Social Funds and Reaching the Poor

Experiences and Future Directions

Edited by
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Contents

Foreword

In May 1997, about 250 social fund practitioners came together in Washington, D.C. for a workshop sponsored jointly by the World Bank's Economic Development Institute and a number of its partners from inside and outside the Bank. As the conclusions of the workshop clearly state, social funds have become an important instrument in our fight against poverty.

Social funds have also proven to be effective in forging partnerships with the private sector and with community groups to help the poor help themselves. In fact, social funds are reaching areas and groups heretofore untouched by public sector interventions, demonstrating that participatory development can be both cost-effective and quick. Social funds, however, should not be seen as a magic wand that will eradicate poverty. They can only be truly effective when combined with sustainable economic policies and investments in people.

As a follow-up to the workshop, the World Bank is supporting regional seminars as well as the strengthening or creation of regional networks of social funds, and we see an increasing need for this kind of knowledge exchange and learning. Looking back at ten years of experience, the Bank has found social funds to be a unique and valuable instrument, both in reaching poor people directly and in catalyzing the energies of a wide range of partners: public, private, nongovernmental organizations, and local communities. Looking forward to the next ten years, it is crucial that we build on the lessons of experience to ensure that we use this instrument as effectively as possible. The ideas of those who have contributed to this volume will help us achieve that goal.

Sven Sandström
Managing Director
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Acknowledgments

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Deepali Tewari reviewed the audiotapes of the discussions that took place in the ten thematic parallel sessions and on that basis wrote the resulting section, shortened and edited the original conference papers, and provided general assistance in the editorial task.

Alberto Harth, David Steel, Roy Thomasson, and Mary Schmidt prepared the summaries of the regional consultations. Manuel Chiriboga, Eduardo Diaz Uribe, Prem Garg, Ishrat Husain, Tariq Husain, Vinod Thomas, and Magatte Wade provided substantive comments on the proceedings in their capacity as steering committee members. Jan Bojo, Katrinka Ebbe, Gita Gopal, Jennifer Sara, Michael Stevens, and Norbert Mugwagwa commented on the summaries of the parallel sessions.

Cecilia Zavaleta was in charge of formatting, spellchecking, and assembling the various versions of the manuscript. The image on the cover is the work of Patricia Hord, who designed the workshop's program.

I am extremely grateful to all of them for their work. I especially wish to thank the authors of the ten original papers, who agreed to reflect on their operational experience with social funds, and the workshop participants whose commitment and enthusiasm was the substance of the event.

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Part I
Overview

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Main Outcomes and Recommendations

Objectives and Results of the International Workshop

The International Workshop on Social Funds, held May 27–30, 1997, at the World Bank's headquarters in Washington, D.C., had the following objectives:

- To assess a decade's implementation experience of social funds and their impact on poverty reduction
- To establish a broad consensus on their main achievements, weaknesses, and risks
- To generate a set of recommendations for improving existing operations as well as for the design of future social funds
- To facilitate the integration of international and regional networks of social funds.

The workshop participants included: (a) general managers and high-level staff of social funds; (b) representatives of central government institutions that oversee the operations of the funds; (c) representatives of municipal governments that interact with social funds in the selection and implementation of subprojects and of their regional associations; (d) representatives of nongovernmental organizations (NGOs) and civil society organizations that work with social funds; (e) staff of the World Bank and of other multilateral and bilateral development agencies that finance, design, and supervise the implementation of social funds; and (f) observers including researchers, academicians, and consultants involved with social funds and representatives of national governments that are establishing new social funds operations.

Stock-taking occurred in different forms: through the presentation of the World Bank's and of the Inter-American Development Bank's studies on social funds, as well as through many individual interventions by social funds' managers during the plenary sessions and in working groups. Ten original papers were also presented by relevant practitioners on specific topics related to social funds' design, management, and implementation. These papers provide an overview of current design and implementation challenges and concerns facing social funds.

More than two of the workshop's four days were devoted to group discussions, organized by topic, constituency, or regional perspective. It was in these discussion groups that the consensus and common understanding of the specific successes, weaknesses, and risks of social funds were achieved. Each of these groups also generated a set of specific recommendations that were presented briefly in plenary sessions and that were reviewed by the workshop participants.

In itself, the international workshop was also the first step in integrating the international and regional networks of social funds by bringing together families of programs that started with different sector priorities and approaches, such as the AGETIPs in Western Africa and the social investment funds in Latin America, and by stimulating the creation of social funds networks in Eastern Africa, Eastern Europe and Central Asia, and Northern Africa and the Middle East.

The international development agencies and the NGOs at the workshop committed themselves to more integrated and coordinated support to social funds. They also committed to the promotion of a more systematic use of Internet-based tools, such as the social funds World Wide Web page launched by the World Bank just before the workshop, to maintain the global dimension of the information exchange and to promote further collaboration among the regional networks and the programs themselves. The publication of these workshop proceedings is a contribution to this broad international effort.

Social Funds: Main Achievements and Weaknesses

On the basis of the results of the plenary presentations and discussions, of the contents of the two new studies by the World Bank and the Inter-American Development Bank, and of the ten specific papers commissioned for the workshop, the following understanding of the main achievements and weaknesses encountered by social funds over their first ten years of implementation (1986–96) was summarized.

While it was clear to all participants that social funds have performed differently in accordance with their objectives and their national contexts, they agreed on their commonalties and the major achievements and weaknesses of social funds, which were analyzed under four main angles:

- National poverty reduction strategies
- Effectively reaching the poor
- Social participation and partnerships in development
- Sustainable approaches for service delivery.

National Poverty Reduction Strategies

- Social funds have forcefully and effectively made a case for the importance of social equity objectives in national development and for addressing the needs of marginalized groups as a priority both in structural adjustment and in economic growth.
- They have piloted numerous successful innovations in emergency and development work. Their accomplishments enabled them to outlive the emergency phase during which they generally were created and to become permanent instruments for economic and social development.
- However, their visibility and high-level support often arouse misplaced expectations that social funds will eradicate structural poverty, while their budgets are small percentages of overall public spending and macroeconomic policies may be driven by growth objectives with no poverty reduction or income distribution goals.
- Social funds are also experiencing a complex transition from the creation of short-term employment in the emergency phase to permanent job establishment, which is required to address issues of structural poverty in the more challenging context of promoting social development.

Effectively Reaching the Poor

- Social funds have successfully served the poor and those communities that, on account of physical isolation, social exclusion, or gender and ethnic barriers, were not benefiting from the national investment programs or from the state's ordinary social safety nets, if available.
- In doing so, they have shown the ability to respond quickly to the needs of the beneficiary target groups and to deliver jobs, services, and infrastructure efficiently, using modern and cost-effective management tools and techniques at low administrative costs.
- While social funds have improved the quality of life in targeted communities, their actual impact on the permanent level of income of the beneficiaries is difficult to assess, due to the provisional nature of the jobs created and to a general lack of baseline information on ex ante incomes.

- At times social funds do not reach the poorest of the poor, who are unable to express their needs, formulate requests, obtain a sense of ownership of the projects, and marshal the required participation. Cultural, gender, and ethnic barriers to development require special efforts through social communication and community outreach programs.

Social Participation and Partnerships in Development

- Social funds have highlighted the importance of civil society participation in both emergency and development projects and represent the first family of development programs with a clear role for community-based organizations in the design and implementation of subprojects.
- They also successfully introduced and practiced innovative partnerships between the public and private sectors, promoted the creation and access to markets of microenterprises, and strengthened the capacity of municipalities and local governments in delivering services.
- But the relative independence of social funds may be difficult to coordinate within the public sector and sometimes causes conflicts with line ministries. The stable management of social funds may suffer from the discontinuity of the political cycles. Social funds still depend heavily on international funding, while their programs are not always integrated in national budgets and planning processes.
- In countries with decentralized national governments, the social funds' centralized management of significant amounts of resources to be invested locally may undermine the authority of municipalities. Local priorities may not match the centrally driven menu of subprojects, and high subproject preparation standards may contrast with low local capacity.

Sustainable Strategies for Service Delivery

- Social funds' accomplishments in job creation and the rehabilitation or building of social and productive infrastructure are remarkable. These in turn have improved significantly the quality of life of the beneficiary communities.
- Moreover, social funds have re-established functional links between the state and the beneficiary communities, returning credibility to the public sector and introducing a culture of contractual commitments, transparency, and accountability in the management of public resources.
- Cost recovery and user fee policies, often the result of painful sector reform processes, may be disregarded by the social funds' goals of rapid service delivery, and lessons learned in the implementation of sector projects may not be always incorporated in the design of subprojects.
- The insufficient operation and maintenance of subprojects, especially of social and economic infrastructure, jeopardizes the long-term benefits of these investments. The ability of line agencies, municipalities, and communities to take over and continue subprojects has so far been limited.

Major Recommendations for the Future Role of Social Funds

This consensus on the achievements and weaknesses of social funds was based, among other things, on the differences between social funds that are created and operate within an emergency context and those that are governed by developmental objectives. Regional and cultural contexts also account for the diverse challenges, constraints, and opportunities that each program faces. Recognition of diversity was assumed as the basis for the collective agreement on future directions.

The format of the global consultation process at the workshop did not call for the development of recommendations to be formally endorsed by the participants before the end of the event. Rather, the conclusions and recommendations of the working groups and of the plenary sessions were summarized by the session leaders and by the chairpersons, based on the consensus obtained.

Throughout these summaries, as well as in the presentations of the World Bank and Inter-American Development Bank studies and in the ten original papers, three major recommendations for the future of social funds emerged that policymakers, practitioners, and social funds stakeholders seem to agree:

1. Social funds should seek a better integration and more definite role within national macroeconomic policies and strategies for the reduction of structural poverty.
2. Social funds should pay more attention to developing sustainable communities and local organizations and to building their capacities.
3. Social funds should systematically mainstream their innovations, operating principles, and techniques throughout the public sector.

Each of these recommendations has been articulated from different angles and with different emphasis according to regional or constituency perspectives, but they seem to suggest the general direction of the next generation of social funds and concrete recommendations for activities that could be introduced in the work-program of the existing ones. The following ideas are more detailed and were drawn from various sources and presentations to articulate the three main recommendations:

1. Social funds should seek a better integration and more definite role within national macreconomic policies and strategies for the reduction of structural poverty.

    - Social funds can play an active role in obtaining political commitment to the incorporation of social equity objectives in macroeconomic growth policies and at the same time dispel unjustified expectations about the effect of social funds on structural poverty.
    - Social funds should not duplicate or overlap other national initiatives but serve as a specific instrument in the arsenal of social safety net programs that reach out to isolated regions, ethnically or socially excluded communities, and marginalized groups.
    - Representatives of a key social fund stakeholder group, namely, the poor themselves, should be consulted systematically by the management of funds to ensure that the program's priorities are shared, as well as the ownership and participation of beneficiary communities.
    - The institutional location of social funds within the public sector should better address the issues of coordination with line ministries, of integrating sector policies, and of making social fund financing more sustainable and an integral part of public spending.
    - Municipalities that have the mandate and the capacity should assume the funding and responsibilities from social funds for subproject identification and implementation, limiting the fund's role to contract managers and to supporting linkages with community groups. In turn, municipalities should allocate resources to sustainable operation and maintenance of infrastructure and services.

2. Social funds should pay more attention to developing sustainable communities and local organizations and to building their capacities.

    - To enable socially isolated communities to establish functional and productive links with both public and private sectors, social funds should work with more flexible menus that respond to community needs as they evolve over time.

- Social funds should promote projects for sustainable local economic development; these will include the organization and nurturing of microenterprises, skills training to facilitate access to the labor market, and access to credit for productive initiatives.
- Social funds should support the development of social capital through the involvement of NGOs in the design, not only in the implementation, of subprojects, the training of community-based organizations, and facilitating the open selection of subprojects based on the needs of women.
- The promotion of sustainable provision of basic services to the poor should be supported beyond capital investments with capacity building in operation and maintenance. This training will be targeted at user groups, local contractors, and municipal technical and administrative staff.

3. Social funds should mainstream their innovations, operating principles, and techniques systematically throughout the public sector.

   - In those regions and countries where social funds have a track record of accomplishments, social funds should present their management approaches and innovations routinely to national policymakers and promote them with the legislative and the executive branches.
   - Social funds should help introduce community participation, responsiveness to demand, and the use of willingness-to-pay indicators to all public social sector programs and innovative procedures—social communication and outreach, management information systems, and delegated contract key line ministries.
   - In their dialogue with international development agencies, social funds should promote the adoption of participatory development policies and strategies, to be discussed and negotiated with national governments as the basis for financial assistance.

Specific Recommendations from the Ten Parallel Sessions

The following condensed summaries of recommendations were made by the working groups after analyzing and debating the ten following topics and after extensive discussions about the papers written and presented by selected social funds practitioners.

Social Funds: From Responses to Emergency and Crisis to Development

- Social funds' objectives need to be redefined within the national poverty reduction strategy and integrated with sectoral policies. Their investments should concentrate on the neediest regions and communities.
- While support at the highest political levels is necessary, funds can be protected from political interference by a stringently defined mandate and beneficiary selection criteria.
- Funds should consider retraining their personnel in capacity building within communities and NGOs. They should obtain staff specialized in social sciences who can be effective within the new mandate in community participation.
- The quality of projects needs to be sustained. Indicators need to be defined for participatory processes, institutional development, and improved quality of life in target communities, so that reliable evaluations can be conducted.

Financial Resources Mobilization for Social Funds

- Credit programs should be an element of social funds to facilitate the creation of a revolving pool of resources.

- As social funds mature, they should try to mobilize resources from local institutions and donors and eventually to borrow from commercial sources.
- Social funds should raise additional resources through financial participation of the community, which can supplement public investments in rural areas significantly.
- The mandate of social funds should be flexible, so that they may eventually transfer to line ministries or to local governments the activities that are their ultimate institutional responsibility, while retaining those that do not belong to other institutions.
- Their organization should be parallel to that of the government, so that their activities can be in line with the policies and plans of ministries and sector agencies.

Role of NGOs in Design, Management, and Implementation of Social Funds

- Social fund programs need to be integrated into a national public investment for long-term poverty reduction, making use of NGO participation and civil society consultations, as in those countries where NGOs help prepare country assistance strategies.
- The World Bank should study the role of social funds in macroeconomic policies.
- Donor agencies should negotiate with national governments the roles of NGOs and civil society in the management, design, implementation, monitoring, and evaluation of social funds and formally inscribe these roles in project documents and contractual agreements.
- Social funds should allocate specific budgets for the participation of community-based groups in their activities, parallel to but separate from the financing of NGO interventions.
- Capacity-building activities should become a full-fledged component of the social fund menu, instead of being merely part of administrative overhead costs.

Decentralization, Local Governments, and Social Funds

- Local governments should avoid replicating centralized decisionmaking processes and ensure that investment decisions are participatory and taken at the lowest appropriate level. Furthermore, local governments should ensure the principles of subsidiarity, transparency, and accountability in the use of their resources.
- Local governments must strengthen and diversify their financial resource bases through better revenue collection, as well as through the identification of local sources of revenue and the increase of national transfers.
- Social funds should enhance coordination of efficient local social investment, and should work closely with municipalities to ensure the sustainability of projects.
- Where decentralization is in place, social funds should foster the creation of municipal funds for local social and economic development, assist municipalities in obtaining access to external sources of funds, and transfer their expertise in identifying locally needed subprojects.

Social Funds, Private Sector Development, and Microenterprises

- Social funds should reinforce the accountability of public sector management through the delegated implementation of projects by medium and small private operators.
- This approach has so far been applied to public works and construction contracts, but it should be extended to other sectors, such as rural development, natural resources management, and trade.
- The competitiveness of medium and small private operators should be supported through microfinancing programs, managed by social funds working through national financial institutions.

- Training programs for small operators should be developed and implemented to improve their professional skills as well as their overall management capacities.

Designing Components of Social Funds: Sectors, Themes, and Access

- The choice between a project menu that defines the initiatives that can be financed and one that defines only those that are excluded should be based on the local characteristics of poverty and the scope and role of the social fund within the government's overall poverty reduction strategy.
- Participatory research should define the social context of support, and communities should be organized, trained, and sensitized before needs are identified.
- A study to evaluate the impact of institutional, capacity-building, and participatory processes should be undertaken to delineate tradeoffs between investments for physical infrastructure and investments for building social capital.
- A consultative process that provides continuous and vigilant feedback and involves key stakeholders at national, regional, and local levels should be established, and clear criteria and procedures for facilitating the access of marginalized social groups should be provided.

The Monitoring and Evaluation of Social Funds

- Monitoring is the basis of evaluation, and both should be conceived as an integral part of the project cycle, so that learning can take place as events unfold.
- The most important audience of the evaluations are the beneficiaries themselves. Participatory evaluation should be promoted, so that communities can be involved through rapid appraisal techniques.
- Evaluations should focus on the effectiveness of social funds in improving the quality of life in participating communities. They should be clear and focused with modest and realistic objectives, so that they provide answers to questions.
- Coordination on evaluations is needed among donors and line ministries so they can exchange and share the learning that comes from evaluations and avoid costly duplications. Regional networks can provide opportunities to agree on common evaluation methodologies.
- The dissemination of evaluation findings among policymakers deserves considerable attention.

Sustainability of Subprojects, Maintenance, and Operations

- A sound project design, adapted to local conditions and based on simple technologies that facilitate beneficiary involvement should always be chosen and beneficiaries should be involved in the selection.
- Technical and administrative competencies for operations and maintenance should be provided to users and local agencies through training and should be accompanied by the necessary funds.
- Long-term financial resource mobilization for operations and maintenance is related to expanding the financial resource bases of municipalities and district administrations; reforms of sector policies and administrative processes need to be supported by the government and by all donors.
- Infrastructure should be managed like a business, not a bureaucracy, by introducing competition and giving users and other stakeholders a strong voice and real responsibility.

Appraisal and Environmental Assessment of Social Funds Subprojects

- Environmental concerns in development projects are connected directly to poverty reduction goals. Social funds should strive for more environmental awareness across the public sector and strengthen their linkages with environmental agencies.
- Social funds should actively promote environmental subprojects related to the sustainable use and conservation of natural resources; they have a strong link to improving the role of women in development.
- Environmental assessment procedures should be simple and practical, and a handbook for this specific purpose should be developed and adapted to regional contexts.
- Regional workshops and the use of the Internet can facilitate the exchange of relevant experiences on environmental issues among social funds and their networks across countries and regions.

Information Systems, Outreach, and Communication of Social Funds

- To develop an information, outreach, and communication strategy, social funds need to analyze stakeholders to identify the main actors, their interests and attitudes, and how they can be reached. The findings of the client consultations can be used to develop appropriate messages.
- The information, education, and communication strategy design should highlight the features of social funds of interest to each target group to ensure a long-term relationship between the communities and the program. The information flow has to be two-way and will evolve over time.
- Institutional responsibility for communication strategy is determined by the nature of the information to be disseminated and may require partnerships with other public or private sector agencies.
- An information, education, and communication strategy must have adequate resources to achieve its objectives, which are germane to the overall purpose of social funds.

Follow-Up Work from the Perspective of Main Constituencies

Social Funds' Directors

- Social funds should introduce productive projects that address structural poverty and transfer their management culture, innovations, and lessons learned to national, state, and local agencies.
- The creation of new regional networks of social funds in Sub-Saharan Africa, in Eastern Europe and Central Asia, and in the Middle East and North Africa is encouraged.
- La Red Social and AFRICATIP will strengthen their ties and collaborate to assist emerging networks and to build an international network based on regional groupings.
- International donor agencies will support the creation and the integration of social funds networks worldwide, and the World Bank will manage the global World Wide Web page on social funds.

NGO Representatives

- NGOs should establish more permanent relationships with social funds and become involved in their management structures, as well as in the identification, design, and evaluation of projects.
- Social funds should focus on building the social capital of communities they work with and the capacity of NGOs, community-based organizations, and municipalities.

- NGOs should establish an international network to exchange information on their experiences with social funds and further explore areas such as local economic development and gender issues. This network should interact systematically with La Red Social and with AFRICATIP.
- NGOs should develop and maintain high standards of professionalism and ethics in their administrative practices and their interactions with social funds.

Local Government Representatives

- Where decentralization will allow it, social funds should foster the creation of municipal funds for local economic development and transfer to them their current responsibilities and capacities.

International Development Agencies

- Employment promotion and income generation at the local level should be among the initiatives that are financed by social funds. Gender issues should be addressed more forcefully in the design and implementation of these initiatives to overcome current barriers.
- Donor coordination is required in every country where a social fund is operating, especially for reporting and evaluation, as well as to maintain flexibility in components financing.
- International coordination should be established among all agencies that support social funds via: regular exchanges of information and meetings; the development and maintenance of the global World Wide Web page; the joint preparation of handbooks, studies, and evaluations.
- The impact of social funds on national institutional development and public sector management reform should be studied internationally.

Future Challenges for Social Funds in Their Regional Contexts

Eastern Europe and Central Asia

The nature of the transition economies of Eastern Europe and Central Asia defines the key regional roles of social funds:

- They can actively foster privatization by introducing competitive procurement, provide training to small-scale operators, and rehabilitate infrastructure to be privatized.
- Especially in the area of health and education infrastructure, social funds can help achieve the balance between community participation and social sector reform strategies.
- Social funds can introduce managerial capacity, help give legitimacy to local governments in the provision of services, and introduce municipal cost recovery.
- Social funds can help create and build capacity of community associations and facilitate their links with local governments and line agencies.

Latin America and the Caribbean

In view of the completed transition from structural adjustment to economic growth in most of the countries of the region, social funds are now expected to carry out the following functions:

- Facilitate the transition to peace and social reconciliation in Central America
- Combat the current economic crisis and emergency situations in the Caribbean

- Contribute to structural poverty reduction in South America, where their integration with macroeconomic policies and other poverty reduction programs is essential.

La Red Social will continue to play a key role in facilitating the exchanges among social funds; its electronic InterRedSocial network will further facilitate the interaction among its members and its global connections.

Middle East and North Africa

Social funds in the Middle East and North Africa can contribute to the social stability of those countries embarking on a process of economic and political modernization; other countries in the region still face violent internal conflicts and require emergency social funds interventions. Social funds were introduced to the Middle East and North Africa quite recently, but national governments seem eager to adopt and replicate this approach.

Sub-Saharan Africa

Africa is still undergoing a process of economic stabilization, and many countries are facing specific issues of post-conflict reconstruction that call for emergency social funds interventions. The region already has the largest concentration of social funds, with the AGETIP agencies of West Africa regrouped within AFRICATIP. The social funds of Eastern and Southern Africa will develop their own network to be called Social Funds NET. While AGETIPs have a strong track record with delegated contract management of small-scale infrastructure and public works, the African social funds have concentrated in human resources development (health and education). Once Social Funds NET is operational, the two networks are expected to establish a close relationship.

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Partnerships and Participation in the Workshop

Initial Identification of the Global Learning Event

The innovative nature of social funds, their contributions to poverty reduction, their widespread recognition as well as controversy surrounding them in developing countries and within the development community, all called for a global exchange of experiences and lessons learned. The Economic Development Institute (EDI) of the World Bank, after facilitating some regional exchanges among social funds' managers in Latin America and Africa, identified the need for a global learning event in 1995 and initiated the preparation of the workshop in early 1996.

At the same time, nongovernmental organizations (NGOs) that have a permanent consultative forum with the World Bank (WB), the WB-NGO Committee, identified social funds as the most significant Bank-supported portfolio of programs that effectively include civil society organizations in their design, management, and implementation. In the spring of 1996, the committee requested the Bank's management to organize an international learning event on social funds. The separate initiatives on social funds of the EDI and of the WB-NGO Committee were thus combined successfully into one, with Bank management's support, and EDI's preparations for the workshop integrated the WB-NGO Committee's objectives.

A strong demand for the opportunity to share experiences and views with stakeholder constituencies was strongly supported by the staff of the World Bank in charge of the design and supervision of the credits and loans that finance the implementation of social funds. The institutional interest in the subject was confirmed by two recent studies of social funds: the World Bank's *Review of the Social Funds Portfolio*, which was a desk review, and the Inter-American Development Bank's *Social Investment Funds in Latin America: Past Performance and Future Role*, based on field work carried out in eight countries and on the review of evaluations of all funds in the region.

Establishment of Partnership Agreements and Management of the Process

The first step in designing the international workshop was to identify key stakeholder groups for inclusion in the design process: social funds, NGOs, and community-based organizations, central governments and municipalities were all considered as such; in addition, multilateral and bilateral development agencies that make substantial technical and financial contributions to social funds were considered essential stakeholders.

To ensure stakeholder ownership, the objectives and design of the international workshop were developed and finalized over nearly one year of consultative process with the representatives of these constituencies. An initial outline of the meeting was presented for review within the World Bank in June 1996. A more detailed concept document incorporating comments from the initial review was broadly circulated to all stakeholder representatives in November 1996.

By early 1997, a partnership for the joint implementation of the international workshop had been established among the World Bank, the WB-NGO Committee, La Red Social de América Latina y el Caribe, and AFRICATIP, the latter two being the regional networks of social funds.

The partnership was formalized by the creation of a steering committee that was entrusted with the design, objectives, and content of the event.

The steering committee provided guidance and specific recommendations on the design of the international workshop, and its members took an active role in the plenary sessions of the workshop. The steering committee completed its mandate with the revision and approval of the present publication of the workshop proceedings.

Within the World Bank, the international workshop was the result of intense collaboration between the EDI, the Poverty and Social Policy Department, the NGO Unit, the Learning and Leadership Center, and the Quality Assurance Group. All of these departments appointed managers to the steering committee and provided staff for the working group in charge of preparing the event. Institutional and financial support for the initiative during the final stages of its preparation was provided by the Social Protection Group of the Human Development Network and the Poverty Reduction and Economic Management Network.

A panel of advisors, consisting of representatives of all the World Bank departments that support social funds in the regional and the central vice presidencies, provided guidance on the selection of relevant themes, on the appointment of the ten session leaders who were commissioned to prepare thematic papers, and on the nomination of participants to be invited to the workshop.

The Role of the Supporting Agencies

Shared ownership of the event was demonstrated clearly by the willingness of all social funds to finance the costs of air travel and subsistence for their representatives; the same was true of all international development agencies and all observers. On the other hand, the costs of air travel and subsistence of NGO representatives and of representatives of central governments and municipalities were subsidized to facilitate their participation.

The Economic Development Institute of the World Bank received generous financial support for these subsidies from the African Development Bank, the Canadian International Development Agency, the International Labour Office, and the Organization of American States.

These agencies also contributed substantially to the implementation of the workshop by providing chairpersons and session leaders for the plenary and parallel sessions. This participation reinforced the ties between the international development agencies and holds the promise for further collaboration among them.

Participants

The 250 workshop participants included: (a) general managers and high-level staff of social funds; (b) representatives of central government institutions that oversee the operations of the funds; (c) representatives of municipal governments that interact with social funds in the selection and implementation of subprojects and of their regional associations; (d) representatives of nongovernmental organizations and civil society organizations that work with social funds; (e) staff of the World Bank and of other multilateral and bilateral development agencies that finance, design, and supervise the implementation of social funds; and (f) observers including researchers, academicians, and consultants involved with social funds and representatives of national governments that are establishing new social funds operations.

Plenary and Parallel Thematic Sessions

Half of the workshop was devoted to plenary sessions. The plenary on May 27 included the perspectives of various constituencies, the World Bank's findings from its review of social funds, and the findings of the Inter-American Development Bank's study of social funds. The plenary on May 28 presented the outcomes of the ten parallel working group sessions on specific issues, as well as related plenary debates. On May 29, the plenary presented the outcomes of constituency consultations, a keynote speech on Development, Equity, and Social Justice by the Minister of Family Welfare of Senegal, and the conclusions reached at the workshop.

The parallel thematic sessions on May 27 and on May 28 presented the unique opportunity for participants to focus and interact on a set of specific issues identified as priorities for social funds. Initiated by session leaders, who drew upon their experiences managing social funds, the sessions addressed the key issues with the assistance of professional facilitators from the Learning and Leadership Center. The presence of resource persons drawn from the World Bank staff active in project design and supervision contributed to the quality of the discussions. Simultaneous interpretation in English, French, Spanish, and Russian was available in all the meeting rooms, and the sessions were recorded to facilitate the subsequent preparation of these proceedings.

Constituencies' and Regional Consultations

The consultations of May 29 enabled the different constituencies—social funds' directors, NGO representatives, municipal representatives, and international development agencies officials—to discuss the initial outcomes of the workshop, to elaborate upon common strategies for the promotion and improvement of social funds, and to arrive at recommendations that were then presented at the final plenary session.

The regional consultations of May 30 enabled the participants from the Africa, Latin America, and the Caribbean, Eastern Europe and Central Asia, Middle East and North Africa regions to meet separately and to focus on the follow-up to the workshop in each region. Organized by AFRICATIP, La Red Social de America Latina y el Caribe, and by the staff of the World Bank, of the Inter-American Development Bank, and of the Organization of American States, these one-day events facilitated the articulation of operational decisions for the future of social funds in their regional contexts.

Social Protection Board World Wide Web Page on Social Funds

Before the international workshop, an initial version of the social funds World Wide Web page was developed jointly by the Social Protection Board of the Human Development Network and hosted in EDI's website. The web page offered online access to the workshop's program and to key documents prepared for the event. During the workshop, it provided a mechanism for participants to express their views on the sessions and to indicate their personal areas of interest for follow-up work. Since then, the social funds web page has further evolved and acquired a new and permanent Internet address, where relevant and constantly updated information is posted:

http://www.worldbank.org/sp/html/social_funds.html

Part II
Updating the Conventional Wisdom

3

The World Bank's View on Social Funds

Speakers	**Sven Sandström**, Managing Director **Vinod Thomas**, Director, Economic Development Institute **Ishrat Husain,** Principal Advisor, Poverty Reduction and Economic Management
Keynote Speaker	**Joseph Stiglitz**, Senior Vice President and Chief Economist

Sven Sandström, Managing Director

I would like to welcome all of you to the Bank and to thank you for coming. It is a particular pleasure to thank our joint partners of this workshop: AFRICATIP, the Red Social, and the NGO-World Bank Committee, and all the others who have supported the event and its preparation.

This workshop is billed as a global learning event, and we at the Bank certainly look forward to benefiting from the rich experience that all of you bring from all over the world. I am very pleased to note that this event, proposed as a "workshop," emphasizes work and that the day following the conclusion of the workshop is being left open for further consultations among all concerned on how to implement the outcomes of the discussions here on a regional scale.

Poverty reduction

We all share the same goal: how to reduce poverty as effectively as possible. We all have a different comparative advantage in how we set about achieving that goal, yet we share common ground. The Bank tries to take a comprehensive approach to reducing poverty and supports a strategy that has three core elements:

- Policies to promote broad-based economic growth
- Investments in human capital
- Social safety nets for vulnerable groups.

It is within this framework that social funds have become an important and rapidly growing tool for us at the Bank.

Support for safety net operations

The Bank's work in the safety net area has evolved significantly. Ten years ago, we supported very few safety net operations. As of last year, however, we were supporting over 50 (social funds) projects with Bank and International Development Association commitments of US$1.3 billion. If we include the high proportion of cofinancing that social funds typically attract, we are probably talking about several billion dollars for the support of these funds. Since the first social fund supported in Bolivia, the

Bank has used this instrument in another 35 countries for a variety of urgently needed tasks: water supply and sewerage rehabilitation; school and health postconstruction; nutrition programs for mothers and infants; the building of rural access roads; and support for microenterprises.

Reaching the local level

We have found that social funds can be a unique and invaluable instrument in reaching people at the local level directly and in capitalizing the energies of a wide range of partners: public sector, private sector, NGOs, and the local communities themselves. Looking back on the past ten years, the scale and scope of our activity has been substantial. Looking forward to the next ten years, it is crucial that we use the lessons of experience to ensure that we deploy this instrument as effectively as possible. So, what have we learned?

Main lessons learned

- Social funds are not a panacea. Sustainable poverty reduction requires a complement of actions from sound macroeconomic policies to broad social investments to targeted investments focused directly on the poor. Social funds are only one of many instruments to reduce poverty. It is important to keep the overall strategy in proper perspective.
- Social funds are not an appropriate response in every country. Their suitability must be assessed carefully in relation to the specific needs of the communities concerned and to other possible approaches for reaching the poor.
- Even when social funds are deemed appropriate, one size does not fit all. What may be an unqualified success under one set of conditions may fail under another.
- The fourth lesson is participation. Decisions related to social funds must reflect not only the views of the local community but also the views of the poor within that community. This is easier said than done; it takes time and patience. But without the full participation of the people affected, social funds do not work.
- The necessity of partnership has been a valuable lesson. No organization can act alone and expect to succeed. Collaboration is essential throughout the process, from design to funding to implementation to evaluation. The Bank is very much aware and appreciative of the value of partnerships at every level, from other international institutions to the private sector to civil society. NGOs in particular, with their grassroots knowledge and experience, have shown the Bank the usefulness of community-based projects. The Bank welcomes advice on how to expand on these partnerships as it moves forward.

Given the rich experience of the participants in this workshop, the Bank is convinced that the design and implementation of social funds in different ways in different country situations can be addressed here productively.

Some questions

In conclusion, here are a few specific questions for the workshop's participants:

- Are social funds in fact reaching more poor as compared with more traditional approaches?

- Are social funds helping to build and strengthen the institutional capacity for designing, implementing, and delivering social services, or are they displacing and weakening existing institutions such as sector ministries and departments?
- Will the subprojects financed and completed under social funds be maintained and operated adequately by local communities or by local government organizations?
- How do the costs of completing projects supported by social funds compare with those implemented by more conventional public sector agencies?

Vinod Thomas, Director, Economic Development Institute

This workshop has great potential and promise for the future of social funds.

Diversity of stakeholders

The workshop attendees here demonstrate diversity. The stakeholders here represent different aspects of this important effort and bring various perspectives: social funds' managers, people from civil society, NGOs, government officials, academicians, and people from the donor community. This is a diverse audience, and its assembly is timely because views do differ, experiences do vary, and convening in this kind of forum holds great promise of improving the group's impact.

Key experiences are under scrutiny, not only at the World Bank and at the Inter-American Development Bank, but in the papers that were brought here. These papers offer substantial evidence and experience of what might be working and what might be working less well around the world. To collect this evidence and to view it carefully and critically is most worthwhile.

Looking for common ground

The diversity of experiences across Africa, Latin America, and the rest of the world notwithstanding, there are some commonality of lessons that help translate them into findings that can aid countries that have not as yet had the same experiences. These commonalties of experiences within very different countries are important, whether the experience relates to the autonomy of decisionmaking, to decentralization, or to private sector participation. When the risks associated with some of those programs are considered, the issues of management and general economic policymaking become strong factors. Similarly, successes have a number of commonalties. These are a source of comfort: they show that this exercise can and does make a difference because people can learn from experiences other than their own.

Learning from one another

All of the workshop participants bring different examples to share, but some of the experiences of addressing poverty in Latin America and building up poverty maps have been transferred to Africa and elsewhere. Similarly, from the African experiences, people in Latin America and in other regions are looking at delegated contract management very carefully. Lessons can be learned from each other; concrete examples of this have happened in the past and can happen more forcefully in the future.

Forging partnerships

Learning from each other can only happen in a forum of partnership, which perhaps is the single most important hallmark of this event. It truly is an event that has occurred with the participation of various stakeholders as well as institutions. Within the Bank itself, the workshop signals an important partnership among not only the Economic Development Institute and the Learning and Leadership Center, but the NGO Unit, the Social Protection Board, and the Poverty and Economic Management Network. This workshop is important to the Bank as a way of moving forward.

Looking ahead, AFRICATIP and La Red Social de America Latina y el Caribe, the NGO-World Bank Committee, the African Development Bank, the Canadian Agency for International Development, the International Labour Organisation, the Organization of American States, and, most important, the social funds themselves, have assembled to share their experiences. This partnership is also the way to the future: where we go from here will be determined by the degree of interaction continuing among us in the future.

Ishrat Husain, Principal Advisor, Poverty Reduction and Economic Management

Social funds do not operate in a vacuum. The broad trends and changes occurring in the countries in which social funds operate form a backdrop for the subsequent discussions and debate to take place during the next three days of this meeting.

Diversity of experiences

Experiences with social funds show a great deal of heterogeneity. A variety of players are involved in social funds. The content of social funds programs themselves vary greatly, and views about their efficacy diverge. The Bank hopes that this workshop will be able to characterize what works and under what circumstances, what does not work and why it does not, and what can be learned from each other to improve the overall situation. Finally, those experiments and ideas that did not perform as expected must be discussed.

Despite a great deal of divergence arising from specific country circumstances, stages of development, and policy and institutional chasms, many insights into the development experiences have been gained over the last several decades. They include the following:

Broader trends in development

- The role of the state is changing from an omnipresent, omniscient, all-powerful, and all-doing entity that tries to do everything for everyone. The state is trying to be more selective, become more of a facilitator, often an organizer, often a mobilizer and a helper. The state does what it can do effectively and leaves other parts of the civil society, including the private sector, the community organizations, the individuals, and the firms, to do what they can do best. This division of labor between the state and the remaining parts of the civil society is one of the emerging trends within industrialized as well as developing countries.
- A growing body of evidence demonstrates that there is no tradeoff between economic growth and income inequality. The literature of Kuznet's curve is being proven wrong. Empirical research and successful experiences of East Asia show that better income distribution, fewer inequities, and greater concern for sharing and caring

do result in higher economic performance. Most important, however, they also lead to social stability and social cohesion.

- It is becoming increasingly clear that investments in human and social capital have greater payoffs in terms of sustainable development as compared to physical capital. In the 1950s and 1960s, we were all obsessed with investment in physical capital, but in the next century the countries that have the knowledge, the skills, and the know-how will achieve sustainable development. Social capital is the glue that holds these societies together.
- From Alaska to Zimbabwe, from Australia to Ukraine is a greater realization that decentralization and devolution of authority to lower tiers of government and to communities are in the larger interest of everyone concerned. The days of central planning, where a small group of technocrats allocated resources for the entire nation, for all the regions, and for all the individuals, are gone forever. The new paradigm of planning calls for allocation based on the demand of communities and households at the lowest functional level.
- Finally, community and civil society participation in the governance of day-to-day affairs have become commonplace. Civil society should not be considered a threat or a direct challenge to the authority of the state or of the elected governments, but an ally, a helper, and a complement to carrying out the development agenda, which cannot be carried out by the governments alone.

Particularly if poverty reduction is the goal, listening to the poor, involving them in decisionmaking, in the planning and implementation of programs and projects that affect their lives is a must. Empowerment of the poor is as critical to their well-being as giving them the projects, investments, and programs to improve their quality of life.

Closing remarks

Some of these insights implicitly or explicitly shape and influence the thinking of social funds, but this is an evolving process. New insights are made every day. This discussion of the future of social funds should be informed and take into account these broad trends, which are not confined to any particular country or a particular group of nations. Failing to do so may render social funds less responsive than they have been in cases of economic emergencies and as short-term palliatives. Their role as a long-term development instrument should be examined in light of these emerging trends.

Keynote Speaker: Joe Stiglitz, Senior Vice President and Chief Economist

Understanding the determinants of development

The determinants of development have extended in recent years beyond the usual prescriptions of macroeconomic stability, avoiding price distortions, and liberalization of trade and investment to the effective role played by institutions, including the government. We now better understand the complementary nature of the relationship between governments and markets. We understand the limitations of markets, the limitations of government, and how they can work together. In practice, the quality of these institutions is highly variable across developing countries. East Asian countries have demonstrated that the strength of their institutions were as important to their development path as were the right policies.

Unfortunately many countries, including many in Africa, are faced with weak institutional infrastructures that either mute the impact of good macroeconomic and sectoral policies or delay the response function inordinately.

Governments and poverty alleviation

At the economywide level, the government can serve several roles effectively. One of these roles is the promotion of equality and alleviation of poverty. Poverty alleviation in turn requires a range of actions in addition to sound macroeconomic policies.

These actions encompass the creation and maintenance of a social safety net, including the following:

- Access to basic health services
- Promotion of education and training
- Investment in infrastructure
- Transfer of technology and know-how to the poor.

The record, however, shows that in many, if not most, developing countries, the poor have by and large not benefited from government programs and projects in these areas. The reason, of course, has been the weak capacity of government. States with weak institutions have to find other ways to deliver basic social services and economic infrastructure to their poor citizens. One of these ways is to work in partnership with private sector and community organizations, sometimes called civil society. Social funds offer such a model to merge the government, the private sector, and the community organizations in the joint delivery of social services and infrastructure with the poor communities that have been left out in the past.

