act as a catalyst to encourage the agencies responsible for the delivery of social services to better reach poor communities. In so doing, they can help poor communities gain greater “voice” in the decision-making process regarding the allocation of social expenditures.\footnote{See, Supporting Reform in the Delivery of Social Services: A Strategy, IDB, 1996.}

**Safety Nets**

Although the Funds are not, nor should they be, the sole source of social protection for the poor in times of economic downturn, they can be one of the instruments by which society can provide additional income to the poor in response to adverse shocks. As in the past, project construction or special training programs are likely to be the main instruments their use in responding to such shocks. Given their ability to rapidly channel resources to targeted areas with relatively little bureaucratic bottlenecks, the Funds can play a key role in providing emergency injections of financing in response to economic crises. The innovative approaches of Funds like Guatemala’s FONAPAZ in the provision of demand subsidies for the use of social services points possibilities for experimenting with other forms of direct assistance to the poor which are of particular relevance for the safety net function.

Some caveats are in order when considering how Funds can become involved in emergency relief efforts and perform safety net functions. First, building infrastructure does not provide immediate results regarding income maintenance; continued emphasis on physical construction, minimizes their safety net role. Secondly, most Funds, as presently constituted, are not set up to provide income or food transfers. As is the case in productive projects discussed below, adding more explicit safety net functions to the activity menus of the Social Investment Funds will require a careful assessment of staffing and other institutional implications. Finally, there is wide margin for deciding what qualifies as an emergency situation. If the Funds are to take on a broader range of safety net functions in response to economic downturns, transparent criteria need to be established \textit{ex ante} with thresholds or trigger points...
for the incorporation of new items specified in the activity menu of the Funds. It should also be emphasized that the Funds cannot become substitutes for comprehensive social safety nets which are part of mainstream government structures. Instead, the Funds can help to strengthen and complement the regular safety net, serving as an additional vehicle to channel resources to the poor during economic downturns and helping to identify areas that require the reform of existing social protection programs.

**Productive Projects**

An important question regarding the make-up of an appropriate project menu concerns productive projects. All Funds sense the need to increase the income earning capacity of the poor. They realize that while building schools, health posts and water systems will improve living conditions, it will not raise the earned income of the poor, except indirectly. They have, therefore, experimented with various productive projects, from microenterprise credit to the provision of breeding stock to rural communities. With the exception of FONAPAZ in Guatemala and FOSIS in Chile (two Funds not supported by the IDB), these projects have comprised a very small component of Fund activities, less than ten percent in most cases (see Annex table A-2).

No clear pattern of either success or failure in productive projects emerged from our review of Fund operations. It is clear that areas with big pockets of structural poverty need more than schools and health posts, important as those are. In such cases, the Funds should be looking for ways to help poor communities develop productive projects. But this need not mean financing such projects directly or exclusively with Fund money. Funds have demonstrated that they are good at reaching small poor communities and helping them acquire a voice in the decisions that affect them. They have also learned how to build social infrastructure. That does not mean that they will be equally good at building irrigation systems or managing land reclamation projects. Rather, the Fund may be more effective by helping the community locate and tap other sources of both financing and expertise. Financing productive investments is a far more complex task than building schools and we should understand that failure rates in such efforts are likely to be higher than they are for schools. The complexity of the task however, is more than compensated for by its return in terms of providing income-generation potential for poor households. If the Funds are really going to help the poor escape from poverty, they should be encouraged to help poor communities develop productive projects or activities. If other sources of support for these activities exist, the Funds do not have to take them on directly, but rather can serve as a vehicle for channeling community demands to the appropriate entities.

A feature of productive projects which makes them fundamentally different from schools and health posts is that they directly generate income for their recipients. Indeed, it is for this reason that the Funds become interested in these projects as they take on broader poverty reduction objectives. Appraising and financing these private sector projects has usually been most efficiently done by investors, operators and lenders, rather than the government or a social investment fund. Because private sector intermediaries have their own money at stake, and because they will earn the profits from a correct calculation of opportunities and costs, they are best able to accurately forecast the benefits and risks of the operation. Funds should not back productive projects unless they can demonstrate either that the implicit Fund subsidy is socially justified by the poverty of the recipient or that some sort of market failure exists. Market failure could result from externalities or from an overestimate of the risks of nonpayment by poor borrowers.

If the Funds are going to back productive projects, their evaluations and procedures should mimic the market to the greatest extent possible. That is, the beneficiaries of Fund projects should be made to assume the risk of the project, and the Fund should calculate project costs and rates of return very carefully, making an allowance for risk. Beneficiary assumption of project risk usually mean making them
It should be noted that increased funding of productive projects, if done directly by the Funds, will have clear implications regarding their staffing and administrative overhead, as well as the timeframe in which projects are normally disbursed. An alternative approach would be to have the Funds provide technical assistance for individuals and community groups in the preparation of project proposals, and help them identify alternative, existing sources of financing. If the Fund does choose to engage in the direct financing of productive projects, losses in administrative efficiency are only justifiable if it is demonstrated that the Fund is the institution best-suited for this type of activity, and that financing of such projects is a government priority to reduce poverty.

**Beneficiary Participation and Community Development**

A stated objective of almost all funds is beneficiary participation in project identification and maintenance. The expectations about participation leading to an enhanced sense of ownership have not always been realized. In great measure, this situation arises because, in the interest of speed of approval and disbursement, in some countries, project procedures, have in some countries excluded beneficiary communities from decision-making processes related to project evaluation, execution, supervision and maintenance.

There is now good reason to believe that beneficiary participation in all stages of project cycle decision-making is an important factor in the successful execution and sustainability of small-scale development projects. When beneficiaries make commitments as part of project identification and participate in decision-making, projects are more likely to match their needs and what they are willing to maintain. Strengthening beneficiary participation in Fund-financed projects, however, demands the overhaul of project cycle procedures to make them better attuned to the needs of project beneficiaries rather than to other stakeholders (such as Fund employees or project contractors).