Social funds

Social funds are expanding in all parts of the developing world. The attractive feature of social funds is that they use the comparative strengths of each of the government, private sector, and community organization partners and coalesce them into an integrated whole. The communities identify, design, and help implement projects such as schools, health clinics, roads, and water supply that will serve their needs. The government provides financing, monitors and supervises the projects, and ensures that the operation and maintenance of these facilities is adequate. The private sector offers technical expertise, materials, labor, and organizational skills to implement these projects. Social funds allow the private sector firms to compete for the projects. This competitive bidding process should allow the projects to be completed at the least cost, thus helping efficiency and resource allocation.

Targeting and equity

At the same time, equity objectives are also met: areas in which projects are implemented are areas in which the majority of the population is poor. Projects are identified by the beneficiaries themselves and respond to their needs. This new arrangement is different from the conventional approach, in which the public sector agencies and departments did everything themselves, sometimes with disastrous results.

Economic benefits of involving people

One of the lessons that the Bank has learned from the experience of social funds is that involving poor citizens in the choices, design, and implementation of projects responsive to their immediate needs may unearth new but modest sources of domestic savings for capital formation. These savings, effected mainly through the labor of the poor and the mobilization of parts of their unspent incomes, frees up public resources for other uses. This can potentially reduce the claims of the public sector on the national economy. In addition to domestic savings, the poor also learn new skills and techniques, including that of organization, which should improve their prospects for earning incomes.

This approach has taken hold in a small number of developing countries and in few communities within those countries. The jury is still out. The purpose of a conference like this one is to explore ways to learn from the best-practice experiences in the world and to apply these practices to a growing number of cases.

Some words of caution

Decentralization, the devolution of authority to local communities and local governments, and partnerships with the private sector can improve the quality of government interventions and also reach the vulnerable and marginalized groups in the population. But there is always a serious risk that the resources of local governments will be captured by special interest groups. This can negate the objectives of decentralization and community participation and can lead to misuse and misallocation of resources. Checks and balances must be built into the system, with mechanisms of accountability put into place.

Social funds should not be considered a newly discovered panacea for all countries at all stages of development. Social funds need not be created in situations where well-functioning institutions exist for delivering services to the poor efficiently and cost-effectively. If such institutions exist in some sectors, then social funds should not intervene in those sectors.

Where existing institutions are not functioning effectively, or they can be reformed within a reasonable period, attention should be focused on improving these institutions rather than creating social funds. The Bank's assessment suggests that in emergency situations, social funds have proved to be successful when all traditional institutions collapsed or ceased to operate.

Needed focus

The Bank recommends that the participants focus attention on three broad questions as they begin this workshop:

- How do we make social funds more effective?
- How do we make sure that social funds are directed at the niches where they are most needed?
- How can they complement the development of a broader array of institutions that are essential to the alleviation of poverty in the developing world?

4

The Partners' View of Social Funds

Speakers	**Eduardo Diaz Uribe**, Chairman, La Red Social de America Latina y el Caribe **Magatte Wade**, former President, AFRICATIP **Manuel Chiriboga**, Co-Chair, NGO-World Bank Committee

Eduardo Diaz Uribe, Chairman, La Red Social de America Latina y el Caribe

La Red Social de America Latina y el Caribe is the regional network of social funds and of other poverty reduction programs and institutions; its members are over 25 agencies of both Spanish-speaking and English-speaking countries. Its mandate is to foster horizontal exchanges among its members and to promote the importance and the quality of poverty-reduction programs at the national and international levels. Created in 1991 in Mexico, it is managed by a coordinating committee of six (two per subregion), and by a chairperson that is elected for two years on a rotating basis. The Organization of American States, through its Department for Social Policies, provides the technical secretariat of La Red Social.

This event is most important for the Social Network of Latin America and the Caribbean. The network has allowed La Red Social to cooperate among various countries in the struggle against poverty. It recently also completed an important study of the potentials and the limitations of social funds.

Social investment funds' origins and characteristics

Social funds, created as instruments of the social policy pursued by each country, were designed to mobilize resources rapidly for the financing of social action programs. They appeared in Latin America and the Caribbean in the last decade as a response to the economic crisis of the 1980s, the imbalances induced by adjustment policies and the impacts of adjustment policies on the poorest and most vulnerable groups. At the time, ministries in the social sectors lacked the capacity to expand their programs rapidly and efficiently. The effectiveness of social funds derives, in our opinion, from the organizational lack of sophistication and their relative independence from the public sector. They are characterized by the following:

- Independence from the traditional schemes of the public sector
- Administrative autonomy and political support
- Transparency
- Capacity to hire competent staff outside public sector administrative regulations
- Simple and dynamic implementation processes
- Implementation methodologies, based on modern social management concepts, that focus on sustainability and the participation of society.

Over time, social funds have proven that they effectively can coordinate among entities, channel resources, develop social infrastructure, promote the participation of local authorities and the community, and integrate the private sector and civil society in their programs. Their transparency in operations is widely acknowledged and has resulted in financial and technical support from international entities. Impacts of social funds are commensurate with the budgets that are allocated to them. Although their achievements have been considerable, the magnitude of poverty, especially in the poorest economies of Latin America and the Caribbean, remains overwhelming.

Structural causes of poverty in Latin America

The immediate objective of social funds was to cushion the impacts of adjustment policies on the poorest, not to attack the structural causes of poverty. Although many experts stated that liberalization and globalization policies would benefit the poorest sectors, what has been confirmed is that the structural causes of poverty cannot be modified in the short or medium term only by expanding economies. Despite economic growth, poverty in Latin America and the Caribbean region continues to increase because structural causes of poverty do not weaken automatically with economic liberalization and growth.

How should these be addressed?

Finding a solution to structural poverty requires a review of the development model as well as the macroeconomic policies adopted by governments. Social development and economic growth must be understood as integral parts of the same process. Eliminating the causes of structural poverty requires overcoming the false dichotomy between the social and economic aspects of development. In other words, poverty reduction should be the main objective of macroeconomic policies in the social sectors.

Currently, poverty is broadly defined by the lack of public services and the lack of opportunities to generate income, as well as the inability of people to act in their own interests, to express their needs through concrete proposals, and to organize collectively to implement solutions. Poverty constitutes a challenge to the peaceful coexistence of people and represents ignorance of their social, economic, and political rights. However, creating permanent jobs and implementing productive projects for poverty reduction are not simple tasks.

Fundamental conditions for sustainable poverty reduction

Poverty reduction has two fundamental requirements: enabling the poor and marginal groups to participate in decisionmaking about their own development, and giving them access to capital, technology, credit, and land, especially in the case of the rural poor. Programs to deliver these basics must be designed with accuracy and sophistication within a framework of macroeconomic social policies whose main objective is poverty reduction. Social gains made through specific programs will be unsustainable in the absence of reform at the state level and the democratic participation of the people.

A comprehensive, consistent, and long-term policy with a modern strategy to manage social programs is essential to reduce poverty, adjusted to the socioeconomic characteristics of each country. Social funds can be useful instruments for the implementation of such a policy.

Future role of social funds

One of the most important roles for social funds is to expand their activities facilitating community participation and the interaction among the state, the private sector, and grassroots communities, which in turn enhances the sustainability of investments. Sustainability of investments is an important factor, especially in poor communities. Social funds activities can include training and advice on the development of programs for poorer communities. Social funds should continue with poverty alleviation programs, those oriented to reinforce human capital as well as those oriented to rehabilitating the infrastructure.

Magatte Wade, former President, AFRICATIP

AFRICATIP is a network of African agencies that were set up to carry out labor-intensive public works. Created in Burkina Faso in 1993, its permanent secretariat is in Senegal; it has a current membership of 14 francophone and anglophone countries, mainly in West Africa. The network facilitates cross-country fertilization among the institutions engaged in the fight against poverty. Given that AGETIPs have increased the absorptive capacity of international loans in African countries, the network can become a catalyst for mobilizing other resources in countries where AGETIP agencies operate. By strengthening its ties with social funds and international development agencies, AFRICATIP can better promote economic growth and poverty reduction.

The context

In the early 1980s, structural adjustment programs had serious social costs for most African countries, particularly in terms of job loss. An unemployment rate of about 30.0 percent resulted from cuts in government payrolls and the restructuring or liquidation of enterprises and financial institutions. The situation was aggravated by urbanization, making the labor supply particularly elastic in our countries. In Senegal in 1989, young people accounted for 67.2 percent of the total number of unemployed men and 52.0 percent of the total number of unemployed women. During that period, the economic growth rate was around 2.1 percent compared to a population growth rate of 2.8 percent. The constant deterioration of public finances reduced investment expenditure to levels inadequate to cover infrastructure rehabilitation and operating and maintenance (O&M) costs. It was clear that none of the existing public enterprises or administrative services could develop a rapid and efficient solution and implement a sound public works program.

Creation of the Public Works and Employment Agencies

African governments and donors, particularly the World Bank, began to explore ways of reducing what came to be known as the social costs of structural adjustment. In Senegal, the approach took the form of the creation, in 1989, of the *Agences d'Exécution de Travaux d'Intérêt Public* (Public Works and Employment Agencies—AGETIPs). These publicly funded, privately run nonprofit, nongovernmental agencies now exist in 14 African countries. Creation of AGETIPs represented a veritable revolution in the attitude of African governments and led to a new role for the state, one that allows it to focus on policy and basic objectives. A large number of the states' prerogatives, particularly in the area of works implementation, monitoring, and supervision, have been delegated, while they retain their responsibilities for programming, defining development priorities, and project management.

Objectives of AGETIPs

The principal objectives of AGETIPs were to:

- Create, at least temporarily and as rapidly as possible, a substantial number of new jobs, especially in urban areas, through labor-intensive projects
- Through the execution of project-financed works, upgrade the skills of the labor force, increase competitiveness among contractors, and enhance the efficiency of the public agencies involved
- Give the economy more capacity to respond to the opportunities for creating jobs sustainable beyond the project execution period
- Implement simple, rapid, flexible, transparent, and easy-to-oversee procedures for identifying and appraising prospective operations, awarding contracts, and paying contractors
- Demonstrate the possibility of expanding the field of application of labor-intensive projects and develop procedures that can be used by the public sector in carrying out similar activities
- Implement projects with outcomes that are economically and socially valuable, while combating poverty by making basic services accessible to the poorest communities.

Basic principles

The underlying principles of AGETIP operation are as follows:

- AGETIP is independent from the state, and its relationship with the state is regulated by a signed agreement between the two parties.
- As specified in its manual of procedures, AGETIP is impartial in its relationship with third parties, and its decisions do not discriminate or grant preferential treatment to any third party.
- To be effective, cost minimization is of constant concern to all AGETIP staff.

Work methodology and performance

To increase local capabilities to enable Africans to manage their programs and projects themselves, AGETIPs are responsible for the process of design, contracting, and implementation of projects whose final beneficiaries are generally the municipalities or the public. The process includes codesigning subprojects with local municipalities and communities; publicizing contracts; contracting, supervising, and commissioning works; and paying suppliers. While remaining responsible for overall project management, AGETIPs contract out most services. Applying the principle of delegated contract management, using private sector methods to manage public works contracts, AGETIPs have proved to be good performers. To date, they have carried out works equivalent to US$700 million in 14 countries of Africa, with US$140 million paid out in wages. These works have made major contributions to the welfare of the communities by improving access to basic socioeducational services (education, health, water supply, sanitation) and raising living standards through labor-intensive and food for work programs that benefit the poorest segments of the urban and periurban populations.

Sustainability

Sustainability has three facets: sustainability of investments, institutional sustainability of AGETIPs, and financial sustainability of investments contracted by AGETIPs.

Sustainability of investments—The living standards of populations in urban and periurban areas have improved substantially due to infrastructure public works and employment programs. It is not enough simply to construct these works. The O&M of such works is a major consideration, and solutions need to be explored with the local and state authorities and, above all, with the beneficiary communities. For this reason we propose strengthening the beneficiary ownership aspect of the programs by ensuring priority for grassroots initiatives, community participation in the formulation, financing, implementation, monitoring, evaluation, and O&M of projects.

Institutional sustainability—There is concern that AGETIPs enjoy a monopoly position in the delegated contract management of public works. In reality, AGETIPs are responsible for about 10 percent of the overall volume of public works contracts. The rest are awarded to large contractors through international competitive bidding. Like the World Bank when it was created, AGETIPs were a response to an emergency situation. Institutional sustainability will be determined by how well they are able to deliver as they adapt to the changes in national contexts with decentralization.

Financial sustainability—AGETIPs so far have had a market for their services. They rely on international donor funds for financing public works and at present cannot survive in the absence of external support. In the future, as decentralization advances, municipalities will have to increase their own revenues and acquire fiscal management skills. Both these areas are being supported by the second generation of AGETIPs. AGETIPs are expected to become self-financing in the future, with capital for investments provided mainly by municipalities.

Manuel Chiriboga, Co-Chair, NGO-World Bank Committee

The NGO-World Bank Committee was created as a forum for policy dialogue between the World Bank and the NGO world. It includes the representatives of NGOs from all developing regions as well as of NGOs of the Organization for Economic Cooperation and Development (OECD) countries. The committee is under the joint chairmanship of an NGO representative and a manager from the World Bank. It meets twice a year, once in Washington, D.C., and once in a developing region, to discuss strategies for facilitating participation of civil society organizations in the development projects financed by the World Bank through changes in policies and operational procedures. It also carries out studies and evaluations of its own through its NGO working group. Within the World Bank, the NGO Unit acts as permanent technical secretariat to the committee.

Social funds and structural adjustment

The connection between social funds and structural adjustment programs has been pointed out as one of the greatest limitations of social funds:

- Structural adjustment programs in many cases have eliminated the very policies and programs that were directed to resolve the problems brought about by structural adjustment programs. The issues of agrarian reform and of access to land for the rural poor are pertinent examples.
- Social funds have limited outreach: only about 20 percent of poverty-stricken people benefit from social funds' support. Assistance given by social funds does not seem to be sufficient for the poverty-stricken to find a way out of poverty in a sustainable way within the social funds' timeframe.

- Although NGOs consider social funds to be important programs, we believe that social funds are not part of a broader development strategy. They are limited in scope, and they lack integration with a development strategy that benefits from the participation of all development actors. They also lack a permanent mechanism to coordinate with various departments in government.
- The methodology of social funds limits the development of a political system through which local government can connect and relate with social groups to generate good governance conditions at the local level, with small entrepreneurs, farmers, urban groups, NGOs, and so on.

Established as a temporary mechanism or a transitory program, social funds were intended to transfer resources to those groups that were hardest hit by adjustment programs. In the last few years, they have become more like permanent poverty reduction programs. NGOs point out that, while the purpose of social funds is not to eliminate the structural causes of poverty, it is possible for them to affect some of its symptoms and manifestations.

NGOs' views of social funds

The organization of social funds as efficient, less bureaucratic, and more businesslike entities with a willingness to work with all development actors is appropriate. However, NGOs view them as very much a part of the central government structure, managed by institutions that are close to the president, the executive branch, or the prime minister's office. Thus, social funds run the risk of being politicized, as has occurred in many countries.

Social funds' views of NGOs

Social funds often see NGOs as promoters, supervisors, trainers, and suppliers of services. This perception limits the more comprehensive participation of NGOs in the identification, design, management, monitoring, and evaluation phases of development projects. Consequently, projects do not benefit from the substantial experience, knowledge, and comparative advantage that NGOs have in the promotion, strengthening, and empowerment of social organizations. The criteria used for hiring NGOs are often the same as those applied to the private sector. This negates the reality that local development takes time, a critical element that is necessary to strengthen the capacity of people and empower them to participate in government programs. The role of an NGO is different from that of a private sector entity providing services in an efficient manner. Resource allocations need to reflect the rationale behind what the two entities deliver. Often NGOs are not compensated adequately for the time, investment, and effort that they infuse in local development.

Applying private sector selection criteria to the selection and hiring of NGOs offers the wrong incentives and brings about a loss of continuity along the project cycle. The effects of these criteria limit the development and prevents NGOs from maximizing a learning process that would in turn benefit the outcomes of the projects.

Social funds are reluctant to invest in productive activities. NGOs see this area as promising and as perhaps the only avenue for sustained local economic development. It is in this area that they feel they can facilitate greater economic participation by the people.

What NGOs can do with social funds

Based on a recent study of social funds, their methodology for contracting work, and an analysis of the way NGOs can participate better in operations concerning social funds, here are a few specific suggestions for the NGO sector. If we can take concrete actions based on these suggestions, we will be able to make a stronger and greater contribution to social funds as a strategy for development.

- Social funds present a big challenge for NGOs and this challenge requires reflection. The organizational small, intense experiences should be expanded and multiplied. How can organizations move from micro experiences to regional experiences? How can the time needed from the start of an activity until its completion be reduced?
- NGOs and social funds should understand better the implications of their work in regard to development policies. They should try to connect with each other as NGOs and create organizations that offer better negotiating capacity with governments and other development actors in the arena dealing with social funds.
- Social funds, in order to improve their operations, should identify programs that strengthen NGO management capabilities. Social funds should develop strategies to build the capacity within NGOs to develop more professional qualifications.

5

The World Bank Portfolio Review of Social Funds Projects

Speakers	**Prem Garg**, Director, Quality Assurance Group **Soniya Carvalho**, Task Manager, Portfolio Review of Social Funds Projects **Christine Kessides,** Principal Economist**,** Transport, Water and Urban Department

Prem Garg, Director, Quality Assurance Group

Overview

The Portfolio Improvement Program (PIP) was launched by the World Bank about a year ago to improve the performance of its project portfolio. Within that review, the performance of social funds was evaluated for such things as efficiency, targeting, and sustainability.

The World Bank's portfolio

As the largest multilateral development finance agency, the World Bank lends about US$20 billion annually for development all over the world. Its portfolio of 1,500 projects under implementation accounts for close to US$120 billion of commitment on the part of the World Bank. Combined with the contributions of cofinanciers, borrowers, and beneficiaries themselves in terms of their own counterpart financing, the total portfolio of these 1,500 projects represents an investment of close to US$300 billion, not an inconsequential amount by any standard.

A key element of the World Bank's support, especially after Mr. Wolfensohn assumed the presidency, is ensuring that the large amount of resources devoted to these 1,500 projects in the portfolio is used as effectively as possible in reaching our shared goals of sustainable economic development and poverty alleviation.

The track record of the recent past in this respect leaves something to be desired. Roughly speaking, at completion, about one-third of the projects the Bank finances do not measure up to the high standards initially set for them. Development is a risky business; it involves complex issues. It takes place in countries where institutions are weak, and it seeks innovation. Given this context, clearly nobody expects that every single project at the Bank will achieve all of its objectives; nevertheless the Bank does believe that there is room for improvement.

The World Bank's Portfolio Improvement Program

Central to the PIP is the concept of projects at risk, that is, based on some leading indicators derived and endorsed by historical analysis, the PIP tries to identify projects that run high risk of not achieving their objectives. Using projects at risk as the underlying concept, the overall portfolio is examined and parts or clusters in the portfolio are identified, by country, by sector, or by instrument. A high concentration of risky projects should be subject to more intensive attention by the Bank as well as by the borrowers. If clusters seem to be doing unusually well, they offer potential lessons for replication elsewhere and should be examined.

Based on the analysis of the past few months, 14 such clusters were identified. The social funds cluster is one of them. Social funds were identified as a cluster that appeared to be doing particularly well. To what extent that initial assessment is borne out by more in-depth analysis, and the lessons that can be drawn for application elsewhere, is the subject of the review. The Bank's findings are being shared with the workshop participants.

Soniya Carvalho, Task Manager, Portfolio Review of Social Funds Projects

Purpose of the review

Based on the mandate we received from the Quality Assurance Group, we set out to determine how the social funds portfolio, comprising 40 projects under implementation as of June 1996, was faring: How well was this portfolio performing? Was sustainability of social funds' subproject benefits an issue?

Methodology of the review

A quick word on the methodology of the review. This was a desk review. Our sources of information were all printed matter on social funds, Bank and non-Bank, and this was complemented with considerable verbal information and insight derived from interviews with several task managers within the Bank. Most of the team members of the Portfolio Review have also worked firsthand on a number of social funds projects. Many of us have visited the countries represented at this workshop, and the invaluable insights provided locally have colored our thinking, overtly or implicitly.

Objectives of social funds projects

In order to assess the performance of social funds projects, they have to be judged in the light of their objectives. While social funds projects have multiple objectives, they have typically included one or more of the following three objectives:

- Creating employment opportunities in response to an economic shock (short term)
- Delivering basic services to the poor (long term)
- Building local capacity for the sustainable provision of services (long term).

Although social funds projects started with the short-term emergency objective, they are increasingly incorporating longer term service delivery and capacity-building goals. The Portfolio Review found that around 80 percent of recent social funds projects, that is, those approved in fiscal years 1994–96, had long-term objectives.

Yardsticks for assessing performance

As the objectives of social funds projects evolve over time, their design and implementation need to change as well. The yardsticks used to monitor performance should reflect evolving objectives. In other words, social funds projects with longer term service delivery and capacity-building objectives should not be judged by the same criteria that are applied to social funds projects with emergency objectives.

Findings relating to social funds projects with short-term objectives

The Portfolio Review found that social funds projects that respond to emergency situations through the rapid creation of employment opportunities are likely to achieve their objectives. The design of such social funds projects reflects their emergency nature well. The Portfolio Review did not, therefore, dwell on this cohort of social funds projects.

Assessing the performance of social funds projects with longer term objectives

With respect to social funds projects with longer term objectives, the Portfolio Review asked questions such as: Is the school still running, complete with teachers and textbooks, one year after the building was constructed? Is it truly the community that is demanding the subproject, or is some other entity biasing community demand? Does community demand adequately represent groups such as the poor? Are there sanctions for communities who do not contribute the required amounts toward subproject costs?

The ABCs of the Social Funds Portfolio

The review of social funds projects that aimed at delivering services and building local capacity yielded mixed results. Rigorous quantitative data on outcomes are limited, but available evidence led us to give the following grades to the social funds portfolio:

- A on internal efficiency
- B on poverty targeting
- C on the sustainability of subproject benefits, signaling caution.

The social funds portfolio appears to do rather well on internal efficiency and not badly on poverty targeting. However, the Portfolio Review's assessment of the likely sustainability of subproject benefits points to emerging issues and concerns.

Why an A on internal efficiency?—There are definitional issues in comparing administrative costs across programs and agencies, but social funds appear to deliver services at a lower overhead cost compared to public agencies. Some evidence shows that social funds construct infrastructure at lower per-unit cost compared to public agencies, with cost savings as much as 50 percent in specific cases. Some evidence also indicates that social funds construct infrastructure within a shorter time compared with public agencies. Hence, an *A* on internal efficiency.

Why a B on poverty targeting?—Social funds seem to be successful in reaching generally poor groups through the judicious use of several strategies for the preselection of beneficiaries and preassignment of benefits. These include targeting mechanisms, eligibility criteria, appraisal criteria, and positive and negative subproject menus. While social funds may be reaching generally poor groups, how poor these groups are is definitely an issue. Some evidence shows that social funds projects are not reaching the poorest regions or the poorest population groups.

This shortfall is not surprising, given that communities most in need of assistance may also be the least capable of preparing viable project proposals and implementing them. Without considerable preinvestment in outreach, training, and technical assistance, social funds may miss critical parts of their intended target groups. Hence, a *B* on poverty targeting. Why a *C* on sustainability? The following presentation will explain.

Christine Kessides, Principal Economist, Transport, Water and Urban Department

The issue of sustainability

The issue of sustainability has a number of dimensions, some of which were already mentioned. The one addressed here is the sustainability of subprojects.

This issue comes up when the transition of social funds from the emergency or crisis mode to the longer term is examined. The transition is essentially the change from building a facility to delivering an ongoing service. By implication, how the services are being used needs to be monitored and evaluated, not just what was disbursed or built. Based on written material and existing evaluations, the review is limited necessarily by the kind of information available. There is not a great deal of information available on the longer term impact of social funds as yet. While the review looked at components in all sectors, education, health, and economic infrastructure, the analysis here refers in particular to economic infrastructure: water and sanitation, roads, bridges, drainage, and public works in general.

Sustainability issues in the economic infrastructure sectors

Concepts for the requirements underlying the sustainability of services are derived from our understanding of best practices within the individual sectors. Basically, two requirements are critical for the sustainability of economic infrastructure investments: the right incentives and adequate means. The review examines three dimensions as the components of sustainability:

- Do these subprojects meet the effective demands of beneficiaries?
- Are the subprojects producing a technology and a service level that is suited to this demand and is suited to the existing capacity to carry out the service?
- What are the commitment, the resources, and the capacities for operations and maintenance?

It is important to note that the requirements for sustainability conditions vary by subsection because they are inherently different. In particular, these requirements to create sustainability may be more difficult to achieve in practice in water and sanitation, in drainage, and in the transportation subprojects than they are in building schools or clinics.

Key determinants of sustainability: 1. Effective demand

From the perspective of economic infrastructure, the term demand-driven means not just that the project idea originated from the community requesting the project, but even more important, that the community is ready to pay an opportunity cost for choosing one project over another. Effective demand implies that the users or the beneficiaries have some financial stake in what they choose. Do they contribute either in cash or in kind? Do beneficiaries or community organizations of beneficiaries invest time to participate in the subproject?

Effective demand cannot be gauged realistically in the absence of the dissemination of adequate information to understand and to evaluate alternatives. Sometimes sponsors essentially offer one choice, not giving the community a full understanding of the implications of a particular kind of service.

Demand expression varies by the kind of goods or services being delivered. Water supply and latrines are an example of essentially private goods, goods that are individually used and for which individual users can express and realize a willingness to pay. Public choices are more complicated with respect to public goods such as schools or rural roads; a differentiated strategy for eliciting demand, depending on the kind of subproject that is being produced, is needed.

2. Appropriate technical standards

The second determinant of sustainability is the appropriateness of the technical choices presented to communities in light of their effective demand for levels of service that the technology provides. Technology choices must be tailored to suit the available capacity for operations and maintenance (O&M). Water, sanitation, and transport investments involve more complex technology and design issues than a school or a clinic; this raises some questions about whether the system was in place to evaluate and make use of the appropriate technology for those kinds of services.

Many social funds were designed to rehabilitate existing infrastructure. Rehabilitation was undoubtedly appropriate when the social funds were in the emergency phase, but it may not always be the service the users want now, because those facilities were originally put in place under a perhaps more centralized and very different service delivery system.

Offering technology choices that are too complex or expensive is as much of a problem as offering technology choices that are too simplistic or inexpensive to deliver at the level of service people are willing to pay for. Are social funds always in a position to offer nuances of choice across a wide range of sectoral services?

On this issue the review drew from best practices in the individual sectors examined. The first issue in O&M arrangements has already been mentioned: the need for clear ownership of the infrastructure and accountability for who will operate and maintain the project.

3. Institutional arrangements for O&M

The third issue, which is not always elaborated as much, is the need for a formal backstopping arrangement if the community is expected to carry out O&M. A good system is needed to give the community support when it has problems and when issues arise, for example the issue of mobilization of recurrent financing.

The need to train those who will be responsible for the O&M is an important institutional issue. Sometimes those responsible may be in the community, sometimes they may be a private contractor, or sometimes they may be in the ministry. User training is needed, particularly in water supply and sanitation. Sanitation education has not always been provided and is very important.

If the operator is going to be the sectoral agency, sometimes basic budgetary reforms need to be addressed. It is not always helpful to rely on sectoral agencies if they are embroiled in a dysfunctional budgeting system or do not have the necessary resources.

4. The need for consistency across sectors

The last point, which is in some ways the most important, is the need for consistency across projects in the same sector. The Portfolio Review found from the experience in sectoral projects, for example water and sanitation, that in some cases communities, even very poor communities, have been willing, indeed anxious, to contribute to a service that would meet their needs and that they knew they would receive. However, if they could get the service for free, or with less arduous requirements through, for instance, a social fund, then the social fund undermined the sectoral reforms that had been in place for some time in that country.

Questions asked in the economic infrastructure sectors

The review posed two questions about social funds, based on the criteria and the definitions mentioned earlier:

- Are the existing social funds in the portfolio under review designed for sustainability according to the criteria and the definitions mentioned?
- Under what conditions are social funds actually better than other sector-specific approaches?

Findings on sustainability

The first conclusion of the review was that the later generation of social funds had better integration of sustainability elements in their project design than the earlier generation of social funds. There was more emphasis on active community participation throughout the project cycle, including at the disbursement and supervision stages in cases when user committees organized maintenance and operated accounts from which they disbursed resources. More often, the later generation of projects required community contributions, as opposed to sponsor contributions, and attempted to ensure that the demand for the project was coming from the community. There is more attention to the suitability of technical options and alternative service levels and more focus on training, although the review did feel that there was not enough attention given to training.

The need to integrate sectoral best practices

Overall, the Portfolio Review's conclusion is that the portfolio projects are improving in sustainability, but more projects can learn from some of the best practices in specific sector projects. Social funds have often been generators of best practice. Similarly, good examples and experiences related to community contribution and community organization are found in specific sector projects, for example in rural water and sanitation, rural roads, and so on. A greater exchange of experience across these project types would benefit all projects. The Bank has a primary responsibility for ensuring that the best practice lessons from sectoral projects are also applied to investments made through social funds in those sectors.

When are social funds appropriate mechanisms?

Under what conditions are social funds actually better than other sector-specific approaches? At what point is the social fund the best operation? At what point should an approach be based more on sector-specific investments? There are a number of considerations:

- First, the policy and institutional conditions for sustainability require long-term concerted efforts in each sector.
- Second, water and transportation subprojects are more complex in all the dimensions of sustainability than education or health

investments. This makes it difficult for multisectoral projects to ensure that all the elements needed for sustainability are in place, particularly in the absence of efforts to strengthen sectoral agencies, perhaps through donor support.

- Third, social funds should not and cannot replace the responsibilities of sectoral agencies and local governments for assessing local demands and delivering local services. Parallel efforts and greater attention to the development of local capacity of governments and sector agencies to assume their rightful responsibilities is needed.

Replicability

Replicability requires the consideration of sustainable ways by which services can be provided to unserved populations across a particular country. To provide a sustainable level of service will, in some cases, require significant reforms: financial reforms at the sector level, reforms of budgetary systems, reforms in subsidy levels, reforms of user charges, and so on. This is a tough menu of reforms to be carried out by social funds; indeed, social funds cannot undertake reforms of this extent. Moving beyond the social funds approach and undertaking fundamental institutional and policy reforms at the sectoral level that may be required to permit sustainable services expansion and delivery to the entire target population is needed in many countries. This means a transition from social funds, which have been particularly effective on an emergency or experimental basis, to other approaches that can address the medium-term issues of sustaining service delivery in key sectors.

Social funds in the future

Finally, the review in its concluding chapter looked at the future of social funds. Broadly, three alternative paths were considered: The first was to focus on the question of transition. Because social funds are strong at demonstrating good practices and good governance, they can be important in drawing best practices from other sectors. For example, there are some best practices in the water and sanitation and in the rural transport sectors. More experiences need to be exchanged outside social funds with some of the better programs in other sectors. The emphasis on transition also means providing training and capacity building to both communities and the small-scale contracting industry. Again, training is emphasized, because it needs more focus and more specialization.

The second future path for social funds is as special-purpose vehicles, providing selective seed capital to foster innovations in community development, to experiment with new technologies, and to act as the government's agent in remote areas and for very small-scale activities. Even though many of the social funds might already characterize themselves as special-purpose vehicles, they have gotten much broader. This possible path needs focus, as well as this question: What is the niche for social funds?

And third, funds can become specialists in delegated contract management, an area which will perhaps invariably be developing outside the public sector. This is where AGETIPs specialize. It is this particular area that can be opened to competition within the private sector and that can become a self-financing activity as well.

6

The Inter-American Development Bank's Study of Social Funds

Speakers	**Margaret Goodman**, Senior Evaluator, Evaluation Office **Samuel Morley**, Senior Advisor, Social Programs, Sustainable Development Department

Margaret Goodman, Senior Evaluator, Evaluation Office

Inter-American Development Bank's study of social investment funds

The Inter-American Development Bank (IDB) works exclusively in Latin America. It has just concluded a study and published a book called *Social Investment Funds in Latin America: Past Performance and Future Role*. It occurred about two years ago that social funds have become overwhelmingly popular all over the world. They started out as a way of responding to adjustment and have developed in different ways, doing various things. The IDB decided to look at them to determine what is working and what is not working. The Canadians, the Germans, the Swedes, and the Organization of American States (OAS) also thought the subject deserved review, so a project was created. The outcome of this project was many seminars and a book. The IDB was interested in this project because, since 1989, it has lent over US$1.3 billion for social funds, making it the largest contributor to social funds in Latin America.

Methodology of the study

The IDB hired consultants who looked in-depth at social funds in Bolivia, Chile, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Peru. They spoke to recipients of projects and assessed their satisfaction. The IDB examined these projects for sustainability; it also did a desk study of all social funds.

Characteristics of social funds

Social funds were created as a response to an alarming rise in poverty. Some social funds have political objectives. FONAPAS helped in the consolidation of the peace process in Guatemala. FONCODES was aimed at ensuring governability in frontier regions of Peru. The second social fund in Bolivia is linked to decentralization. In Chile FOSIS is showing that the government is committed to eradicating extreme poverty.

A key characteristic of social funds is that they are demand-driven. There are good things and bad things about that. One of the great innovations of social funds is the quick implementation of subprojects. Between 1991 and 1995 Bolivia's social fund implemented 1,500 subprojects; Honduras implemented 7,000; Nicaragua implemented 3,500; Peru implemented 18,000.

Social funds have built significant social infrastructure, particularly the emergency funds. They have substantial external support, in fact, that is one of their problems: they are probably too linked to external support.

And finally, while the World Bank gave them a *B* in targeting, in comparison to other programs, the IDB probably would give them a *B+*, because they have really been very good at targeting the poor. Nicaragua's social fund has projects in every town, in every backward part of Nicaragua, and this is fairly commonplace. Social funds are very good at targeting. There is, however, one issue with targeting. Should social funds attempt to reach the maximum number of people or the maximum number of very poor people, which may actually be in the cities? Or should they attempt to reach the most isolated regions? This dilemma has not been resolved so far.

Models of social funds

The IDB found several models of social funds. The emergency funds are usually in the office of the presidency; they are financially independent, with a board of directors that includes representatives of other ministries as well as representatives from civil society. They are often exempt from procurement and civil service rules, which makes them much more efficient than other organizations. If other countries could just eliminate their procurement rules, they might also be building much faster.

The second model of social funds is a part of a ministry, for example, the Bolivia fund or FOSIS in Chile, which are at the second stage. They have more formal agreements with the ministries, they lay less emphasis on emergency procurement, and civil service rules are followed more closely.

Then there are the larger funds in Colombia, Costa Rica, and Mexico. These are usually large umbrella institutions. They have no autonomy. They are financed from the national budget. They implement or coordinate many social programs with the objective of reaching the poorest.

Relationship with line ministries

Initially there were cooperation problems with line ministries. Emergency funds wanted to disburse fast, and sustainability was not of concern to social funds: they just constructed projects. After a while, schools had no students and health posts had no nurses. So now there is more coordination with government entities, either formal or informal. The Chile fund negotiates its budget with the ministry of finance and executes programs with line ministries. The Mexico fund signs agreements between federal and state governments, although it is not certain that there is any follow-up on these agreements. The Colombia and Costa Rica funds finance activities of existing institutions.

Relationship with local governments and communities

The relationship with local governments and local communities is a new concept accompanying the idea of decentralization. In Bolivia, citizen participation is a condition for receiving fund support. Not only is it a condition, but increasingly municipalities have to cofinance projects. Central governments are transferring resources to the municipalities, and citizen participation decides which projects the municipality wants to cofinance. Cofinancing is realigning the funds with communities, and it is helping them to prepare development plans.

Communities have different ways of organizing participation, for example community assemblies, solidarity committees, and so on. Bolivia has an interesting form of citizen participation called vigilance committees. These committees oversee the proper expenditure of project money and the mayor's work in ensuring the needs and demands of communities are met.

Sustainability and maintenance culture

The workshop's participants are now asking whether projects built by social funds are sustainable. Are they any more or less sustainable than other projects? Roads that were built by the funds and roads that were not built by the funds are all decaying. There does not seem to be much difference in terms of sustainability.

A maintenance culture, which means that what is built is maintained, does not yet exist in Latin America. There is no reason to expect social funds to ensure maintenance better than any of the other ministries. If this culture is instituted, then projects will be sustained, both by the ministries and by the social funds.

Community participation and sustainability

Citizen participation is emphasized greatly to achieve sustainable outcomes of projects. There is nothing like money to sustain a project. The idea that money is being transferred to the municipalities, that the municipalities can pay workers for maintaining projects, as in the case of Bolivia, is an important catalyst.

Clearly there is not enough training. National and local governments should start paying more attention to training needs and budgets, because the bilateral and the multilateral agencies cannot keep supporting training at the current rate. National budgets have to start allocating resources for training.

Some management issues and contradictions

There are some management issues. A demand-driven approach may reduce funding for poorer communities, because they are often the ones least able to develop their own projects.

Moreover, there is a contradiction between central approval and local priority-setting. This is almost a problem of the technocrats against the people. In some countries, the technocrats at the central level are excellent, and they want projects to be technically sound before they approve them. In other countries, the technicians are not as good. However, there may be a more democratic aspect here, because the technicians do not demand as much of the projects as the more technically advanced countries do.

Proliferation of funds and conflicting goals

The multiplication and duplication of funds is actually a problem in many Latin American countries. Often, there are several funds all competing for the same resources and all delivering similar services. This often results in wasteful overlap.

Conflicting goals between funds and stakeholders is an important aspect that bilateral and multilateral agencies need to recognize. There is a "get the money out" mentality in funds; this often does not help to build sustainable projects, which may require training, be more complicated, and require more coordination. Citizen participation takes time, and, although very democratic, is not the most efficient system of implementing projects.

Quick jobs or training?

The creation of quick jobs, as opposed to training, often results in the creation of too many bricklayers, often of not very good caliber. So that when the fund goes, people are no more able to get a good job than before.

Quality of projects

Sometimes there is a contradiction between building quality projects and using local labor, because when asked, municipalities often want quality projects. And yet bilateral and multilateral agencies say they want local labor to be employed.

Environmental issues in social funds

Finally, there are some environmental issues. Thousands of small projects may harm the environment and be hazardous to public health. Funds are often not prepared to cope with environmental problems. Very few of them have environmental experts on their staff. If communities take over projects, they need special training in environmental issues to ensure proper knowledge about the environment. Gauging environmental impacts will take considerable monitoring which, at this point, is not being done.

Samuel Morley, Senior Advisor, Social Programs and Sustainable Development Department

The IDB's measures of the impact of the funds and the outstanding issues and conclusions from the IDB study are summarized here.

Impact: the limited scope of social funds

Despite the large amount of resources that the IDB and the World Bank have been lending to the funds, their scope is small. Only one fund in the region, Nicaragua, spends as much as 1 percent of the gross domestic product (GDP) in its fund; only three countries—Chile, Panama, and Uruguay—spend more than US$15 per year per poor person. And the poor countries on average spend less than US$10 a year. In other words, the impact of these funds is necessarily small, because their scope is fairly small.

Small impact on employment and incomes

The IDB began its study thinking the funds had a major impact on employment and income. Our study shows the estimates we made. We collected the data on employment generation in all the funds and expenditures per year on average in the funds. The study found that the impact of the funds on employment and income is small. Only the first emergency fund of Bolivia added more than 1 percent per year to the total number of jobs in the economy. Only three funds in the region added more than 0.5 percent to the number of jobs. In other words, the funds did not have a major impact on the supply of jobs in the economy.

The IDB's conclusion is that funds really are not important generators of employment or income. Most of the jobs created were temporary. Most of the local employment or virtually all of the local employment was for unskilled labor at wages equal to or below the minimum wage in the region, not an above-poverty wage. The total expenditure of funds was not sufficient to move people out of poverty. Some part of that total expenditure went to material and to skilled labor that came in with the contractors from outside the poor communities.

Improved living conditions of the poor

So what was the impact, then, of these funds? The IDB's conclusion is that social funds' impact is not on employment and income. The big impact is on improvement in living conditions. The funds deliver government services to poor communities that never had them before; they develop simple systems of targeting based on basic needs, and they build simple social infrastructure quite efficiently at low cost. They improve the living conditions of the poor even if the measured income of the poor does not go up very much.

Social funds symbolize the determination of government to do something to overcome the abysmal living conditions of people, particularly in the country and particularly in faroff, underserved areas. That is a big contribution. In addition, they helped to pacify countries in which there was substantial civil wars and helped start the process to ameliorate their living conditions.

Beneficiary evaluations

The only impact evaluations the IDB has are beneficiary evaluations; that is, the IDB asks the beneficiaries in the communities how they evaluate what they received: Was it working correctly? Did they like it? Was the choice an adequate one? Was the project sustainable? The IDB study summarized about 800 project visits in various countries in which this sort of beneficiary evaluation was done, and in general, the beneficiary evaluations are quite positive. School projects have the highest evaluations even if a few schools that were built are not operating. Beneficiaries give health posts a high priority, but there are problems in many areas with staffing and supplies.

Sustainability problems

Sustainability problems are much higher in water and sanitation projects, and there are two reasons for that. One reason is that they are technically more complex, and the second reason is that there is no education or health ministry supporting them. The local community has to maintain that sort of project itself. It requires training, and it requires local financial resources, neither of which these poor communities tend to have. In terms of sustainability, this is an ongoing problem for funds.

Should social funds be temporary or permanent?

Whether social funds should be temporary or permanent is a fundamental issue, especially among funds in Latin America, where the decision has not been taken. As everybody has said, funds were originally started as a response to a macroeconomic or social emergency, but that does not imply that they should be closed after the economy recovers.

From the workshops that the IDB has had in the region, it seems that regardless of whether the objective of funds is expressed as poverty reduction or alleviation, as long as there is a poverty problem, there is a role for a fund. Funds should be thought of as instruments to complement other actions and programs of governments to reduce poverty. What social funds do in any particular country is going to depend on what will help the poor, what the government is doing, and what local conditions prevail. The funds themselves are small. The government does other things. Funds ought to be part of an overall plan or strategy for poverty reduction, so that it fits with all other government programs.

Enable social funds to be more homegrown

Multilateral banks need to realize the importance of increased flexibility in the menu of activities they permit social funds to undertake. If the funds are going to be viable, long-term instruments of poverty reduction, then banks have to be more flexible in the type of activities and projects that they are willing to finance. What is going to be effective and reduce poverty depends on local conditions, and banks have to give the people in the country more of a role in deciding what that is.

"One size fits all" is not appropriate for poverty reduction, because conditions are different and because governments' abilities are different. FOSIS in Chile, a fund that was not supported in any major way by the IDB, is a central part of the government's machinery for poverty alleviation and is extremely flexible. The fund concentrates on productive projects, supports substantial microcredit activities, and imparts substantial training to communities.

More national financing

It is also crucial that governments increase their contributions to the resources allocated to social funds if the funds are going to be permanent. The funds are a way to direct more government goods and services to the poor, but they cannot be financially sustainable in the future with 85 to 90 percent of their resources coming from external donor agencies. Nobody can claim that funds are really successful or that they are sustainable until the countries themselves attach sufficient importance to what they do to pay a greater share of the costs.

Evaluating social funds projects

The benefits of nonemergency fund operations are the services that come out of the infrastructure they build, not the income generated during construction for carpenters and bricklayers.

In evaluating fund projects, the value added as a result of the extra services coming from the project should be considered. This distinction is relevant for projects that upgrade or replace infrastructure, as opposed to those that build new infrastructure. To assess the value that is added as a result of a project, the service available before the project must be compared with the service available after the project. It is the improvement in the service that emanates from the project that is a mark or measure of success, not the disbursements. The point is not how much is built, but the improvements in living conditions that are caused by the building.

Social funds and the role of the state

Social funds should not replace the public sector in tasks that are the government's inherent responsibility. To do so can undermine ongoing public sector reform and institution-building programs.

The objective of funds should be to reinforce and broaden, rather than supplant, the role of state institutions in the social field. Undoubtedly, in many countries, fund portfolios are going to continue to have schools and health posts and other such social projects because funds have been shown to be effective in that role. However, that is really an interim solution until the management and operational procedures developed by funds can be transferred to the social ministries or to the municipalities.

Training and community development

All funds should be devoting more resources to training and community development. It seems there are two parts to that. First, it will help to guarantee that projects are sustainable after they are built; second, the training will help poor communities, particularly the very poorest communities, to develop effective projects and teach them how to raise resources for themselves within or outside the government. Working with community development is the kind of training that the funds have a role in providing to communities. FOSIS is a good example of this.

Transparency to avoid the pitfalls of political patronage

On the political side, mechanisms for the rapid disbursement of project grants to poor municipalities have an obvious potential for partisan patronage and for political advantage, particularly during election processes. This has to be faced. To reduce the improper management of financial resources, it is critical to adopt transparent and objective selection criteria for projects. Additionally, to ensure long-term support for funds by international donors, it is important that technical staff are not treated as political appointees to be changed with each new government.

The need for ex ante evaluations

The current system the IDB is using to measure the success and impact of fund projects, beneficiary evaluations, is really inadequate. What is needed instead is ex ante data on the condition or the availability of the kind of infrastructure that is going to be built. That needs to be in the fund application so that ex post the Bank can see the improvement in the infrastructure made by the fund operation to measure its impact on improved living conditions in the local community. It may never be possible to get an adequate measure of changes in income caused by the fund, but if productive projects are pursued, the IDB will have to decide what sort of ex ante data is needed for that sort of project as well.

The need for more productive projects

An important area in which there is widespread interest is productive projects. The IDB's evaluation could not find a clear-cut case for either success or failure. Some worked, some did not. Multilateral agencies have to be more pragmatic in areas with large pockets of structural unemployment, poverty, and few income-generating activities. The communities themselves invariably state the need for more than schools, health posts, and water projects: they express the need for some sort of income-generating activity.

The IDB thinks funds should be facilitating the development of productive projects in communities, not necessarily financing them. They need to help the communities find sources of financing. Funds should not be turned into small development banks, as this will probably not work.

There is a tendency to equate productive projects with microcredit. The scope of productive projects is much greater than microcredit, even though microcredit may be an important part. It includes land reclamation, reforestation, irrigation, feeder roads, and so on. There are a number of other things that multilateral banks can consider as ways of helping communities develop income-generating projects.

Part III

A Close Look at the Key Issues

7

Parallel Thematic Session: Social Funds–From Responses to Emergency to Development

Session Leader	**Marco Camacho**, Director, Social Investment Fund, Bolivia
Resource Persons	Constance A. Corbett and Qaiser M. Khan (WB)
Facilitator	Maurice Aaron Sterns (WB)

Session expectations

This session examined the problems faced by social funds in their transition from institutions with short-term, emergency response objectives to ones with longer term, developmental objectives. Can such a transition be accomplished with minor organizational modifications within a short time? What lessons can be drawn for the design of a social fund, given the likelihood of an extension of its life? A desired outcome of this session was a set of design recommendations to ease the transition of a social fund when its life is extended.

Main Points of the Presentation

The changing context for the social fund in Bolivia

The first emergency social fund in Bolivia, created to operate separately from state institutions, came into existence at a time when the state was highly centralized and incapable of responding to the needs of the country, and the regional structure was too weak to foster development. In 1991, the emergency social fund gave way to the first social investment fund (SIF). In the absence of national or sectoral policies, the social fund set investment priorities and managed the project contracts with little community participation.

Constitutional reforms introduced in 1994 defined three tiers of government: central, departmental, and municipal or local. Central government sectoral ministries are responsible for regulating the work of the sectors. Municipal governments are responsible for investment, execution, administration, control, supervision, and operations and maintenance (O&M) of the infrastructure in the health, education, production, and social sectors. The Popular Participation Law legally recognizes community organizations as representatives of the civil society before the state and provides mechanisms for their participation within the municipal context in needs identification, project prioritization, development planning, works execution, and services administration.

Transition of the social fund

The second social fund was concurrent with the decentralization that gave legitimacy to a new range of development actors at the national, regional, and local levels. Democratic systems were being founded, all mayors and municipal council members were to be elected, and norms for the sharing of resources with municipalities were being established. At the central level, the Ministry of Human Development was responsible for the articulation of social policies. These policies required interventions within a framework that entails participatory and gender-sensitive planning for technically sound projects.

As an investment instrument for implementing the government's social policy, the social fund underwent a transition. Its organizational and institutional structures was modified to promote technically sound municipal investments that were defined through participatory processes, with which the funds had little familiarity. The fund decentralized and established departmental units for technical administration, financial administration, project evaluation, and project implementation, as well as a department for the preapproval of projects through departmental technical committees. Responsible at its central level for overall control and standards setting, the social fund in Bolivia facilitates and expedites the process of transferring social investment-related tasks to municipalities over time.

What did the social funds have to do differently?

The fund no longer coordinates investments with ministries, but rather invests in accordance with social sector policies. This transition required managerial and technical staff to be trained in social management and in building social capital to enable them to facilitate participatory needs identification and planning at the local level. Capacity building of municipalities in project implementation and management of municipal investments as defined by a national program for municipal strengthening is now a major component of the SIF's program. Community needs are communicated to municipal governments; municipalities assess feasible projects based on their local budgets and negotiate projects to be supported by the social funds.

Social funds sector investments based on classification of municipalities

Social fund investments, limited to localities of 5,000 or fewer inhabitants, take place in education, health, basic sanitation, and institutional support projects. Bolivia's Ministry of Finance (MOF) has defined some of the 311 municipalities as creditworthy and capable of generating their own resources. These are eligible for loans from the central government as well as from the SIF. Another group of municipalities have been defined as too poor; they are eligible to receive concessional resources as grants. The cofinancing policy of the fund is in keeping with MOF's categorization: creditworthy municipalities receive 50 percent cofinancing from the fund for projects they identify, while the poorer municipalities receive 80 percent. Through cofinancing, the social fund seeks to ensure that investments conform to rules and norms defined by national sector policies and meet the needs of the people as presented to the fund by their municipal representatives. A total of US$200 million from taxes is distributed by the central government among the municipalities, with 10 percent of the amount earmarked for administrative and recurrent costs.

While other social funds can learn from the experience of Bolivia, it is important to remember there is no recipe for an easy transition applicable to the funds that exist today. The procedures of an emergency fund are determined by the nature of the emergency. The fund requires an enabling environment supported by the country's government to evolve into a development-oriented institution. These changes cannot be brought about in the short term, just as they cannot be realized without the simultaneous transition by other government institutions to a more participatory direction to development.

Discussion

Participants debated whether infrastructure projects executed by ministries and line agencies have less cause to suffer from technical problems that reduce their useful life as compared to those executed by funds. When projects are executed by technically weak entities, be they communities or municipalities or contractors that are not technically adept, poor design can impact their useful life. Inadequate arrangements for project O&M have been another important factor in the reduction of usefulness. Focusing on the links between sustainability and project quality, the discussion reviewed experiences, attempting to strike a balance between community involvement and the sustainability of projects.

- To bring about a better balance between community involvement in project implementation and the quality of projects delivered, the social fund in ***Eritrea*** undertook an intense community capacity-building exercise despite the significant implications for overhead costs. As an emergency response mechanism, the social fund had been successful in terms of quantitative indicators. There were, however, marked shortcomings in the quality or works delivered, rendering sustainability of investments questionable. The government chose to coordinate the allocation of resources between the MOF and the line ministries so that ministries would be committed to include social fund projects in their budgeted plans.
- The social fund in ***Mexico*** is focusing on strengthening the technical and administrative capabilities of municipalities and community organizations that participate in social fund subprojects to stress sustainability. In its experience the quality of public works has been poor, regardless of who executed projects, government agencies or community groups. There is, however, a striking difference in the willingness of communities to participate in the O&M arrangements for projects executed by the fund, as opposed to projects executed by public agencies.
- In ***Angola***, the social fund is positioned as an autonomous institution under a technical ministry with partnerships with line ministries, NGOs, and local organizations. The social fund has set up nine decentralized technical teams that work directly with communities. Communities contribute 10 percent of the project funds directly and receive 90 percent of the funds via written contracts with representatives of the community, be it a church or another NGO. The social fund then gives technical support to communities to maintain the quality of the infrastructure that is delivered.

Focusing on the differences among mission, attitudes, orientation, and the changes in skill mix required when a social fund transitions from a short-term to a long-term institution, the discussion explored questions such as: What are the implications of the transition for the scope of activities and the sectoral emphasis of investments that a social fund supports? What are the changes in modalities that affect procurement requirements, coordinating mechanisms with ministries, and community participation?

- The initial scope of activities supported by the AGETIP in ***Senegal*** was to meet the very short-term needs of employment generation. By its third phase, the scope of activities had expanded to integrate local government activities with those of the AGETIP's, so that it did not substitute for local government. The initial staff skill mix that focused on contract management changed to include expertise in municipal finance, local government development, participation, and aptitude that facilitates the adoption of appropriate technology.

An important distinction was made on the issue of staffing needs: staffing was not always related to the current phase of the social fund; it has to be geared to respond to the general needs of the country as well.

- The social fund of ***Yemen***, in order to make inroads into the traditional social system of the country, hired women community development officers in its very first phase to facilitate interaction and involvement of women as well as men of the community.

There was some agreement that transitioning social funds could be classified broadly into three stages of evolution, from the first stage when they distance themselves from existing government institutions to a transition that focuses on developing more harmonious relationships with government agencies.

- The first stage of a social fund can be described as one of very little insight, high visibility, and ability to deliver infrastructure quickly without asking itself too many questions. Staff with strong technical skills is characteristic of this stage with significant numbers of architects and engineers.
- The second stage has more development-oriented vision, when questions about the sustainability of infrastructure begin to be asked: project quality, design standards, and financial sustainability from the perspective of O&M. Technical skills evolve to a higher level of sophistication, and technical alternatives for the design of the infrastructure are likely to be explored.
- The objectives of the third stage could be distinguished by a move away from delivering infrastructure to building sustainable communities through the delivery of infrastructure. At this stage, the staff skill mix changes to include professionals with greater competence in issues related to social organization, so that technical solutions can be modified as appropriate for the social context.

Substantial discussion focused on the evaluation of social funds as they graduate from the emergency stage. Clearly evaluations had to take into account the changing objectives of social funds as they transition. What indicators could be used to measure success? Who should conduct the evaluations? Concern about the objectivity of self-evaluations was expressed, because they may not be independent of the implementing agency.

Quantitative indicators based on short-term measures indicate that social funds have been effective and efficient as institutions; however, when they move toward a more development-oriented focus, quantitative indicators of progress become less useful in determining how effective and efficient a social fund is. Experience has shown that social funds that conduct beneficiary assessments as part of their own learning process, not only to fulfill donor requirements, acquire the capacity of developing tools and outreach instruments that are much more effective than quantitative indicators.

Recommendations

- Social fund objectives need to be redefined within the national poverty reduction strategy and integrated with sectoral policies. Their investments should concentrate on the neediest regions and communities.
- While support at the highest political levels is necessary, funds can be protected from political interference by a stringently defined mandate and beneficiary selection criteria.
- Funds should consider retraining their personnel in capacity building within communities and NGOs. They should obtain staff specialized in social sciences who can be effective within the new mandate for community participation.
- The quality of projects needs to be sustained. Indicators need to be defined for participatory processes, institutional development, and improved quality of life in target communities, so that reliable evaluations can be conducted.

8

Parallel Thematic Session: Financial Resource Mobilization for Social Funds

Session Leader	**Hussein El Gammal**, Managing Director, Social Fund for Development, Egypt
Resource Persons	Jay Chaubey and Michael L. O. Stevens (WB)
Facilitator	Anis Dani (WB)

Session expectations

In examining the problems faced by a social fund when its mandate is widened and its life extended, this session focused on three major concerns: (1) the "dependency syndrome" that can jeopardize basic structural adjustment measures; (2) raising beneficiary expectations in a financially unpredictable environment; and (3) shifting donor priorities. How can these concerns be addressed in the design of a social fund? A desired outcome of this session was a set of design recommendations for the optimal financial structure of a social fund and for the financial sustainability of its operations by raising resources in the national context.

Main Points of the Presentation

Objectives

The main objective of the presentation was to illustrate how a long-term perspective, since its inception, has guided the design and development of the Social Fund for Development of Egypt (SDF) and the issues and challenges it faces as it strives to become financially sustainable. As a consequence of its strong emphasis on finding sustainable approaches that can be emulated by government agencies over the longer term, the social fund has attempted to facilitate the forging of relationships between organizations that can be transformed into more permanent and financially sustainable units over time.

Programs of the Social Funds for Development

The five core programs that the SDF supports are:

- ***The Public Works Program*** provides part-time jobs through labor-intensive works using local labor. It has the added benefit of providing improved transport between villages, as well as making improvements in water supply, drainage, and sanitation.
- ***The Community Development Program*** finances income-generation and employment-creation activities, social development projects, improved delivery of essential community services, credit for working capital and equipment for household production, grants for establishing and maintaining primary health care, and vocational training for youth and the unemployed.

- ***The Enterprise Development Program*** provides credit and technical assistance packages that include training for entrepreneurs in marketing and management. It generates permanent jobs for about three to five employees per loan and delivers training to aid the success of microenterprises.
- ***The Labor Mobility Program***, without subsidies from the government, provides local industries and small entrepreneurs with the following: appropriate training to upgrade skills in areas where the demand for trained technicians exceeds the supply; training to facilitate skills development for labor affected by public sector layoffs; labor restructuring; and retooling of specialized vocations to meet the demands of the market.
- ***The Institutional Development Program*** focuses on capacity building of intermediaries and NGOs.

Rationale for assessing scale of interventions

In the absence of a critical impact, a fund risks being judged unworthy of merit. The SDF believed that the community, government, and regional unemployed groups would perceive that it had contributed to creating jobs only if it generated at least 10 percent of the jobs required by national targets. This approach of setting a threshold for targeting and creating impact guided the assessment of financing requirements for all programs.

The structure of linkages between the fund and the government's agencies

SDF's organization structure was designed to be flexible and to facilitate the mainstreaming of pilot methodologies into the workings of ministries and government departments. This was important to enable the dynamic transformation of government entities from delivery-oriented to policymaking and strategic planning organizations, as decentralization advanced and reforms became entrenched. The fund is established as a quasi-government agency, with its board consisting of government and nongovernment actors: the chairman of the board is the prime minister who chairs Egypt's Council of Ministers as well as the Council of Governors, thereby ensuring political support at the highest level. There are ten ministers on the board of directors, thus enabling synchronization of SDF's plans with relevant government agencies. Six public figures representing the private sector and civil society are members of the board, thereby assuring the responsiveness of the fund to the needs of the private sector and the people. A regional SDF office is in each of the 26 governorates, where it manages core SDF programs and the execution of subprojects.

Issues that the SDF is groping to address

Egypt's SDF is likely to be confronted with the following two issues: the problem of a dependency syndrome, and the problem of sustainability.

A ***dependency syndrome*** characterizes the risk of the government developing unrealistic expectations of the SDF and attempting to transfer the blame for its own failings onto the SDF. The involvement of key ministers on the fund's board should keep the government aware of both the potential as well as the limitations of the SDF and help defuse undue accusations of failure if the need arises.

Sustainability refers to subprojects financed by the SDF and to the SDF as an institution. The SDF has managed to achieve a reasonable degree of sustainability of subprojects by requiring a certain amount of financing from sponsoring agencies before the implementation of public works projects. Sustainability of the institution, however, is a more complex issue. Mobilizing donor resources requires confidence-building in the effectiveness of the program as well as in the use of resources. This takes time. At any point during this process, donor priorities or goals may change, and funds, like the SDF, need to be sensitive, proactive, and responsive to such situations.

Discussion

The discussion focused on the difficult issues of governance and public sector management deficiencies that contribute to the need for a social fund and on the relationship between a fund and the government's machinery. The discussion addressed the immediate concerns of managing a social fund and its appropriate institutional roles when a social fund's life is extend ed. The following issues were raised during the discussion:

- Funds are justifiable instruments during periods of adjustment, when the government has a limited capacity for domestic resource mobilization, as well as in situations where government is missing or weak, that is, where the ministries lack capacity to deliver antipoverty programs or are unable to deliver services as effectively as a fund.
- Development agencies recently expressed the view that gains of macroeconomic reform can erode very quickly, perhaps in two or three years, unless the social and economic enhancement of target groups is pursued for a longezr time. The kinds of activities a fund typically finances need to be supported for a reasonable number of years beyond the achievement of economic stabilization.
- Social funds have demonstrated that they can be catalysts for change. They have helped focus attention on expenditure deficits in social sector ministries, generated additional resources for them, and improved their levels of effective spending.
- Social funds expect a commitment from their governments to better define the roles of line ministries, whether it is service delivery or policymaking. This clarification is essential if continued financial support for social funds is to be meaningful.

Concern was expressed about the pressure often applied by development agencies to replicate one model of a fund in all countries, regardless of the specific contexts. Dependence on donor finance prevents funds from developing the indigenous approaches that are necessary for success.

- The ***Ecuador*** social fund depends completely on external donor finance. Although raising resources for its second phase was easier for the social fund than for its first phase, donors seemed inflexible in allowing the social fund to develop an approach that was country-specific and more suitable to local needs, despite the success of the first phase.
- The social fund of ***Zambia***, a direct descendant of the Bolivia social funds, encountered a lack of flexibility in external donors during preparation of its first phase, as they attempted to replicate the Bolivian experience. Consequently, during implementation, provisions and procedures had to be constantly revised and adapted to the Zambian context. However, preparation for the second phase was done entirely by the Zambians, and the credit agreement was negotiated with the World Bank on the basis of the Zambian position.
- The ***Egypt*** social fund encountered initial resistance from donors, especially U.S. Agency for International Development (USAID), to programs for job creation through small and microenterprise development and execution of labor-intensive public works. It was under pressure to restrict its activities to financing severance pay for workers made redundant by privatization and some income-generating activities for low-income groups. It took two years of negotiation to arrive at an "Egyptianized" concept of a social fund.

The discussion then focused on a search for ways to replenish funds, once the first tranche of donor funds was exhausted. What can social funds do?

- ***Benin***'s capacity to reimburse loans, even when they are on soft terms, is limited, given the country's indebtedness. If the government did not request more financing, managers of social funds had to imitate managers of a commercial enterprise. They explained the philosophy of the fund's activities to arouse donor interest and then solicited financing from them. Donors appeared more willing to underwrite the fund's programs after the successful pilot phase, which had been supported by the World Bank.
- When the ***Egypt*** SDF found that all its resources would be committed sooner than expected, it began requesting replenishment from donors using two arguments: first, that the economic reform envisaged was far from complete and if employment was not generated, social unrest could jeopardize any gains made; second, given the success of the first phase, replenishing the social funds was reasonable so that the fund could continue to expand its operations.

There was participant agreement that possibly the only way for a fund to tackle structural poverty was to support productive projects. International banks, however, are reluctant to support productive projects, particularly when they involve land purchase or land reform.

The discussion then focused on strategies that could eventually help a fund to graduate from dependence on external donor finance. If a fund concentrated on the development of enterprises and microenterprises, could such programs be made self-sustaining over time with the creation of mechanisms like revolving funds? Was there experience with other ways of financing microenterprise development?

- The World Bank is supporting ***Bangladesh***'s Poverty Alleviation Project, which is similar to a microenterprise program that a social fund is likely to support. The US$100 million credit goes to an NGO and is used entirely for microcredit. Initially the NGO was supported directly by the government, but after several years of operation, the government requested support from the World Bank.
- By the end of its first two phases, ***Egypt***'s SDF will have capitalized about US$600 million to US$700 million with its Enterprise Development Program, making the fund about 60 to 70 percent sustainable by the year 2000. The interest rate charged to beneficiaries of the program is significantly higher than the interest rate the SDF has to pay. In April 1995, the SDF's obligation to the government of Egypt was discharged. By 2000, the Enterprise Development Program is expected to transform into a sustainable institution that will facilitate the leveraging of credit and technical assistance from a multitude of banks and agencies.

On cost recovery for infrastructure projects, participants agreed social funds should not rely too much on written agreements with line agencies and other government entities for recurrent costs, because they are often not backed by available resources. Private management of services and build-operate-transfer types of projects for operations and maintenance of infrastructure were suggested as possible avenues for recovering recurrent costs. Social funds could learn from other programs that successfully manage cross-subsidized repayments from different user groups and perhaps emulate them to enhance cost recovery.

Recommendations

- Credit programs should be an element of social funds to facilitate the creation of a revolving pool of resources.
- As social funds mature, they should try to mobilize resources from local institutions and donors and eventually to borrow from commercial sources.
- Social funds should raise additional resources through financial participation of the community, which can supplement public investments in rural areas.
- The mandate of social funds should be flexible, so that they may eventually transfer to line ministries or to local governments activities that are their ultimate institutional responsibility, while retaining those that do not belong to other institutions.
- Their organization should be parallel to that of the government, so that their activities can be in line with the policies and plans of ministries and sector agencies.

9

Parallel Thematic Session: Role of NGOs in the Design, Management, and Implementation of Social Funds

Session Leader	**Jane Covey,** Executive Director, Institute for Development Research, United States
Resource Persons	Carmen Malena and Adriana de Leva (WB)
Facilitator	Voltaire F. T. Andres (WB)

Session expectations

In examining the institutional autonomy of social funds, the demand-driven nature of project proposals, and broad stakeholder participation, this session assessed the level of interaction between social funds and nongovernmental organizations. Its outcomes were recommendations for (1) a greater role for civil society in identifying social funds as antipoverty instruments; (2) the use of social funds as vehicles for strengthening community organizations; and (3) the creation of a stronger role for social funds in the definition and implementation of a national social policy.

Main Points of the Presentation

Objectives

In posing the question "Are social funds, as currently structured, governed, and implemented, actually bringing to the poor communities and target groups the benefits they are intended to bring?", the presentation's objective was to expand the discussion beyond the narrow goals of social funds to the longer term development needs in a country. Based on the World Bank evaluations of social funds as well as on the critiques of social funds by the NGO sector, the presentation aimed to inform on advocacy efforts and to foster a policy agenda for dialogue and action on issues that are of particular concern to NGOs.

The NGOs' perspective on social funds

The three defining characteristics of social funds are (1) autonomy, (2) responsiveness to demand through demand-driven projects, and (3) stakeholder participation.

Autonomy

Administrative flexibility and political independence are conceptually important elements that contribute to autonomy, which is a real strength of social funds. Stronger public accountability mechanisms could help protect the political autonomy of funds. The achievement of autonomy would be facilitated by stakeholder participation in the decisionmaking at local, national, and subnational levels. These stakeholders must include representatives of poor groups that are the intended recipients of social fund investments.

- The ***Jamaica*** social fund includes mechanisms for ensuring autonomy, in large part due to the lobbying and advocacy of the NGO Council of Jamaica. Two of the seven seats on the national board of the social fund are allotted to civil society representatives. As a result, the people whose mandate is the welfare of the ultimate fund stakeholders have a part in the decisionmaking for the governance of social funds. These representatives of civil society should be able to influence the macro design issues of the fund that are of particular concern to the NGOs.

Responsiveness to demand through demand-driven projects

For a social fund to respond to demand, the capacity of recipients to demand a project is essential and critical. In the absence of this, social funds cannot respond to the priorities and concerns of poor communities. Improving the capacity of a community to express its needs is essential for the effectiveness of funds. How can the voice of the community be heard and expressed in an effective way? How can consultation and participation be brought about, not just with the private sector contractors, intermediaries, and NGOs, but with the community? In some countries, under some conditions, at the point of inception of a social fund, there may be no effective way to institute consultation and participation: communities may not be well organized, institutional infrastructure at the community level may be lacking. This is an area of particular concern to NGOs.

- In ***Sao Tome and Principe***, the social fund had to eliminate one of a social fund's defining characteristics: the demand-driven nature of projects. Communities were unable to select projects they felt would be most helpful for them. The project's menu consisted of preappraised projects, because the social funds did not perceive communities as organized adequately to ask for what they wanted and needed. Investing in immediate interventions was considered more important by the social fund than investing in the longer process of developing community capacity to demand projects throughout the country.
- In ***Guatemala***, a 1994 study found that there was a lack of community or NGO involvement, even in cases where the funds professed community ownership of projects. Rapid disbursements were favored over community organization and participation. Schools were built five times faster than the rate at which line ministries deliver school buildings. A 1996 study of the same fund found that in most cases no mechanisms were in place to encourage local organizing and priority setting, and the local people perceived social funds as penalizing such activities.

Stakeholder participation

Of the three defining characteristics of social funds, stakeholder participation should be considered the predominant one. Of particular concern is the fact that ill-timed and inadequate stakeholder participation results in the poor macro design of funds. Consequently, mechanisms for establishing community processes that may be appropriate to a particular culture or capability are not established. Inappropriate menus of subproject options that do not lend themselves easily to sustainability at the community level are developed. As funds are maturing, the reasons for analyzing tradeoffs between emergency and long-term investments are of great importance to NGOs and to the communities they work with.

- The social fund in ***Argentina*** consulted with selected target communities to define subproject menus. Many NGOs have a seat on the provincial bodies that decide which communities are eligible for the support, thereby being involved to some extent in the governance of the fund.
- The ***Zambia*** fund's primary partner is the community, as opposed to other intermediaries. Communities have decided to focus on human capital development. They have chosen longer term development processes over emergency interventions.

Questions for the session discussion

Limited local capacity is an often cited constraint for the expression of local demand and priority setting. Adequate capacity requires investment in almost all parts of the developing world. The NGO sector feels that, so far, this has not been addressed systematically. What are the priorities for local capacity building? Whose capacities should be built? How should this process be undertaken? How should it be financed? What is the role of a fund in promoting or supporting government and civil society cooperation at the local level? What structures and processes can ensure participation in governance? What does it take to create a "place at the table" for civil society, and what process will allow its voices to have influence? How can communities be included in the design and evaluation of projects? How can evaluations be an ongoing process for bringing about continuous improvements? What are the payoffs and returns on investments in community participation beyond those that accrue to projects themselves? How can funds be integrated into the local development processes? What mechanisms can facilitate the involvement of civil society in the debate on funds and their role in the articulation of a social policy at the national level? Should civil society be involved in a debate concerning funds and the broader issues of macroeconomic policy? What are the critical concerns that NGOs bring to that debate?

Discussion

Community participation was seen as important an issue to poverty reduction goals as the provision of services and infrastructure. There are, however, conscious and subconscious constraints to facilitating participation, the foremost of them that participation implies the distribution or the sharing of power.

While funds increasingly acknowledge the importance of community participation, guidelines and resources for them to invest in these areas are inadequate or missing. Meaningful and equitable participation requires activities such as broad-based information sharing with a community, participatory needs assessment, consultation with marginalized groups, facilitation of collective decisionmaking, consensus building, formation of local organizations, and training. These activities cannot occur spontaneously, nor can they be implemented free of cost.

The participants felt that ensuring community control and community decisionmaking authority as part of project activities was important. NGOs and community-based organizations should not be considered representatives of the community or voices of the poor. Investments in capacity building are needed at all levels; they are not confined to communities or NGOs alone.

- In ***Zambia***, experience has shown that, without the involvement of sector ministries and district staff, government agencies and communities were unable to sustain their interaction with one another after a project was over. Where NGOs had been used as intermediaries, while the quality of works was better and projects were implemented within a shorter period of time, there was little community ownership as projects were seen as belonging to Oxfam or Save the Children or some other NGO that had been involved.
- In ***Egypt***, the capacity of NGOs to manage programs professionally is a critical issue, especially because most NGOs have a charity advocacy mindset. The challenge for the Egypt fund is going to be to train NGOs to do community development work outside the sectors they specialize in and to train them to mobilize and raise funds.

In recent years it has become increasingly common to consult with NGOs in the design of a fund, but these consultations frequently have been frustrated by a divergence in the expectations of the parties involved. Many NGOs are concerned with policy issues related to broader national social development and poverty reduction strategies. The extent to which NGOs can engage in policy discussions effectively, however, depends largely on the national context. Funds are also perceived by many, precisely or erroneously, as instruments of social policy. As such, they may have to interact with NGOs as full-fledged stakeholders in development policies, in addition to soliciting their advice and technical assistance in subproject implementation.

Government indifference or suspicion toward NGOs was identified as a key constraint to participation of NGOs in government-supported programs. To increase the potential of NGO involvement, funds could first of all recognize the importance of community capacity building and then broaden their scope from an exclusive emphasis on investments in infrastructure to include investments in people and processes and then budget accordingly.

Recommendations

- Social fund programs need to be integrated into a national public investment in long-term poverty reduction, making use of NGO participation and help in preparing country assistance strategies.
- The World Bank should study the role of social funds in macroeconomic policies.
- Donor agencies should negotiate with national governments the roles of NGOs and civil society in the management, design, implementation, monitoring, and evaluation of social funds and formally inscribe these roles in project documents and contractual agreements.
- Social funds should allocate specific budgets for the participation of community-based groups in their activities, parallel to but separate from the financing of NGO interventions.
- Capacity-building activities should become a full-fledged component of the social fund menu, instead of being merely part of administrative overhead costs.

10

Parallel Thematic Session: Decentralization, Local Governments, and Social Funds

Session Leader	**Patricia de Jager,** Director, Federation of Municipalities of Central America, Guatemala
Resource Persons	Tim Campbell and Anwar Shah (WB)
Facilitator	Reidar Kwam (WB)

Session expectations

In examining decentralization and the functional links between municipalities and social funds, this session focused on three major themes: (1) the strengths, weaknesses, and comparative advantages of social funds and municipalities in the 1980s; (2) the changes that have taken place within municipalities with the advent of decentralization in the 1990s; and (3) the impediments to decentralization posed by the current structure of social funds. A desired outcome of this session was a set of recommendations for reorienting social funds to support decentralization and the role of municipalities in social development.

Main Points of the Presentation

Objectives

The main objective of the presentation was to discuss a methodology that promotes coordination among the actors in development, including social funds, to make development effective and sustainable through the advent of decentralization.

Municipal government responsibilities and needs in Central America

If local governments are to keep the welfare promises made to their constituencies, they need to develop the institutional, financial, managerial, and technical capacity to perform in a manner commensurate with their responsibilities. Municipal governments need assistance in promoting participatory democracy, enhancing the generation and collection of local revenues, and training staff to improve their technical and administrative skills.

Innovative and appropriate mechanisms for the redistribution of revenues need to be devised and established to prevent the gap between municipalities and communities from widening. Budgetary transfers from central to local governments need to be direct, transparent, timely, and automatic to enable local governments to plan their operations.

Recommendations for advancing decentralization

A series of forums attended by mayors and specialists have been taking place in Central America to discuss the role of social funds. The objective of these meetings and discussions were to: define guidelines for future relationships between funds, local governments, and NGOs; articulate recommendations for actions and agreements between funds and municipalities in order to advance decentralization and eliminate the hierarchical relationship between them; and strengthen local governments in Central America. In those forums the Federation of Municipalities of Central America (FEMICA) presented a six-step proposal to achieve these objectives:

Step 1

In order to facilitate the coordination of actions at the local level, a general agreement and specific agreements should be endorsed by the National Association of Municipalities. Municipalities should be categorized according to a poverty index, which will be the basis for their required contribution to the implementation of subprojects. The agreement must spell out the financial contributions, technical requirements, implementation, and operations and maintenance responsibilities of all the actors involved: funds, line ministries, and local governments. Agreements for subprojects must be accompanied by a commensurate and timely transfer of resources.

Step 2

A support committee including beneficiary representatives should be created at the local level to ensure the sustainability of investments. The support committee must include representatives of project beneficiaries and of the municipality and must identify available labor for project execution. It should exercise control over the construction and supervision of projects, provide leadership to stimulate and coordinate the collection of user charges and fees, and pursue adequate operations and maintenance of works. The management and operation of completed projects should be jointly shared by and be defined by specific agreements between the support committee and the municipal department of public works.

Step 3

Municipal investment priorities should be determined by the municipality in conjunction with its constituents. Local governments must define creative strategies to facilitate dynamic and participatory planning. Investment plans must consider municipal annual budgets and the resources available. Where such plans do not exist, proposals should be prepared, debated, and developed within the public forums that are provided for the legal framework.

Step 4

The municipal government and the community should be responsible for the management of resources and contracts for the execution of projects. Funds, through financial support, transfer of technical knowledge, and exchange of personnel, should train municipalities to pursue in-depth preinvestment studies, spell out eligibility criteria, and develop technical specifications and project designs. The use of local contractors, NGOs, and local materials should be ensured to facilitate the generation of local jobs, strengthening the local private sector as well as reducing costs.

Step 5

Social funds should build up the capacities of local governments. They can do this by facilitating and supporting the training of municipal governments in public administration, municipal finances, municipal cadastre, tax collection, and the setting of tax rates and user charges.

Step 6

Local governments of larger urban areas should create their own social municipal fund. Counterpart contributions to implement projects could vary in accordance with the classification of municipalities on a poverty scale. The fund could provide resources for operations and maintenance to line ministries, where decentralization has not already taken place. It could be financed from transfers of municipal current savings accounts, central government transfers, other resources received by the municipality and community, and neighborhood-generated revenues.

Discussion

Since Latin America has experienced a proliferation of funds at both national and municipal levels, the discussion focused on lessons related to resource allocation and implementation. Issues and problems of targeting, differences in the perception of local development priorities between different tiers of government, comparative advantages of different institutions in delivering different products and services, and the importance of project software and hardware framed much of the discussion.

Participants agreed that decentralization needed to be an integrated effort and to cover society as a whole, not remain confined to government functions. What were the experiences with decentralization in Latin America? How long does it take to enhance the role of municipalities in the social sector?

- In ***Chile***, since decentralization has been enforced, more than 20 percent of the overall investment budget is transferred to local governments. The social fund itself has decentralized regionally. Its resources are allotted based on development strategies prepared by regional governments and supported by the fund to facilitate negotiations with the central government. Decisions about resource allocation to municipalities in a region are based on the municipalities' ranking on the poverty scale as well as on the willingness of the municipalities to invest their own resources. Within a municipality, the municipal council decides which vulnerable groups should receive the investment.
- ***Mexico*** initiated its decentralization process in 1990. Within the five or six years after the process was set in motion, decentralization touched the population at large and municipalities came to be viewed, not just as top-down institutions, but as the main link between the public sector and communities. In these municipalities, the community manages resources transferred to them; it is in charge of procurement and executes and manages the works.

Substantial discussion followed on the capacity of municipalities to undertake such tasks under decentralized systems, but the participants remained divided on whether there was a certain order or pace that should be followed when implementing decentralization. It was defined more as a wave that had to be ridden when it appeared, rather than as a planned event.

- In ***West Africa*** people with university degrees are rare. The move toward decentralization in the main and secondary cities can be criticized on the grounds of inadequate municipal resources and scarce capacity. However, the perception of the people is that "it can't be worse than what we had: we had no services, all the power was concentrated in the national capital, and we had no local power." Even if fiscal reform in Africa could be immediate, and revenues of local governments could be doubled or tripled, municipalities would still not be able to provide necessary services because their initial revenues are so low. As a result, municipalities have to create partnerships with local actors to find new ways of producing goods and delivering services.

Exploring what should come first, decentralization or institutional strengthening of municipalities, the discussion focused on necessary conditions, prerequisites, adequate access to resources, and enabling frameworks for decentralization.

- In ***Central America***, despite political decentralization and mayoral elections, there is as yet no political will to enforce administrative decentralization. Given the acute levels of poverty, however, the municipalities in the region are unwilling to wait for institutional reforms to be in place, given the mandate to act in the social sector.
- The concept of decentralization is strongly embedded in ***Zimbabwe***'s constitution. Local governments are explicitly recognized, and decentralization is seen as a rational basis for revenue sharing in the country. However, local government development is constrained by the legal framework, which prevents municipalities from generating their own revenues and becoming self-sufficient.
- In accordance with the policies of ***Nicaragua***, local governments are entitled to 2 percent of the sales tax collected. This percentage is, however, often reduced by the central government, and no replacement is provided. It is not possible to exercise the autonomy that comes with decentralization in the absence of financial autonomy and without the prerogative of generating revenues.

On the role that social funds could play in facilitating decentralization, the participants agreed that finding a way to link investments made by funds with municipal development objectives was important, so that funds could become a new tool to give real meaning to decisions made by locally elected leaders.

- In ***Nicaragua***, the social fund, with the support of the Inter-American Development Bank and of the World Bank, is initiating training and management programs for local governments.
- The social fund in ***Mongolia*** includes in its program capacity-building activities for national, regional, and local governments, as well as for NGOs and grassroots organizations.
- In ***Trinidad and Tobago***, the Ministry of Social Development organizes workshops to train the staff of local governments and of NGOs together to enable them to articulate their view of the country's development needs and facilitate their advocacy efforts for change. In addition, pilot projects are implemented to stimulate communities to define their own needs and formulate their own projects.