The increasing interest of some of the more recent generation of Funds in promoting community or local development goes much further than this. A local or community, development framework focuses on financing small-scale projects in poor communities as a means to an end, and not as an end in itself. The objective is building the capacity of local development actors, especially municipal authorities and civil society organizations, to collaborate in the selection of priority investment projects, deciding how they will be carried out and managing the implementation process. This perspective, therefore, goes beyond the financing of isolated poverty projects and focuses on the strengthening of existing local organizations and their networks of horizontal linkages.

Building the capacity of local actors is founded on a strategy of "learning by doing." This is an innovative strategy for the majority of the Funds, since it entails the provision of training and technical support for community-based organizations and municipal authorities on how to work together in identifying priority projects and vulnerable populations. It also supposes that the Fund will delegate project execution responsibilities (bidding, contracting and supervision) to local actors, especially municipal authorities. Furthermore, it also means supporting the development of a preventive maintenance culture through nationally-funded schemes that decentralize maintenance management responsibilities to local communities and municipal authorities.

When called for by local circumstances, Funds should devote more resources to community development and the Bank should encourage them to do so. The Funds can move beyond being simply a source of funding for small projects to become a unit which works with communities to help strengthen...
their organizations, and which assists the poor in finding financing and technical assistance to carry out projects of their own choosing.\textsuperscript{12} There is great scope for partnership with NGOs and other civil society groups in this area, which could be subcontracted by the Funds to do the actual community organizing work. In working with communities and local governments, Funds must follow an approach which is consistent with the country’s and the Bank’s municipal development strategy, particularly with respect to the need to build fiscal solvency at the local government level.

\textbf{Training}

Most of the Bank-supported Funds have, to some degree, financed complementary training activities ranging from maintenance, to basic health and nutrition, to general productive/vocational training as part of credit operations. More recently, training has also begun to emerge as a key element of the local capacity building components of many Fund operations, particularly in light of the growing trend towards greater decentralization in Fund activities. Municipal and community organizations increasingly face greater responsibility in the design, preparation and execution phases of Fund projects.

As the Funds broaden their mandates in favor of long-term human capital development, coupled with the promotion of real income-generating activities, training will continue to command strategic importance. Therefore, Fund project menus could be diversified to include not only more, but also a wider range of training opportunities. Communities should be encouraged to develop proposals in these areas through the use of promotional campaigns, and in some cases, earmarked resources. Such subprojects might be expected to take more time and staff to implement or supervise. Also, to avoid moving beyond the Fund’s comparative advantage, careful piloting and a watchful eye on rising overhead are indispensable.

Finally, as in any other Fund-supported activity, efforts should be made to avoid duplicating training services or actions being carried out by other units of government. Therefore, where possible, the merits of subcontracting specialized training services, either from private sector providers, NGOs, or other Funds should be determined and compared with the development of in-house capacity.

\textsuperscript{12}The experience of the Chile’s FOSIS is a potential best practice case in this area.
Operational Issues

Evaluation and Benchmarks

Although Funds have developed sophisticated computer systems for project management and administration, there has been inadequate collection of the type of data necessary for evaluating the socioeconomic impact of Fund projects. Even in countries with more mature Funds, methodologies used for data collection do not provide the type of information needed for rigorous ex post impact evaluations. The Funds should not be overly criticized for this, line ministries which have been established for years are still struggling to build systems to evaluate the impact of social policies. The failure to develop better indicators of impact is thus due to the inherent difficulty of such a task, and is compounded by the speed with which some of the original funds were implemented during periods of economic adjustment. However, now that the Funds are here to stay, they must strive to measure the impact of public investments and thereby justify continued financing.

Lack of clarity on objectives impedes the successful evaluation of final impact. Some Funds make no attempt to measure impact beyond direct employment creation and rely on ex post beneficiary questionnaires. These are a valuable source of information on whether projects are operating, and whether selection and construction met the beneficiaries needs. But they are not a completely satisfactory measure of impact because they do not quantify the difference that the project made in the living conditions or income of the beneficiaries.

Before one attempts to construct measures of impact, it is important to define just what is meant by the term. What one might call the direct impact of a Fund project, for example, is the change in the availability or quality of economic or social infrastructure that results from the project. The final impact, or long-run development objective, is the change in the human capital or poverty that results from the operation of the project. For example, in school construction projects the direct impact is the increased availability of adequate classrooms, while the final impact is the increased education level of the target population. Obviously, the ultimate goal of building schools or health posts, is to improve education or health, and that is measured by the final impact. But final impact is a function of many things other than the inputs of the Fund, and the Funds should not be held solely accountable for achieving the long-run objective. For example, improving education indicators probably depends more on the quality of teaching which is not under the control of the Fund than on the quality of the buildings. In like manner, changes in poverty or employment in the community are also a function of exogenous forces which may well swamp the direct effect of the Fund project itself.

In view of the problems of attributing directly to the Fund any measure of final impact, we propose starting with the direct measures. That is, we need to know what difference Fund projects have made in the availability and delivery of basic economic or social services, and whether each subproject in the menu has achieved its specific objective. In other words, Funds must be able to produce measurable indicators to demonstrate the effects of their own investments. In the specific case of infrastructure, Funds should require data on the quality or availability in the area of the type of infrastructure being requested, as well as indicators regarding its usage. When future ex post evaluators select a sample of projects for study,

13Nevertheless, the Fund does determine whether or not there is a true need for a new school; namely, that limited coverage is a result of undersupply of educational infrastructure rather than lack of demand for the existing services.
they will be able to measure quite precisely the improvement in basic infrastructure produced by the Fund if these types of indicators are in project documents. Not only will that sort of information be useful for evaluating the Funds, it will also provide a nonincome measure of Fund impact on the lives of the poor. In order for the Funds to assess their contribution to long-run development objectives such as improvements in human capital or poverty reduction, they must build partnerships with the appropriate line ministries, and work together to design more comprehensive evaluation systems. They cannot do this on their own, nor should they be expected to do so.