While recognizing the role of social funds as catalysts for participatory planning, the participants felt caution should be exercised, because too many development mandates could be assigned to a single institution. The efforts of a fund in promoting decentralization need to be carried out within the context of national strategies, in which the wide array of development actors have clearly defined roles. There was consensus that the objective of funds is not to promote democracy, but rather to promote processes that strengthen the development of human and social capital.

Recommendations

- Local governments should avoid replicating centralized decisionmaking processes and ensure that investment decisions are participatory and taken at the lowest appropriate level. Furthermore, local governments should ensure the principles of subsidiarity, transparency, and accountability in the use of their resources.
- Local governments must strengthen and diversify their financial resource bases through better revenue collection, as well as through the identification of local sources of revenue and the increase of national transfers.
- Social funds should enhance its coordination of efficient local social investment and work closely with municipalities to ensure the sustainability of projects.
- Where decentralization is in place, social funds should foster the creation of municipal funds for local social and economic development, assist municipalities in obtaining access to external sources of funds, and transfer their expertise in identifying locally needed subprojects.

11

Parallel Thematic Session: Social Funds, Private Sector Development, and Microenterprises

Session Leader	**Lamine Ben Barka**, Director, AGETIPE, Mali
Resource Persons	Bikki Randhawa and Peter Watson (WB)
Facilitator	Fredrick Edwin Nunes (WB)

Session expectations

This session, highlighting the success of AGETIPs in the areas of private sector development and employment creation through delegated contract management and the promotion of labor-intensive techniques, was expected to address the following questions: (1) How to ensure a sustained volume of work in the future to keep newly created enterprises in business? (2) How can these enterprises transform themselves to be able to compete for contracts requiring a higher level of technology? A desired outcome of this session was a set of recommendations for sustaining the gains made by the private sector through the investments made by AGETIPs.

Main Points of the Presentation

Background

When the AGETIPE was set up in Mali, urban areas were marked with high unemployment rates and growing social tensions that required quick intervention to generate jobs and avert crisis. The only sector that generates jobs rapidly and efficiently is the public works sector; hence, it was chosen for the social investments.

Traditional management of public works

The government was the main source of contracts for public works. However, the construction sector was marked with lethargy. No policy to promote the development of the private sector existed. Public works procurement procedures were cumbersome, redundant, and not transparent; there were long delays in making payments for contracts executed, often up to two years. The limited market for construction contracts was accessible only to the larger companies; small companies had no access to bank financing and were not competitive on account of their size and their limited financial, technical, and managerial capacities.

While there are many urban centers in Mali, they were devoid of any business activity. Before AGETIPE, all project proposals could originate only from Bamako, Mali's capital city, and companies could access bidding documents only in Bamako.

Creation of AGETIPE Mali

The main objective of the Mali AGETIPE, set up in 1992, was to reduce urban unemployment by generating jobs through the execution of public works and labor-intensive construction techniques. As AGETIPs of West Africa have become specialized over time in the delegated contract management of public works, their objectives have broadened to encompass: (a) improving the performance of small-scale construction companies in the implementation of contracts; (b) enhancing their capacity to execute a wider range of contracts; and (c) improving the technical skills of individual workers. As delegated contract management companies, AGETIPs do not have their own assets, but they manage roughly 10 percent of the total investment in the construction sector and have generated roughly 20 percent of the jobs in the sector since their creation. Of the initial fund of US$240 million made available to AGETIPE, 30 percent came from Mali's national budget.

Guiding principles

To realize these broader objectives, AGETIPE took the following steps:

- It enabled project proposals to be issued in the cities where the works were to be carried out. Contractors therefore had to assess local conditions before making their bids. An added benefit of this measure is the generation of commercial activity in secondary cities.
- It adopted procedures that enabled AGETIPE to move to the procurement phase within ten days of issuing a project proposal.
- It reduced the deadline for payments to enterprises to a maximum of a fortnight upon submission of a request for payment. This procedure enables quick reimbursement to a company that can then execute its work within contractual deadlines.
- It prequalified a number of existing consulting groups and contractors based on capacity classifications. This enabled fair competition for all companies with the same capacity. Being prequalified by AGETIPE and thus indirectly selected by the state, companies can access tenders much more promptly.
- It catalyzed the development of a "contract culture" among companies by requiring adherence to a basic code of ethics. This code requires companies to acquire insurance policies to protect themselves against potential problems in the implementation of works of public interest.
- It lobbied the banking sector for its agreement to guarantee small companies. Experience has shown that companies executed work in accordance with contracts and that it has not been necessary to call upon bank guarantees to complete works. The banking sector has come to trust the private sector over time.
- It established a training component to improve the technical capacity of companies, targeting training on management, administration, finance, and technical supervision of building sites.

Major impacts of AGETIPE in Mali

A far-reaching impact of the AGETIPE in Mali has been the introduction of an era of entrepreneurship. This has:

- Established confidence between the government and the private sector.

- Changed the fundamental relationship between the banking sector and the construction industry.
- Helped numerous enterprises upgrade from an informal to a formal status.
- Catalyzed significant activity in the construction materials industry.
- Facilitated a considerable increase in the number of actors that participate in the sector: engineers, graduates fresh out of university, laid-off government workers, specialized workers wanting to work independently, businessmen setting up their own companies, and so on.
- Supported an entire informal sector of food sellers and various retailers around construction sites.
- Enhanced the technical capacity of the sector to a point where no company's bids are turned down because of noncompliance with tender specifications.
- Resulted in an injection of more than $100 million into the country's economy. About 80 percent of the money invested by AGETIPE circulates in the national economy, as compared to 5 percent in the past when contracts were executed by foreign companies.

Unresolved issues for the future

Several issues and questions must be addressed with respect to the future demand of public works. Sustainability of the companies that have appeared in the wake of the AGETIPE is questionable in the absence of a flow of contracts. Their future growth in the financial capacity of these companies and their relationship with the banking sector must be considered. Should future contracts prescribe a higher degree of technological complexity? Should small-scale companies be given more technical support? How can the government maintain a critical mass or a continuous stream of investments in the public works sector to keep these companies in business?

Discussion

The discussion revolved around how the experience of AGETIPs in the construction sector could be extended to other sectors. The payment of 20 percent of the contract amount before startup, normal in the construction sector, is not the case in other sectors. The lack of start-up capital was seen as an important constraint in stimulating the creation of enterprises in other sectors. How can small-scale enterprises get access to credit?

- Most social funds in ***Latin America*** have subsidized financial intermediaries to on-lend to the final small borrowers. One exception has been Banco Sol, a commercial bank in ***Bolivia***. This bank is one of the few commercial banks in the world that is catering to the poor and has reached financial independence.
- The social fund in ***Chile*** started out by giving commercial banks a 12 percent subsidy on the capital on-lent to cover transaction costs. In the last five years as commercial banks have discovered that poor borrowers do not necessarily imply higher credit risk, these subsidies have been reduced by half, and financial sustainability of credit programs for the poor is within reach.

Although microfinance programs need to be established to promote the development of the microenterprise sector, the participants felt it was unclear whether social funds and AGETIPs had a comparative advantage in undertaking these kinds of activities. Cases where social funds have supported the development of sectors other than public works through microfinance activities have represented only 10 to 15 percent of the social fund's disbursements.

The public sector, which is the contracting agent, is able to control the demand as well as the supply of infrastructure contracts by helping entrepreneurs develop and enhance their technical capacity. This is not so in other sectors, because the demand for services depends on the general growth of the economy. AGETIPs could intervene successfully and respond to demand in other types of public-sector procurement, such as uniforms for soldiers, policemen, and nurses; sheets for hospitals; food for ministries; and so on. It is conceivable that social funds and AGETIPs could act as intermediaries to establish links between small enterprises and specialized international markets. An important element in changing other sectors is to foster change in the mindset. This change can be made by publicizing the results of pilot activities.

- When the ***Senegalese*** government needed to rehabilitate the national stadiums to host the African Football Cup, the Ministry of Public Works conceded that it would be unable to complete the work in time for the games. ***AGETIP,*** asked to take over the job, rehabilitated all the facilities on time, including fields complete with grass. Unfortunately the Senegalese team lost, and the national newspapers blamed the defeat on the high quality of the playing fields that AGETIP had delivered, claiming that the national team was not used to playing on such fields. However, the demonstration was significant, and AGETIPs are starting to influence the degree of accountability to which ministries are held.

Apart from ensuring transparency in the contracting and procurement procedures in other sectors by favoring smaller contracts, thereby reducing the incentives for corruption, participants agreed that opening up new markets to medium and small enterprises required a trained labor force. Who should be providing such training and under what circumstances?

- ***AGETIPE*** has provided continuous training for all companies, including those that were awarded no contracts managed by AGETIPE. Some companies, unable to receive contracts in their first attempts, were subsequently successful because training enhanced their administrative, technical, and management capacities.

The discussion then focused on the sustainability of subprojects and of enterprises that come into being in the wake of social funds and AGETIPs. On the first issue, while issues of cost recovery are obviously crucial, the participants agreed that the local government's taxation capacity and expenditure authority are also important. On the second issue, there was consensus that central governments have to increase their financing capacity and support policies to support the availability of credit to small-scale operators. Companies cannot deliver on larger contracts that require equipment without government policies that facilitate access to credit. For example, the banking sector in West Africa requires a reorientation to give loans beyond the 90-day deadline they work within at present. Another important element for construction companies to deliver on larger contracts is a system to allow enterprises to rent equipment. In the absence of these two elements, the participants felt that the growth of private sector companies could not be sustained.

Recommendations

- Social funds should reinforce the accountability of public sector management through the delegated implementation of projects by medium and small private operators.
- This approach has so far been applied to public works and construction contracts, but it should be extended to other sectors such as rural development, natural resources management, and trade.
- The competitiveness of medium and small private operators should be supported through microfinancing programs, managed by social funds working through national financial institutions.
- Training programs for small operators should be developed and implemented to improve their professional skills as well as their overall management capacities.

12

Parallel Thematic Session: Designing Social Fund Components—Sectors, Themes, and Access

Session Leader	**Scarlette Gillings**, Director, Social Fund, Jamaica
Resource Persons	Katrinka Ebbe, Deepa Narayan, and Adriana de Leva (WB)
Facilitator	Voltaire F. T. Andres (WB)

Session expectations

In examining the pros and cons of a program approach that defines subprojects that cannot be financed under the social fund as compared to an approach that defines subprojects that will be financed, this session focused on the way the approach itself can facilitate or hinder the access of different target groups to social funds' benefits. What should social funds finance? How should this decision be made and by whom? A desired outcome of this session was a series of recommendations for identifying approaches to the development of subproject menus that facilitate a broader access of marginalized groups to support for social funds.

Main Points of the Presentation

Jamaica's National Poverty Eradication Program

The Government of Jamaica's National Poverty Eradication Program (NPEP) was developed after an extensive consultative process involving the sector ministries, the private sector, community representatives, and NGOs. It has five key elements: (a) poverty reduction activities directly targeted to deprived communities; (b) interventions mainly targeted to unemployed youth and families with children; (c) a welfare system extending effective coverage to more needy persons; (d) equitable access by the poor to quality education and health services; and (e) an enabling environment to support the achievement of poverty reduction. Urgent short-term and effective interventions are needed to rehabilitate the social infrastructure, increase the income of small farmers, reduce urban violence, and improve community and family life. Poor sustainability of social development programs in the past has been a result of resource constraints, persistent and systematic weaknesses in the system of public management, inadequate levels of community ownership of projects, and a lack of technical skills. These in turn were due to a lack of mechanisms for technology transfer so that communities were ultimately unable to undertake a greater role in the management of public facilities.

Objectives of the Jamaica Social Investment Fund

As a key component of the government's NPEP, the objectives of the Jamaica Social Investment Fund (JSIF) are aligned with the broad objectives of national development. Designed to be a demand-driven organization to mobilize and channel resources to low-income and socially underserved communities, the social fund aims to increase the capacity of the public sector, community-based organizations, and NGOs to design, implement, and manage community projects to address specific poverty alleviation priorities. Its activities include social infrastructure, economic infrastructure, social services, and institutional strengthening.

JSIF's target groups

The rural population, women, children, unemployed youth, and the elderly were identified as the target populations for poverty alleviation. This selection was based on studies of leading poverty indicators, the socioeconomic situation, and the status of various social groups in Jamaica.

Positive or negative menu approach?

A negative menu approach, or a menu of subprojects that identifies specific activities that a fund will not finance, has the advantage of excluding benefits in areas that are not identified as high priority. It can provide clear guidelines regarding the scope of activities, make screening and appraisal easier and therefore faster, facilitate monitoring and performance evaluation according to standardized systems, and focus the fund's resources and energies in areas where it has a comparative advantage. The approach has the disadvantage of limiting coverage and raises questions about the exclusion of certain areas. Some terms of exclusion may lead to discrimination against some groups of poor. It also creates gray areas for decisionmakers if they should be called upon to choose between adherence to the rules and bending them to enable flexibility of response when exceptions are called for.

A positive menu approach can become unwieldy, as the inclusion of additional activities must be left to the judgment of the officer. This introduces the risk of unwittingly extending the scope of the fund. It could also render the maintenance of standards and monitoring of activities difficult because of a lack of standardization, thereby making the program inefficient.

Jamaica's social fund approach to subproject menus

A combination of both approaches is being considered by JSIF. The fund identifies a limited range of subproject categories as eligible and additional categories as excluded. A menu will be developed based on the poverty situation of Jamaica, the priorities identified, the mandate and the objectives of the fund, the role and scope of fund activities within the wider social program, an assessment of the impact on poverty of various activities, and considerations of sustainability and judicial feasibility.

Activities to be financed in the social infrastructure sectors include schools, health centers, community centers, day care centers, and water and sanitation projects. In addition, social funds could also assist in building homes for children and centers for pregnant mothers and in family counseling. Economic infrastructure activities to be financed include feeder roads and small agroprocessing facilities. Subprojects that benefit a large number of beneficiaries will be preferred. The determinant factor in the selection of targeted sectors will be the level of need: the sector must be seen as a priority and the subproject financed by the fund should significantly impact poverty. The fund aims to maintain flexibility in selecting projects for funding and intends to conduct periodic reviews and adjust its subproject menu if needed. In this way, the fund will maintain a balance between the targets indicated by the government's poverty alleviation strategy and the actual demand for subprojects.

Discussion

The intention of Jamaica's fund to build social capital by creating social infrastructure was well received by the participants, given that urban violence is a problem in the country. Questions, however, were raised about how the fund would reconcile program definition by sectoral line ministries with its intent to define programs by community demands.

- In order to facilitate the articulation of community priorities, the ***Jamaica*** fund employs a participation advisor. This advisor works through various agencies and consultants to facilitate the articulation of needs and to train communities. Promotion activities in target areas include workshops where the need for projects proposed will be verified with the community's directly by the JSIF. For example, at one point the fund received requests for schools from a certain project area. When staff from the fund went to verify the community's priority, they discovered that what the community really wanted was water resources management more than schools.

Participants felt that if the objectives of a fund were short term, it would be reasonable to work through existing intermediaries. However, if a fund had long-term development objectives, then it needed to have a process focus as opposed to a project focus. Funds could adopt a programmatic approach that would enable them to start by directly delivering subprojects in their initial years and gradually transition to enabling other actors to take over.

Taking note of the emphasis on institution building as a subproject category in Jamaica, the discussion focused on the exchange of experiences from other countries in trying to reach communities directly, avoiding the risk that intermediary agencies' priorities would supersede community priorities in the articulation of project proposals.

- The social fund in ***Guinea-Bissau*** started out with a US$1 million pilot phase. Constrained in reaching communities directly because of a high illiteracy rate in the country, with few logistical means of its own to monitor field activities, it had to channel resources through NGOs with little field experience. By the inception of its second phase, the fund had introduced a fundamental change in approach and started allocating resources to train village-level managers.
- In ***El Salvador***, the fund creates a development committee in each locality where a subproject will take place. The committee defines the community's priorities with the assistance of the fund and NGOs. Counterpart agencies and local governments interact with the development committee, which monitors funds utilized in the implementation of the subproject.
- The ***Malawi*** fund, in trying to overcome the problem of intermediary priorities superseding community priorities, gives resources directly to community groups, thereby also giving them control over the choice of the intermediary agencies they hire for proposal identification and development.

The debate focused on how decisions about resource allocation between process investments and project investments should be taken, and the risks and constraints related to adopting a process focus were highlighted.

- The difficulties that development agencies and international banks face in moving away from a project approach to a process approach stems from their need to report facts, figures, and outcomes against the resources they provide. It is easier to define the resources needed for a school building and to evaluate its impact on poverty education than to quantify the resources needed for a process like empowerment. As a result, despite increasing recognition of the importance of social capital creation, a very small amount of money actually is allocated to it. ***The Inter-American Development Bank,*** for example, allocates just about 5 percent of its contribution to social funds for process-oriented investments.

On the subject of target group access to social funds projects, there was agreement that the finer details of the processes adopted for identification, project processing, and implementation could impede access of target groups to entire sectors. Project approval requirements are often those of financial institutions and donors, rather than based on local abilities. Communities could often be excluded because of the language of project documents, especially in countries where many languages are spoken, illiteracy prevails, or project writing skills are scarce.

Turning to the subject of project menus, the discussion focused on factors that funds needed to take into account. What conditions favor a negative or a positive menu approach?

- If the projects requested appear to be heterogeneous, a negative menu approach should be favored. When the projects requested appear to be homogeneous across a sector or sectors, a positive menu approach should be used. However, an important distinction has to be made between *needs* and *demand*. Needs can often be identified externally, while demand can be expressed only by the people who request a project and are willing to pay for it.
- Technical expertise available outside the fund should be a key factor in determining project menu approaches. Often a fund will find itself working with communities that have access to no other technical expertise. In such cases, a positive menu approach should be favored. When funds finance a menu that includes small-scale irrigation, rural water supply, basic infrastructure or microcredit, the pool of skills needed can be extensive and diverse and may not be readily available.
- Empirical evidence from many countries shows that funds have a high potential for stimulating private sector development. Therefore, once this takes place, the initial positive menu approach can be expanded to sectors in which skills become available in the country over time. In countries where the private sector is already well developed and communities have a range of skills outside the fund, a negative menu may be advisable. Subproject menu choices should be kept open to facilitate demand responsiveness.

Recommendations

- The choice between a project menu that defines the initiatives that can be financed and one that defines only those that are excluded should be based on the local characteristics of poverty and the scope and role of the social fund within the government's overall poverty reduction strategy.
- Participatory research should define the social context of support, and communities should be organized, trained, and sensitized before needs are identified.
- A study to evaluate the impact of institutional, capacity-building, and participatory processes should be undertaken to delineate tradeoffs between investments for physical infrastructure and investments for building social capital.
- A consultative process that provides continuous and vigilant feedback and involves key stakeholders at national, regional, and local levels should be established, and clear criteria and procedures for facilitating the access of marginalized social groups should be provided.

13

Parallel Thematic Session: Monitoring and Evaluation of Social Funds

Session Leader	**Robert van der Lugt**, Principal Evaluation Officer, Operations Evaluation Department, World Bank
Resource Persons	Alan Dock, Juliana Weissman, and Margaret Grosh (WB)
Facilitator	Fredrick Edwin Nunes (WB)

Session expectations

This session examined the efficiency, adequacy, and cost-effectiveness of monitoring and evaluation as distinct elements. Are the monitoring levels currently employed optimal? Do external reporting requirements impact negatively on the internal management of information? Since disbursements for poverty alleviation without long-term sustainability of investments cannot affect structural poverty, are current evaluation approaches adequate for measuring sustainability and impacts of subprojects? Desired outcomes of this session were recommendations for goal-oriented and effective monitoring and evaluation of social funds operations.

Main Points of the Presentation

Objectives

The main objective of the presentation was to analyze the monitoring and evaluation (M&E) of social funds as it is currently undertaken. It was structured in three segments: findings on the M&E of social funds, based on research by the Operations Evaluations Department (OED) of the World Bank; key concepts that clarified the meaning of M&E and guided the discussion; and arriving at a consensus on elements of M&E that should be discarded and defining the future directions that M&E should take.

OED findings on social funds

OED has evaluated three social funds: the fund in Honduras, the AGETIP in Senegal, and the first and second Social Investment Fund (SIF) in Bolivia.

The finding of the evaluation of the Honduras fund was that it had been too extensively monitored by donors and external auditors in addition to its own internal monitoring. As a result, the staff of the fund was unable to cope with the workload. The conclusions of the evaluation were the following: (a) more attention to monitoring was needed, which requires computerization; (b) because the monitoring design was basically an attachment to statistical household surveys, it did not capture the impact of the fund on its beneficiaries as well as on the informal sector; (c) there were methodological problems in measuring nonmonetary incremental benefits of the projects; and (d) the design and implementation stages needed more work to ensure impact evaluations generate the required results.

OED's findings noted that the monitoring system in the AGETIP Senegal was excellent, perhaps even excessive, and that it was possible to integrate the monitoring system completely into the management information system (MIS). The few evaluations that were done suffered, however, from some statistical shortcomings related to sampling, resulting in a loss of inferences that could be drawn from causalities. Beyond employment generation, on which there was substantive detail, there was little information on the project's social and economic impact.

The audit report on Bolivia stated that the computer system, established under the first emergency social fund project, included a community profile to facilitate targeting and that the system was good for monitoring subprojects. However, insufficient ex ante data made it difficult to conduct follow-up evaluations. It recommended that the presentation of ex ante data become a standard part of community proposals, so that impact evaluations would be possible.

World Bank's findings

The World Bank's *Review of the Social Funds Portfolio* recommended more emphasis on evaluation of impacts on the ground and beneficiary profiles of the low-income groups that are targeted for interventions.

Inter-American Development Bank's findings

The major conclusions of the impact evaluations conducted by the Inter-American Development Bank was that the real impact of social funds was not so much on employment and income as on improvements in living conditions. This raises important implications for future evaluations of social funds: if improvement in living standards is to be measured, then much less emphasis will be placed on the classical income-based evaluation instruments.

Separating monitoring from evaluation

Monitoring includes the work of an MIS to give information on inputs, outputs, and project outcomes; it is focused on the internal functioning of the fund. It asks questions such as: Were we efficient? Did we pay on time? Did we disburse? Evaluation requires gathering information to measure results, such as impacts on the ground, changes in living conditions, reductions in poverty levels, and so on. It does not require information on the characteristics of a school building, but information on the education that is imparted in the school building and its effects.

However, what funds execute, manage, or deliver is outside their domain: they receive a proposal for an output identified and proposed by a beneficiary or client group, efficiently deliver the output, and move on. The result of the output and its impact are not the responsibility of social funds or AGETIPs, but rather of the public sector agencies in charge of overall poverty reduction at the national level. The impacts of social funds' output need to be sustained by the originators of the proposal for the investment to be worthwhile in the long term.

Social funds are concentrating on monitoring

The efficiency of social funds and AGETIPs has led them to receive the financial and parallel support of numerous development agencies, each with its own requirements for monitoring; the reporting requirements are also slightly different in each case.

Evaluations are inconclusive

Evaluations serve different audiences, require multisectoral synthesis of information, and often have moving goal posts: from emergency employment to poverty alleviation, from capacity building to local empowerment. Despite the extensive M&Es of social funds, the same questions are not clearly answered: Did we reach the poor? What are the impacts on living conditions, education, and health?

The Bolivia social funds, for example, must be the most evaluated social funds in the world. The same is true for the Senegal AGETIP. However, after these extensive evaluations, there is very little cumulative useful information.

What do we evaluate and how selective should we be?

Generally, the key question we want answered is: What is the project's impact on poverty? This can be measured either by the income measurement method or by measuring changes in living conditions. Other questions that are asked relate to the impact of a social fund on capacity building, institutional development, interadministrative coordination, and sector coherence. Some other evaluations focus on participation, gender, and access by minority groups. Many donors are now concerned and would like to know more about the sustainability of subprojects.

Need for extreme selectivity

Evaluations must be extremely selective in the questions they ask. The number of funds that are evaluated also must be restricted, because many funds have more aspects in common than the issues that divide them. There is a need to agree on a program of evaluation that covers selected donors and selected funds and that can yield conclusions likely to be valid for a wider range of funds.

Value of qualitative evaluations

More attention needs to be focused on the less traditional modes of evaluation to impart quicker understanding of what is going on with social funds. There are two schools of evaluation methodology, the quantitative and the qualitative. The quantitative school argues that statistically sound databases are needed to derive quantitative econometric causality from statistically significant surveys. These evaluations may work for larger projects, are extremely expensive, are enormously time-consuming, and take a long time to generate the detailed information that is expected. Social funds need information faster; qualitative evaluations may give more judicious information on impacts than quantitative evaluations.

Discussion

Discussions began with spirited refutations to the suggestion that social funds and AGETIPs were preoccupied with the efficiency of their internal functioning and were unconcerned with the sustainability of their investments. Examining the issue of sustainability is, on the contrary, very much a part of the criteria applied to the project selection process of social funds.

- One of the mandates of the social funds in ***Egypt*** is to work with grassroots communities to identify needs so that projects can be sustainable in the long term.
- ***AGETIPs*** work with municipalities, the private sector, NGOs, and other agencies that deliver services. Community requests come to AGETIPs through the municipalities, which are the main clients of AGETIPs' clients. Mayors are involved in the project selection process.

There was agreement that monitoring systems focus far too much on physical data, even though they provide information for management purposes. What most monitoring systems do not provide is baseline data for further evaluation purposes.

Compared to the attention devoted to other aspects of social funds, little is given to evaluation, and therefore too little is known about the funds' impacts. Evaluations are rarely designed as integral parts of project processes and take place after projects are completed, so that the information cannot alter the course of projects. An interesting exception was presented.

- The social fund in ***Nicaragua*** performs three kinds of evaluations: the first one is known as the project quality inquiry. It is conducted at the time of project delivery by the field engineer according to internal procedures. One year after the project has been handed over, a second evaluation called project quality evaluation is done. At this time the evaluation attempts to measure usage, capacity utilization, and so on. A third evaluation, impact evaluation, involves beneficiary participation and attempts to answer questions such as: How much community participation was there in project identification? What was the quality of this participation? Does the community have high self-esteem? Are they proud of the project?

The discussion searched for answers to the impact-related questions that evaluations now pose, even though those questions may not reflect the original objectives and the design of a social fund. Questions that require responses related to measures of community empowerment and promotion of institution building do not easily translate into indicators against which assessments can be made. Given the limited resource investment in the social sector of a country through a social fund, evaluations need to assess whether the questions posed are reasonable in the first place. Evaluations are expensive, numerous, and often draw conclusions that are too complex. Donors are responsible for much of the complexity in evaluations, because of changing goals and a disconnect between the objectives of the funds and the criteria by which they are evaluated. However, these changes in perspective need to be accommodated because funds are flexible and evolve over time.

- ***Mexico***, over the last eight years, has executed social funds financed in part by the World Bank. Initially the funds responded to information requests by the Bank using methodologies, indicators, and measuring systems recommended by the Bank; these evaluations were considered efficient. In the last few years, new indicators have been added by the Bank. Evaluations done against these additional indicators by the Ministry of Social Development highlighted the need to enhance the technical and administrative capacity of municipalities and community organizations. The Bank, nevertheless, conducted its own evaluation, only to arrive at the same findings. When the Mexicans did their own impact evaluations against the data of their 1990 census, they found that social infrastructure had a positive impact on the quality of life in participating communities, even though measurements against indicators for mortality, productivity, health, and education did not demonstrate that poverty had been significantly reduced.

Participants agreed that the definition of poverty by economic criteria alone was inadequate and that social and cultural criteria as well as national contexts were important factors to consider. Qualitative assessments of poverty could often be more important than quantitative assessments. Evaluations of poverty impacts of a social fund can be misleading when viewed in isolation. There was agreement that evaluations need to be simple to provide useful answers. They need to focus on activities supported rather than on the funds themselves, because the ultimate objective is to deliver services that improve the quality of life of participating communities.

- The emphasis in the evaluations of operations within the ***World Bank*** is shifting from projects to sectors. Within five years the Bank will conduct evaluations to determine if a country assistance strategy, that is, the entire portfolio of projects in a given country, has been successful. Evaluations are likely to become bottom up: looking at the country and region and then returning to the evaluation instruments used, rather than attempting to measure the specific impact of each instrument. Evaluations will ask questions such as: Did the Bank's approach to structural adjustment, to economic development, or to poverty alleviation work in a given country? What were the instruments used? Were they used correctly? Was a social fund an appropriate answer to compensate for a structural poverty problem?

Three basic audiences were identified for evaluations: communities and project beneficiaries, executing agencies, and financing agencies or donors. Given the overlaps in the requirements of these audiences, there was consensus on: (a) the importance of coordinating evaluations for the sake of efficiency; (b) promoting beneficiary participation in evaluations to answer many of the quality of life questions now being posed; (c) developing criteria for the qualification of entities that conduct evaluations; and (d) finding solutions to the problem of different evaluation methodologies that prevent the gathering of systematic information. Much more attention is needed to the dissemination of evaluation findings to pertinent audiences such as line ministries, implementing agencies, NGOs, members of parliament, and so on.

Recommendations

- Monitoring is the basis of evaluation, and both should be conceived as an integral part of the project cycle, so that learning can take place as events unfold.
- The most important audience of the evaluations are the beneficiaries themselves. Participatory evaluation should be promoted, so that communities can be involved through rapid appraisal techniques.
- Evaluations should focus on the effectiveness of social funds in improving the quality of life in participating communities. They should be clear and focused with modest and realistic objectives, so that they provide answers to questions.
- Coordination on evaluations is needed among donors and line ministries so they can exchange and share the learning that comes from evaluations and avoid costly duplications. Regional networks can provide opportunities to agree on common evaluation methodologies.
- The dissemination of evaluation findings among policymakers deserves considerable attention and resources.

14

Parallel Thematic Session: Sustainability of Subprojects, Maintenance, and Operations

Session Leader	**Werner Neuhauss,** Sector Economist, Social Policy Dept., KfW, Germany
Resource Persons	Gita Gopal, Jennifer Sara, and David Steel (WB)
Facilitator	Najma Siddiqi (WB)

Session expectations

This session focused on the options available to social funds with long-term development objectives for achieving the sustainability of subprojects. In addition to applying sound selection procedures and ensuring ownership of subprojects by target groups, should social funds take on the responsibility for operations and maintenance? What are the risks of this approach, both for social funds as well as for the sector institutions in the country? Alternatively, what provisions should social funds take to ensure the operation and maintenance by beneficiaries or by permanent line institutions? Desired outcomes of this session were specific recommendations for ensuring the long-term sustainability of subprojects.

Main Points of the Presentation

Elements that can lead to sustainability

The use of investments by beneficiary groups throughout their useful life has been a matter of concern in activities supported by Kreditanstalt fur Wiederaufbau (KfW) many years, not just in the case of social funds, but of other projects as well. To ensure sustainability of subprojects, the following conditions must be met:

- Facilities created through subprojects must meet the expectations of those who benefit directly from them, with respect to location, technical design, and use.
- They must be of appropriate technical quality, yet adapted to local conditions.
- They must be part of an overall package of services from the start, so that conditions essential for their sustainability can be fulfilled.
- The institution responsible for operations and maintenance (O&M) must be technically and administratively capable, and users must be aware of who is responsible for O&M.
- O&M costs must be covered by user charges or taxes, or both.

Social funds and recurrent expenditure budgets

When social funds deliver infrastructure projects efficiently and quickly that other institutions are to inherit and to manage, they ultimately create new pressure for recurrent cost financing on the budgets of those institutions. Adequate funds to cover these additional recurrent costs can only be attained by improving sectoral performance, an area over which social funds have no influence, or by recovering user charges or local fiscal revenues.

Two strategies for ensuring sustainability

Two alternative scenarios, both with strengths and weaknesses, are outlined in the following paragraphs for social funds to improve the sustainability of the subprojects they finance:

1. Involve the responsible sectoral institutions.
2. Avoid the responsible sectoral institutions.

Involving sectoral institutions

Involving sectoral institutions, social funds can take the following three steps:

1. ***Sign agreements with recipient agencies to cover O&M costs.*** Such agreements do not always yield results, and funds cannot enforce them when there is a paucity of funds, or budget law restrictions to prevent recipient agencies from raising revenues.
2. ***Avoid supporting projects that burden recipient agencies with O&M costs.*** Choose instead simple, small projects that require little or no recurrent resources, as KfW is doing in West Africa, except for Mali, where a maintenance fund supported by national revenues has been created, and experience is yet to be gained. The negative side of this approach is that funds may not supplement the initiatives of the local population but rather increasingly make them redundant.
3. ***Support in parallel an investment program that aims to strengthen sector institutions and implement reforms to improve public sector revenues***.

Avoiding sectoral institutions

In avoiding sectoral institutions, social funds have two options:

1. ***Transfer the responsibility for O&M to the beneficiaries, NGOs, or the private sector.*** Such arrangements have not always yielded good results. While theoretically ideal, making these arrangements is time-consuming and often complicated, especially when the facilities are technically complex, for example, in the water supply or sanitation sectors. Leasing facilities to the private sector could be an appropriate option.
2. ***Take over the responsibility of O&M from line ministries and local administrations, creating parallel administrative structures.*** This scenario is happening in Latin America. In some countries funds are paying teachers' salaries (Guatemala), financing training for water users committees delivered by NGOs (Honduras), and setting up maintenance funds for the upkeep of facilities (Nicaragua).

KfW initiatives

To improve the sustainability of subprojects in several Latin American countries, KfW, often in cooperation with other donors, has:

- Given support to target groups and administrations in project preparation
- Assumed project planning costs

- Assisted consulting services to develop simple standards and appropriate technical solutions in water projects
- Seconded local experts to work with social funds staff to improve construction quality
- Supported social funds in creation of a department for social promotion to facilitate user involvement in all phases of the project cycle.

KfW recently suggested a revolving fund in Honduras to finance maintenance costs through local governments, with the initial financial resources provided by KfW.

Discussion

The concept of sustainability was seen as extremely complex and varied across countries and regions. The discussion defined the differences between projects financed by the first generation and the second generation of social funds, with the latter positioning themselves as permanent development institutions. Three aspects of sustainability beyond that of subprojects were also discussed: financial, institutional, and community sustainability. The sustainability of a community was seen as linked to the macroeconomic environment, to productive activities, to microcredit, and to long-term community development. Some of these are beyond the scope of the accomplishments of a social fund.

- A study of the issues related to participation and sustainability in subprojects financed by the social fund in ***Armenia*** revealed that a community's willingness to participate in maintenance is directly related to the quality of work and services delivered. This in turn is linked to competitive procurement policies and to the active involvement of private contractors who are interested in getting work from the funds while the communities supervise the work. The willingness of the community to invest in supervision is linked to the community's participation in the identification of projects that meet its needs, as well as to its financial contribution. The study noted that chances for the sustainability of infrastructure without community participation were about 30 percent. Likelihood of sustainability increased to 46 percent in projects that benefited from participation.
- The social fund in ***Angola,*** approaching the design of projects from the perspective of community sustainability, is piloting an attempt to link project sustainability to income-generating activities in communities where the social fund has financed social infrastructure.
- An interesting mechanism for O&M of projects is applied in ***Sri Lanka***. Once a project is agreed upon with a community, fund staff give the community an estimate of the capital needed for its implementation. Whatever savings the community accrues for the estimated expenditure, by way of its own capital and labor contributions, are then transformed into seed capital for O&M.

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- Recognizing that there is laxity with respect to maintenance, the ***Mexico*** fund is pursuing a strategy of intense participation throughout the project cycle, including the management of financial resources, to ensure the ownership of projects by their beneficiaries. This process provides a fertile ground for other strategic actions related to O&M.
- The government is fully involved in projects supported by the social fund in ***Zambia***. Government officers provide technical supervision, training communities at the same time. To ensure allocations for O&M from government budgets, the social fund maintains good communications with key officials in the Ministry of Finance, to whom it provides credible proof that maintenance funds are utilized as intended.

Substantial discussion focused on community contributions as indicators of demand and ownership. Some funds make them a condition for initiating procurement. Computing community contributions was not seen as a problem if they are made in cash; concern, however, was expressed about converting community contributions made in kind into cash equivalents. In the case of public sector or formal private sector projects, costs related to materials, labor, supervision, and operation and maintenance are all built into the overall cost of the project. The value of in-kind contributions made by a community or NGO are recognized either not at all or inadequately.

- The social fund in ***Zambia*** has attempted to address the issue of calculating community contributions by analyzing the costs of implementing a standard technical design for a subproject as provided by the relevant government agency. Given that the materials that rural people will contribute to a project will be different from those a standard design would call for, it took the Zambia fund almost six months to arrive at acceptable values for material contributions made by the community, and costs for the water that women carry to the site have not yet been ascertained.

Based on the experience of ***Central America***, it was observed that funds are more effective in countries that have government ministries for social activities, who can set national priorities and obtain the support of other ministries to carry out their functions. A favorable macroeconomics policy framework as well as a government's overall poverty-reduction strategy were also seen as important ingredients of sustainable outcomes. Other factors cited were the prior existence of a maintenance culture in a community and a completed project that satisfied the community's needs.

Preliminary findings from a study of rural water supply systems in about 20 countries conducted by the ***World Bank-United Nations Development Programme Water and Sanitation Program*** indicate that sustainability is a problem with more than half of the water systems examined. According to the study, sustainability is linked to three key factors: willingness to pay, responsibility, and capacity at the community-user level.

- Establishing willingness to pay requires time to communicate all the information about how technology can be tailored to appropriate levels to meet the community's needs and to negotiate different levels of service based on the willingness of the community to assume the financial burden of an improved water supply.
- The study found that there are often no clear perceptions about who is legally responsible for the land or the ownership of a water system. The perceptions of the community, of the local government, and of the national government about legal frameworks are often inconsistent.
- Capacity at the community level for sustaining the water system is obviously important; equally important, however, is the capacity of the public and private sectors to provide operational and technical support.

Interesting questions raised in the discussion, but not answered were the following: What quantitative criteria can be used to evaluate sustainability? Is there a link between efficiency and sustainability? Can a project be considered efficient if it is not sustainable? Are there clear criteria for the quantification of community contributions to subprojects?

Recommendations

- A sound project design, adapted to local conditions and based on simple technologies that facilitate beneficiary involvement should always be chosen, and beneficiaries should be involved in the selection.
- Technical and administrative competencies for operations and maintenance should be provided to users and local agencies through training and should be accompanied by the necessary funds for training and implementation.
- Long-term financial resource mobilization for O&M is related to expanding the financial resource bases of municipalities and district administrations. Reforms of sector policies and administrative processes need to be supported by the government and by all donors.
- Infrastructure should be managed like a business, not a bureaucracy, by introducing competition and giving users and other stakeholders a strong voice and real responsibility.

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Parallel Thematic Session: Environmental Assessment of Social Funds Subprojects

Session Leader	**Abebaw Alemayehu**, Deputy Director, Ethiopia Social Rehabilitation and Development Fund (ESRDF)
Resource Persons	Jan Bojo and Olav Kjorven (WB)
Facilitator	Reidar Kvam (WB)

Session expectations

In examining the environmental assessment of social funds subprojects, this session focused on the following questions: (1) How are environmental concerns addressed during the promotion, design, selection, and implementation phases? (2) How does a social fund evaluate the magnitude of the environmental impact of its subprojects? (3) How does it arrive at cost-effective measures for mitigation of negative impacts? A desired outcome of this session was a set of recommendations for improving the environmental impact assessment procedures of social funds.

Main Points of the Presentation

Objectives and environmental goals

The Ethiopia Social Rehabilitation and Development Fund (ESRDF), established after a pilot phase, aims to contribute to Ethiopia's long-term sustainable poverty reduction and economic growth strategy. It has two environmental goals: first, to ensure that all subprojects approved are reviewed for potential negative environmental impacts and that mitigation measures are put in place; and second, to support the government's national conservation strategy by promoting better environmental practices and increasing the positive environmental impact of the fund's subprojects.

Experience of the pilot phase

The pilot phase of ESRDF demonstrated that, despite low levels of environmental awareness among its staff, no subprojects had major negative environmental consequences. No environmental assessment was carried out for the microdams financed by the pilot project, and the early project appraisal forms lacked environmental checklists. However, the pilot project did succeed in promoting environmentally friendly ways of implementing subprojects; for example, the use of hollow blocks or bricks for construction instead of wood, the inclusion of pit latrines in school buildings, coordination with municipal bodies for solid waste disposal, putting incinerators in health centers, and so on. Subsequently, projects with positive environmental impacts and assistance for conservation schemes were successfully promoted, for example, gully reclamation projects and tree nurseries.

Environmental impact classification system

Most subprojects likely to be proposed by communities are bound to have localized and limited negative environmental impacts and, according to the World Bank's environmental classification system, are classified as *B* category projects. They do, however, require some attention. For example, poorly managed sanitation schemes could pose more serious health hazards than they intended to mitigate, as would the improper disposal of medical wastes. In urban areas, where the fund supports environmental sanitation subprojects in addition to financing community latrines, it also finances access roads so that suction trucks can access the waste for disposal; these roads provide additional benefits to the community. Small-scale irrigation subprojects raise some concerns; for these, the fund prepared environmental impact checklists and identified mitigation measures to be implemented.

Environmental review at the project promotion stage

To accelerate the incorporation of environmentally beneficial subprojects in the portfolio and enhance community awareness of environmental issues, all ESRDF staff were introduced to environmental issues through a workshop, which trained them to promote environmentally positive projects. In addition, a multisectoral environmental team prepares the fund's environment action plan and updates the environmental checklists for project approval. This team consists of an advisor on gender issues and of the team leaders of the social infrastructure, water supply and sanitation, and small-scale irrigation teams. Promotional efforts by the team resulted in numerous applications from communities requesting funds for subprojects with positive environmental impacts.

An interesting example is that of a case in the ***Tigray Region***. The initial application from this region submitted by the Education Bureau requested a school subproject. When the appraisal team met with community members to identify their most urgent needs, the team discovered that the people really wanted the treatment of a gully that was fast degrading grazing land and affecting the livelihood of the villagers. Gully reclamation was undertaken by the fund, and the school was built by the villagers themselves later on.

Environmental review at the design stages

Environmental technical assistance is necessary during the formulation stages of relatively complex subprojects such as small-scale irrigation schemes. In the absence of NGOs or technical agencies to bear design responsibility, the services of a consultant are retained to ensure that communities develop the requisite capacity to address the negative impacts of the schemes. Communities are also trained to enhance their capacity to identify projects that are environmentally beneficial. Request forms are designed to facilitate collection of basic information for environmental screening. More detailed and stringent forms are completed by the technical agencies or NGOs that assist communities in project formulation. When the analysis of these forms reveals that serious negative environmental impacts are likely, either mitigation measures are introduced or the project is dropped. Eligibility criteria for small-scale irrigation and water supply projects state that projects must have been submitted, reviewed, and positively screened by the regional bureaus of the National Resources and Environmental Protection Agency.

Environmental review during implementation and thereafter

Monitoring during implementation is carried out to ensure that the recommended mitigation measures are in place and all agreed procedures are being followed. Once implementation is over, monitoring is continued to verify that the subprojects financed are operational, that they are being used as planned, and that no environmental standards are being violated.

Discussion

The discussion revolved around general environmental concerns. Given the environmental degradation faced by countries in Africa and in other parts of the developing world, and the strong links between environmental degradation and poverty, addressing both macro- and microenvironmental problems was seen as important. It should not be considered a donor-driven luxury, as gender issues were viewed some years ago, but rather as a national priority in the context of sustainable poverty reduction.

There was also general agreement that the negative impacts of subprojects on the environment are generally minimal, and impact assessments done by inappropriate standards would be futile. World Bank guidelines for environmental impact assessments, in fact, do not exaggerate environmental review demands. They require identification of impacts, and sometimes quantification, but rarely do they require their economic valuation, which would in most fund subprojects be unnecessary. Funds, if they serve as promotion agents for the environment, could contribute to poverty reduction by encouraging beneficial microenvironmental subprojects, for example, soil and water conservation subprojects, tree planting projects, and so on.

- In ***Rwanda***, considerable loss of forest cover resulted from the felling of trees for fuelwood by people displaced by war. Reforestation projects, which are labor-intensive, have been supported by the social fund. These projects proved beneficial both in increased soil fertility as well as in generating employment for unskilled labor. Future maintenance by local municipalities one year after implementation, however, is of concern.

Lack of environmental awareness in developing countries was cited as an important stumbling block to addressing environmental concerns, as had been the case in developed countries until some time ago. This lack of awareness often results in the false perception of environmental issues as a luxury issue. Discussion focused on finding ways funds can contribute to raising awareness as well as affecting the environmental policies of their countries. When governments and people do not perceive environmental protection as an economic development issue, implementation of good policies is not easy.

- In ***Zambia*** central government policies are in place with respect to land management, poaching, and hunting issues. Implementation of sound policies, however, is hindered by the interference of some politicians who pursue their own agendas.
- In ***Guinea-Bissau*** a cotton industry project financed by the European Union supports the production of farming inputs. While resources were allocated for an environmental impact evaluation, it was not carried out, before or after the project. Farmers, consequently, remain unaware of the environmental impacts of the inputs production.
- The social fund in ***Zambia*** is a good case of a fund affecting policymaking. It receives support from the National Environmental Fund to carry out studies relevant to environmental policies.
- In ***Ethiopia*** there is significant government commitment to environmental programs, because addressing environmental problems is an integral part of the government's strategy for poverty reduction.

Community participation was seen as an integral tool in raising environmental awareness as well as for promoting environmentally friendly projects.

- The ***Zambia*** social fund developed and uses participatory field appraisal methods. Regional and district staff are trained in facilitation techniques. This has changed the nature of the project cycle completely. The fund does not appraise a project in the field unless half the members of the community are women and does not approve a proposal unless it has the support of the majority. In addition, when the fund, in conducting its own needs assessment, finds that communities are not applying for project funds, it communicates its findings to district governments and supports them in helping the community to articulate project proposals.
- The fund in ***Ethiopia*** recruits community facilitators from the communities themselves to bridge the gap between the fund and the people.

Discussion focused on how to assess environmental impacts when subprojects have serious effects that require more than simple mitigation measures. The professional environmental assessment capacity of institutions and individuals at the national scale, the design of mitigation plans, the capacity at local levels for implementation, and the need for training and capacity building were also discussed.

Recommendations

- Environmental concerns in development projects are connected directly to poverty reduction goals. Social funds should strive for more environmental awareness across the public sector and strengthen their links with environmental agencies.
- Social funds should actively promote environmental subprojects related to the sustainable use and conservation of natural resources. They have a strong link to improving the role of women in development.
- Environmental assessment procedures should be simple and practical, and a handbook for this purpose should be developed and adapted to regional contexts.
- Regional workshops and the use of the Internet can facilitate the exchange of relevant experiences on environmental issues among social funds and their networks across countries and regions.

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Parallel Thematic Session: Social Funds Systems, Outreach, and Communication Systems

Session Leader	**Sam Kakhobwe**, Social Action Fund, Malawi
Resource Persons	Norbert Mugwagwa (WB)
Facilitator	Anis Dani (WB)

Session expectations

In examining the pros and cons of an information, education, and communication (IEC) strategy, this session focused on the design process that leads to the identification of an IEC for a social fund as well as on the challenges to the implementation and management of an IEC. How does a social fund balance political interests with a demand-driven approach? What is the role of social communication in eliciting demand and participation? How much does an IEC cost? A desired outcome of the session was a set of recommendations for designing and implementing information outreach and communication systems in social funds.

Main Points of the Presentation

Background

The Malawi Social Action Fund (MASAF) was created at a time of momentous political change, ripe with a strong enabling environment for open discussion on poverty in the country. The new government that assumed power in 1994 proclaimed poverty alleviation a central development objective and decided to work at the community level as rapidly as possible. Given the lack of trust in the people because of their experiences with past governments, it was clear that the proposed social action project could succeed only if it revised people's attitudes, roles, and responsibilities toward their own well-being.

Objectives of the MASAF social funds

The MASAF was designed to change the way that all development actors, including the government, worked with their clients. Participation was, therefore, a key factor in the design of the concept and strategy of the project. The overriding principle for MASAF to support projects was that they should affect a wide range of poor people communities.

Information, education, and communication strategy

The IEC strategy was included in the design of the MASAF to enhance full understanding of the objectives and working principles of the project for the beneficiaries, NGOs, public and private sector actors, and any other interested groups. It was also intended to capture, document, and disseminate the experiences of various stakeholders during project design and implementation and to identify lessons learned and best practices, thus establishing an effective knowledge management system that could then be shared with similar projects.

Stakeholder analysis

Recognizing the need for stakeholder participation, key stakeholders were defined as those groups whose understanding and acceptance of MASAF design would facilitate the free flow of messages to all levels and whose input would be valuable in clarifying and improving its design. Six groups were thus identified: district commissioners, heads of sector ministries, NGOs, and donor development agencies representatives, besides the communities and the local CBOs.

Systematic client consultation

Systematic client consultation was undertaken to learn from the communities themselves how best they could be involved in project preparation, how to fill key information gaps for project implementation from the community's perspective, and how to ensure that project modalities would facilitate participation. This was seen as the beginning of a series of consultations that would lead to the design of a participatory implementation and monitoring system. Areas investigated included the existence and strengths of a community's organization and institutional networks, its experiences and attitudes toward participation, and its technical capacity, particularly in facilitating direct community financing of planned projects.

The pilot phase

A one-year pilot phase resulted in unprecedented inquiries and demand for assistance from communities. With the exception of credit, the demand-driven concept promulgated through the IEC did not specify the kinds of assistance communities could request. Besides stressing project eligibility criteria, messages emphasized the organization and capacity characteristics a community needed to receive MASAF's support. This created some misconceptions. The fund had to clarify that it was not an emergency fund, and an expanded list of activities that the MASAF would not finance had to be prepared and distributed.

Successful implementation of the pilot phase led to the emergence of one group of major stakeholders, the members of parliament, and considerable interference in project cycles began to be apparent. This was overcome through workshops to communicate the role of the members of parliament as project facilitators, which resulted in their becoming yet another outreach tool for the fund. Any further attempts by members of parliament to interfere in project work with respect to contracting or procurement proved futile in the face of resistance from strong and well-informed communities.

The entire process of communication demonstrated to the nation that, irrespective of political differences, it is possible to unite to achieve common development aspirations. The latent self-help spirit in the people had been underestimated in the past. Communities now receive funds from MASAF, do their own procurement and accounting, and directly pay private contractors or NGO intermediaries. The experience of giving self-help the right incentives at the right time demonstrates that the participatory and demand-driven approach to community development can be meaningful and effective only when supported by direct financing and by allowing independent management of project implementation by the communities concerned.

Lessons learned

- Communities need to be clearly informed of the opportunities available to them under a demand-driven project. The lack of clear-cut parameters results in tremendous pressure on the fund and its delivery capacity.
- Facilitators chosen by the community should undergo project management training. This applies to politicians as well.
- The IEC should determine the community's preferred choices for access, location, and distribution of project application forms. Formats of these forms should be revised until they are accepted as user-friendly. Where appropriate, these forms need to be translated into vernacular languages.
- Rapid and wide dissemination of project information can result in the unexpectedly prompt commitment of funds. A fund is likely to be faced with the prospect of receiving more project proposals than resources to support them. The credibility of a fund can be at risk when communities are gearing up to start work, but the backlog of approved projects cannot be implemented quickly enough.
- It is important that stakeholders' experiences be documented and disseminated widely. MASAF has seen that stakeholders, especially communities, feel a greater sense of participation, ownership, and contribution to the development effort when they know that their experiences are being shared with others.

Discussion

Participants agreed that, as funds moved away from the emergency stage in response to changing economic and political conditions, community capacity building and empowerment appear to become important objectives.

- ***AGETIPs*** were initially set up to create temporary jobs through the implementation of public infrastructure projects. Their main impact, however, has been the delivery of infrastructure and the management of public funds transparently and efficiently, as well as stimulation of growth in the private sector. The more recent AGETIPs have shifted focus from job creation to sustainability of infrastructure and capacity building of local governments to enable them to become accountable and responsive to the needs of their constituencies.

The discussion then centered on an exchange of experiences surrounding the integration of social messages for community strengthening with the implementation of projects geared to human capital development.

- The Canadian International Development Agency provided money to communities in the mountains in northern ***Pakistan,*** on the border with Afghanistan, to build rural infrastructure. The infrastructure itself, however, was not the objective of the support. The intent, rather, was to use the infrastructure as an entry into the community to spark a process that would communicate the importance of the community's taking charge of its own development.
- The Grameen Bank in ***Bangladesh*** has a strong element of community institution building integrated into its lending programs. One of the conditions for accessing credit is that participants pledge to distribute social messages and to participatory commitments that will help them seek ways to leave poverty permanently.

The participants discussed the range of options and modalities that a project can use to communicate social messages: Is there a role for intermediaries in the communication strategy? Should information other than project information be disseminated?

- In ***Zambia***, apart from using the radio and billboards for communication of information, social fund zone officers are required to attend one-day meetings with communities, where they describe the menu of choices offered by the social fund. Beneficiary assessments indicate that the people felt the one-day meeting was insufficient for them to absorb all the information.
- Experience from ***Malawi*** has shown the importance of stressing that the fund is just one of many ways that communities can obtain assistance. Additionally, to build on the indirect benefits of public works programs, experience suggests communicating the importance of savings to people who get salaries from the implementation of subprojects, so that they have the incentive and the financial assets to promote new economic activities. Some people have started small businesses with their savings. In the future the social fund could disseminate information about savings and investment to enhance income streams more systematically. In some countries, savings have been linked to access to a microcredit program.

In discussing the volume of information that an IEC can disseminate to affect broad development, questions were raised about the costs of an IEC, because they diminish the pool of resources available for investments. How are the costs of an IEC calculated? Does it include the costs of the management information system? Are costs of facilitators, zone area officers, and the participation of NGOs included?

- The cost of the IEC in the ***Malawi*** fund is approximately 0.5 percent of the credit, that is, it is a low-cost and high-impact project component. Given the MASAF's concern for helping the beneficiaries or stakeholders in the common pursuit of a new way to manage projects, the IEC is a continuous process throughout the project cycle. Community development organizations help with dissemination; this often entails local meetings, house-to-house surveys, and focus group discussions where findings are revalidated. By going to the community level, the MASAF relies on local government representatives to express the demands of the community. The capacity that this process builds is seen as a direct output of the MASAF. The IEC's costs are not only of outreach and information, but include the costs of providing general information on the program and the criteria for selection of projects, explanations of how to access the fund, and the cost of training, its most expensive component. A management information system is included with management costs.

While there was some debate about the costs of the IEC, since capacity building is part of the overall purpose of social funds, the participants agreed on the validity of allocating resources to design and implement an IEC.

Recommendations

- To develop an information, outreach, and communication strategy, social funds need to analyze stakeholders to identify the main actors, their interests and attitudes, and how they can be reached. The findings of the client consultations can be used to develop appropriate messages.
- The information, education, and communication strategy design should highlight the features of social funds of interest to each target group. In order to ensure a long-term relationship between the communities and the program, the information flow has to be two-way and will evolve over time.
- Institutional responsibility for communication strategy is determined by the nature of the information to be disseminated and may require partnerships with other public or private sector agencies.
- An IEC strategy must have adequate resources to achieve its objectives, which are germane to the overall purpose of social funds.

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Constituencies' Consultations: Social Funds' Directors

Session Leaders	**Eduardo Diaz Uribe,** Chairman, La Red Social de America Latina y el Caribe **Magatte Wade,** former President, AFRICATIP

Eduardo Diaz Uribe, Chairman, La Red Social de America Latina y el Caribe

Differences, commonalties, and achievements

It is important to show the differences and the commonalities between social funds and AGETIPs. Both AGETIPs and social funds have been more efficient in the implementation of their programs and projects because of their innovative approaches, as compared to line ministries and other government agencies. This is a consequence of the following:

- Both work through participatory strategies and in close coordination with communities at all levels of project and program design and management.
- All projects and programs are implemented within the framework of decentralization and, therefore, in close collaboration with local governments.
- They have been successful in targeting groups that traditionally have been socially excluded from government programs and actions.
- Both have achieved significant involvement of NGOs and the private sector in their programs.
- Both have been successful at performing the poverty-related tasks that were assigned to them during periods of adjustment and transformation.

The future

While neither AGETIPs nor social funds can address the causes of structural poverty, both are poised to analyze in-depth the causes of poverty in the communities they work with; they could develop strategies to overcome some of the causes. Productive projects should be promoted, emphasizing the processes that qualify communities and strengthen them to compete with their products on national and international markets. Both AGETIPs and social funds should continuously evaluate their objectives and periodically revisit the rationale for their existence. An important area of focus in the immediate future for both AGETIPs and social funds should be the transfer of innovations, best practices, and lessons learned to central and local governments, to the private sector, and to NGOs.

Future challenges

Much of the work to be done by social funds and AGETIPs will not be possible without the political will of governments to maintain the processes that have been set in motion by these mechanisms. Resources are not the only element needed: social funds and AGETIPs need more exchanges of experiences with other public and private sector institutions and communities.

Magatte Wade, former President, AFRICATIP

Despite the awareness of the differences between AGETIPs and the social funds in Africa, and between the social funds in Latin America and Central America, it is important not to lose sight of the significant and diverse tasks that lie ahead to help the poorest of the poor.

Agreements reached

In light of the global consensus reached at this workshop about the importance of sharing information and experiences in the fight against poverty, the following were the outcomes of our consultations:

- African social funds decided to create their own network, because of their differences from AGETIPs. Technical assistance will be provided by both the Red Social and AFRICATIP.
- The Red Social and AFRICATIP jointly will lay the groundwork for a new international network. The meeting of AFRICATIP in December in The Gambia will be attended by Red Social. In turn, AFRICATIP will participate in the Red Social annual meeting in Buenos Aires.
- The United Nations Development Progamme has pledged to support the international network of social funds. Representatives of the newly initiated network of the social funds of Africa will participate in the meetings.
- The World Bank, via the Internet, is facilitating the dissemination of information on social funds. Linking all the regional networks is planned.

The World Bank, UNDP, and all other donors are asked to support the endeavor to create stronger ties between social funds and AGETIPs.

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Constituencies' Consultations: Municipalities

Session Leader	**Patricia Jager**, Director, Federation of Municipalities of Central America

Social funds and decentralization

Decentralization of social funds is closely linked to the extent to which countries themselves have decentralized. The appropriate speed of decentralization, the methods that should be adopted, the mechanisms to use, the changes to enact in the legal framework of a country: these questions all require country-specific answers, and each country should be able to define the pace and content of its own decentralization process.

Common elements for decentralization

Despite the variation among countries and regions, some factors common to the advancement of decentralization are important. The session concluded that a gradual process of transition is the most appropriate strategy to adopt for decentralization in countries where important elements are missing.

- The country must have a legal framework for decentralization that define the roles and responsibilities of the various levels of government at different stages.
- Decentralization should be a gradual process, financially sustainable and adapted to each country's context. The transfer of functions from higher to lower levels of government must be accompanied by financial resources commensurate with the function to be performed.
- Raising civic awareness is an important aspect of decentralization that enables stakeholder participation. This requires a transparent sharing of information about municipal investments and audits.
- Decentralization should not remain confined to government circles, but embrace all areas of society: local government, NGOs, and communities. These groups should be strengthened with training.
- Better coordination of social development activities among the various actors needs to be fostered, and municipalities need to ensure that local investments are within the framework of national policies for poverty alleviation.

Recommendation

Where decentralization is underway, social funds should foster the creation of municipal funds for local economic development and transfer to municipalities the responsibilities for which they have a mandate.

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Constituencies' Consultations: NGO Representatives

Session Leader **Manuel Chiriboga,** Co-Chairperson NGO-World Bank Committee

NGOs and development

The issue of poverty is a crucial development element. Its eradication cannot be achieved without goals shared among the government, civil society, private and public sectors, and NGOs. The experience of Mali and Brazil highlights the way the participation of multiple actors has created a national will to overcome poverty. NGOs have invaluable experience in promoting local bottom-up development, that is, from the family to the community to the municipality. They have contributed significantly to the evolution of concepts of social capital and human development and have drawn attention to the importance of addressing gender issues to change the traditional relationships between men and women.

Recommendations for social funds for the future

- Social funds should establish a more permanent relationship with NGOs to strengthen grassroots organizations and empower them to participate as key actors in their own development. The boards of directors of social funds can gain greater legitimacy through the representation of multiple actors: the government, NGOs, community groups, grassroots organization, municipalities, and the private sector.
- Social funds should focus on better utilizing the potential of NGOs by involving them, not just in implementation of projects as in the past, but also in the identification, design, and monitoring and evaluation of projects.
- Social funds should focus on building the social capital of institutions, organizations, and government agencies. They should earmark significant resources for capacity building, not just within NGOs, but in municipalities and local governments as well.

Recommendations for NGOs for the future

- NGOs should establish a network to exchange information about their experiences relative to their relationships with social funds to identify practices that can be replicated. The network can also facilitate the identification of areas that need further analysis, in local development, capacity building, participation, gender issues, and so on.
- The NGO network should interact with AFRICATIP and Red Social to permit the participation of network members in the meetings of the other networks.

- An important challenge for the NGOs in the future, if they are to become stakeholders at the highest levels, is to develop and maintain high standards of professionalism and ensure that their administrative practices conform with a strong code of ethics.

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Constituencies' Consultations: Development Agencies

Session Leader — **Azita Berar-Awad,** Head of Unit, Development Policies Department
International Labour Office

Areas neglected by social funds

Issues the session felt had been neglected by social funds were the potential for employment promotion and income generation at the local level and the gender dimension. The group felt that employment generation as an objective need not remain confined to social funds that respond to an emergency, but can be a valid objective of social funds that become development-oriented mechanisms to facilitate poverty eradication and community development.

Preliminary findings of the ILO study on social funds

The gender dimension in social funds is an issue that was discussed in many groups during the workshop. The International Labour Office (ILO) is reviewing the experience of social funds in terms of integrating a gender perspective in their work. Preliminary findings indicate that some activities in the portfolio mix supported by social funds do encourage more women's participation than other activities. Findings also indicate that a demand-driven approach is not automatically a gender-sensitive approach until all the elements of capacity building or prepreparatory phases at the community level reflect women's priorities. Findings on targeting indicate that the potential for synergies from linking activities related to social funds to activities of NGOs, financial intermediaries, and cooperatives is underrealized.

What will the future role of social funds be?

The group felt that there are two extreme alternatives for social funds in the future: as an executing agency similar to AGETIP for infrastructure works, or as a multipurpose agency that implements a broader menu of projects. Between these two extremes lie variations that depend on the context of each country. While the group agreed on the need to build on the comparative advantage of social funds, it felt social funds could not be perceived as the only, or main, instrument for poverty eradication; their menu should not be overloaded. Social funds' objectives should be reviewed periodically as national conditions change. As they evolve, national or internal financing arrangements should be encouraged to make them less dependent on donor finance and more sustainable on their own.

Agreements reached

The session agreed on the need for a review of the impact of social funds on national institutional development as well as local institutional development, an area as yet understudied. There was agreement that donors must strive to facilitate greater flexibility in social funds as they attempt to respond to the priority needs of their country and that donors should stop earmarking their financial support to social funds for certain components.

Recommendations for ensuring multilateral coordination

Following are several easy and practical options suggested to institute or enhance donor coordination at various levels.

- Social funds' directors should request donor coordination at the country level, especially with respect to evaluations. The possibility of instituting a working committee of donors that meet regularly should be explored.
- A directory of focal points for social funds among donor agencies should be created. This may be an efficient way to bring about donor coordination.
- Best practices identified by donors should be linked with the World Bank's World Wide Web site on social funds to help distribute information.
- The production and dissemination of guidelines for social funds on issues such as gender, environment, participation, and so on should be coordinated. These handbooks could enumerate the various issues on which different social funds are working and highlight the comparative advantages of the different institutions involved.

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Regional Consultations: Africa

Partner Institutions	**AFRICATIP, African Development Bank, World Bank Africa Region**
Organizers	Lamine Ben Barka (AFRICATIP); Cesaltina Abreu (Angola Social Funds); Alberto Harth and Laura Frigenti (WB)

Introduction

The Africa Consultation was an opportunity to bring together for the first time all the AGETIPs and the social funds in Africa. In 1989, the first AGETIP began operations in Senegal. By 1993, six had been created in West Africa and had formed the AFRICATIP Network to share experiences and best practices. The first social funds began in Zambia in 1991. No network exists among the 11 social funds agencies. For many social funds' participants, the Africa Consultation was the first opportunity for the group to interact and even discover each other's existence. Moreover, there had been no interaction between the AGETIPs and the social funds, although the AFRICATIP members had met with the Latin American Red Social twice. Participants therefore valued their meeting with African colleagues and the opportunity of sharing knowledge and experience through networking greatly.

Agenda and outcome

Following the introductory presentations were parallel meetings of the social funds and the AGETIPs. The social funds laid the groundwork for establishing their network, Africa Social Investment Funds Network (ASIFNET), similar to AFRICATIP and to the Red Social. The resulting creation of ASIFNET is well under way, and social funds members have designated committees for setting up the network.

In the parallel session of AGETIPs, the Africa Region of the Bank presented a profile of all social funds and AGETIP projects, highlighting the institutional organization, sustainability of subprojects, and lessons learned. Discussion centered on substantive issues and the subjects of greatest concern to the AGETIPs.

Plenary discussion

The first plenary discussion highlighted the similarities between AGETIPs and social funds, identifying the comparative advantages of each and what one group can learn from the other. The comparative advantages of AGETIPs are their ability to work with the private sector, the introduction of private management principles in all aspects of their work, and the concept of delegated contract management of labor-intensive work. The comparative advantage of social funds lies in their success in encouraging community participation; letting rural users decide project priorities, location, and design; and bolstering greater ownership of projects.

New social fund network created

One of the most important outcomes of the regional consultation was the decision by the social funds to develop ASIFNET. The group discussed (a) the value and objectives of establishing such a network; (b) whether they should create their own network or simply expand AFRICATIP; and (c) when and how this network would be established. It was decided that ASIFNET would be open to all the social funds as well as the poverty alleviation funds in sub-Saharan Africa. Members formed a general assembly, which will meet once a year. They will elect a council, which will work through subcommittees to choose topics for discussion and take decisions on action programs. An interim committee, consisting of the social funds of Angola, the Comoros, Madagascar, Malawi, Zambia, and Zimbabwe, was organized to draft the bylaws and provide resources to convene the first meeting. The need to share experiences between the social funds of Africa and Latin America was highlighted. Participants decided that the committee for ASIFNET would place two members in charge of interacting and communicating with AFRICATIP and the Red Social to organize an effective network for the exchange of experiences across the two regions.

AGETIPs: Enhancing the capacity of enterprises

The following decisions were taken at the session to enhance the capacity of enterprises:

- Develop better target training programs for small and medium enterprises (SMEs).
- Promote a contractual culture among SMEs by monitoring and rewarding high performance and sanctioning poor performance.
- Further split contracts to allow specialization and to improve competitiveness while providing incentives to work together when needed to coordinate works on the ground.
- Enhance recognition of the tradeoff between promoting labor-intensive works and promoting the growth of SMEs, and clarify future directions.

AGETIPs: Improving O&M

Signed agreements for operations and maintenance (O&M) from municipalities is not enough. Resources are rarely available; this problem needs to be overcome at local levels through better resource mobilization and block grants. It is important to put mechanisms for O&M in place before, rather than after, the execution of works. Possible alternatives that can be considered are:

- The creation of a special O&M trust fund account in which the government and municipalities deposit funds before the start of work to ensure medium-term O&M. This has been done in Mali.
- The computation of specific costs of O&M for each subproject and including these resources in the municipality's or government's annual recurrent budget every year.
- The capitalization of O&M by subcontracting it to the smaller enterprises building the works.

Other issues for AGETIPs

In discussing the future role and functions of AGETIPs and the geographical sites of their works, the following questions were raised: Should AGETIPs be involved in execution as opposed to planning and programming? Should they have a role in the decisionmaking for investments finance and priority setting, or should these functions be completely separate, as is the case with AGETIPs in Benin, Mali, and Mauritania? Focusing on poverty and social aspects, the group debated on whether AGETIPs should be more directly concerned with poverty alleviation, beyond the objective of employment generation through labor-intensive works.

Urban as compared to rural: New areas of intervention for AGETIPs

On the issue of geographical location of works, some participants expressed concern about transferring the AGETIP approach to rural areas, given that rural areas differ from urban areas significantly in diversity and density of population, actors and context, and environmental concerns. If job creation continues to be a goal for AGETIPs, the irrigation and reforestation sectors were highlighted as possible sectors for intervention in rural areas, so that jobs created could be more permanent as well as productive.

Challenges faced by social funds

The main problems and challenges of social funds mentioned were:

- The tradeoff between rapid implementation and building institutional and technical capacity
- The tradeoff between quality of project and quick payment and disbursements
- Limited success with credit programs
- The weak capacity of local public agencies and the difficulty of community groups in reaching the poorest
- The need for more attention to O&M.

Challenges faced by AGETIPs

The main problems and challenges faced by AGETIPs discussed were:

- Improving the capacity of contractors and consulting engineering firms
- Improving the quality of works completed through better supervision and greater focus on O&M
- A lack of competition for the agencies
- The need to ensure that AGETIPs recognize the capacity of municipalities as decentralization advances
- Facilitating greater community participation and ownership of projects.

Emerging directions

The presentations were complemented by a short briefing on the preliminary findings of a current regional review. This review examines 28 social funds and AGETIP projects financed by the World Bank in the Africa Region of the Bank. The desk review will be complemented by participatory evaluations and stakeholder interviews in Angola, Benin, Burkina Faso, Madagascar, and Mali to highlight best practices in institutional models and ways to sustain approaches as well as subprojects.

Both AGETIPs and social funds, initially created to mitigate the intensification of poverty, urban migration, and the negative impact of macroeconomic adjustment, were a response to the weak implementation capacity, inefficiency, and lack of transparency of the public sector. Having succeeded to a great extent in addressing those immediate challenges, social funds and AGETIPs are evolving into slightly different entities. Both are struggling to find ways to achieve more sustainable results on the ground. The preliminary findings of the review indicate that the main challenges faced by social funds and AGETIPs in the future are:

- Targeting the poor, especially women and children
- Mainstreaming the principles they embody for improved public sector management, including procurement, technology choice, and beneficiary participation
- Progressive decentralization and support for local development
- Ensuring more sustainable results.

Improving the institutional environment in the future

Adherence to the following principles were highlighted as leading to improved institutional performance:

- Mainstreaming agency principles
- Introduction of more competition and in some cases unbundling services
- Aiming for further staff excellence
- Allowing for greater flexibility
- Keeping objectives clear
- Forging better partnerships with local government and grassroots organizations
- Greater involvement of sector ministries
- Improving information collection and ensuring better coordination among agencies.

Improving sustainability of projects

The following actions to enhance sustainability of subprojects were suggested:

- Developing a long-term vision as social funds and AGETIPs move away from an emergency to a development orientation
- Early involvement of beneficiaries
- Creation of a standardized menu of technology choices, locations, and organizations
- Organization of viable users' committees, particularly for O&M
- Establishment of realistic local expenditure plans
- Improving the technical and fiscal capacity of local governments
- Setting criteria to improve performance and efficiency.

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Regional Consultations: Eastern Europe and Central Asia

Partner Institutions	**World Bank, Europe and Central Asia (ECA) Region**
Organizers	Alexandre Marc and Betsy McGean (WB)

Introductory and thematic presentations

Social funds are fairly new in the ECA region. The microcredit component of the Albania Poverty Alleviation Project was the first social investment fund (SIF) operation in the region, followed by the Armenian SIF. Currently, social funds are being prepared or implemented in Georgia, Moldova, Romania, Tajikistan, and Uzbekistan. SIF-type mechanisms are also beginning to emerge from sector projects to support reforms in health, education, and the environment. The ECA Regional Consultation on social funds was a well-timed event that offered social funds' managers, government policymakers, nongovernmental organizations, and World Bank staff working on social funds their first opportunity to meet as a group and to discuss recurring themes in the design, implementation, and impact of social funds in the region. Ideas emerged on defining or redefining some of the potential roles of social funds and establishing mechanisms for improving sharing and learning about social funds across the region. A major outcome of the one-day event was agreement to hold a regional workshop in 1998 to follow up and explore themes emerging from the International Workshop.

Findings from the experience of the Armenia social funds

The case of the Armenian social fund was presented to illustrate some of the positive and negative features of centralized planning that impact social funds in countries in transition. Positive features, as presented by the Armenian social fund general manager, include: (a) movement toward decentralization across the region, (b) well-educated citizenry, and (c) nascent but growing construction industry. Unlike most developing countries, poverty in the region is not chronic. Negative aspects of centralized planning include: (a) an oversized and unmanageable infrastructure, (b) a negative bias toward the community, (c) a lack of consensus in decisionmaking, and (d) a high level of distrust toward local governments and NGOs.

The Armenian social funds' manager presented his views on key objectives of all social funds in the region:

- Infrastructure development geared toward better quality of life rather than poverty reduction
- Development of the private construction industry
- Promotion of community participation

- Capacity building of contractors, communities, and local governments
- Downplaying expectations of substantial employment generation due to the limited absorption capacity of social funds to invest large amounts of funds, despite enormous demand for steady employment.

Group discussions

Small groups discussed the implications of the Armenia experience, giving participants the opportunity to examine the recurring themes present across the region: privatization, decentralization, social sector reforms, and postconflict resolution and civil society.

On privatization

Participants agreed social funds have an important role in promoting privatization in the region, namely through the following:

- Facilitating the transfer of assets from state enterprises and collective farms to local governments
- Encouraging development of private contractors and increasing their capacity
- Creating a demonstration effect in a wider market economy by enforcing contracts, demanding accountability for work quality, and demonstrating efficiency and rapid disbursement.

Challenges for social funds' designers and managers include the following:

- Achieving effective coordination between social funds and ministries to ensure that facilities rehabilitated by funds are not privatized
- Enabling citizens to be heard and to be active in the privatization of social and economic services in their communities
- Overcoming difficulties inherent in the rehabilitation of small infrastructure facilities that are integrated with larger systems extending beyond the boundaries of local communities.

Decentralization and social sector reform

Discussions on decentralization focused on the impact of ill-defined roles of different levels of government and line administrations; the absence of legal structures for introducing or expanding user fees and cost recovery; and the potential for social funds to demonstrate to local governments an efficient and demand-driven way to deliver public services. Some of these issues also arose in discussions on social sector reforms. Other opportunities and challenges for social funds in reforming sectors include the following:

- Demonstrating the importance of budgeting for capital construction and recurrent expenditures
- Balancing apportionment of social funds between infrastructure need and income deprivation, which may not coincide
- Incorporating information campaigns with infrastructure rehabilitation to affect attitudes and behaviors, such as in the health sector.

Postconflict resolution and civil society

Participants discussed the implications of social funds working in a politically or socially unstable environment. It was agreed social funds are influenced by and can influence such an environment. Social funds can bring satisfaction to groups through acknowledging their needs, quick delivery of benefits that results in renewed hope, and using infrastructure rehabilitation as a catalyst for developing relationships between minorities and majorities. Serious challenges for social funds in such an environment are likely to emerge from the breakdown of law and order and its effect on the movement of goods, contractors, laborers, and social funds staff countrywide. Another area of challenge could be posed by the emergence of internally displaced persons who are not a clearly identified community and are too destitute to take advantage of the opportunities that social funds present. Participants also viewed social funds as an impetus and process mechanism for organizing and channeling community initiatives.

Consensus on next steps

There was consensus about the desirability of a follow-up conference to be held in the region to reinforce ties among regional funds. Other ideas for developing a network to exchange information and experience were to set up World Wide Web sites about individual social funds and establish a training center for the skills enhancement of social funds staff.

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Regional Consultations: Latin America and the Caribbean

Partner Institutions	**La Red Social, Organization of American States, World Bank Latin America and Caribbean Region, Inter-American Development Bank**
Organizers	Eduardo Diaz Uribe (Red Social); Samuel Morley (Inter-American Development Bank); Benno Sander, Roy Thomasson (Organization of American States); Allan Colliou, Willem Struben (World Bank)

The regional consultation was convened at the Organization of American States General Secretariat, attended by 80 persons from regional and international financial institutions, national governments, social investment funds (SIFs), and NGOs.

Discussions and themes

The discussions took stock of the implementation experience of SIFs in the region, assessed their impact on efforts to overcome poverty, and examined ways to increase the integration of regional and international networks of the SIFs as a means to share experiences. Presenters highlighted the accomplishments of the SIFs and pointed out areas that need to be addressed effectively in combating poverty in the Americas and the Caribbean.

The overall theme of the discussions centered on the challenges faced by the countries and the SIFs of the region in dealing with structural poverty, given that this is not why SIFs were created. The three major areas discussed were: the role of the SIFs in national poverty alleviation programs, how to incorporate community participation, and how much emphasis should be given to generating productive employment.

Role of the SIFs

Though essential, the SIFs are but one component of the national poverty eradication strategy, because governments have a constitutional role to alleviate structural poverty. Directors of SIFs pointed out that the funds are now expected to move from operating isolated programs to working with governments to create integrated policies to eradicate poverty, including contributing to debates over fiscal and tax policies.

The transition from an interim technical coordinating body to a subordinate body within the state can be difficult for the institutions. Unless SIFs have specific objectives that are integrated with the objectives of national policies, and unless their institutional framework falls within the overall national institutional framework, they cannot be effective in eradicating poverty. They could be at risk of competing with and duplicating efforts of other government and nongovernmental initiatives.

Community participation

The second major topic discussed was the strategies of SIFs in developing modalities for the participation of constituencies and NGOs. There was clear consensus on the need to involve all actors in social development in a systematic fashion, including the poor. The aim of participation is not to develop national democracy in its broadest sense but to catalyze community action and to develop a sense of ownership.

The group agreed that without beneficiary participation there is no project ownership and little likelihood for long-term project sustainability. Delegates, however, pointed out that, while participation is desirable, it does not come free of cost; resources to bring about participation and local management need to be allocated to projects.

Supporting democratic systems

Participants also discussed the problems and issues related to the design of election systems and institutional structures, with the goal of ensuring democratic processes and community involvement so that representatives can add value, increase credibility and support for the SIF, and establish relationships with local governments for enhanced effectiveness.

Decentralization

An important strategy for the SIFs is to emphasize decentralization and participation as key elements. Finally, however, each country will have to adapt this strategy, based on different interests, focus, variations in available technology, and mechanisms for participation, as well as variations in local development frameworks. In the absence of a standard model, SIFs need to be able to determine their own structures, methods, and procedures.

Civil society

Participation also involves integration of SIFs into civil society, increasing their collaboration with economic organizations, and transforming them into promoters of local development. SIFs must develop close ties with NGOs to determine the needs of marginalized groups.

Finally, several participants noted that there has been little cooperation between governments and nongovernmental organizations in the past. In some cases governments suspect NGOs of having a political agenda; the suspicion is often mutual. New mechanisms that create responsibilities for both parties while ensuring their mutual credibility must be developed to bridge this gap, even though the process is likely to be a long one.

Project design

Participants, including international institutions, recognized that, while international banks had traditionally been good at designing large projects, their capacity had proven to be inadequate for the design and implementation of small projects needed and demanded by communities. Both SIFs and development agencies need to find ways to build capacity to design and implement projects at the level of the community.

Governments need to bear in mind that resources received from SIFs are loans and not grants. If the country is poor, it cannot afford to borrow money and give it away with no mechanisms for cost recovery. With such indebtedness, unless the loans are cautiously administered and projects well-conceived, the loan can become a long-term burden.

Efficiency in the design of SIFs and their projects is key to avoiding additional problems.

Good design requires much work early to establish an adequate baseline of information. Since little is known about project impacts, there is a critical need to develop indicators for monitoring and evaluating projects to assess the contribution of SIFs to combating poverty. A focus on training at the local level would allow better implementation.

Innovation and flexibility

More attention should be given to encouraging innovation. International institutions should permit more flexibility and wider choices in the menu of projects that SIFs develop in response to the specific issues in their country. Without incorporation of these elements, the long-term sustainability of SIFs can be hampered because of their continued dependence on international cooperation.

Productive projects

Though many participants thought that the only way to combat poverty was through productive projects, the initial objective of SIFs was to finance small-scale infrastructure. It is now widely recognized that SIFs can be effective at bringing about short-term increases in income streams in communities; in many cases, however, they are not equipped to implement integrated projects. In specialized fields, such as agriculture, private sector development, credit, and marketing, their productive projects have been largely experimental. There was consensus, however, that in the future SIFs must give high priority to building small business capacity through training and microcredit if they were to have significant long-term economic impacts.

Conclusion

SIFs in Latin America and the Caribbean are relatively advanced in terms of networking and program development and management. Sharing their experiences with other SIFs worldwide and continuing the development of mechanisms for mutual learning are an important part of their work. They also will be involved in mainstreaming their work methodologies to central and local levels of governments in their own countries.