**Targeting the Poor**

As discussed earlier, all the Funds have been relatively successful in targeting and reaching the poor. Most of the funds use some variant of a system of local deficiencies of basic social services (NBIs) to devise a poverty map to identify poor districts. The NBI indices by district are then weighted by population to set indicative or desired resource allocation at a very disaggregated level. But since the final distribution of money depends on the presentation of acceptable projects, the wealthier and better prepared localities have a comparative advantage in the competition for funds. All Funds have struggled with the problem of achieving two somewhat inconsistent goals: reaching the very poor and having a quality-based system for project approval where the projects are demand-driven. One could resolve this conflict by preassigning funds across geographic areas according to the number of poor people living in them. Several Funds do that now. This approach works bests if it preserves some kind of competition to ensure project quality, either through allocating funds across groups of poor communities that have to compete with each other or by having civil society organizations present competing proposals to prepare projects with targeted communities.

There are several alternative methods for attempting to increase the fraction of Fund money going to the poorest communities. One method pursued by many funds is to expand the staff assigned, or subcontract with NGOs or others, in order to help the poorest communities develop quality projects. This may push up administrative costs but, within limits, should be done anyway. Funds will have to balance the benefits of reaching the very poor against the extra cost of doing so. It is through more precise targeting that the Funds find a strong justification for their continued existence. Another possible solution is to preassign funds to geographic areas with high poverty incidence. This is the rationale for limiting Fund projects to rural areas or to certain regions of the country. Such a solution retains some competition, but only among areas with high levels of poverty. Yet another alternative, dependent upon the availability of information systems, is to rank all project applications according to the average of a number of different indicators, one of which could be the incidence of poverty. Projects from poor areas would thus be given an advantage in the competition for funds, but project quality would also carry some weight.

When we judge Funds on their success in targeting, it is important to understand that the goals of reaching the poor and targeting the poorest communities may conflict simply because so many of the poor live in urban centers. If one accepts the goal of targeting the poorest people rather than the poorest districts, the way to judge success or failure is not to see what proportion of total Fund expenditure goes to the districts with the highest incidence of poverty. Rather, one should compare the share of project funds going to each district with its share of the poor. That is not what is generally done now. Both the IDB and the World Bank judge the success of targeting by the fraction of loans going to the provinces with the highest incidence of poverty. Very few Funds come out well according to that criterion. Partly, that is because the choice of projects is demand-driven and the poorest communities are unable to present a sufficient number of viable projects. But the other reason is that the Funds are targeting the poor, even those who live in relatively prosperous urban areas. Their programmed level of
expenditures is based on the fraction of the country’s poor in each district rather than the incidence of poverty in the district. This is a reasonable goal and no Fund should be penalized for pursuing it. Moreover, Funds seem to perform much better if the criterion used is the share of project funds vis-a-vis the districts’ share of the poor.

On the other hand, there are several good arguments why Funds may wish to spend more per poor person in the poorest districts (as measured by the poverty gap). Most of these districts are in rural areas. First, these districts have typically been underserved by government. For the Fund to spend relatively more there may simply offset a bias in the opposite direction in other government social and poverty programs. Secondly, where there is evidence that economic growth will exacerbate regional inequalities, government may wish to use the Fund to offset this tendency. Thirdly, costs of infrastructure and service delivery may actually be higher in more remote areas given the absence of complementary infrastructure and markets.

**Gender**

While both women and men from low-income communities have been direct beneficiaries of Fund projects, women constitute a disproportionately high share of the poor in many Latin American countries. Furthermore, transfers to female heads of household have been shown to yield greater improvements in overall household welfare, relative to transfers made to male household heads. Thus, the targeting mechanisms of the funds need to give greater preference to women as beneficiaries. That is, the employment generated should not be biased against women's participation, and women should be remunerated more equitably and receive a greater proportion of the benefits provided by the projects. Moreover, project effectiveness and sustainability would be significantly enhanced by more fully utilizing the potential that women and women’s groups offer in the execution of both social infrastructure and directly productive projects.

Women have proven to be responsible administrators of income earnings and good partners in organizing and managing small business ventures. To the degree that the funds increase their support of directly productive ventures, women's participation in fund projects will tend to increase. In addition more data differentiated by gender should be systematically included in the information systems of Funds. Analysis of the share of benefits accruing to women should also be included in the information system as well as in all evaluation reports. It is important that the Funds ensure that the process of project selection and formulation reflect the distinct needs and preferences of women. Criteria for evaluating community participation should include an analysis of the participation of women in the decision-making process at the local level.

**Indigenous Groups**

Indigenous groups pose a particularly difficult problem for poverty reduction. Their access to social infrastructure and services is low and their ability to increase their access through regular political channels is limited. By making a special effort to improve targeting to indigenous communities the Funds should be an important instrument for improving this situation. They should also put mechanisms in place to assure that the communities themselves play a central and active role in project choice and execution.

**Sustainability**

Given the very large number of projects completed by Funds in the last few years, there is increasing concern over project sustainability. Funds are not directly responsible for the operations of the projects they build. Nevertheless, if a high percentage of their projects are not maintained and do not remain operational after completion, the Funds are not as effective as they could be in improving the living conditions of the poor.