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Regional Consultations: Middle East and North Africa

Partner Institutions	**World Bank Middle East and North Africa Region**
Organizer	David Steel (WB)

Participation

The regional consultation was an inaugural event and had two purposes: the first was to exchange experiences between participants; the second was to discuss whether to establish a Middle East and North Africa (MENA) regional network for social funds along the lines of those already established in Latin America and the Caribbean and in Africa. The 17 participants at the meeting represented the three social funds in Algeria, Egypt, and Yemen; the governments of Algeria and Pakistan; three NGOs from Pakistan and Yemen; and one international organization, the World Bank. The delegation from Pakistan joined the MENA region group because there was no Asia or South Asia regional consultation.

Joint meeting with ECA

The first part of the day was spent with the Europe and Central Asia (ECA) regional consultation; it consisted of a presentation and discussion on principal issues facing the social funds in that part of the world. The MENA regional consultation participants then pursued their own program for the rest of the day.

Regional experience

The representatives of the three social funds in Algeria, Egypt, and Yemen and the representative of the proposed social fund in Pakistan made brief presentations on their operations and the conditions within their countries that they were designed to combat. Principal findings from the discussion that followed were the relative newness of the social funds in the MENA region compared to other parts of the world, the different degrees of experience within the region, the different sizes of the social funds, and the differing degrees of involvement of civil society and NGOs in the economic and social development of their respective countries. Representatives expressed considerable interest in the presentation on the proposed social funds in Pakistan, which is intended to be funded entirely from private and nonprofit sources. Representatives agreed to exchange experiences later about the future of social funds in the MENA region, especially pertaining to sustainability, targeting, the role of microenterprise lending in a fund's operations, decentralization, and interactions with civil society and NGOs in particular.

Regional network to be created

There was unanimous agreement that a regional network of social funds in the Middle East and North Africa region should be established. The representatives of the Egypt social fund, as the oldest and largest social fund in the region, agreed to host the first meeting of the network.

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Development, Equity, and Social Justice

Keynote Speaker — **Aminata Mbengue Ndiaye**, Minister of Family Welfare and Mayor of Louga, Senegal

The social dimensions of structural adjustment

The poor, the women, the young, the marginalized can and should take part in and benefit from the fruits of growth in the world. To restructure their economies and to go back to a situation of growth, most of the African and Latin American countries, with the World Bank and the International Monetory Fund, have launched structural adjustment projects with the support of their development partners. Despite interesting results in terms of microeconomic balance, these programs incurred important social costs for their countries. Many people lost their work and fewer jobs were created, leading to a degradation of living conditions for the more vulnerable members of society, specifically children and women.

To accommodate the social dimension of structural adjustment and to better alleviate poverty, social funds were implemented to reach communities who do not have access to job markets and to essential social infrastructures. These were given different names: social investment funds, AGETIPs, rehabilitation funds, and emergency funds. And these funds have been efficient instruments in the alleviation of poverty, poverty that threatens the peaceful coexistence of people, in fighting unemployment, and in improving the health, education, and environmental living conditions of the population.

The widening gap between the rich and the poor

The gap between developing countries and the more developed countries continues to widen. The ability of our governments to respond to the fundamental needs of their populations is weakened constantly. The repercussions limit the fair participation of the marginalized, who fight daily to preserve their dignity and to contribute to our economies.

Give both women and men access to poverty alleviation programs

The fight against poverty can only be done through alleviation programs, which all citizens should be able to reach through a democratic process. The process should have economic structures that guarantee to everybody, and specifically to poorer families and to women, equal access to basic social services. In this framework, women, who are at the center of our families and who often are the family leaders, work daily in poverty alleviation. They try to find solutions to manage production and to find goods for their families in an economic situation that is more and more difficult. We are striving to develop the capacity of women to organize themselves. We give the greatest importance to the strategies of survival they have developed, such as the creation of microenterprises. By ignoring women, we could be weakening the human resources of our country and unfairly allocating our national resources.

Practical interventions to support women in Senegal

In Senegal, the Ministry of Women and Children supports the initiatives of families through different programs, activities that create employment, improve technology, and support women's partnerships. These programs are managed in a participatory and integrated approach. They encompass many forms of intervention, such as creating community infrastructure to improve living and working conditions of women; supplying them with resources to perform their daily tasks; delivering literacy programs to fight ignorance, one of the main barriers to the development of women; preparing information, education, and communication curricula on topics relevant to their lives and the lives of their families; and implementing credit that supports the needs of women's organizations and their productive activities.

These practical interventions to improve the well-being of women illustrate what can be done through programs and plans that address the constraints of the populations. Such an approach enables Senegal to create sustainable effects that can be assumed by the beneficiaries through full participation and decentralization.

The essential components of good governance

The participants have ten years of experience in social efforts and will continue to promote their work to alleviate poverty in the countries that need it. The group has critically and constructively reviewed our common concerns on the sustainability of approaches, popular participation, transparency, implementation of local democracy, and the operational partnership between different institutions: governments, donors, local communities, NGOs, and community grassroots organizations. The participants also highlighted the need to respect grassroots initiatives while developing institutional capabilities of local communities and community organizations to strengthen the capacities of the poor, giving them access to knowledge, to decisionmaking, to technologies that are cost-effective and sustainable. During the workshop, the group identified the essential components of good governance. The many recommendations of this conference will form the basis of a new drive in poverty alleviation within the framework of global synergy and international partnership.

Eliminate exclusion and marginalization

If the declaration and program of Vienna in 1993 is accurate, that extreme poverty goes against the free enjoyment of human rights, further emphasis must be given to community actions that alleviate, and finally eliminate, poverty. If the right to development is considered universal, a fundamental individual right, and democracy, development, and respect of human rights and basic liberties reinforce themselves mutually, no group will be omitted from the services offered by the organizations represented by this workshop. If the Peking action plan, adopted in 1995 by the Fourth Conference on Women, which strengthens the power of women and guarantees their full participation on an equal basis in all fields, including decisionmaking and access to power, are essential conditions to development, no one will be left by the wayside. Exclusion and marginalization will be eliminated forever.

Fairer social justice

Finally, beyond declarations, beyond political will, each country and each institution must decide to find the right spirit and the right means to make a quantum leap to a fairer social justice. And it is thus that our meeting here in Washington, in this prestigious institution, the World Bank, will be symbolic. It will enable us to cross-fertilize, to establish dialogue between cultures, to establish networks for a fairer, more human world.The President of the World Bank also articulated this new vision of human development during his recent visit to Africa. I hope our call will be heard.

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Workshop Concluding Remarks

Speakers	**Steen Jorgensen**, Sector Leader, Social Protection Board (WB) **Ishrat Husain**, Principal Advisor, Poverty Reduction and Economic Management (WB)

Steen Jorgensen, Sector Leader, Social Protection Board (WB)

The coming of age of social funds: from childhood to adolescence

The accomplishments of social funds over a decade have been described as well as the complications of coming of age as social funds enter their adolescence. A decade ago, few talked of social funds; today a large social fund community gathers here. Of the immense learning over the last decade, these are a few of the themes discussed at this workshop:

- Much time used to be spent arguing for the importance of demand-driven or demand-oriented mechanisms; today the workshop participants discussed making that mechanism better.
- Social funds are now discussing networks and talking about transfer of knowledge among developing countries. That is a very important development, part of the maturation of social funds.
- The importance of targeting and the gender dimension of targeting has been addressed, how to do it better at lower costs with higher benefits. Targeting by type of services is also being discussed.
- The participation of beneficiaries, local governments, and civil society in projects was considered. The criticality of participation throughout the subproject cycle was reviewed several times. Participatory monitoring was discussed; more discussion about this subject is needed as well as ways to disseminate good practices.
- Sustainability was not mentioned a decade ago, yet it formed a major theme of this workshop. Sustainability stems from a philosophy that asks people what they want and gives them options and choices. Social funds have learned about sustainability from its NGO colleagues.
- The importance of ownership of the development processes and projects by the communities was discussed. Social funds have proven that they can facilitate this ownership; they also have shown that they have considerable room for improvement.
- The participants talked extensively about learning by doing, not in isolation, but with sector agencies, local governments, and politicians, so that national policies are followed.
- Other government actors can learn from the experiences of social funds, as they have contrived new ways of doing business for the government and maybe for the nongovernmental sector as well.

Growing into adulthood

However, social funds still have more learning to do:

- Social funds have not been particularly good at approaching colleagues in development agencies, ministries, and NGOs to try to make learning a joint effort so that the country can really move forward.
- That AGETIPs have been successful in implementing delegated contract management is an exciting idea. How does it apply to other sectors, especially to other parts of the public sector?
- The roles of NGOs and local governments and their responsibilities need to be defined and formalized clearly. Social investment funds need to be integrated within national priorities in public investment programs.
- The environmental affects of social fund projects must be examined very carefully. There may be real issues that have been overlooked.
- Coordination among the networks of social funds, among donors on evaluation criteria and on processes, among the development actors and players in the various countries needs to be brought about.

Some questions that could not be answered

Questions were asked for which there are no answers yet. They give social funds something to consider in the future. How do social funds prioritize demands that exceed their resources? How do social funds prioritize various activities in terms of investing in infrastructure and building capacity in the community? Should prioritization across sectors within a country be discussed? These are key questions for social funds to think about.

Social funds have not come to grips with gender issues. Some serious work is needed in understanding the gender dimensions of demand-oriented institutions such as social funds. Women are often marginalized in communities. How do social funds ensure that their demand is effective, not just an implicit demand that is hidden to be discovered later?

Finally, how is empowerment or participation measured? One school of thought considers social capital to be the method, understanding how communities interact and how communities go on, and social funds could explore it. There is not a good way of measuring it; yet empowerment and participation may be the one lasting impact of social funds.

The legacy of social funds

The real, lasting impact of some of the more successful social funds may not be the infrastructure created. It may not be the nutrition programs delivered, but the fact that communities exist now who demand from government, from nongovernmental organizations, from local government, to be heard and to be taken seriously.

One of the determinants of the relative success of social funds so far has been their flexibility. It is good to be flexible and be a little crazy sometimes. It is good to try things and change things when they do not work. Flexibility causes problems for evaluations, because social funds change objectives about three times in the first year and then about once every two years. But that can be good. If we think we know the truth when we start out, we might as well not try to do social funds, because I think that is the one thing that they do better than anything else: be flexible and be adaptable to the local circumstances.

Ishrat Husain, Principal Advisor, Poverty Reduction and Economic Management (WB)

Introductory remarks

This workshop has been more than what we had expected, very profitable and productive, and I want to thank you on behalf of the World Bank and on behalf of the organizers for sharing your rich insights, your perspectives, and your views and for bringing very good suggestions to the table.

Broad areas of agreement at this workshop

Essential participation: what social funds should not do—Social funds are part of an overall poverty reduction strategy to be designed by the country itself, in broad participation with all the stakeholders, not only the government, not only the NGOs, not only the private sector, but all the stakeholders combined.

Where social funds will not work—If government policies and investments do not support the interests of the poor but cater to the needs of the elite or the rich or the well-to-do, a social fund will not be an effective instrument of a strategy for poverty reduction. It has to be an integral part of the government's willingness and commitment to genuinely help the poor. So if governments, for political reasons, provide a social fund, while all the investments, the policies, and public expenditures are biased against the poor, the fund will not work. If a social fund exists where the rural areas are neglected, where primary education and health facilities are inadequately paid attention to, then that social fund is not going to work.

Social funds are part of the arsenal against poverty—There has been a maturity, an evolution, and a learning in social funds, which were originally designed to compensate for the social dimensions of adjustment. But, today, after ten years, a group of practitioners have found a way to further that thinking and to make these social funds a potentially important instrument for poverty reduction, again in the overall context. They are no longer an emergency compensatory mechanism; they are now one of the tools in the arsenal against poverty. That is the evolution of ten years.

Targeting the poor—From a beginning of just one project in Bolivia, social funds exist now in 35 countries. Some of them are actually not emergency funds, but funds that seek the poor and marginalized segments of society. This is a completely new niche, a niche for reaching the poor. Where public sector agencies and the private sector have failed, social funds have stepped in. They have found a niche for themselves, to cater to those areas where the poor predominantly live and that other public or private agencies have missed.

Social funds are flexible instruments—Social funds have also shown themselves flexible, something that can be replicated in the institutional development strategies of their own countries. They have proved to be effective in reaching out to the poor. The targeting efficiency of the social fund, although not perfect, is better than any other instrument seen so far.

Social funds provide an avenue for community participation—Social funds have provided an opportunity for community participation, for the private sector, local governments, NGOs, and the central government. But the main actor that remains is the community itself, which is involved with the funds.

Social funds facilitate a demand-driven approach—Instead of the technocrats dictating investments, the demand-driven approach allows communities to identify and ask for subprojects that need to be constructed, maintained, and built under social funds.

Accountability—Despite the devolution of implementation to local levels, social funds maintain accountability for operations. Fund managers can track on their computers for each subproject how much has been spent, how many times it has been audited. And that is something that cannot be expected from the public works ministries. Even five years after closure of these projects, audited accounts are unavailable. So the accountability of social funds is very, very important.

Cost-effectiveness—Finally, as compared to traditional contractor-driven projects, the average social fund subproject, because it is constructed by the communities and supervised by them, is relatively more cost-effective. In some cases, its costs are only half that of public sector public works agencies.

Applications of the positive lessons and challenges for national strategies

It is important to not lose sight of the characteristics, features, and principles that have emerged from social funds and have made them quite effective. The challenge today is application of these principles to the wide body of national institutional development. If social funds multiply as they have in Bolivia, their activity becomes enclaved. The challenge is the application of the most effective aspects of social funds to influence national public sector management and national institutional development. This is the biggest challenge that social funds face in the future.

Scope and opportunities for multiple players

There are opportunities for multiple players; do not consider this a zero-sum game. There is no conflict between the NGOs and the public sector agencies. There is no conflict between local governments and community organizations. Varied experiences in 35 countries show there is a place and an opportunity for all actors to participate in social funds. By unbundling the whole project process, roles and opportunities are created in which each player can participate effectively.

Communities' and NGOs' mobilization and project identification

Start with the mobilization of communities—the poor really cannot articulate their demand. Social funds will be making themselves noncredible if they believe that the poor, who are marginalized, living in the rural areas, for example, on the mountains of Guatemala, will be able to state their needs, their demands. The best group to mobilize those communities, those poor, are NGOs. They have the tools and the expertise to do so. After mobilization comes identification and selection of projects, which should be done only by communities and local community organizations. Communities cannot be expected to prepare projects. Government agencies, the local government agencies, and the municipalities have the technical expertise to help communities translate those priorities into feasible projects.

Project approval and appraisal

Then there is appraisal and approval. There, the social funds staff shines. The social fund should not be a big ministry with 50,000 people, but a small, mean, and lean organization that intervenes only at the points where needed. So for appraisal and approval, bring in the social funds.

Financing can be done by the social fund itself, or the municipalities can participate or the communities can contribute their own labor or their own savings to the financing of those investments. From financing, go to implementation. One of the attractions of the social fund approach is competition. There should not be a monopoly of any single organization. Cost-effectiveness comes only through competition.

Implementation

Based on project specifications, community organizations should be asked whether they can implement the project. If NGOs have the capacity, they can implement it. So can the local municipality or the central government. Implementation should not be earmarked; responsibility for it should be given to the person or group that can implement the project most cost-effectively and promptly while conforming to specifications. Social funds supervise the work and secure quality by ensuring it is done according to specifications.

Monitoring

Social funds have to monitor the project, see whether the objectives are being met, because a demand-driven project has no predetermined set of rules. Mistakes, changes, and modifications all come from the monitoring. It is a live process. The appraisal allows the social fund to keep making changes, and that is how a social fund must function.

Operations and maintenance

Clear, explicit arrangements for sustainability need to be built into the project. Is the water supply scheme going to be maintained by the local municipality? Is the education ministry going to provide the teachers, the furniture, the textbooks, and all the equipment for that school? Otherwise, a school will not be built. Or will the community organization be responsible? There is a village in Mali where the community, the poor villagers, hired a nurse and a part-time doctor to run the clinic that they built themselves. It was functioning better than the government dispensary, which had neither doctor nor medicines. Such arrangements have to be part of project design.

Evaluation

Evaluation and impact analyses have to be carried out to ensure that the impact is commensurate with the expectations at the start of the project. Either the social fund can do it, or bring in universities or research institutes to visit the site and make the evaluation. There is a task for every one of us. There is no fight for kudos in poverty alleviation, because it is a big and very difficult challenge. All of us can contribute to it.

Working collectively for maximum effectiveness

I listened to many conversations during this seminar, when people were saying, well, this is our turf, this is what we can do, this is what they should do. I think we should not think that way. We should think about where and at what point in time we can make the intervention that is going to be most effective. If we have this kind of thinking, then there is room for all of us. This is a multiple-player, multiple-actor scene, and the results are going to be a win/win situation rather than a zero-sum game.

Where do we go from here?

Finally, I would like to come back to the question: Where do we go from here? This event convened all the social funds players; there have been conversations between Red Social and AFRICATIP and others. There are some good suggestions for the future. Some of them have already been articulated. One is a less bureaucratic and more informal network of various groups that are already in existence. Red Social and AFRICATIP have already decided to cooperate and form an alliance. I hope that the other regions will form this kind of network and then try to align themselves with this global alliance. We in the World Bank have started a World Wide Web page. The Web page will let us share information, share knowledge among ourselves, and keep each other aware of what is happening. A network is very good to start with, but if not kept alive, it disappears over time. We can all try to use electronic technology to keep ourselves informed. And there will be new, additional players. Bring them into the network. Do not become an exclusive, closed shop. It should be an inclusive, open-ended shop. So if there is Armenia, Azerbaijan, Georgia, Moldova, and Uzbekistan, new countries coming in with their social funds, let us try to include them in this information sharing and networking. And new NGOs are coming in. Many NGO groups are realigning themselves. Bring them into this particular network.

Workshop outcomes: regional consultations

We are now moving more and more in the direction of regional consultations and regional groupings of NGOs. We had a meeting in Nicaragua last year for Latin America and Caribbean region. We had a meeting with Asian NGOs in the Philippines. It may also be good if the people who are working on social funds can send representatives to these conferences to meet and discuss the progress, the programs, the policies, the challenges facing social funds. You do not have to duplicate everything. Take advantage of the existing mechanisms, existing opportunities, in order to come together.

Donors' working group: A virtual network

I am extremely happy that the donors have decided that they will form a working group. One of the frustrations is that each donor has its own requirements, its own accounting procedures, its own procurement procedures, sends 14 missions down to visit social funds, and has too many monitoring and evaluation reports. Let countries be in the driver's seat and let them specify the role of the donors. Donors should all work together and come once a year for supervision or for monitoring all at one time. If they want to do evaluation, let them do it together, to minimize the costs and minimize the requirements of time as far as social funds are concerned. And I am extremely happy that the working group of donors on social funds will be a virtual network that will be constantly exchanging information.

Some important questions

Four important issues were raised at this workshop:

1. ***Gender***—Any sample of the poor will show that the proportion of women among the poor is greater than their proportion in the population. But women so far, except a few good examples like Sri Lanka, have not yet been integrated into the decisionmaking process, into implementation, or into the choice of projects. I am reviewing Indonesia's village infrastructure project. The women asked for water supply, the men asked for roads, and roads are being built. The water supply schemes are not being built. So I think that if we want to reduce inequities, both in income as well as gender, one challenge is to integrate gender issues into the design and implementation of social funds.

2. ***Capacity building***—Before social funds start building capacity, they need to recognize how much unutilized capacity exists. The tendency is to think that because it does not belong to my organization, I am not going to use it. That is a thought that occurs repeatedly. There are organizations and institutions already that are deprived of financing, but new institutions are built to create new capacity. Please try to use existing institutions and ask whether you want to build a new institution, a new organization to do the work for social funds. I heard a lot about capacity building, but I did not hear the words "capacity utilization." I know—I have worked in Africa—there are capable Africans outside the government, outside social funds, but they are not being utilized. And expensive consultants are brought from North America and from Europe because they are being funded by donors. Let us use local capacity.
3. ***Decentralization***—How should live linkages be established between social funds and local governments? Latin America is way ahead of everybody else as far as decentralization is concerned. We should try to learn lessons from Latin America, because local governments and social funds should not conflict. They are all serving the same people, the same community. How to establish natural linkages, working relationships, the division of labor between local governments and the social funds, that is the third challenge.
4. ***Targeting the poorest***—How should we reach the poorest of the poor? We are reaching some poor, but there are extremely poor people living in remote areas, in marginalized areas, who are not being served by social funds. There has been progress in targeting the poor, but the next-generation challenge is how to reach the poorest of the poor.

To me, the new generation of social funds will have to meet these four challenges if they are to have any effect on poverty reduction.

Part IV
Original Workshop Papers

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The Social Investment Fund in the Context of National Development

by Marco Camacho, Director, Social Investment Fund, Bolivia

1980–85: A Period of Crisis

A reversal in economic growth began to affect Bolivia toward the end of the 1970s, resulting in a economic crisis of staggering proportions by the end of the first half of the 1980s. Output declined, and a growing share of production shifted to the informal sector because of high tariffs and quantitative controls, an overvalued exchange rate, price controls, and strong regulations. Production and export levels dropped, prices soared, and hyperinflation reached a dramatic 24,000 percent in 1985. All this, coupled with controls on interest rates and other financial restrictions, led to a flight from the peso and a sharp drop in private investment. Economic disruption fomented intense labor disputes as social groups competed just to maintain their share of a rapidly shrinking pie. Politically, Bolivia was becoming difficult to govern, and the country was witnessing extensive social conflicts.

Structural Adjustment

In August 1985 a new government administration headed by Dr. Víctor Paz Estensoro initiated the New Economic Policy (NEP), a structural adjustment program that focused initially on stabilizing the economy, halting inflation, and restoring the balance in the external debt account. Longer term structural adjustment measures were aimed at dismantling most price controls, reforming the trade regime, restructuring ailing public enterprises, and overhauling the tax system.

Pursuing its economic program with remarkable tenacity, the government managed to reduce inflation to 20 percent within a year of launching the program. There was little leeway, however, for addressing social issues. Even before the structural adjustment program was launched, social conditions in Bolivia were the worst in the southern hemisphere. The government concluded that effective action to address social issues was critical for the success of the economic program.

Emergency Social Fund: A Compensatory Mechanism for Adjustment Measures

The Emergency Social Fund (ESF), a response to the extreme social deterioration in the country, provided emergency relief and implemented a program to generate employment for the groups most severely affected by adjustment measures. Created in February 1986, it had the following objectives:

- To identify and promote efficiently the implementation of projects and programs with high social returns
- To contribute to the alleviation of the social conditions in regions most affected by social crisis and unemployment
- To provide grants, education, and technical training programs to develop a better-trained, more efficient work force.

The ESF supported labor-intensive social infrastructure projects, such as the construction and repair of schools, health centers, basic self-help housing, and sewage and water systems, as well as cultural heritage projects. Economic infrastructure projects supported by the ESF included urban infrastructure, construction, maintenance, and improvements in access roads, irrigation and drainage works, erosion control, land recovery, and reforestation. Welfare projects to improve living standards of families were supported in the food, nutrition, and health sectors.

Outcomes of the Emergency Social Fund

Demonstrating the Bolivian government's will and initiative to combat poverty, the ESF helped the state to regain the trust of civil society. It had a favorable impact on Bolivia's economic indicators, because it generated a positive capital flow of over US$210 million, which contributed to a reduction in the current account deficit. Private sector confidence was bolstered, and its participation in the economy grew. Bolivia was beginning to enjoy remarkable price stability.

The ESF's investments caused a gross domestic product (GDP) growth rate in 1990 of 2.6 percent compared with 1.5 percent before the investments. During the four years of its life, the ESF generated nearly 60,000 direct and 45,000 indirect jobs. In 1990 the number of jobs created equaled 1.8 percent of the economically active population and nearly one-third of unemployed workers.

Fight Against Poverty, the Social Investment Fund

Although the immediate crisis had been overcome, much remained to be done. In response to a more considered response to Bolivia's development needs, the ESF gave way to the Social Investment Fund (SIF), a more permanent institution that focused exclusively on health and education. The SIF was structured to coordinate and integrate its programming with the sector strategies and development plans of the respective ministries. An important implication of working within a framework of established norms, as opposed to outside them, as had been the case with the ESF, was that the SIF was not able to respond quickly. While projects were rapidly and efficiently processed and delivered during the emergency stages because of expedited procedures, SIF projects had to go through more bureaucratic steps for approval.

Bolivia developed a model to facilitate the prioritization of investments in rural and urban areas. Based on an analysis of the health and education indicators of cantons, geographical units lower than a municipality, priority areas were identified to enable the phasing of investments. For urban areas, priority areas were identified based on an analysis of the availability of basic services. Unfortunately the data used for this analysis was the outdated census data of 1976, which resulted in considerable mismatches between what was requested by the population and the conclusions derived from the data analysis. However, because this marked the first attempt in the country to focus its investments, development of the model was a significant event.

Social Investment Fund, Phase I (1991–93)

The objectives of the SIF were to improve the coverage and quality of health and education services by changing priorities guiding investments in primary and preventive health care and primary education; developing mechanisms to sharpen the focus of social programs targeted to the poor; and introducing procedures to facilitate easier coordination between the social actors. To meet its objectives, the SIF adapted intervention methodologies for the necessary coordination and integration. It also used strict criteria to focus its interventions and facilitate community participation, including the participation of women. In the education sector, the SIF supported infrastructure and equipment for primary schools and adult training centers. In the health sector, the SIF supported day care centers with nutrition components, training programs in nutrition, basic health and primary care projects, immunization campaigns, and potable water and basic sanitation projects. The SIF also supported institutional strengthening programs through the construction of infrastructure, in addition to contributing to the equipment and operating costs for 18 months for those agencies in charge of executing SIF projects.

SIF Investments between 1991 and 1993

Total approved projects	1,418
Total committed amount	US$111,244,030
Total disbursed amount	US$42,542,351
Investments in urban areas	20%
Investments in rural areas	80%

Problems Faced and Actions Taken by the SIF

At the time the SIF was created, its organizational structure complied with the requirements of the ESF, which had a fragmented sectoral focus. Interventions were isolated, geographically dispersed, and demand-driven albeit with little community participation in the project processes. This lack of comprehensiveness hindered the realization of the full potential of the investments.

The SIF came into existence when a set of norms and laws were enacted at the national level to guarantee economic stability and lay the groundwork for promoting private investment and growth. These laws redefined the role of the state and established a basis for privatization within a framework to enhance Bolivia's participation in a globalized economy. However, fast economic growth does not guarantee closure of the investment gap in social sectors. It was up to the SIF to generate external resources to provide for projects in the areas with the greatest need.

Institutional Reforms

A number of laws were enacted within the Bolivian government to support the stability of the economy and to promote private economic growth. They include reforms in the Bolivian constitution that address the country's ministries, decentralization, citizen participation, the economy, and the social system.

Constitutional Reforms

These reforms defined the functions and the roles of the government, the legislature, and the judiciary to enable a strong and efficient democratic system. With the enactment of the Law of Reforms to the political constitution of the state in 1994, for the first time the multiethnic and multicultural character of the Bolivian people was recognized, and indigenous organizations were acknowledged to ensure their participation in decisions that affect their lives. The enacted reforms secured the following:

- Extension of the constitutional term for the president, vice president, and congressmen from four to five years

- Direct election of half the national deputies in uninominal districts and of all the mayors and municipal council members
- Inclusion of any citizen over 18 years of age in the electoral registry
- Creation of the Constitutional Tribunal, which is in charge of solving competency conflicts among public powers
- Creation of the Judicature Council, which is the administrative and disciplinary arm of the judiciary system
- Creation of the Office of the People's Defender, which is responsible for the advocacy, promotion, and dissemination of information with respect to human rights.

MINISTRIES LAW. This law, enacted in 1993, defines the composition and functions of the central government's ministries, creating the Ministries of Human Development for the social sector, the Ministry of Economic Development for the production and service sector, and the Ministry of Sustainable Development for national planning and environmental protection. It aims to restructure the organization of the government in accordance with a development philosophy that identifies the complementarity of social and economic development. It requires a comprehensive approach to planning investments and setting priorities to enable the sustainable management and use of available natural resources.

ADMINISTRATIVE DECENTRALIZATION. The Law of Administrative Decentralization enacted in 1995 aims to strengthen administrative departments by decentralizing decisionmaking related to resource allocation for investments in the education, health, and infrastructure sectors. The responsibilities transferred to the departmental prefectures are planning, administration, control, and supervision of human resources in education, health, and social assistance, as well as investment in secondary roads, rural electrification, irrigation, and support to production, tourism, and environment conservation. Resource allocations for the departmental prefectures are made mainly from 25 percent of the effective collection of a special tax on hydrocarburants from the Departmental Compensatory Fund and from the nation's general treasury for expenditures in health, education, and personal welfare services.

POPULAR PARTICIPATION. The main objective of the Popular Participation Law, enacted in 1994, is to bring the state closer to the people by enabling citizens' participation in decisionmaking. The law recognizes autonomous municipal governments in urban and rural areas that are responsible for local development and social infrastructure. Their resource base consists of a transfer of 20 percent of the internal tax collected by the national government. These resources are distributed among municipalities in proportion to the size of their populations; municipalities also have the right to retain the income from local taxes. The law recognizes the organizations and associations of indigenous peoples, peasant communities, and neighbor associations as representatives of the civil society before the state. The law creates mechanisms for their participation in the identification of needs and setting priorities for investments, as well as in the planning, execution, and administration of municipal services. Vigilance committees are recognized in each municipality; they represent their grassroots organizations and supervise and control the performance of municipal administrations to balance urban demands with rural demands and to ensure the appropriate use of municipal resources.

Economic Reforms

The economic reforms enacted under this sweeping national reorganization included laws that privatized government-owned companies, safeguarded consumers, and changed the social security and pension laws for the elderly and disabled.

Capitalization of State Companies—The Capitalization Law, enacted in 1994, seeks to establish a legal framework for transferring ownership and the administration of strategic state enterprises to the private sector, so that the government can allocate its resources to the more important areas of human development.

SIRESE Law—This law creates state agencies responsible for regulating economic activity and for safeguarding the rights of the state, the private sector, and consumers.

Pensions Law—This law changes the social security benefit packages for the elderly and for people with disabilities and reforms the system of death pensions. It expands the long-term social security coverage benefits to the informal sector and to independent workers.

INRA Law—This law seeks the equal distribution of land resources and the legal recognition of indigenous territories. It creates an equitable tax base that depends on the investment in and the productivity of farming activities.

Human Capital Reforms

The changes in the legal framework supporting the Bolivian social system included the criminalization of domestic violence, the expansion of the public health services, and reforms in the criminal justice system.

Education Reform—The Educational Reform Law of 1994 requires that education be efficient, equitable, permanently accessible for all the people in Bolivia, free in every public facility, and mandatory at the primary level. It requires that the educational system adapt to Bolivia's multicultural and multilingual reality and that priority be accorded to primary education. It facilitates access to education for all Bolivians by offering a flexible, systemic, bilingual, and regionalized curriculum. It fosters the direct participation of parents, teachers, and the community in general in education planning, organization, control, and evaluation to ensure that it responds to their needs and interests. It unifies urban and rural education under one administration and offers a curriculum that includes both formal education and alternatives for those who cannot pursue their education in the formal area.

Actions in Public Health—These actions expand the supply of medical service to a wider population, with free health service available to pregnant women, children under the age of five, and the elderly.

Solidarity Bond—Under this scheme, half the capitalized share of public sector companies will be distributed as life and annual bonds for people over 65 years of age.

Judiciary System Reform—These reforms are intended to reduce delays in the justice system by making it more human and efficient in the control of corruption.

Law Against Domestic Violence—Domestic violence is punishable by law, especially in the case of acts of aggression against women and children.

The Central Level of Government

Law 1493 of Ministries of the Executive Branch requires that "the business of public administration be performed through the State Ministries." This law also determines the number, composition, attributions, and competencies of the new ministries. State ministries are composed of the minister, the national secretaries, and the undersecretaries. The national secretaries are responsible for social and production areas that include the health, education, sports, culture, energy, mining, tourism, and transportation sectors. The Ministers of the Presidency, Finance, Economic Development, Human Development, and Sustainable Development are part of the National Development Council (CODENA), created in 1995. CODENA's functions are (a) to ensure convergence in the guidelines and policies for the country's development; (b) ensure cohesiveness in the national, regional, and local policies in the social, economic, and environmental areas; and (c) balance and match public investment priorities with external financing.

Neoliberal models of economic growth create inequities in the distribution of income and power. The reforms in Bolivia described previously should modify the economic, social, and political stratification. They are complementary to the neoliberal model implemented since 1985, yet their orientation aims to mitigate the imbalances of the past in the social area gradually and bring about a change in the relationship between the state and civil society.

From Poverty Relief to Human Development

The human development approach for the formulation of social policy has been adopted in Bolivia. Its objectives are the following:

- To provide opportunities for poverty alleviation, satisfy basic needs, and develop human capital to contribute to economic growth
- To increase community participation in the identification of needs, and to improve the quality of services by community control and supervision of resources
- To foster responsibility within communities in the search for solutions to their problems and in the fulfilling of their duties and obligations.

Institutional Mandate of Social Funds

The Supreme Decree 24010 of 1995 transfers the supervision of the SIF, the Peasant Development Fund (FDC), the National Fund for Regional Development (FNDR), and the National Fund for Social Housing (FONVIS) to the Ministry of the Presidency, through the National Secretary of Governmental Coordination. The intention of this decree is to give executive capacity back to the development funds, which is somewhat reduced when the funds are transferred to sectoral ministries for supervision. It redefines roles and interventions so that the SIF and FNDR finance water and basic sanitation projects. FNDR, however, must focus on the needs of towns with more than 10,000 people, while the SIF must focus on towns with fewer than 5,000 people. In this way, the funds become the investment instruments for the central government.

Social Investment Fund, Phase II

Replenishment of funding by the World Bank for the second stage of the SIF came when the effects of the fundamental changes in the economic and legal framework were starting to show. Reforms related to institutional, economic, and human capital further strengthened the foundations needed for the sustainable and equitable growth of Bolivia.

CHARACTERISTICS. SIF interventions are characterized by explicit criteria that guide their selection and development. These interventions are required to be transparent, sustainable, participatory in their planning, gender sensitive, and technically sound. They must focus on regions prioritized by the Secretary of Rural Development, the National Secretary of Health, and the Education Reform. The prioritization of rural areas limits SIF interventions to localities with fewer than 5,000 inhabitants. Resources from the SIF budget are distributed among municipalities based on the level of poverty, as defined by the poverty maps, as well as on the basis of their total population.

AREAS OF INVESTMENT. The SIF invests in education, health, basic sanitation, and institutional support. In the education sector, the SIF invests in formal education programs and finances equipment and the construction of school facilities. Through its support for informal education, it finances training of women to increase their productivity and efficiency.

In the health sector, the SIF supports the construction of health centers, finances the purchase of equipment and supplies, and invests in institutional development and community training.

The three programs in the basic sanitation sector supported by the SIF are potable water, night soil disposal, and solid waste management, which seek to reduce mortality and disease rates.

The SIF's institutional support program helps public and private nonprofit development institutions become responsible for incipient projects in areas where government institutions are weak or absent. The SIF is implementing a program of municipal strengthening, directed toward creating local capacities to plan sustainable social investments.

SIF II OUTCOMES. Two hundred and eleven municipalities, or 68 percent of the total number of municipalities in Bolivia, have benefited from investments made by the SIF. The most important achievements have been the following:

- Incorporation of the objectives of human development in a legal framework for the intervention strategy
- Adoption of participatory planning as the main instrument for identification of priorities
- Creation of a close working relationship with municipal governments in the cofinancing of investments.

SIF Investments between 1994 and 1996

Total approved projects	1,270
Total committed amount	US$122,512,258
Total disbursed amount	US$93,682,756
Investments in urban areas	15%
Investments in rural areas	85%

General accomplishments attributable to the SIF are as follows:

- The SIF's experience has been useful in strengthening social policies, especially in the education and health sectors.
- In following the SIF's criteria of supporting projects that respond to priorities identified by municipal development plans, the work of nongovernmental organizations (NGOs) and the private sector have been integrated with local municipal priorities.
- SIF technicians have become agents that facilitate transformation at the local level.
- The SIF is an active member of the Plan of Strategic Actions for Human Development (PAE) and of the National Development Council (CODENA), thus contributing to national development planning.

Sector Objectives Proposed by the SIF

Education	*Health*	*Income generation*
Transform the educational system	Reduce mother-child mortality	Increase GDP per capita through income generation
Improve service quality	Strengthen attention to primary health	
Expand coverage		
Increase student enrollment		
Seek higher levels of equity and access to education		

Mission and Vision of the SIF

In this new context, the SIF becomes an instrument of the national government to implement social policies oriented to the development of social capital in Bolivia. It strengthens local capacities in three ways:

- By facilitating participation in the debate and decisions related to development
- By promoting equal access to the benefits of development
- By contributing to the development of a responsible exercise of rights of both individuals and the society.

The internal measures adopted by the SIF to facilitate institutional development are described in the following paragraphs.

Decentralization

The SIF has deepened the process of decentralization, forming interdisciplinary departmental teams that execute most of the identification of and preparation for investment projects. The central office sets norms and standards for procedures and maintains quality control.

External Strengthening

The SIF has assisted municipalities to develop their management capacity so that they can fulfill more efficiently the functions assigned to them by the Popular Participation Law. This program includes delivery of equipment, technical assistance, service operation, and maintenance manuals, as well as coordination with professionals of different disciplines who provide services in support of municipal management. Another program will transfer the SIF's functions to municipalities over time, so that they may be able to assume all processes related to the project cycle.

Implementation of the Management Information System

The delegation of functions to departmental offices grants departments new responsibilities and creates new needs for them, one of them the improvement of the data management system. To facilitate this, the SIF is implementing a management information system, which involves the modernization of software and hardware, networking among all the departmental and central offices through access to the Internet, construction of related systems, and the provision of a permanent technical support system.

Personnel Training

Training activities are aimed at improving the skills and abilities of executive and technical personnel, with special emphasis on social management skills, because the new institutional framework assigns new roles and functions to staff.

Looking to the Future

The sustainability of projects has been an area of concern both inside and outside the SIF. The sustainability of social investments is directly related to income level. If wages are inadequate to cover a family's basic needs, people will be less likely to contribute to the fees and maintenance costs of services. This realization has pushed the SIF to propose to enter the area of income generation and employment through a new program that improves the production and productivity capabilities of communities that have benefited from investments made by the SIF.

The income-generation program assumes the framework of the national sector policy as its reference point, which has the following goals:

- To foster a technological leap in the agriculture sector
- To stimulate more and better rural and urban employment
- To fight poverty, improve living conditions, and increase the chances of human development
- To increase food security
- To strengthen participation of the majority and the historically excluded sectors
- To implement strategies for recovery of natural resources and for sustainable management
- To compensate the historic gaps in public investment in agriculture
- To implement strategies of labor adjustment in rural areas through a process of microindustrialization.

Conclusions

The political contributions of the ESF were to orient the governance of the country to a more democratic system so that the neediest could be served. Its economic contributions have been the generation of employment and augmentation of the growth of the country's GDP. It also contributed to the institutionalization of the struggle against poverty. The SIF, as the successor of the ESF, faces the challenge of eradicating poverty in a systematic and organized manner by becoming the social instrument of the national government. Through its support to projects, it aims to guarantee the application of social policies at the municipal level and to induce local investment in health, education, and basic sanitation sectors.

Both the ESF and the SIF helped redefine the new role of the state. Both institutions have inaugurated a new era in public administration by mainstreaming efficiency, effectiveness, and transparency in operations. The SIF's relationship with the state ensures that it will change and transform as an institution when needed, since it is the main instrument of social policy of the national government. Its entry into the productive sector is important because it is still too early to see the impact of new redistributive policies. Support for this area is important as Bolivia defines its future.

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Financial Resources Mobilization for Social Funds

by Hussein M. El Gammal, Managing Director, Social Fund for Development, Egypt

The Vision and the Early Years, 1991–93

The primary goal of Egypt's Social Fund for Development (SFD), created in 1991, was to act as a safety net to protect vulnerable groups from the initial adverse effects of the Economic Reform and the Structural Adjustment Program (ERSAP) that began in 1990, as well as to improve the prospects for success of the ERSAP itself. Its mandate was extended to deal with the estimated 400,000 workers who were compelled to return to Egypt as a result of the Gulf War. Two years later, support from the United Nations Development Programme (UNDP) led to the establishment of the technical secretariat of the fund and thus to an increase in its efficiency.