The evidence on sustainability from the available beneficiary evaluations is mixed. Schools and health
posts have the best records. Problems have occurred with greater frequency in water and sewer systems. That is partly due to the greater technical complexity of such systems relative to small buildings. But the difficulties are also partly due to the greater financial contributions required from poor communities for the operation and maintenance of water and sewer systems. It is particularly important that communities preferences be adequately reflected when this sort of project is chosen and that communities be made fully aware of the financial commitment they must undertake if the projects are to be sustainable. Sustainability could also be enhanced if Fund staff were to continue to work with the community after project completion to help train local personnel, and to set up financing schemes and maintenance schedules.

**Increasing National Financing**

At present, as is the case with all social investments, most countries rely strongly on foreign financing for Fund operations. With few exceptions, governments have financed less than 20 percent of Fund operations (see Annex table A-1). If Funds are to become permanent institutions, their survival will hinge on ensuring a steady stream of financial resources more of which should come from national sources. External financing cannot continue to determine the survival of the Social Investment Funds.

The Funds represent a commitment to channel more resources to the poor. In the long run, a greater share of the cost of that commitment has to be carried by local taxpayers. Clearly, substantial backing from the international community will continue to be needed, particularly in the poorest countries. However both the sustainability of the Funds themselves as well as the confidence and willingness of the donor community to do its part would be significantly enhanced by increased local support for the Funds.

In cases where the financial capacity of the countries necessitates continued heavy reliance on external financing, graduation clauses should be considered. Continued financing could be linked to indicators of increased local financing and the demonstrated commitment of governments to develop and implement a coherent and sustainable poverty reduction strategy which establishes a clearly defined role for the Funds.
Organizational Issues

Because the Funds were set up as temporary units, their long-run position in the government has not been clearly defined. If they become a permanent part of government efforts to address poverty there are a number of issues that need to be resolved with respect to the line ministries and local governments. While line ministries are dependent upon the normal government budgetary process for financing, and must adhere to established procedures, the Funds are more independent. Program financing is often fairly independent of the budget process due to generous donor contributions to the Funds. In fact, reliance on foreign donations often make Fund managers more dependent upon donor requirements than national development efforts. Additionally, special exemptions often create higher than normal salary levels to attract better technical staff than are usually employed in the ministries. This can engender resentment on the part of the line bureaucrats, and feelings of superiority on the part of Fund staff. Moreover, dispensations from certain national laws, such as procurement laws, have enabled the Funds to act more swiftly and project a "can do" image as against the normal bureaucracy.

These "special" conditions under which the Funds operate sometimes make it difficult to transfer lessons learned and replicate efficient project in other ministries. These difficulties must be overcome, because almost all of the Funds have technical cooperation components to help in institutional development and technology transfer to the ministries that have the responsibility to provide the services to many of the projects built by the Funds. In the long-run, strengthening the line ministries is the correct strategy, since the object of development is to create organizations that work effectively through normal legal and institutional arrangements.

Funds have generally evolved within the context of the modernization of the state that is taking place in the region. During the 1990s there has been considerable political pressure within the countries themselves, and from the international financial community to modernize government, i.e. reduce the role of the central government to one of primarily policy and norm setting, while devolving responsibilities for service delivery and infrastructure construction to regional, local, or even private entities.

Within this context, the Funds are beginning to play an important intermediary role between national and subnational entities. As central governments transfer both responsibilities and a greater percentage of national income to subnational governments, the Social Funds can assist in implementing national development policies through co-financing local projects that are of high priority in national development plans (although it is essential that they do not undermine attempts to build fiscal solvency at the local level). At the other end of the governmental spectrum, the Funds help to strengthen the institutional capacity of municipalities to carry out their new functions, either through direct technical assistance in designing, implementing and maintaining projects, or by giving financing support to other organizations, such as NGOs, to strengthen capacity at the local level. Thus, instead of allowing governments to forego needed reforms, one emerging function for the new generation of Funds can be to serve as a catalyst and support for the ongoing process of modernization of the state.
What Can the Bank Do?

The IDB has been the single biggest source of financing and technical assistance for the Funds. Aside from providing additional resources in the future, there are a number of other complementary actions that the Bank can take which will make the Funds more effective in combating poverty and playing a catalytic role in the regional processes of modernization of the state.

**Increased Flexibility**

External donors have imposed too rigid a set of guidelines on both the type of activities and on the share of different activities they will permit in the Funds they support. Donors should let Funds adapt the composition of their project menu to local needs and conditions. Fund managers and communities are in a better position than foreign experts to know what is needed. They should also be encouraged to experiment with new activities such as community development and pilot projects in productive activities. To the extent that the project menu is expanded to include more complex activities, adjustments should be expected in the institutional structure, staffing needs, and low administrative overhead that has previously characterized the Funds. These trade-offs must be carefully weighed, and each change to the activity menu assessed within an overall vision of the Fund’s role as one instrument within a comprehensive poverty reduction strategy. Careful research and development efforts and pilot approaches can help to minimize risk in the expansion of Fund activities, and significant increases in administrative overhead should serve as a warning light that the Fund is stepping outside of its area of comparative advantage.

Funds have learned how to be efficient builders of small projects desired by poor communities. If they are going to increase their emphasis on economic and productive infrastructure, the low size ceilings required by the Bank may need adjusting. International lenders have imposed ceilings on the size of Fund projects, usually due to rules regarding direct contracting. Most Fund projects are small, averaging less than $50,000. That ostensibly is intended to spread a relatively small amount of money around to more poor districts. Building feeder roads and irrigation systems is a lot more costly than building health posts, latrines or classrooms. To impose the same ceilings on economic and productive infrastructure that is reasonable for social infrastructure may make projects uneconomic or make their impact on poverty so small as to be unnoticeable. From this perspective it may be better to concentrate resources on fewer projects which lift a significant number of people out of poverty rather than making a tiny increment in the welfare of the poor in all regions of the country. Here again, the Bank should permit local Fund managers more autonomy in deciding what the appropriate size of projects should be, understanding that contracting rules may change for larger projects.

While we urge more flexibility in determining the range and composition of the project menu, we would expect that the basic activity of the Funds in many countries would continue to be the construction of small scale infrastructure. In fact, in some Central American countries this function has been officially delegated from the line ministries to the Funds. We suggest the following guidelines for inclusion of new project lines in Bank-supported Fund operation: First, any new activity should be supported by a rigorous ex ante analysis which will establish cost effectiveness criteria, cost thresholds, and define measures of expected economic and social return which can be used in later evaluations. Second, Funds should restrict themselves to project construction rather than project operation. If the Funds are to finance “soft” activities such as training or technical assistance, they should be encouraged to contract out the execution of these activities and install the appropriate supervision mechanisms to ensure that they are properly executed. Third, the Bank should encourage the Funds to start new activities on a pilot or small scale basis until their effectiveness and feasibility have been established.
An assessment of the consequences for administrative overhead should be made before going to scale. Fourth, new activities should reflect a strong demand from poor communities that is not being met by existing government institutions.

**Setting Up and Using an Impact Evaluation System**

The Bank should be actively involved in helping the Funds develop a system of impact measures of the sort described above. At the outset, we should concentrate on measures of the direct impact of different sorts of Fund projects outcomes which are attributable primarily to Fund investments, as opposed to measures of final impact which are also dependent upon the actions of other institutions. These indicators should be straightforward, easy to apply and economical in requests for information that cannot be collected in project documents. An ideal evaluation system for the Funds would require earmarked funds at the beginning of an investment cycle to design the appropriate methodology and collect sufficient information ex ante, including information on control groups. Additional efforts, separate from the specific investment loan supporting the Fund, can focus on building partnerships between the Funds and the related line ministries in order to establish more comprehensive evaluation systems which can monitor progress made in achieving broader goals of human capital development and poverty reduction. These are complex, information-intensive systems, of use and importance to many government agencies, not only the Funds.

No impact evaluation system will be effective unless the Bank insists on using it as an input in the preparation of future Fund operations. This could be an important inducement toward improving the sustainability and impact of Fund projects.

In attempting to evaluate past Fund operations, it should be constantly borne in mind that building schools and health posts or running training programs is not the purpose of the Funds. The objective of the Funds is to serve as an instrument that contributes to the reduction of poverty, not to build projects for the sake of building. There has been a tendency in the Bank and in the Funds themselves to measure success by the level of disbursements or the number of projects financed. This is a mistake, because it diverts attention away from thinking about the impact of projects themselves. It also biases project selection toward project lines that are uncomplicated and easy to build, even if other project lines may be more likely to contribute to poverty reduction. The Bank can help the Funds shift their focus away from disbursement and toward projects or programs with the biggest effect on poverty by developing and disseminating expertise in evaluation methodologies and by paying more attention to the impact measures that we help the Funds to develop.

**Conditionality**

In thinking about the Funds and poverty alleviation, one should realize that the money that even the largest Funds have is a tiny fraction of what would be needed to make a real dent in poverty. In most cases yearly spending by the Funds works out to less than $10 per year per poor person, and a share of that goes for administrative expenses. In addition, funds are only one among many programs and policies by which governments can attempt to help the poor. Ideally, Fund activities would be part of a broad coordinated plan for poverty reduction rather than an isolated response to the poverty problem. In view of this, where such a plan does not exist already, the Bank should support and promote its preparation. The plan should contain an analysis of the poverty problem in the country and a clear statement of how the Fund and other government programs fit together into a complementary set of activities whose objective is poverty reduction.

Among the types of conditionalities which are appropriate to consider for the Funds are those which bear upon actions within the Funds’ immediate areas.
of influence. Examples include measures, as called for in each circumstance, which would serve to improve the rate of return of Fund investments, such as the incorporation of adequate mechanisms for monitoring and evaluation, particularly impact evaluation; more binding guarantees for sustainability and recurrent costs issues, and measures to increase the transparency and accountability of the Funds.

Transparency and Accountability

Funds were created as a response to political decisions to alleviate poverty. When successful, Fund programs inevitably benefit the regime in power and there is a natural desire on the part of the government to use the Fund to further its political objectives. There is nothing wrong with this so long as project selection is transparent and projects benefit poor people. To assure that the Funds are operated in a transparent and consistent way, it is important that they have a Board of Directors representing all relevant stakeholders. They need also to ensure that decision-making from the community level up through the Board itself is done in an open and transparent fashion with ample opportunity for participation. Technical criteria for the targeting of Fund resources can also ensure not only transparency, but equity, in the allocation of funds.

It is also important that technical staff not be treated as political appointees, to be changed with each new government, that technically sound methodologies are used to define targeting and eligibility criteria, and that information on these criteria is made available in a timely fashion to all potential stakeholders. Reliable information on Fund performance, provided by enhanced monitoring and evaluation systems and properly disseminated to local stakeholders, can also serve to enhance the transparency and accountability of the Funds.

Coordination

By the nature of their mandate and the circumstances of their creation, the Funds exist outside the ordinary ministerial organization of the government. At the same time, since they have been mainly financed by international donors and freed from the usual rules governing procurement and salaries, they run the danger of being regarded and treated as totally independent units, incompletely integrated into government operations in the social sectors. But since the Funds primarily build things that will be operated by others, it is critical that their operations be closely coordinated with line ministries and/or local government authorities. Otherwise projects are likely to be underutilized or not maintained. International donors are in an excellent position to insist on procedures and measures to assure effective coordination. They should make these a precondition in all their operations.