Objectives

The objectives of the SFD derived primarily from the objectives of the ERSAP's ambitious program whose main goals included: (a) stabilization measures to restore macroeconomic balance; (b) reduction of inflation; (c) structural adjustment to stimulate medium- and long-term growth; and (d) efforts to minimize the effects of economic reform on the poor during the anticipated initial period of economic retrenchment. The first three objectives were addressed by the stand-by agreement with the International Monetary Fund and a structural adjustment loan from the World Bank. The SFD was the instrument to achieve the fourth objective of the ERSAP. Both the World Bank and the UNDP have helped mobilize resources for the SFD. Seventeen donors pledged US$612 million, including an International Development Association (IDA) credit equivalent to US$140 million.

The World Bank required the following goals of the SFD so that it would be eligible for support to undertake socioeconomic development:

- To mitigate the negative impact of structural adjustment
- To facilitate the implementation of small-scale, development-oriented subprojects
- To mobilize additional resources for poverty alleviation
- To assist the growth of various nongovernmental and community associations to support their developmental activities
- To encourage community participation in developmental activities
- To complement both macroeconomic policies and sectoral development strategies.

The SFD's Priorities

The SFD's priorities were established in response to such eligibility criteria. These required:

- The targeting and active involvement of beneficiaries, both men and women, as an integral part of the design and implementation processes of subprojects
- The consideration by delivery mechanisms of the absorptive capacity of intermediary agencies, including local organizations and the private sector
- In addition to conforming with the goals of ERSAP, the study of sustainability measures, for example, linkages with long-term employment and investment opportunities and the creation of revolving fund mechanisms
- The introduction of program assessment tools, such as a management information system.

Differences Between the SFD and Typical Emergency Funds

Short-term emergency funds are normally fast-disbursing, targeted, and temporary in nature. They simply act as "bridge-financing" institutions while the nation waits for the anticipated results from a broader economywide structural adjustment program. The SFD, emphasizing the long-term perspective from the very start, introduced economic enterprise-oriented activities in its initial phase. Geographic targeting under emergency funds typically focused on regions of greatest need. Under the SFD, however, all the envisioned activities had to serve the entire population regardless of place of residence. Unlike funds of an emergency nature, the SFD's management structure was adapted to manage long-term activities from the start. To provide emergency relief to target groups without compromising the elements of a longer term focus, the SFD required the following:

- The introduction of social investment-oriented activities, including community development and labor-intensive public works
- The initiation of economic enterprise-oriented activities, including labor mobility, small-scale enterprises, promotion, and microcapital lending
- Support for sustaining public transport services for Greater Cairo and Alexandria, later dropped from the list of priorities
- The introduction of institution building as an enabling mechanism to reach target beneficiaries most quickly
- Consideration of the factors that could lead to the sustainability of the institution, not only the sustainability of subprojects financed by the SFD.

Parameters that Guided the Design of the SFD's Organizational Structure

Two basic parameters guided the organizational structure and functioning of the SFD programs. The first parameter was to provide for permanency in the structure of the organization so that it could be transformed into more permanent units suitable for the labor adjustment services, small-scale enterprise promotion, and microcapital lending programs. A permanent agency would require specialized expertise, as well as a certain level of autonomy from the government structure. The second parameter emphasized sustainability. This went beyond the maintenance of projects and activities that the SFD supported; rather, it included the sustainability of approaches that could be emulated by government agencies to the point of becoming guiding principles.

By the end of 1993, the SFD had established its basic administrative framework and hired a core staff of professionals. The success of the SFD can be attributed largely to this management framework, which had the following characteristics:

- A relatively flat organizational structure with minimal hierarchical levels
- Nontraditional functional specialization that emphasized an integrated approach
- Programmatic design with built-in coordination mechanisms
- A focus on potential, as well as on existing, beneficiaries

- A proactive demand-driven strategy for defining projects
- Political support from the highest level of government
- Self-motivated staff requiring minimal supervision
- An effective system of monitoring to enable the introduction of corrective measures
- The ability to enlist enduring international support by facilitating audit missions
- Transparency of regulations, and flexibility and fairness in implementation.

The SFD's Organizational Structure

The organizational structure is divided into three sets of units. The first set performs the basic functions of the SFD and comprises five core programs:

- ***Public Works Program***—This program provides job opportunities for the largest number of people, especially for the unemployed and the poor living in vulnerable areas. It finances labor-intensive works to be executed by local contractors in rural areas without using capital-intensive technologies. These works include improvements to public roads, recycling, and the disposal of waste; maintenance of water supply schemes; sewage treatment plants; fencing of public buildings; and construction of small clinics and health care facilities. The program's activities are synchronized with the activities of the governorates and local communities in accordance with transparently established criteria for cost-sharing and execution. The program's approach appears to have affected local bureaucracies, who have started adopting the SFD's methodology for works on a small scale. Because of the great credibility of the program in the eyes of the beneficiaries, local communities demand the services of the Public Works Program, which is proof of the success of a highly visible and effective demand-driven approach.
- ***Community Development Program***—This program uses multiple strategies to empower and mobilize grassroots communities to make decisions and undertake implementation of projects. Its priorities are illiteracy eradication, leadership training for nongovernmental organizations (NGOs) and volunteer groups, institution building, and health care for women and children. The program finances income generation, new employment opportunities, and social development projects; improves the delivery of essential community services; provides credit for working capital and the purchase of equipment for household production; gives grants for establishing and maintaining primary health care for the community; and provides vocational training for the youth and the unemployed.
- ***Enterprise Development Program***—The primary goal of this program is to create local small-scale entrepreneurs and enhance their long-term sustainability. This is done by extending credits and grants to target groups, referring small entrepreneurs to credit institutions, assisting in the improvements or expansion of small businesses, and providing training to managers in finance and marketing. The program also supports the creation of business incubation centers, industrial parks, entrepreneurship training, food services, the establishment and maintenance of electronic libraries, fish farms, handicrafts, light transportation, export development of small industrial products, and distribution and trade of agricultural products. It also conducts feasibility studies and evaluations of projects proposed by aspiring entrepreneurs.
- ***Labor Mobility and Retraining Program***—This program retrains workers who lose their jobs as a result of privatization. In an effort make Egypt's private sector competitive on the international market, the program supports local industries and small entrepreneurs with training to develop specialized skills to meet the demands of the free market. The program conducts an employment skills inventory and provides training, reorganizes vulnerable industries, and undertakes labor restructuring of the shipbuilding and weaving industries for export markets.

- ***Institutional Development Program***—This program manages effectively the activities of the technical secretariat and provides services and tools to the core programs so that they can function efficiently. It prepares and reviews agreements with bilateral and multilateral agencies, responds to their auditing and monitoring needs, and represents the SFD at international meetings and conferences. The program conducts surveys and establishes monitoring mechanisms to ensure proper targeting, undertakes follow-up studies, and invests in capacity-building activities for personnel in the technical secretariat and in the sponsoring agencies.

The second set assists the core programs in carrying out their responsibilities by delivering services to beneficiaries, monitoring program activities, and solving any ensuing problems in the field. This set includes about 20 regional offices for the 26 governorates and local communities.

The third set provides all auxiliary services to the programs and donors and consists of the following departments:

- ***Finance Department***—This department fills a multitude of national and international reporting requirements for various stakeholders. It analyzes raw data to assess trends for making policy-level decisions and works closely with the management information unit to compile reports on disbursements and project expenditures.
- ***Personnel and Training Department***—Training is of utmost priority for SFD management. This department offers training programs and facilitates professional meetings for its personnel. Programs are offered on topics such as marketing, feasibility studies, effective leadership, decisionmaking and problemsolving, financing of innovative small business enterprises and financial analysis, computer programming and its applications, environmental assessment and technology management, change engineering, the design and implementation of technical cooperation, the development of NGOs, project evaluation and management, survey techniques and analysis, and privatization and related issues. It is worth noting that only two employees staff this department.
- ***Management Information Systems Department***—Apart from meeting necessary management requirements for decisionmaking and forecasting, the department maintains an information system that monitors all SFD operations and activities. In addition to providing information for the SFD Secretariat, it provides information to beneficiaries, regional offices and local units, the government, sponsoring agencies, target groups, NGOs, and others. This unit played a dynamic role in the design of the social impact study, the design of questionnaires and subsequent data analysis, and the transfer of telecommunications technology to improve the information network between headquarters and regional offices.
- ***Credit Department***—This department performs five functions. First, it develops financial packages for programs supported by the SFD in conformity with donor requirements. Second, it collaborates with financial intermediaries to structure projects and define procedures for monitoring and implementation. Third, it serves as a clearinghouse for beneficiary profiles and their performance. Fourth, it manages a system for tackling loan defaults. And fifth, it prepares monitoring reports such as semiannual interest rate reports that compare market interest rates with the varying interest rates charged by different donors for beneficiaries. The department disburses credit to sponsoring agencies and beneficiaries through commercial banks that have a wide network of branches.
- ***Planning and Projects Department***—Targeting effectiveness is of prime concern for this department. It developed a control system for operations that provides the necessary flexibility, especially in an environment where operations are expanding, complexities are growing, and decentralization is becoming increasingly important. Recognizing the need for adequate, but not excessive, control mechanisms, the department adopted an approach that allows it to grow incrementally as operations expand.

- ***Internal Audit, Contracts, and Legal Affairs Department***—This department, responsible for the internal audit of all activities of the SFD, checks on the efficiency of accounting, the financial and operational internal control system, and monitoring of environmental impacts. It examines assets, liabilities, and results; takes the necessary steps to ensure that programs and projects are effective and efficient; and guarantees compliance with national and international obligations and regulations.
- ***International and Public Relations Department***—This department is responsible for the publications of the SFD, including the procedures of programs and periodic newsletters, advertisement campaigns, media relations and releases, press conferences and television interviews, and conferences and seminars. It organizes and manages a series of regional, national, and international exhibitions that give SDF beneficiaries the opportunity of exporting their products and of gaining marketing experience.

The SFD's Management Structure

The SFD is a quasi-governmental agency subject to auditing by the government of Egypt, as well as to evaluations by its 17 donors. Its board of directors is chaired by the prime minister, thus ensuring political support at the highest level. The ten ministries on the board of directors allow the SFD's plans to be synchronized with the plans of relevant executing agencies. It includes six public personalities that represent concerns of the private sector and the community, thus ensuring the responsiveness of the SFD to their respective needs. The executive committee is authorized to make decisions on behalf of the board of directors, within wide mandates, thus authorizations are made without delay. The managing director has a wide latitude of discretionary authority commensurate with his responsibilities, so that ordinary operations are carried out with minimal external interference and promptly enough to respond to beneficiaries' needs and sponsoring agencies' requests. The five general directors, one for each major program, have enough delegated authority to manage their respective affairs without the continual direct intervention of the managing director. This provides for flexibility and accountability.

Achievements of the SFD

The chief accomplishments of the SFD fall into the areas of poverty alleviation, beneficiary targeting effectiveness, and creating employment opportunities.

Poverty Alleviation: Measurement and Targeting

Equity, efficiency, and cost-effectiveness are the guiding parameters for the choice of targeting mechanisms. The SFD uses three different mechanisms for targeting benefits to beneficiaries. The first one involves individual assessment methodology: eligibility of individuals and groups is determined by case workers on the basis of wealth, income, family size, and means tests. The Community Development Program often relies on this method of targeting. The second one, the self-targeting method, is often used by the Public Works Program: it requires beneficiary contributions of about 10 percent of project cost, as does the Community Development Program. Eligibility requirements for programs and projects may include beneficiary participation in self-help community projects or labor-intensive infrastructure projects. Geographic targeting is the third targeting mechanism used by the SFD. It is based on poverty maps that are constructed using information on income, household characteristics, employment, access to basic services, and housing conditions. Social dimension of adjustment surveys are used to produce single or multiple indices of poverty to facilitate prioritization of intervention locations. Poverty profiles are prepared to define poverty, because it is a multifaceted phenomenon that cannot be captured by a single indicator such as income or wealth. Often a more advanced technique of the poverty profile method known as the absolute versus relative poverty is adopted, using indicators of household size, occupation, educational level, nutrition status, health, and access to safe water and sanitation. This defines poverty in relation to the mean income or expenditure in the country and therefore varies over time and across locations.

Assessment of Targeting Effectiveness

Planning for the second phase of the SFD's program was based on the social impact assessment of the first phase, which used various indicators for different programs.

- ***Community Development Program***—The degree of service utilization of the education, literacy, health services, and income-generating programs; the economic impact of making loans to generate income; the impact on self-esteem and peer esteem among beneficiaries; the impact on employment opportunities and perceptions of same; impact on savings by income-generating loans; and the level of satisfaction with services delivered.
- ***Enterprise Development Program***—Loan size; type of enterprise; level of partnership in the enterprise; sector and employment opportunities used by the enterprise; financial, technical, and marketing assistance needed by the enterprise; and the perception of well-being among beneficiaries created by their participation in projects supported by the SFD.
- ***Public Works Program***—The length of employment provided by the public works projects; wage differentials; and improvements in income levels and living conditions in the vicinity of the projects.

The overall assessment of the effectiveness of targeting was positive. For example, 93 percent of the beneficiaries reported that literacy training had made their daily lives easier, and 90 percent of the beneficiaries of the Public Works Program reported improvements in their income levels, with 90 percent benefiting from temporary employment. The incidence of child labor varied according to location, average dependency per household was very high, and access to electricity was not considered a proxy for welfare. Ninety-five percent of the beneficiaries reported that their self-esteem had improved as a result of their participation in programs supported by the SFD.

Creating Employment Opportunities for Targeted Groups

During the first three years of its operation, the SFD contributed significantly to the alleviation of unemployment problems in Egypt. The Public Works Program generated less permanent employment, but benefited the highest number of individuals. The Community Development Program generated the greatest number of both temporary and permanent jobs, but benefited fewer people when compared with the number of beneficiaries of the Public Works Program. It has been estimated that the SFD provides about one-third of the new job opportunities needed for development in Egypt.

Financial Resource Mobilization for the SFD

Guaranteeing international financial resources did not pose a problem for the SFD's first phase, in large measure due to the leadership of the World Bank. Other international donors volunteered to finance the first phase. The second phase was relatively easier to finance, most notably because of the achievements of the first phase, which were documented by numerous auditing missions from donors and the World Bank. Transparency of policies and procedures and their application, the advanced and accurate management information system, and timely financial reports were other factors that contributed to securing financial support from donors for the second phase.

Planning and developing programs and subprojects that impact the effectiveness of a social fund can be inhibited by the opportune or inopportune disbursement of funds, as well as by the predictability or uncertainty surrounding the steadfastness of funding. In principle, financial support from the national budgets, regardless of their size, is an indicator of a government's commitment to a social fund.

In the case of Egypt, the government doubled its contribution in the second phase, a clear indication of its satisfaction with the performance of the SFD, as well as a signal of its continued support. This signal is important to the international donors and their constituencies.

SFD budgets entail large sums of money from national and international contributions. These funds must be disbursed to achieve the goals of the programs. The challenge is to disburse the funds, provided that three prerequisites are satisfied:

- The funds should reach only those who are targeted beneficiaries and who deserve them.
- They should be disbursed via agencies with experience in dispensing funds at reasonable cost and through available outlets.
- The funds must be accounted for and, in the case of loans, be reimbursed by the beneficiaries.

Synchronizing the receipt of funds from donors with the disbursement of funds to intermediary implementing agencies often poses a problem, especially in the case of large projects, such as public works programs or health projects that require sizable amounts of funding.

Another problem is monitoring disbursement of funds from intermediary agencies to beneficiaries to ensure that the intermediaries are implementing projects effectively and to ensure that all the funds have reached the ultimate beneficiaries as scheduled. It is not common practice for commercial banks to lend to the poor who have no collateral to guarantee their loans. This is a dilemma that the SFD is still grappling with: how to balance the requirements of commercial intermediaries so that they can assist needy individuals for whom social funds were set up in the first place.

Issues for the Future

Considerations for the future of the SFD include the problem of its financial dependency on donor agencies and the discrepancy between the objectives of these donors and the government of Egypt. These are the same problems faced by all social funds in some measure.

The Dependency Syndrome

Social funds are generally supported by international donor agencies through grants and soft loans initially for about three years, with the expectation that emergency assistance will not be warranted thereafter. Experience shows that the success of the first phases of the social funds normally leads to a replenishment of funds for the second and even the third phases to transition the social funds from emergency to long-term objectives and to expand program coverage. As the people in the country become accustomed to the funds, local governments use these resources to supplement their budgets, and the social funds themselves are transformed into permanent quasi-government structures. This scenario creates a perception of indefinite dependency on international financing agencies, which risks structural adjustment programs by postponing the implementation of much needed structural reforms.

These risks can be managed by establishing the duration for each phase of the social fund with no guarantee of an extension unless the donor community gives the fund meticulous performance reviews and a plan is implemented to phase out the fund's activities. Donors should also appreciate that structural adjustments are not a panacea for all economic woes and that it is therefore unrealistic to expect a social fund to solve structural, social, and economic problems.

The Lack of Congruence between Goals of Donors and Borrower Countries

A lack of congruity in the goals of the national governments and of the donors can result in complex conflicts, especially when numerous donors support a social fund, each with its own perspective and priorities for assistance. The SFD avoided many of these conflicts through intense negotiations, which led to agreements with bilateral and multilateral agencies that gave the SFD's management wide latitude in the allocation of resources within broadly defined objectives. The SFD, on the other hand, gained the trust of donors by adopting refined and accurate accounting procedures to generate reports to their satisfaction. Site visits were arranged on short notice to show donors that all their procedures were being followed scrupulously. It was ultimately the transparency of operations and procedures, the accuracy of information provided, effective reporting mechanisms, and the autonomous organizational structure of the SFD that helped minimize incongruence between donors' goals, as well as those of the government of Egypt.

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Social Funds: An Expanded NGO Critique

by Jane Covey, Executive Director, and Tim Abbott, Research Assistant, Institute for Development Research, United States

Foreword

In order to understand better the role of social funds in social policy reform, how they work, and whether they offer meaningful opportunities for stakeholder participation, this paper seeks an expanded definition of those key characteristics that constitute a social fund. It reviews the development of social funds from their inception as emergency relief measures to medium-term instruments of social development. The assumptions that guide the activities relating to social funds are also questioned from the nongovernmental (NGO) perspective. These critiques and the data available on individual social funds may provide a clearer vision of the constraints and resources under which social funds operate and may indicate possible directions for policy dialogue and change. Due to resource constraints, the scope of this paper is limited to World Bank-sponsored social funds, although those initiated by the Inter-American Development Bank in Latin America and the Caribbean are of equal interest to NGOs.

During the last decade, social funds have emerged in an increasing number of developing nations as a decisive instrument of social policy. A number of stakeholders are keenly interested in social funds' development. The World Bank envisions social funds as an efficient response to negative effects of structural adjustment in borrower nations, with the added advantage of generating visible benefits. As intermediary financing institutions with decentralized delivery systems, social funds are more flexible than most regular, bureaucratic structures and can fund projects more rapidly, prompting some government ministries to investigate and even adopt strategies pertaining to social funds. Civil society and NGOs look to social funds as funding mechanisms that focus on the needs of the poor and that actively solicit the participation of local interest groups in microproject planning and implementation. The most optimistic scenarios envision local communities receiving social funds' financing for small-scale projects that they propose themselves, resulting in beneficiary ownership and greater sustainability.

Much like the parable of the blind men and the elephant, social funds represent different things to different stakeholders, yet often the innovative qualities that make the concept of social funds attractive to so many groups are either of low priority or absent in existing social funds. Much of the World Bank's literature on social funds refers to general, defining characteristics of social funds, despite the fact that individual social funds differ widely in both form and content. While some funds, such as Zambia's social funds, actively seek to increase community participation, others work only with government contractors. The macrodesigns and the priorities involving social funds vary according to country-specific constraints—political, social, and economic—as well as the capacities of both governmental and nongovernmental institutions. Although individual social funds are designed with well-defined goals and strategies, NGOs express concern that the priorities of the designers may not be those of the poor in beneficiary communities.

Structural Adjustment and Its Effects

An economic development model that equates growth with increasing national assets and considers social expenditures nonproductive has guided the World Bank for most of its history. Typical Bank policies—establishing market-driven economies, privatizing state-run industries, and removing government subsidies from protected sectors—frequently neglect their social costs. When structural adjustment became a precondition of debt restructuring and continued aid disbursements in the early 1980s, cuts in low-cost housing, health, education, and social welfare had severe social consequences for the poor in borrower nations. In the well-documented case of Bolivia, privatizing the state-run mining company entailed massive layoffs that cost more than 20,000 families their primary sources of income. The process of curbing inflation and making Bolivia more attractive to transnational investors devastated entire communities.

Many NGOs have long asserted that sustainable growth in the developing world is only possible if the basic needs of vulnerable populations are met. Critics of adjustment claim that its impact on the poorest social sectors and significant contribution to the widening gap between rich and poor outweigh the benefits of stabilizing developing economies. The foundation of World Bank development theory remains rooted in establishing export-oriented, market-driven economies, increasing national assets, privatizing state-run industries, and removing government subsidies from protected economic sectors. Over the past few years, however, the Bank has acknowledged that the results of adjustment policies have been unsatisfactory. A growing body of documentary evidence from the World Bank's own internal evaluations underscores the need to mitigate the adverse effects of structural adjustment. Addressing the October 1995 meeting of the Nongovernmental Organizations Working Group on the World Bank, Bank President Wolfensohn indicated that he is happy to reassess structural adjustment, but some sort of economic planning is needed to tackle inflation and inequitable distribution (NGO–World Bank Committee Meeting, Washington, D.C., October 23, 1995).

Social Investment Funds and Macroeconomic and Social policy

Social funds started as emergency relief measures and were intended as temporary institutions. But just as structural adjustment programs are not a quick economic fix and have evolved into longer term features of national development, so are social funds used over a long term to support development in the social sectors and facilitate poverty reduction. What originally was a short-term response to economic crisis evolved into an instrument for longer term, social-economic development.

Bank promotion of social funds does not represent a fundamental change in position away from structural adjustment; rather, social funds are instruments of social policy that support adjustment strategies. Some critics hold that the primary utility of social funds is to make structural adjustment more politically palatable. Others contend that as long as structural adjustment policies continue to exacerbate poverty and create newly poor groups, the beneficial effects of social funds projects will be undermined. Finally, critics worry about the erosion of universal social sector services, such as primary education, in countries undergoing structural adjustment, and warn that social funds should not be seen as an adequate instrument of social policy for the 1990s. Additional measures must be taken to reverse the effects of the disinvestment in the social sector of the late 1980s and early 1990s.

The Nature of Social Funds

What distinguishes social funds from other Bank initiatives, and has increased NGO interest in their development, is the unique way in which social funds projects are designed and funds are delivered. The World Bank defines a social fund as a mechanism through which resources are channeled, according to predetermined selection criteria, to demand-driven subprojects proposed by public, private, or voluntary, formal or informal organizations.

Most social funds appraise projects for funding using strict selection criteria, supervise their implementation, and monitor their effectiveness. According to Bank evaluations, a qualified microproject should be relevant to community needs and foster a commitment to sustain activities beyond the life of the fund. Instead of fund managers predesigning and implementing projects, a wide range of stakeholders submit proposals. Significantly for NGOs, applications for funding are usually restricted to government agencies. In theory, the demand-driven nature of social funds represents a funding window for NGOs and other community representatives who, because the World Bank makes loans exclusively to governments, would otherwise not be eligible for direct funding.

Objectives and priorities continue to evolve over time, but the three general aims of social funds are:

- To mitigate costs associated with recession and structural adjustment
- To improve living conditions by rapidly providing basic social services
- To enhance and strengthen decentralized delivery systems by supporting both governmental and nongovernmental organizations that are responsive to community needs.

The first two objectives reflect the reactive nature of the early emergency funds, while the third holds the most promise for social capital investment over the long term.

The evolving guidelines, priorities, and criteria of social funds include a number of measures designed to make project activities more relevant and sustainable. Depending on the country-specific conditions they are designed to address, funds may place more emphasis on some of these objectives than on others, but the following goals generally apply to most of them:

- Attracting substantial foreign funding and creating a workable channel for funneling large quantities of foreign and central government funds to small projects. The Bolivian Emergency Social Fund was particularly successful in this area.
- Increasing the participation of beneficiaries in cost-sharing. In lieu of providing additional funds, local contributions often take the form of labor.
- Heightening beneficiary participation in identification and implementation of microprojects.
- Providing funding to local institutions, such as community-based groups, NGOs, and local governments in a more flexible, transparent, and rapid manner. The Bank currently estimates that between 15 and 20 percent of resources involving social funds flow through NGOs.
- Improving the technical and institutional capacities of local organizations.
- Ensuring that the poorest sectors of the population benefit from and participate in social funds-sponsored projects.

In addition, social funds sometimes create temporary employment activities. The Senegal *Agence d'Exécution des Travaux d'Intérêt Public contre le Sous-Emploi* (Agency for the Execution of Public Interest Works Against Unemployment, or AGETIP), for example, is primarily a response to widespread urban unemployment. Social funds also can be used to build political support for economic adjustment programs, although some critics express concern that funds may have been used to finance government favors.

The most far-reaching effect of the first social fund, the Bolivian Emergency Social Fund, was that it provided the impetus for the World Bank and other agencies to experiment with new kinds of projects concerned with the social costs of economic crisis and adjustment. Bank evaluators considered its qualities of flexibility, learning by doing, and focusing on small-scale, technologically simple projects worth replicating in future social funds. Streaming from Bolivia's experience, a number of social funds currently in operation are autonomous government structures reporting directly to the borrowing country's president, while others act as private associations contracted by the government to plan and implement services.

An Examination of Key Social Funds Characteristics

Social funds studies by World Bank evaluators tend to focus on "lessons learned," judging social funds by how effectively they meet their stated goals and principal objectives, rather than by whether these aims are the most responsive to genuine beneficiary needs. As long as social funds meet their predefined goals, the World Bank considers their flexibility an asset and is less concerned by variations between the macrodesigns of individual social funds. Others in the NGO community view such "ends/means" justifications with concern (NGO–World Bank Committee Meeting, Washington, D.C., October 23, 1995). They claim social funds that do not conform to their own defining criteria may preclude meaningful beneficiary participation, a key characteristic that makes social funds attractive to NGOs.

In an effort to isolate the qualities that are essential components of social funds and inherent to their definition, this section explores those attributes that the Bank ascribes to social funds in general. In this way, individual social funds may be assessed, not only by whether they meet their specific goals, but also at a more fundamental level, by whether they meet the definition of social funds. This is a significant consideration, because available evidence suggests that a fund lacking any of these key characteristics might meet its specific objectives, yet still preclude meaningful stakeholder participation and fail to address the genuine needs of the poor. The following sections examine institutional autonomy, the demand-driven nature of project proposals, and broad stakeholder participation as key characteristics of social funds.

Autonomy

Social funds are frequently created as new agencies within a host government, enjoying varying degrees of administrative bureaucratic autonomy from regular, ministerial structures. Social funds are often more effective and flexible when they are free from government procurement procedures and can offer private sector salaries to their staffs. A recent World Bank report stresses that political and institutional autonomy is critical to maintaining consistent, transparent, and objective criteria for allocating project funds. The research contends that from the outset, autonomy has been an important component of many Latin America social funds, but has been a more recent development in Africa. In part, this may be due to the success of the Bolivian Emergency Social Fund, which influenced a core of Bank personnel who now specialize in social funds and move from project to project, taking their original model with them.

This study identifies four components of social funds' institutional autonomy: (a) legal status, (b) the legal authority to approve projects, (c) exemptions from civil service salary schedules, and (d) exemptions from the government's procurement and disbursement schedules. The choice to locate a social fund within a government ministry or to create a separate entity seems to be made by fund administrators for regional as well as institutional reasons. For example, regional World Bank staff in both Sao Tome and Principe and in Guinea were against new bureaucracies outside centralized governmental control. In Egypt's case, the government itself was reluctant to coordinate with nongovernmental and private sector organizations.

Social funds' autonomy can still be high when the fund resides in a government ministry, as in the case of Zambia, as long as political authorities understand the need for the fund's autonomy and commit to it. As a general rule, however, a higher degree of institutional autonomy is usually achieved when the fund exists separately from regular government structures.

Social funds' political autonomy is a concern of Bank managers and NGOs alike. Independent analysis of the social funds of Sri Lanka and El Salvador, for example, points to the vulnerability of social funds to political manipulation. In Sri Lanka, the concern centered on the use of a social fund, the Janasaviya Trust Fund, for political patronage. In 1995, El Salvador's president appointed a close political ally, the head of the National Secretariat for Reconstruction (SRN), to head the social fund. Before the end of the year, actions to merge the social funds with the SRN led to social fund employee strikes and an uneasy standoff as they contested the reasons for reorganization. It was widely believed that the ruling party sought this merger to control all development funds before national elections. The relationship of donors to national governments makes intervention to prevent or correct such occurrences delicate and complex. NGOs contend that if measures such as stakeholder participation were mandated features of social funds, as well as governance at both national and local levels, stronger public accountability mechanisms would help protect the political autonomy of social funds.

Demand-Driven Projects

The demand-driven aspect of social funds also seems central to their definition, and a key quality distinguishing many social funds from similar programs. Demand-driven means that a social fund relies on outside organizations, both governmental and nongovernmental, to propose projects for funding. A social funds microproject is ideally generated by stakeholders, with funding granted to those proposals meeting specific, preestablished criteria. This characteristic distinguishes social funds from social action programs, used as multisectoral investment projects in African countries. Project components of social action programs are designed upfront by social action programs development professionals within the program. The demand-driven nature of social funds is crucial to a capacity-building agenda that fosters stakeholder participation by local institutions and NGOs. Because they solicit proposals from many stakeholders, social funds have the potential to fund projects that address genuine community needs.

The demand-driven nature of a social fund is an essential, defining characteristic; however some social funds, such as the Sao Tome and Principe Social Infrastructure Fund, dropped their demand-driven mandate and instead preappraised a set of projects to meet specific basic needs. According to Khadiagala's research, Sao Tome ranks among the lowest of the African social funds in both autonomy and demand-based proposals; Bank appraisals stress that while not in ideal condition, the operation of the Sao Tome fund depends on adapting to a country-specific reality, where local institutions are either nonexistent or have an extremely limited capacity. Such deviation from the intrinsic definition of a social fund, however, calls into question the overall purpose of Sao Tome's fund and limits its goals to providing services rapidly rather than to enhancing local capacities.

There is a significant correlation between social funds' autonomy and demand-driven approaches. The first Bolivian Emergency Social Fund provided a model for other autonomous, demand-driven social funds in Guatemala, Honduras, and Nicaragua. There are a few noteworthy exceptions. Zambia's Micro Projects Unit is contained within the finance ministry, but retains control over demand-driven project selection. The Senegal AGETIP, considered by the Bank to be an autonomous institution, until recently would accept proposals only from government ministries and municipalities. Excluding nongovernmental participants from submitting projects in this case meant that the fund failed to increase service delivery to traditionally marginalized groups. It is plausible that funds lacking community-based, demand-driven project proposals will fail to enhance and strengthen decentralized delivery systems—one of their principal aims. Although more research in this area is needed, some of the Bank's own evaluations support a link between increases in social funds' institutional autonomy and higher instances of demand-driven function.

Institutional autonomy frees the social funds from bureaucratic constraints often found in line ministries, but does not necessarily lead to community-based, demand-driven projects. A review of the Guatemalan social funds shows that they approved proposals months ahead of normal bureaucratic channels and built five times as many schools as the government was able to do in the same period. The key to meeting these goals was a decentralized delivery system, which utilized the skills of private contractors and the capacities of local institutions. Yet in 1994, a Center for Democratic Education evaluation of Guatemala's social funds underscored the lack of community or NGO participation in the design or management of the social funds themselves, even in cases where the funds profess community ownership of the funded community projects. A second study in 1996 found that community-based demand continues to be constrained by application procedures that exceed the capacity of small, local NGOs and popular organizations.

Stakeholder Participation

Those who are directly affected by both adjustment policies and aid projects are usually excluded from developmental decisionmaking. The first social funds were established before participation became a mainstream issue within the World Bank. The Bank defines participatory development as a process through which stakeholders influence and share control over development initiatives, and the decisions and resources that affect them. Bank policy identifies levels of participation ranging from information-sharing, consultative, and joint assessment mechanisms—in which participants are asked for their opinions and advice may be sought—to shared decisionmaking, collaborative, and empowering mechanisms where the ability to influence and share control is heightened. Since the 1994 board approval of the Participation Action Plan, the notion that broadened stakeholder participation builds ownership, increases governmental accountability, and aligns projects to the needs of beneficiaries has become official doctrine. Two years later, it is clear to observers both inside and outside the Bank that operationalizing participation requires systemwide change in Bank procedures and culture. By definition, social funds, at least at the subproject level, require stakeholder participation and as such are one laboratory for learning how to mainstream participation.

Advocates of popular participation see social funds as a means of engaging the poor and other marginalized groups in the development process and making aid more relevant to authentic needs. How participation actually happens in social funds, who participates, and who benefits are of specific concern. Many in the NGO community feel that the Bank's recognition of the diversity of project stakeholders should not underscore the importance of the primary beneficiaries of aid and the need for the meaningful involvement of affected communities in decisionmaking in addition to information-sharing. To these organizations, participation "is not simply another 'component' of project planning, but rather a fundamental reorientation of the planning process." Just as NGOs are more than merely efficient service providers, nongovernmental and community stakeholders have greater roles to play than simply acting as informants or low-cost implementers. Stakeholder participation needs to be expanded to include involvement in the design of social funds themselves.

In the view of NGOs, popular participation in social funds needs to be extended to the macrodesign level so that the menu of subproject options, procedures for community involvement, and tradeoffs between immediate assistance and long-term development reflect better the priorities of affected people. More broadly, NGOs contend that where poverty is not differentiated (for example, rural, urban, and gender aspects), local development demands are not factored into the social funds' macrodesign, and social funds are created outside or in parallel to local development processes, funds are likely to fit the priorities of affected people poorly, to lack synergy with other development investments, and to be unsustainable.

The need to disburse funds rapidly is still a prime motivation for many social funds, but merely targeting regions with a large percentage of poor people does not guarantee that a project will be relevant to their needs. Unfortunately, this is precisely what some social funds have done. Targeting takes time, but as long-term instruments of social policy reform, social funds will need to collaborate on a deeper level with nongovernmental and community-based organizations to develop macrodesign criteria that truly assist those most in need and address their concerns. Some newer social funds are experimenting in this area. For example, the Argentina social fund has consulted with selected target communities to define the subproject menu, and NGOs sit on provincial bodies that decide which communities are eligible for social fund assistance. In Jamaica, the NGO council successfully lobbied the Cabinet of Ministers to structure the seven-person Social Investment Fund Board with two seats for representatives nominated by the NGO council.

A 1996 World Bank study also supports involving NGOs in the design phase of social funds. According to this report, the latest generation of social funds has had a greater developmental orientation and has included procedures and resources for NGO promotional and capacity building functions (Comoros, Kenya, Madagascar). If these procedures truly foster NGO participation in macrodesign, they represent a promising development that warrants monitoring to determine whether they become institutionalized outside the Africa region.

Civil Society Roles in Anti-Poverty Lending

Priorities and objectives for a social fund are generally set during consultation between the World Bank and the borrower government. Often, the creation of a social fund is a precondition of continued aid disbursements, as was the case with Mexico's Fondos Municipales de Solidaridad and Guatemala's Fondo de Inversión Social (FIS). World Bank financing of a social fund depends on the types of loans for which the borrowing nation is eligible. This is a critical consideration. Understandably, a borrowing government responsible for loan repayments may be leery about disbursing funds in a decentralized manner through NGOs, or about increasing its debt burden. According to sources at the World Bank NGO Unit, the government of Nepal recently rejected a proposed social fund for this very reason.

Often governments are nervous about stakeholder involvement in microproject design and project implementation. Where the state has the exclusive mandate for development planning and social sector services and where popular democracy has not been practiced, it is likely to have even greater difficulty accepting stakeholder involvement in macrodesign. But without community involvement in shaping the goals and priorities of a social fund, its criteria and guidelines may fail to address the needs of the affected poor.

Most social funds provide some mechanisms for demand-driven funding, thereby responding to requests generated by local groups, such as community organizations, governments, and NGOs, rather than identifying projects themselves. As such, they rely on collaboration between national governments and other stakeholders, including NGOs. These relationships have the potential for friction. Bank evaluators cite rivalry for resources; reluctance to work with governments, which is an area of mutual distrust; and the sheer number of NGOs claiming to be legitimate representatives of stakeholders as obstacles to collaboration.

Social funds such as the Bolivian Emergency Social Fund may strengthen some of the institutions with which they work and help establish government-NGO relations. On the other hand, World Bank staff sometimes feel that the selection of subprojects may not be rigorous enough to guarantee that only the best are picked and note that some coordinating NGOs, lacking implementation capacity, require assistance by fund staff. Many Bank concerns about cooperation with NGOs arise from the limited institutional capacity of many of these organizations. Local institutions often lack the ability to effectively propose and reliably implement projects. This is precisely what the funds are supposed to improve, but most social funds lack a mechanism for enabling NGOs and other local organizations to upgrade their capacities. To date, recognition that intermediary institutions need strengthening has not led to more proactive institution-strengthening investment policies.

To this list of conflicts, NGOs might add limited levels of stakeholder participation, a funding process still dominated by government interests, and a tendency for funding to go to governmental or private contractors. In a positive response to this last issue, the Bank has suggested a cap on funding to public agencies, proposing that a minimum of 33 percent of funds be earmarked for private voluntary organizations and NGOs, in order to reduce public reliance on the social fund for off-budget financing. Both the Bank and the NGO community seem to be in agreement that the patronage issue—the use of funds by government leaders to further their own political careers—needs to be addressed.

Operationalizing Social Funds—Private Contractor and Community-Based Models

Judging from social fund criteria evident in the available case studies, it seems possible that distinct social funds trends or models are emerging as social funds proliferate beyond their Latin American origins. According to this hypothesis, the adaptation of one type of social funds over another reflects institutional priorities, as well as regional constraints and assets. We offer this idea in the hope that it may elicit additional evidence indicating changing patterns in the evolution of social funds, for example, whether a shift in emphasis away from infrastructure projects toward human capital formation or economic projects is a growing trend.

Thinking of models for social funds is only useful if it helps to guide analysis. The distinction between social funds that favor private contractors and those that are community-based is not essentially regional in nature, although the operational details of specific projects may be. Some social funds, their operational criteria reflecting the constraints and resources of the host government, tend to favor implementation by private contractors rather than development of the capacities of local community institutions: Senegal's AGETIP and the Bolivia Emergency Social Fund were, for example, implemented by private contractors. These implementers represented a number of stakeholders, some within the community, but more commonly from the more developed private sector of the country. The Bank feels that such funds are best suited for civil works projects, where roads, schools, and housing schemes require a fairly high level of technical skill and institutional capacity. Other funds have relied on contractors from outside the affected communities to implement their projects. In rare cases, such as the pilot flagship social fund in Armenia, a social fund is administered in partnership with an outside NGO, the Armenian Assembly of America. Social funds' designers considered this a necessary step, due to the lack of local institutions and the diminished capacity of the Armenian government to manage the social fund on its own.

The contractors whose proposals received funding in Guatemala tended to be those whose institutional capacities were already well developed. Applications were written in difficult language and were not easily available to the public. Members of former state security forces and construction firms from urban areas possessed the technical knowledge required to submit fundable projects, while community groups often lacked such skills. Such evidence from the Guatemalan case illustrates the risk in private contractor-based projects that the poor will not have a high level of participation or be the real beneficiaries.

Evaluators from the Center for Democratic Education found that the Guatemalan social funds are typically controlled by elements from the business community, which have no relationship with the general population, and have no concept of the real needs of the people. In one social fund dealing with agrarian reform, non-Bank donors actually expressed reservation about subsidizing the rich through selling land to the poor. Other NGO criticisms of social funds are that funds predictably go to contractors rather than really helping local communities. The social funds do not fund preinvestment costs, which the authors of the Center for Democratic Education study find can be prohibitively expensive for some bidders.

A community-based model may be represented by the Zambia social fund; in the implementation of typically small infrastructure and social assistance projects, the major partners in the Zambia social fund are the communities themselves. These projects are less concerned with temporary employment generation or social infrastructure and instead focus on what is called human capital formation, which includes extending coverage of health, education, water and sanitation services, and training to the affected communities. Some observers attribute the Zambia community-based model to the significant involvement of the European Union in its design. Other examples of community-based social funds may be the Nicaragua and even the Bolivian fund, which involved a wide array of stakeholders. The current social fund in Honduras employs a wide variety of organizations—community-based, governmental, and private sector—in project implementation.