Mainstreaming Social Investment Fund Practices

As a general rule, the Funds should serve to promote rather than replace needed reform efforts. In addition to promoting better coordination between the Funds and the rest of the government, the Bank can also encourage the rest of the government to act more like the Funds. Such a transformation of regular government agencies would be consistent with the modernization of the state agenda laid out in the Eighth Replenishment, and the Bank’s Strategy for Supporting Reform in the Delivery of Social Services. Social Investment Funds need not exercise a monopoly for reaching the poorest communities, or for responding to community demands. Fund support for community development can result in an increased voice of poor and marginalized groups in decision-making processes regarding the allocation of public resources that goes way beyond the Fund’s immediate area of influence.

In addition, regular line ministries can learn from the Funds how to build partnerships at the local level, and provide incentives for increased participation by the community groups and local governments. Bank projects can contribute by providing flexible funding mechanisms to line ministries, conditioned upon the enactment of needed reforms, and based upon the establishment of appropriate incentives for reaching the poor and responding to local necessities. Institutional development components can learn to
streamline bureaucratic procedures in order to disburse funds efficiently and effectively from the experience of the Funds. As with the experience of the Funds themselves, the inherent contradiction between demand-driven mechanisms and reaching the poorest of the poor must be resolved. Does this imply an eventual graduation from the need for the Funds? Perhaps in the long run, but for the foreseeable future the Funds have many important roles yet to play, not least among them that of guiding the way for ongoing processes of modernization of the state.

Co_SINGLETONoordination with other Donors

The Bank could greatly simplify the review and project preparation process for the Funds by more closely coordinating its evaluation and project preparation procedures with other donors, particularly the World Bank. Reviews of Fund operations financed jointly should be done jointly using common methodologies and procedures. Too often, Funds are faced with large numbers of different external evaluation teams each coming at different times with different demands and conditions. All this takes scarce time and staff resources that could be better used delivering projects to poor communities. Similarly, where the IDB and the World Bank are jointly financing a Fund operation, they should attempt, to the greatest extent possible to use common methodologies and procedures in preparing the project proposal.

Dissemination of Knowledge

By now, thanks to over ten years of experience, a vast body of best practice knowledge of Fund operations has been created in the region. It is embedded in the operating experiences of the technical staff of the Funds and their supervisors. Since most of this knowledge cannot be found in books, Funds can learn a lot from each other. Probably the most effective way of transmitting or disseminating best practices across the region is through staff exchanges between Funds as well as workshops and targeted technical assistance. An association of the Funds in the region, the Red Social, has been formed to help organize and support exactly these sorts of exchanges. The Bank has a regional technical cooperation in the pipeline which will help finance the activities of the Red Social. Other vehicles available to the Bank for future research on the Funds and dissemination of findings include the use of CT-Intras to finance staff visits to the Funds, INDES, the IDB Poverty Reduction Network, initiatives on poverty and inequality with the World Bank and MECOVI, and participation in research institutions and academic for. As the largest single funder of Social Investment Funds in the region, the Bank is in a unique position to serve as an intellectual clearinghouse for the transmission of best practices and the diffusion of knowledge.
### TABLE A-1

**SOURCES OF FINANCING FOR SOCIAL INVESTMENT FUNDS***

(Thousands US$)

<table>
<thead>
<tr>
<th>Country</th>
<th>Source</th>
<th>IDB</th>
<th>World Bank</th>
<th>Other External</th>
<th>Local</th>
<th>Total</th>
<th>Share of External</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOLIVIA</td>
<td>FSE (1986-1991)</td>
<td>38.7</td>
<td>38.9</td>
<td>92.3</td>
<td>25.4</td>
<td>195.3</td>
<td>87%</td>
</tr>
<tr>
<td></td>
<td>FIS (1991-95)</td>
<td>60.0</td>
<td>70.6</td>
<td>66.6</td>
<td>22.3</td>
<td>219.5</td>
<td>90%</td>
</tr>
<tr>
<td>CHILE**</td>
<td>FOSIS (1991-1995)</td>
<td>16.0</td>
<td>50.0</td>
<td>250.0</td>
<td>316.0</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>COLOMBIA</td>
<td>RED SOLIDARIDAD (1995-1996)</td>
<td>250.0</td>
<td>1005.0</td>
<td>1255.0</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOMINICAN REP</td>
<td>PROCOMUNIDAD (1995-1996)</td>
<td>30.0</td>
<td>11.0</td>
<td>3.3</td>
<td>44.3</td>
<td>93%</td>
<td></td>
</tr>
<tr>
<td>ECUADOR</td>
<td>FISE (1991-1995)</td>
<td>30.0</td>
<td>30.0</td>
<td>43.8</td>
<td>5.3</td>
<td>109.1</td>
<td>95%</td>
</tr>
<tr>
<td>EL SALVADOR</td>
<td>FIS (1990-1995)</td>
<td>153.7</td>
<td>38.9</td>
<td>20.0</td>
<td>212.6</td>
<td>91%</td>
<td></td>
</tr>
<tr>
<td>GUATEMALA</td>
<td>FONAPAZ (1991-1996)</td>
<td>42.3</td>
<td>20.3</td>
<td>47.0</td>
<td>13.3</td>
<td>122.6</td>
<td>89%</td>
</tr>
<tr>
<td></td>
<td>FIS (1992-1995)</td>
<td>42.3</td>
<td>20.3</td>
<td>47.0</td>
<td>13.3</td>
<td>122.6</td>
<td>89%</td>
</tr>
<tr>
<td>GUYANA</td>
<td>SIMPAP (1990-1996)</td>
<td>33.3</td>
<td>11.7</td>
<td>3.4</td>
<td>48.4</td>
<td>93%</td>
<td></td>
</tr>
<tr>
<td>HAITI</td>
<td>FAES (1995-1996)</td>
<td>39.4</td>
<td>11.6</td>
<td>3.0</td>
<td>54.0</td>
<td>94%</td>
<td></td>
</tr>
<tr>
<td>HONDURAS</td>
<td>FHIS (1990-1995)</td>
<td>71.5</td>
<td>57.8</td>
<td>42.7</td>
<td>41.0</td>
<td>213.0</td>
<td>81%</td>
</tr>
<tr>
<td>NICARAGUA</td>
<td>FISE (1991-1996)</td>
<td>63.6</td>
<td>63.5</td>
<td>100.5</td>
<td>23.0</td>
<td>250.6</td>
<td>91%</td>
</tr>
<tr>
<td>PANAMA</td>
<td>FES (1991-1995)</td>
<td>38.3</td>
<td>43.4</td>
<td>21.0</td>
<td>102.7</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>PARAGUAY</td>
<td>PROPAIS (1996)</td>
<td>28.0</td>
<td>3.0</td>
<td>31.0</td>
<td>90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERU</td>
<td>FONCODES (1991-1996)</td>
<td>254.0</td>
<td>250.0</td>
<td>14.0</td>
<td>372.0</td>
<td>890.0</td>
<td>58%</td>
</tr>
<tr>
<td>URUGUAY</td>
<td>PRIS/FAS (1991-1995)</td>
<td>69.0</td>
<td>21.5</td>
<td>90.5</td>
<td>76%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VENEZUELA</td>
<td>FONVIS (1992-1996)</td>
<td>84.0</td>
<td>56.0</td>
<td>140.0</td>
<td>60%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL**       |                  | 1301.8       |             |               |      |        |                  |

* Data other than IDB financing is incomplete. In some cases local financing includes only the counterpart funds of IDB loan operations. Dates cover period of IDB funding, not the duration of the Funds.

** There has been no IDB loan operations for Chile's FOSIS. However, FOSIS has executed the US$4.4 million youth training component of the IDB workers training program operation, and an estimated US$12 million of IDB small projects operations. Local financing figures are rough estimates based on US$50 million per annum allotments committed by the government to FOSIS.
### TABLE A-2
SOCIAL INVESTMENT FUNDS PORTFOLIO DISTRIBUTION

<table>
<thead>
<tr>
<th>Country</th>
<th>Portfolio</th>
<th>Economic Infrastructure</th>
<th>Social Infrastructure</th>
<th>Productive Projects</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BOLIVIA</strong></td>
<td>FSE (1986-1991)</td>
<td>44%</td>
<td>43%</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>FIS (1991-1995)</td>
<td>85%</td>
<td></td>
<td></td>
<td>15%</td>
</tr>
<tr>
<td><strong>CHILE</strong></td>
<td>FOSIS (1991-1995)</td>
<td></td>
<td></td>
<td></td>
<td>46%</td>
</tr>
<tr>
<td><strong>ECUADOR</strong></td>
<td>FISE (1993-1995)</td>
<td>11%</td>
<td>85%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td><strong>EL SALVADOR</strong></td>
<td>FIS (1990-1996)</td>
<td></td>
<td>84%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>GUATEMALA</strong></td>
<td>FONAPAZ (1991-1996)</td>
<td></td>
<td></td>
<td></td>
<td>62%</td>
</tr>
<tr>
<td></td>
<td>FIS (1993-1995)</td>
<td>3%</td>
<td>62%</td>
<td>2%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>HAITI</strong></td>
<td>FAES (1995-1996)</td>
<td>26%</td>
<td>67%</td>
<td></td>
<td>7%</td>
</tr>
<tr>
<td><strong>HONDURAS</strong></td>
<td>FHIS (1990-1995)</td>
<td>10%</td>
<td>65%</td>
<td>7%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>NICARAGUA</strong></td>
<td>FISE (1991-1994)</td>
<td>19%</td>
<td>63%</td>
<td>1%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>PERU</strong></td>
<td>FONCODES (1991-1996)</td>
<td>22%</td>
<td>53%</td>
<td>13%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Consists almost entirely of training and social assistance.

## TABLE A-3

### SIF GENERAL CHARACTERISTICS

<table>
<thead>
<tr>
<th>COUNTRY, FUND, 1ST YEAR OPERATIONS</th>
<th>LOCATION</th>
<th>DURATION</th>
<th>ORGANIZATION</th>
<th>KEY STATED OBJECTIVES</th>
<th>TARGET POPULATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia (BO) SIF 1991</td>
<td>Presidency</td>
<td>Permanent</td>
<td>Decentralized through 9 field offices</td>
<td>To facilitate government reform, especially to implement the Popular Participation Law and involve municipalities. To develop education-health-production in an integrated way. To finance health, education, water supply and sanitation projects for the poor and train municipalities and communities in O&amp;M.</td>
<td>The poor, indigenous peoples, disadvantaged women and children and migrants.</td>
</tr>
<tr>
<td>Chile (CH) FOSIS 1991</td>
<td>Ministry of Planning and Cooperation</td>
<td>Permanent</td>
<td>Decentralized through 13 regional offices</td>
<td>To address poverty innovatively where other public agencies have not. To help the poor integrate into mainstream society and production. To support income generating activities and improve the skills of the poor so they can escape poverty themselves.</td>
<td>Poor farmers, indigenous people, marginalized youths, seniors, seasonal workers, women-headed households, microentrepreneurs and residents of isolated localities.</td>
</tr>
<tr>
<td>Dominican Republic (DR) PROCOMUNI DAD 1995</td>
<td>Presidency</td>
<td>Temporary through 1999</td>
<td>Calls itself decentralized but no field offices</td>
<td>To alleviate poverty. To promote civil society participation in managing resources to improve the quality of life of the most vulnerable. To enhance the transparency, effectiveness and efficiency of resources targeted to the poor.</td>
<td>Lowest income groups and the poorest communities.</td>
</tr>
<tr>
<td>Ecuador (EC) FISE 1991</td>
<td>Presidency</td>
<td>Temporary through 1997</td>
<td>Decentralized through 4 regional offices which are beginning to approve and evaluate projects</td>
<td>To alleviate poverty through targeted social spending. To improve the living conditions of the poor and address their demands not satisfied by current social programs. To bolster self-help schemes by promoting community development and participation.</td>
<td>Poor and vulnerable groups including women, children and indigenous populations. Groups most affected by adjustment.</td>
</tr>
<tr>
<td>COUNTRY, FUND, 1ST YEAR OPERATIONS</td>
<td>LOCATION</td>
<td>DURATION</td>
<td>ORGANIZATION</td>
<td>KEY STATED OBJECTIVES</td>
<td>TARGET POPULATIONS</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>----------</td>
<td>----------</td>
<td>--------------</td>
<td>-----------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>El Salvador (ES) FIS 1990</td>
<td>Ministry of Planning and Coordination of Economic and Social Development</td>
<td>Temporary through 1997 Proposal to become permanent</td>
<td>Centralized</td>
<td>To compensate the extreme poor for the effects of adjustment. To provide basic needs and support productive activities and human development of the poor. To facilitate the integration of the poor into the national development process. To stimulate community development.</td>
<td>The extreme poor and most vulnerable groups.</td>
</tr>
<tr>
<td>Guatemala (GU) FIS 1993</td>
<td>Presidency</td>
<td>Temporary through 2001</td>
<td>Decentralized</td>
<td>To raise the standard of living of the poor. To empower poor communities so they play a role in reducing poverty.</td>
<td>The poor and rural communities.</td>
</tr>
<tr>
<td>Guatemala (GU) FONAPAZ 1991</td>
<td>Presidency</td>
<td>Temporary Would dissolve once projects ready for transfer to other agencies</td>
<td>Centralized but confined to the war-zone, ZONAPAZ</td>
<td>To contribute to the peace process and improve the quality of life of the population most affected by the armed conflict and extreme poverty in ZONAPAZ. To improve ZONAPAZ social and economic infrastructure. To reduce ZONAPAZ poverty through income generating productive activities. To strengthen ZONAPAZ community participation and organization. To strengthen municipalities in ZONAPAZ.</td>
<td>Those most affected by the internal armed conflict in the worsen ZONAPAZ who are also extremely poor, particularly refugees.</td>
</tr>
<tr>
<td>Haiti (HA) FAES 1995</td>
<td>Ministry of Finance and Economy</td>
<td>Temporary</td>
<td>Centralized but planning to decentralize</td>
<td>To finance small, labor-intensive physical infrastructure, social and productive projects for low income communities. To generate temporary employment. To improve basic health, nutrition, education services, infrastructure and the environment. To strengthen grassroots organizations, NGOs, municipalities and cooperatives.</td>
<td>The disadvantaged population especially the extreme poor (i.e., 80% of the population).</td>
</tr>
<tr>
<td>Honduras (HO) FHIS 1990</td>
<td>Presidency</td>
<td>Temporary through 2006</td>
<td>Centralized</td>
<td>To foster social participation. To execute social and economic infrastructure projects and services for the line ministries. To provide long-term employment generation</td>
<td>The poorest, indigenous groups and women.</td>
</tr>
<tr>
<td>COUNTRY, FUND, 1ST YEAR OPERATIONS</td>
<td>LOCATION</td>
<td>DURATION</td>
<td>ORGANIZATION</td>
<td>KEY STATED OBJECTIVES</td>
<td>TARGET POPULATIONS</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>----------</td>
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<td>--------------</td>
<td>-----------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Nicaragua (NI) FISE 1991</td>
<td>Presidency</td>
<td>Temporary through 1997</td>
<td>Centralized</td>
<td>To help the poor cope with effects of war and structural adjustment through providing basic social needs and generating employment. To rehabilitate social infrastructure including health, water, sanitation and schools. To integrate the poor into economic and social development. To stimulate community, public sector, private and NGO requests for projects.</td>
<td>The poorest, Those lacking basic social services.</td>
</tr>
<tr>
<td>Peru (PE) FONCODES 1991</td>
<td>Presidency</td>
<td>Temporary through 1999</td>
<td>Decentralized through 23 regional offices which approve and evaluate projects</td>
<td>To promote popular participation. To finance small economic and social infrastructure, social assistance, and employment generation projects. To improve the quality of life of the poor and alleviate poverty. To mitigate the social costs of adjustment. To promote temporary employment.</td>
<td>The structurally poor. Those who have become poor because of the economic crisis and adjustment.</td>
</tr>
<tr>
<td>Panama (PN) FES 1991</td>
<td>Presidency</td>
<td>Temporary but renewed indefinitely</td>
<td>Centralized</td>
<td>To promote community development. To generate employment and income earning opportunities of the poor. To expand and improve economic and social infrastructure and assistance for the poor. To strengthen the development capacity of the informal sector, NGOs, provincial and local governments and community organizations.</td>
<td>The poorest and most marginal including indigenous populations. Those with incomes below US$80 per month.</td>
</tr>
<tr>
<td>Uruguay (UR) PRIS/FAS 1991</td>
<td>Presidency</td>
<td>Temporary</td>
<td>Centralized</td>
<td>To improve the standard of living of the neediest population in the short, medium and long term. To promote new and strengthen existing social policies and programs. To improve the quality of education and health services and infrastructure for the poor.</td>
<td>The poorest and those lacking basic needs. Social “institutions” needing reform.</td>
</tr>
<tr>
<td>COUNTRY, FUND, 1ST YEAR OPERATIONS</td>
<td>LOCATION</td>
<td>DURATION</td>
<td>ORGANIZATION</td>
<td>KEY STATED OBJECTIVES</td>
<td>TARGET POPULATIONS</td>
</tr>
<tr>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>To promote privatization and cost recovery in the social sectors. To mitigate the impact of adjustment on the poorest. To integrate education, health, nutrition, housing, labor and justice sector social policies and programs.</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Available from the authors upon request.