Goals of Social Funds

Social funds have evolved since their inception and continue to adapt to changing realities. A review of existing social funds and attention to the start-up of new funds attests to their great variation and flexibility. This review indicates that many social funds have chosen to adopt a short-term welfare agenda, instead of addressing the longer term employment needs of affected communities and local level capacity building. NGOs and others take issue with this approach when social funds are mid- to long-term interventions rather than emergency measures as originally conceived. In Latin America in particular, NGOs call for a greater financing of productive projects, which may channel assets to the poor through measures such as land reform and credit.

In the Bolivian Emergency Social Fund and in many subsequent social funds, it is clear that economic and social infrastructure projects rather than credit schemes and microenterprise development received the bulk of the funding. Only 10 percent of overall funds in Guatemala, and none of the World Bank resources, are allocated to income-generating activities. NGOs and external evaluators overwhelmingly recommend increasing the amount of funding for microenterprises and income generation. The Bank's own assessment of microcredit and banking activities is that, while these may be important, they should be managed as proper loan programs, because creditworthiness analysis and other banking functions are outside the scope of social funds. The World Bank believes such activities are better managed by existing financial institutions or by separate entities such as the Grameen Bank. Social funds do make some loans, but most have found their microcredit efforts less successful than their other projects.

Community and Institutional Impacts of Social Funds

One goal of social funds is to promote local institutional capacity. However, a study of the Guatemala social fund found that it generated community divisiveness and that social funds procedures provide no mechanisms for communities to decide jointly which project is most important to them. Rather than encourage local organizing and priority setting, the social fund is perceived to penalize such tendencies.

Observers also express concern that social fund implementation through private contractors, NGOs, and community groups undermines public sector reform. Privatizing social services, in particular, risks their sustainability unless state responsibilities and roles are clearly spelled out. In cases such as Guatemala and Bolivia, limited integration with national and regional planning lead to the development of parallel bureaucracies. For example, schools were built with no teachers to staff them. Because provisions for operation and maintenance after financing are often inadequate, evaluators also indicate that the useful life of the physical infrastructure created by some social funds may be shortened by inadequate provisions for operation and maintenance.

NGO-Bank Dialogue: Shared Concerns and Differing Perspectives

More than 50 social funds have been initiated since the first was approved for Bolivia in 1987. The wealth of experience represented in these lending operations has been tapped by Bank staff to continue to evolve fund policy and practices through internal reviews, negotiations with borrowing governments, and dialogue with NGOs at the national, regional, and global levels. An overarching conclusion of experience to date is that it is extraordinarily rich and diverse, reflecting local differences, as well as changes in the original model itself.

Two broad questions underlie the debate concerning social funds:

- To what extent are social funds fulfilling their goals and functioning according to their essential characteristics?
- To what extent are social funds an integral component of national and social development policy?

This element of debate centers on operationalizing social funds more effectively. Targeting the funds better, ensuring sustainability, preventing politicization, and streamlining subproject implementation are high on the agenda of project officers and involved NGOs. Opinions differ on the extent to which funds fulfill their potential as anti-poverty instruments. NGOs critique fund operations on two dimensions. First, they question the fundamental premise that a culturally sound, politically legitimate, or developmentally appropriate social fund can be designed without civil society participation at all stages and levels of decisionmaking. They seek social funds governance structures that are accountable to the interests of affected people. NGO and community participation needs to be incorporated into the social funds' national decisionmaking bodies. At the local level, strengthening intermediary institutions that can assist the democratic process and the inclusion of underrepresented groups is essential.

Second, NGOs are pressing for more attention to (a) capacity building of local institutions, (b) projects promoting productive economic activity and human capital development over emergency measures, and (c) community-government institutional arrangements capable of sustaining social and economic programs over the long term.

Specific changes in social funds policy and management flow from these perspectives:

- One-third of a social funds board should be nominated by NGOs, popular organizations, and community-based organizations.
- Governments should publish development plans for areas that are receiving social funds funds.
- Open, publicized community meetings should be held to select projects that will become social funds applications.
- Social funds should provide technical assistance and financial resources to help communities to develop proposals for social funds projects. This started taking place in Guatemala after the Center for Democratic Education critique of 1994.
- All contractors should hire local, community workers for a fixed proportion or type of job, and women should share equally in employment opportunities.
- Bidding systems for social funds should include the following aspects: (a) approved projects should be part of a local development strategy, not atomized and unsustainable small projects, (b) priority should be given to projects that seek to modify structural causes of poverty, not only immediate problems, and (c) national publicity of bidding should be assured.

In claiming the right and necessity of civil society participation in determining policy for social funds, as well as in operations, NGOs further assert that there should be dialogue on a second basic question: To what extent are social funds an integral component of national and social development policy? In this arena, NGOs typically question the extent to which social funds are linked to long-term economic policy and the relationship between short-term social fund investments and long-term strategies in the social sectors—health, nutrition, education. They also raise questions about the nature of policymaking itself.

Independent analysts, NGOs and NGO consortia, are making a variety of recommendations at a higher level, among them, the following:

- Social funds should not be developed independently from public social programs; complementarity of social targeting and universal coverage should be maintained.
- Definitions of poverty used by social funds should be reviewed, taking into account not only income and satisfaction of basic needs, but also exclusion, gender and ethnic rights, human rights, and legal protection.
- The World Bank should develop a specific participation strategy for social funds that guarantees the participation of NGOs and people's organizations in all stages of design and implementation of social funds.

World Bank perspectives tend to focus on operations—how to ensure or improve the performance of social funds. Staff are in a steep learning curve in the design and management of decentralized, demand-driven projects that require community-level participation for success; but the institution's development paradigm does not yet include social development as a legitimate element. Therefore, social funds are peripheral rather than essential to mainstream Bank lending. A presidential Social Development Task Force established in 1995 to define a broader development paradigm has experienced substantial resistance to the notion that social aspects are essential to the Bank's model. However, as World Bank staff and national governments define long-term development policy through country assistance strategies, the larger role of social funds in terms of national policy needs to be examined. Growing openness by the Bank and the growing participation of civil society in the policy analysis and dialogue leading up to country assistance strategies may expand opportunities for this debate to unfold.

As a relatively new intervention addressing overwhelming poverty, social funds are engaged in a learning process. Social funds do seem to fill the vacuum left when adjustment mandates have obliterated government social spending, or when the existing bureaucracy lacks the infrastructure, capacity, or credibility to meet the needs of the poorest citizens. Their noted flexibility should serve them well in this regard, but beneath their participatory veneer lie serious questions about their scope and mission and the ultimate contribution social funds can make toward poverty reduction and sustainable development. Hopefully, an informed dialogue between all social funds stakeholders will lead to new innovations and steps that will ensure broader participation in designing social funds and make development more equitable and sustainable.

Such a dialogue might also lead to innovation beyond the social funds themselves. As microcosms of three related issues—popular participation, state reform, and social aspects of the development paradigm—social funds provide an experimental base that can inform broader World Bank reform.

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Social Investment Funds, Local Governments, and Communities in Central America

by Patricia de Jager, Director, Federation of Municipalities of Central America, Guatemala

Introduction

The Central American municipality has evolved during the last decade. Today the municipal government is a product of popular elections. The local democracy demands perfection, and in this sense it is necessary to complement the representative democracy with participatory democracy. Thus, citizen participation is indispensable in strengthening the municipal government.

Presently, citizen participation is expanding within the existing legal framework, and, as new legal reforms are introduced, the community can channel its demands and actively participate in its own development. The social investment funds (social funds) can contribute to the strengthening of local democracy by linking local government with the community. In this way they can guarantee a municipality with the capacity to respond to citizen demands and with the willingness to share the costs of social investment. To bring about efficiency, social funds should coordinate actions with institutions of the central government and with municipalities. They could help municipalities to improve the cadastre, improve their collection capacity, revise tax rates, and improve the efficiency of collection. They could also support and facilitate training for municipalities to enhance their administrative, technical, and managerial skills. The Federation of Municipalities of Central America (FEMICA) has asserted that modernization of the Central American state requires the integration of municipal government within a comprehensive national framework for development, wherein the municipal government takes responsibility for development of its community.

Central American municipalities are characterized by their economic disparities; the majority are rural with high poverty indices. Development strategies need to recognize that 70 percent of the population of the region is poor. The only partner of the central government that can generate its own resources for investment is the local government. The local tax rates in the region are some of the lowest in relation to gross internal product. The rates in Guatemala and El Salvador are 0.1 percent and 0.2 percent; in Costa Rica, Panama, and Honduras, 0.4 percent, 0.5 percent, and 0.8 percent, respectively. Nicaragua presents an exception with a tax rate of 2.1 percent. This presents another great challenge: to generate new local taxes and to increase local revenues that will strengthen internal savings in order to capitalize social investment.

If tax collection were improved, if the property tax base were strengthened by including all taxable property in its system, and if municipalities were able to revalue and reassess property values and collect more realistic property taxes, their revenue resources would be higher. Local governments could then contribute significantly to the cofinancing of social funds projects, thereby becoming important players in local development in their jurisdictions. It is important to emphasize that transfers from the central to the local government should be direct, punctual, and automatic. This would allow the local government to include these resources in their planning for investment projects. The poorest municipalities that depend on rapid transfers would benefit the most.

Social Funds and Local Governments

The sustainability of projects supported by social funds are at risk because of a lack of resources for operation and maintenance. Communities cannot be held exclusively responsible for this shortcoming. Not all municipalities can be exclusively responsible for local development. Many municipalities do not have a suitable environment for economic development, which leads to low tax revenues. Nor can many communities pay for basic services; they often need to be subsidized.

Any strategy promoted by governments should be directed mainly toward the support of municipalities that have the potential to undertake their own development, so that in time, they can aid weaker municipalities in replicating their success. In the meantime, appropriate creative mechanisms for the redistribution of revenues should be established to aid the weaker municipalities, as is done in Costa Rica, where 8 percent of property tax revenues are redistributed among the poorest municipalities.

Another mechanism that can help to compensate imbalances is for poor and better-off municipalities to cooperate in the provision and sharing of certain services, such as supply systems for drinking water and solid waste collection and disposal, as well as in sharing administrative systems when the poorer municipalities lack management capacity for administration.

It would be useful to examine the viability of involving social funds in the support of productive projects, especially in the poorest countries. The emphasis should be on enabling people to achieve adequate agricultural production at least for their own sustenance if not more, and perhaps also on creating and supporting microenterprises. Social funds could also stimulate the creation of new enterprises that use locally available raw materials and that generate employment for the local people. Finally, incentives are the most important element in achieving participation of the local government and its people in area development processes.

A series of meetings were convened in Central America to discuss the roles and performance of social funds to identify specific actions for the future. One such meeting took place in El Salvador from April 14 to 17, 1997. The general findings of the participants are listed in the following paragraph, after which is a proposal, developed at the El Salvador meeting, for the creation of incentives in partnership with social funds.

Findings of the Meetings in Central America on the Roles and Performance of Social Funds

Following are some common problems related to social funds:

- The relationship of social funds to municipalities and communities is still vertical.
- The emphasis is on the quantity of actions instead of their quality.
- Although citizens participate in the identification stages of a project, there is little participation during the design, implementation, and evaluation stages.
- There is little investment in the training of beneficiaries to operate and maintain the infrastructure that has been financed.
- Municipalities that can govern and bring about consensus in decisions about local development have inadequate resources and technical capacity for such investments.

Proposal for Strengthening Community Participation

If the management and accounting processes for external financing of projects were simplified, municipalities could train communities in resource management and could strengthen community participation in the project cycle. Social funds could do the following to help communities and municipalities take ownership of projects:

- Use criteria to allocate resources instead of project menus
- Simplify project manuals
- Give resources to municipal governments and to communities for hiring contractors, purchasing materials, and so on to strengthen their supervision and technical capacities
- Entertain requests for projects that emanate directly from communities supported by municipal governments
- Allocate financial and technical resources for the preinvestment phases of projects to strengthen communities and involve them in project processes
- Decentralize the operations of social funds to autonomous and independent organizations that have the functional authority and the necessary resources to make local decisions.

FEMICA's Seven-Step Proposal for a Partnership with Social Funds to Strengthen Municipalities

In analyzing the performance of social funds in the region and considering the perceptions and views of mayors and specialists, presented here is FEMICA's seven-step practical proposal to promote a better relationship between municipalities and social funds, with a gradual transfer of responsibility to municipalities. Some elements have been drawn from the experience of the Honduran Social Investment Fund, because it is the only social fund that has been working with the local government.

1. The functions and responsibilities of social funds should be transferred with their respective resources to those local governments that have the potential to promote economic growth, as well as the potential to increase their own resources. Where necessary and possible, municipalities should be given the training to assume this responsibility.
2. To formalize coordination at the local level, agreements defining roles and responsibilities of the various actors should be prepared and approved by all organizations involved.
3. The representation of the community that will benefit from the project should be formally structured before, during, and after the conclusion of the work to ensure its sustainability.
4. Priorities for investments should be established by local governments and their people.
5. Municipal governments and communities should manage contracts and resources for project implementation.
6. It is necessary and important for social funds to strengthen municipal governments and local institutions.
7. Municipalities should establish a fund with their own resources to undertake social investments.

Step 1

To facilitate the transfer of responsibilities from social funds to municipalities, the following elements are important:

- The transition should be gradual and commensurate with the capacity of municipalities to assume new functions and responsibilities.

- Such a transition cannot be achieved without the political will to empower the transfer of responsibility.
- Municipalities must be ready to facilitate the execution of works efficiently and at the lowest cost.
- Municipalities should identify mechanisms in place that will enable community participation within existing legal frameworks.
- Use of resources by municipalities and communities should be transparent and open to public scrutiny.
- In countries where decentralization has not advanced and where central government institutions continue to be responsible for local infrastructure, central agencies must agree to maintain infrastructure.
- Civil society and nongovernmental organizations must participate in areas of local development where they have competence and interest.

Step 2

Specific agreements that define roles and responsibilities for the various actors in the development process must have the following elements and must be endorsed by the National Association of Municipalities and the social fund.

- In these agreements, municipalities should be classified in three categories according to the index of poverty. This classification should become the basis for counterpart funding for projects, for general commitments on the part of both entities to guarantee the execution of projects, and for adopting processes that strengthen local governments.
- The communities should be clearly identified.
- A memorandum of understanding between the social fund, the municipal government, and the respective line ministry should establish the contribution and responsibilities of each actor, including the formula for counterpart financing based on the classification of municipalities according to a poverty index.
- The roles, responsibilities, and resource allocations for operation of the works under construction must be specified.
- Administrative and technical capacity-building activities that will enable municipalities to prioritize investments and develop municipal investment plans must be defined and supported.
- Municipalities and social funds must be in agreement over each project to be executed in the municipality; these projects must be developed through a process of consensus building with the citizens.
- The specific agreement should include the following:
  - The investment amount
  - Definitions of the modes of financing cost overruns
  - A commitment from the municipal government to prepare the preinvestment studies, as well as a commitment from the social fund to transfer the resources necessary
  - Cost-recovery mechanisms, tax rates, and collection responsibilities and a commitment from the municipality to inform users about them
  - The creation of a support committee elected from beneficiaries of projects during their participation in project processes that will ensure adequate operation and maintenance after project completion, as well as ensure payment for services
  - A formal agreement from the municipality to maintain a management structure with adequate personnel to operate and maintain the services in coordination with the support committee

- A pledge on the part of the municipality to pay the social fund promptly in accordance with predefined schedules.

Step 3

The list of community and municipal representatives who compose the support committee must be finalized before the start of work and should continue after completion to ensure sustainability of the financed projects. This committee should be structured through the same mechanism that generates community participation. It should identify beneficiaries as well as local labor for the project. It should audit the construction and supervision of projects. And it should coordinate the collection of user charges and fees and follow-up activities to ensure adequate operation and maintenance of infrastructure works.

Step 4

Priorities for investments should be established by local governments and their people through participatory processes that facilitate the definition of investment plans to help municipalities develop a long-term vision. Where no municipal investment plans exist, municipalities must work within the legal framework to define projects in consultation with the community through mechanisms such as public councils or audiences. They must explain the projects and proceed only after the community gives approval.

Step 5

Communities and municipalities should manage resources and contracts for projects. To strengthen these entities, only approved projects should include an elaboration of preinvestment studies. Social funds should facilitate necessary training and support these studies. Training of municipalities and communities should include not just administrative and technical training, but training in the transparent management of resources as well. Social funds and municipalities should have a program for the exchange of personnel to facilitate transfer of skills. Mayors and councils should take over resource and contract management of projects only if the community is not willing to do so. Generating employment for the community and stimulating and strengthening the private sector should be guiding factors in choices about project design and implementation. Operation and maintenance should be the responsibility of the department of public works in conjunction with the support committee.

Step 6

Social funds must strengthen municipal governments and local institutions. This should be an important focus in technical assistance and training for local governments, because they will be operating, managing, and sustaining works to be realized with social funds. Social funds could reduce their administrative structure and lower the costs of projects by transferring technical assistance and training functions to local organizations with the necessary capacity. Alternatively, social funds could facilitate training to be given by different institutions of the central government that have local offices, such as the various institutes of municipal development present in Central America, whose roles are currently being reevaluated. Other institutes that could train municipalities are the councils of development in Guatemala, departmental councils of mayors in El Salvador, and district councils in Costa Rica. These institutes should also be considered for the assumption of some functions that weak municipalities may be unable to fulfill.

Step 7

Municipalities should establish a fund with their own resources to undertake social investments. Such a fund would be useful to sustain projects or to execute other works financed by social funds. Management of this fund should be transparent. The resources should come from the municipality's current savings account, from government transfers, and from any other contribution that the municipality receives. Resources can be supplemented by the community through beneficiaries' contributions, neighborhood organizations, and other groups that benefit directly. While the capacity to contribute will clearly be a guide for determining the size of donations, beneficiaries appear to be able to contribute at least one-third of the fund's total amount.

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Social Funds and Development of the Private Sector: The Case of Mali

by Lamine Ben Barka, Director, AGETIPE, Mali

An Underdeveloped Private Sector

Anyone who knew about the status of the private sector a few years back in most of the countries that established agencies for execution of public interest works (in French, *agences d'exécution des travaux d'intérêt public*, or *AGETIPs*, often called *agences TIP*) would easily admit that this sector has experienced an in-depth transformation. Indeed, the private sector, which most people agreed needed to be promoted and developed, has notably changed since the advent of AGETIPs.

This may be explained primarily by the tremendous revival AGETIPs caused in the building construction and public works (or *bâtiments et travaux publics—BTP* in French) sectors. It is commonly agreed that increased construction activity shows improvement in people's standard of living.

To show the remarkable impact AGETIPs have had on the development of the private sector in general and through the BTP sector in particular, the case of Mali is discussed, where the experience of AGETIPE-Mali seems, to a large extent, to reflect accurately that of all other countries in which projects were established to execute public interest works.

One of the dominant arguments before and during the establishment of AGETIPs concerned the need to develop the private sector. Efforts were made to translate the development into reality. Although the private sector in general needed support and revival, the BTP sector in Mali was in even greater need.

BTP Professions in Mali

In 1991, shortly before the establishment of AGETIPE-Mali, a World Bank-sponsored study on BTP indicated the following:

- There were about 80 construction enterprises (all categories combined).
- There were about 400 artisans, contractors, and entrepreneurs.
- There were about 20 BTP professionals officially registered, including architects, counseling engineers, and surveying engineers.

Most small-scale construction was carried out by local enterprises, but large-scale works, such as much-needed road construction, were contracted systematically to foreign enterprises for execution. Undoubtedly, many aspects of Mali's situation could apply to other countries in the subregion during the same period.

One or two countries, Côte d'Ivoire and Senegal among francophone countries, had launched the BTP sector with relative success and had initiated bold infrastructure programs (Côte d'Ivoire, for example). Most of the other countries in the region experienced slow progress in BTP sector development. The most important reasons for low involvement of local firms in the construction sector center around the following:

- Difficult access for enterprises, including engineering firms, to public contracts
- Difficult access to credit
- Slow procurement and payment procedures
- Lack of an effective policy to promote the sector.

The government administration was, and remains today, the primary contract provider.

Most local enterprises were denied access to public contracts. This was particularly true for bids that were designed to adhere to donor conditionalities and criteria, which dismissed de facto any local enterprise. These restrictive criteria were often related to the turnover in a given period, often required to be worth at least US$2 million, to a minimum number of years of experience, ten years, for example, or to experience in executing works similar to those being bid.

Slow progress in the development of the BTP sector also stemmed from difficulties with the following: gaining access to bank services; obtaining various types of guarantees required from the tenderers and successful bidders; and acquiring tender bonds, good performance guarantees, start-up advances, and retention money.

In addition, obtaining credit has been extremely difficult, although credit is vital to the execution of certain contracts for most enterprises because they lack significant financial assets. This remains true for the BTP small-scale enterprises that need credit just to secure equipment. There is still a dismal lack of a credit-for-equipment financing mechanism or a system for leasing equipment for small BTP enterprises.

The World Bank report also indicates that the time needed to approve a public contract might be as long as 8 to 12 months. According to the report, complex, bureaucratic procedures required no fewer than 12 steps, including signature by the enterprise and registration of the contract. Partial payment for contracts required the same amount of time. According to the same report, this amount of time was also needed to make payments in local currency. In Burkina Faso, the length of time needed to procure a contract could reach 231 days, or about 8 months. In Senegal, the Director of the Urban Development Management Project is reported to have spent 528 days to procure a contract. Undoubtedly, such administrative redundancy and slowness effectively discourages existing enterprises from seeking these contracts and inhibits the establishment of new enterprises.

The development of any sector of activity depends on the willingness of decisionmakers to act. This is true for national production in general and for economic activities in particular. This is especially the case for the BTP subsector, which cannot go forward without an effective government policy for the execution of large infrastructure works. Well-planned, continuing programs that involve and benefit local, rather than solely foreign, enterprises are needed. It is no exaggeration, however, to state that until the recent establishment of AGETIPE-Mali, there was no such policy in Mali to promote private enterprises and alleviate difficulties related to access to bank services and credit.

The Advent of AGETIPs

It is in this context that AGETIPs were established. Their origins are related to the effects of structural adjustment programs, which in turn resulted from the mismanagement of public finances.

Objective of AGETIPs

One of the essential objectives of these agencies was to reduce urban unemployment through the execution of public interest works using labor-intensive techniques. Objectives of an agency to execute public interest works included the following:

- To create temporary employment in urban areas and contribute to the creation of permanent employment
- To build the capacity of the private sector, more particularly small enterprises and engineering firms, so that they can execute a wide range of public works while improving the skills of individual workers involved in the project, allowing them to be competitive in the labor market after the project is completed
- To provide the government administration with the means to manage the demand for goods and services efficiently, as well as to manage the funds used for these purposes
- To demonstrate that it is possible for public contract procurement and management procedures to be less redundant and more transparent.

After problems were identified and objectives defined, it was essential to work in such a way that AGETIPs could efficiently meet expectations.

Mode of Intervention—Quick Procedures

AGETIPs that act as implementing agencies also act primarily as the delegated contracting authority. Their success and effectiveness result from streamlined procedures that achieve tremendous performance levels contrasted with the administration's delays in contract procurement and bill payment. Independence, impartiality, effectiveness, and cost-consciousness are the determining principles of these agencies. With AGETIPs, the average time for contract procurement is 10 days, and payment deadlines are even shorter: 7 to 15 days.

At the same time, AGETIPs successfully fulfill their mission to promote small enterprises, at least in the BTP sector. Eligibility and qualification criteria in their manual of procedures allow easier access to contracts for any local enterprise that meets minimum conditions. Measures were taken to significantly encourage, rather than inhibit, those who want to create small BTP enterprises. This resulted in a proliferation of BTP enterprises and engineering firms in all categories.

AGETIPs as Catalysts for Development of the Private Sector

Impact on Entrepreneurship

AGETIPs brought about a true era of entrepreneurship and helped to achieve the following:

- The institutionalization of a contracting culture.
- The adoption by small enterprises of a new and more professional way of doing business, particularly in the use of insurance and financial sector services. In Mali, for example, until the establishment of AGETIPE-Mali, obtaining insurance policies as required by BTP rules was not common practice for enterprises in this sector. Today, this is the norm.

There were few contracts and little collaboration between enterprises and banks because of the small number of enterprises before the creation of the AGETIP, resulting in low demand for such services. Today, the number and size of start-up advance guarantees provided by commercial banks in Bamako for BTP enterprises constitute sufficient proof that an in-depth change has occurred in the relationship between these two partners, although there is still a long way to go.

Another aspect of utmost importance is that AGETIPs have helped numerous enterprises upgrade from an informal to a formal status.

Following are some documented examples of the successes of AGETIPs:

AGETIPE-Mali

- Enterprises and engineering firms working with the agency registered 780 insurance policies from 1993 to 1996.
- Over US$8 million in guarantees were provided by Malian commercial banks to enterprises working with the agency, to serve as start-up advances, from 1993 to 1996.
- Number of work contracts awarded: 1,750.
- Number of days of employment generated: 7,330,000.
- Number of permanent jobs created: 166,608.
- Salaries paid on work sites: about US$16 million.
- Amount awarded through contracts to enterprises: about US$100 million.

AFRICATIP

- Investment achieved by AGETIPs: about US$700 million (or approximately F.CFA 250 billion).
- Salaries paid: US$100 million.

Multiplier Effect of AGETIPs in Private Enterprise Development in Mali

As of December 31, 1992, AGETIPE-Mali had:

- Created 37 engineering firms, of which 36 were qualified to receive work from AGETIP
- Received 364 requests for registration by enterprises of all categories, of which 166 were qualified.

Four years later, AGETIPE-Mali had:

- Registered 233 qualified engineering firms, marking an increase of 547 percent
- Registered 1,280 qualified enterprises, marking an increase of 671 percent.

BTP Industry and Sale of Construction Materials

Although the results of an exhaustive evaluation are not yet available to determine the impact of AGETIPE-Mali's activities on the small-scale BTP industry, this AGETIP has unquestionably had an impact on the construction materials industry. Any informed observer will easily note the considerable increase in the number of actors in the sector. Notably, the extraction and sale of construction materials are career niches where women are largely involved. In addition, an informal sector of food sellers and various retailers has mushroomed around work sites. Overall, more than US$100 million has been injected into the country's economy.

Training and Local Capacity Building

TIP execution projects would have failed if they had had no long-term vision. Ensuring sustainability of this new approach requires the involvement of all the essential actors. It would serve no purpose to encourage small enterprises without helping them become sustainable and cost-effective. One way to achieve this is to promote a culture of entrepreneurship through training. For this reason, TIP execution projects always include a training/technical assistance component for their beneficiaries, engineering firms, and architectural companies, particularly for small BTP enterprises working on the projects.

The objective of this training is to reinforce technical and managerial capacities of the enterprises and engineering firms involved in projects and thus help build effective local expertise in the BTP sector. Results from AGETIPE-Mali's Technical Assistance/Training program, which started in 1993 and terminated in 1996, are quite satisfactory. For example, 3,714 beneficiaries, enterprises, and engineering firms attended a training program composed of 20 modules. This was the first time that this type of training was provided in Mali.

Effects on the Government Administration

One of the objectives of establishing the AGETIP project in Mali was to help the public sector direct and manage more efficiently, not only the demand for supplies and services, but also related expenditures. Another important objective was to demonstrate that it is possible to implement more transparent and less redundant procedures for contract procurement and management. The willingness of the government of Mali to replicate the scheme in other sectors is indicative of the positive opinion they have of AGETIPE-Mali.

The decision of the government of Mali to contribute over US$40 million as matching funds required by the credit agreement indicates that delegated contracting authority as a management tool for the government's administration is becoming common practice.

Conclusions

It is unquestionable that AGETIPs, since their establishment, have contributed significantly to the development of the private sector in general and small enterprises in the BTP subsector in particular. However, these achievements need to be institutionalized to avoid the problems of the past and to avoid nullifying the impacts and breaking the momentum of growth in the private enterprise sector.

One of the most important results of AGETIP activities is that they continue to play a well-recognized role in local capacity building. Results also demonstrate the dissemination of a contract culture, brought about by the establishment of AGETIPs. The widely accepted practice of delegating contracting authority, as confirmed by the established and consolidated collaboration between AGETIPE-Mali and the government administration, indicates that the latter is being exposed to the contract culture.

So far, state control has been the rule. The establishment of AGETIPs has inaugurated a new era of contracting with enterprises while encouraging the administration to use their services.

The government needs to support the continued development of the private sector through regular programming of investments for infrastructure, as well as through more committed support to the construction industry. This will lead to better cooperation between banks and the BTP sector. However, without the integration of training into any program for stimulating the development of the private sector, prospects for the success of the sector are uncertain. Training is the cornerstone of capacity building.

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Designing Social Fund Components: Sectors, Themes, and Access

by Scarlette Gillings, Director, Social Fund, Jamaica

Jamaica's National Context

Jamaica's socioeconomic environment may be characterized as that of a middle-income developing country. In the 1980s and 1990s the country faced economic reverses similar to those of other non-oil developing countries throughout the world, a fiscal and balance of payments crisis that led to prolonged stabilization and structural adjustment programs supported by the International Monetary Fund (IMF) and the World Bank. Among the policy measures introduced under the IMF stabilization programs over the past decade have been several currency devaluations, reductions in government spending, removal of subsidies, and increased revenue collections. Simultaneously, structural adjustment programs aimed at promoting economic efficiency and stimulating export growth have been introduced. Measures have included: privatization of several government services and public enterprises, trade and foreign exchange liberalization, and deregulation of many sectors. Despite several years of economic stabilization policies, Jamaica faces the challenge of an economic and social environment characterized by low growth and unacceptable levels of poverty.

In general, Jamaica's living standard indices are relatively favorable compared with other middle-income countries in the region. However, 28 percent of the population lives in poverty. Sixty percent of the poor live in rural areas, with the remaining 40 percent distributed evenly in the urban centers. An underproductive small farm sector, low wages, lack of employment opportunities, low levels of education, and inadequate physical and social infrastructure contribute to a worsened poverty situation in rural areas. While access to sanitary facilities is relatively high in Jamaica, the rural population has less access than the urban population. In 1991, 24 percent of the population lacked access to safe drinking water, while in rural areas the proportion was 40 percent. There are also considerable deficiencies in the water and sanitation facilities within schools, health centers, and other public infrastructure, thereby increasing overall health risks. Road networks, especially in rural areas, are also in poor condition from lack of maintenance.

High levels of crime and violence, mainly in poor urban areas, contribute to increased health costs and impede the delivery of social services. Violence also leads to weak investor confidence, migration, and a generally deteriorating quality of life, particularly among the urban poor. A disproportionate percentage of the poor are under the age of 25; 13 percent are elderly. Women comprise 51 percent of those living below the poverty line. The unemployment rate among the poor was 15 percent in 1995, 70 percent of whom were less than 25 years old; 65 percent were women.

Poverty is largely a phenomenon of the working poor, because demand for their labor is not strong enough to push up real earnings, and they lack the skills that facilitate access to higher paying jobs. The majority of the poor are farmers, agricultural laborers, domestic servants, street vendors, and craftspersons. There is a clear association between poverty and years of education: nearly 70 percent of the employed poor reported no secondary education, compared with 45 percent of the employed nonpoor. More than 30 percent of primary school graduates are functionally illiterate.

Under structural adjustment, social expenditures have been considerably reduced in real terms, both as a result of devaluation and of budget cuts. Since schools are underfunded, the shortage of inputs and the deterioration of infrastructure has affected the quality of education negatively. Inequitable distribution of resources has led to poorly equipped, overcrowded, and physically deteriorated schools in lower income areas. This is exacerbated by vandalism and further corrosion of the infrastructure. Public funding for health care has been insufficient, leading to atrophy in public health care facilities, which are in poor repair and lack equipment and basic supplies.

The Target Groups

The current socioeconomic situation of Jamaica, and the status of various social groups within this setting, indicate that the rural population, women, children, unemployed youth, and the elderly are important target populations for poverty alleviation, while the rehabilitation of social infrastructure would increase income and earnings for small farmers, as well as reduce urban violence and improve community and family life—areas that urgently require effective short-term solutions.

This chapter shares some of the experiences of the Jamaica Social Investment Fund (JSFs) in the six months since its formal inauguration and highlights some possible lessons relevant to the design and development of social investment funds (social funds). It focuses on approaches to project selection and financing and the development of subproject menus that can facilitate the access of target groups to social fund resources.

Jamaica's Poverty Eradication Strategy

Poverty alleviation has become a major focus of government policy in recent years and has led to the promulgation of a national poverty eradication strategy and the establishment of a National Poverty Eradication Program (NPEP) to eliminate poverty. The policy differentiates between private poverty, which is characterized by the inability of the individual to meet basic needs, and public poverty, which relates to the inadequate provision of basic public goods and services, such as roads, water, sanitation, and transport. Following are the five primary elements identified in the poverty eradication policy:

- An integrated program of poverty reduction activities geographically targeted to deprived communities
- Interventions mainly targeted to unemployed youth to prepare them for the world of work and to reduce early childbearing, and interventions aimed at families with children to reinforce parenting skills and responsibilities
- A welfare system that is streamlined for more efficient administration with more effective coverage for needy persons, which cushions the effects of economic adversity while expediting recovery for the new poor
- Equitable access by the poor to good education and health services
- An enabling environment that gives special attention to institutional management capabilities and the economic framework to support the achievement of poverty reduction.

Jamaica's Social Investment Fund

The Jamaica Social Investment Fund is a key component of the government's strategy for eradicating poverty. Designed as a demand-driven organization to mobilize and channel additional resources to low-income and socially underserved communities, as well as to increase the capacity of government, it aims to enable community-based organizations and nongovernmental organizations (NGOs) to design, implement, and manage community projects.

The adoption of this particular instrument has special implications in the Jamaican context, because of the poor sustainability of social development programs in the past, despite significant efforts by successive governments to address the problems of poverty. Problems with sustainability are attributable as much to the resource constraints imposed by recent economic adjustment programs as to persistent systemic weaknesses in the public management structure, which many people characterize as inefficiency of government and/or bureaucracy. Inadequate levels of community ownership have also contributed to the failure of many social infrastructure projects. In many communities, public infrastructure has been the object of vandalism in the absence of viable community-led management structures. Closely associated with the inadequacy of community ownership is the absence of mechanisms for transferring technologies that would permit communities to play a greater role in the management of public facilities. Since communities often lack technical resources, their facilities are apt to deteriorate more rapidly.

Effectiveness and Possible Risks

The effectiveness of a social fund depends on the soundness of its design and operational efficiency. A design derived from an evaluation of the national context will ensure that the operational modalities of the social fund match the real poverty situation of the country. Caution must be exercised that the experiences of social funds worldwide are not overgeneralized. Models of social funds cannot be transferred from one country to another as virtual turnkey operations without adequate evaluation of relevance and feasibility of particular solutions, despite the urgency of poverty alleviation and the costs and time involved in developing an appropriate fund. Special attention should be given to the targeting of beneficiaries, the choice of subprojects, and internal mechanisms for management of resources and delivery of services.

Jamaica has had the unique experience of quickly learning lessons that may be particularly useful to prospective social funds elsewhere in the English-speaking world. For example, the development of operational guidelines and related systems and procedures had to draw heavily on the experiences of other social funds in Latin America. The adoption of a new management information system proved a real challenge, since all the programming and documentation had been done in Spanish and had to capture the specific information requirements of the social fund. The JSFs found it necessary to conduct prolonged and detailed deliberations in adopting these systems and has had to commit itself to a policy of flexibility to ensure that the optimal system is eventually developed. The principal lesson here appears to be the necessity of adapting rather than adopting solutions when establishing social funds in a particular country.

To be participatory, demand-driven, and sustainable, the goals of most social funds, their operational effectiveness depends on a number of factors, which are discussed in the following paragraphs.

Systems and Procedures

The establishment of systems for management of the fund operations should:

- Facilitate thorough planning and research, appropriate organizational structures, efficient use of resources, regular monitoring and evaluation to correct design and implementation errors, and effective internal and external communication systems

- Offer beneficiaries a range of options from which to choose the appropriate goods and services, and develop a mechanism to facilitate efficient bottom-up planning of subprojects.

The procedures of the fund are geared to meet its objectives in the most effective way and to apply them to fund operations. Procedures for project selection, screening, evaluation, and implementation must support the objectives of addressing priority poverty-related needs of communities, as well as satisfy the highest standards of professionalism, thus ensuring transparency, impartiality, and accountability in all fund operations. These issues are of varying significance, depending on the country's particular conditions. In Jamaica, for example, issues of transparency, impartiality, and accountability are of special significance because of the high level of public awareness, at least in the media, of the integrity of public institutions.

To be effective, procedures must address the specific situation of the country and resolve corresponding problems in the field, thus expediting the process of delivering sustainable subprojects. For example, communities are expected to participate in project identification, preparation, and management, but preparation may be difficult because of the nature of the subproject or organizational and other weaknesses at the community level. In such cases, procedures have to be designed to remove the bottleneck and facilitate faster preparation of projects.

Staffing

Social funds should be staffed with multidisciplinary teams of professionals. The complexity of the projects that social funds support, as well as the complexity of the political-institutional environment, require the joint efforts of many dedicated professionals from the fields of sociology, community development, economics, management, political science, law, engineering, architecture, quantity surveying, environmental studies, management information systems, and other fields of specialization. The successful coordination of these diverse talents and the negotiation of difficult inter-institutional and political issues at the national and international levels requires leadership of a very high caliber. The heads of social funds should therefore possess substantial qualifications and extensive professional experience to increase their chances of success.

Beneficiaries: Who and What Should be Financed

The identification of beneficiaries and the determination of subproject eligibility are two important issues to be resolved in the design of subproject menus. The immediate objectives of social funds and their specific role within a network of institutions implementing the poverty eradication strategy and facilitating broader socioeconomic development directly influences the approach to selection of beneficiaries and subprojects.

In the Jamaican context, the JSFs functions as a more or less specialized agency, operating under the government's Poverty Eradication Program; several counterpart agencies address specific problems, for example, land settlements, microenterprises, environmental management, and skills training. Within this institutional context, the JSFs' mandate is to address specific poverty alleviation priorities.

The beneficiaries of the social funds are the poor. But just who are the poor? The definition of the target group for purposes of the social fund program may differ from other approaches to targeting. A targeting strategy aimed at reaching the poorest quartiles of the population was adopted, based on studies of leading poverty indicators. It should be borne in mind that in Jamaica, the immediate focus has been on addressing deficiencies in the social infrastructure, because they affect the poorest groups in the population, as well as specially targeted groups such as school-age children.

The identification of beneficiaries of the fund becomes problematic when the mandate to address community poverty and the associated guidelines for ensuring community participation and benefits are taken into consideration. Individual beneficiaries are explicitly excluded by the JSFs except where identified and endorsed by a community. The question therefore arises: Are not individuals the ultimate objects of impoverishment, consumers of goods and services, and bearers of responsibility to fulfill any covenants arising from the approval of projects? On this basis, should they not be considered?

There are theoretical as well as practical difficulties in targeting individual benefits. At the theoretical level, individual poverty is the outcome of either poor individual choices or the existence of conditions that predetermine poverty in individuals, regardless of their attributes and decisionmaking skills. There would be little justification in transferring income in the form of a social funds grant from the population at large to individuals, unless they belong to a specially vulnerable group whose interest society feels obligated to support, for example, the aged, the infirm, the disabled, and children. Transferring funds to communities for the provision of more broadly defined social goods and services addresses the social aspects of poverty, while facilitating at the same time improvements for individuals without introducing caprice and distortions into individual economic choices. The selection criteria of a social fund become, therefore, consistent with an efficiently functioning market economy.

Notwithstanding these considerations, selection policies must be informed by some understanding of the nature and causes of poverty and how the phenomena of poverty interact with various factors in the economic, social, and political life of a country. The decision on project financing should be guided by criteria of eligibility and sustainability of projects. The decision to finance or not is, therefore, contingent on favorable recommendations with respect to these criteria. Financing decisions are usually the responsibility of social fund senior management, except in special cases, for example, projects above a certain value may require board approval.

Factors Influencing Finance

The sectors to be targeted derive from the nature of the social fund and its functions. With respect to the nature of the fund's sources and forms of financing, principles of management and public finance may be applicable where, for example, it is poor management to finance recurrent expenses from capital investment. The form of financing, loans or grants, suggests the avoidance of recurrent expenditures and instead the financing of activities that are by their nature social investments, for example, teaching people to fish, as opposed to giving them fish.

Yet a social fund has to do both. The important question then becomes how far the social fund is actually integrated into broader poverty alleviation and development strategies and instruments. Within this framework, the social fund may be seen as having a dual function:

- As a kind of emergency intervention to arrest outstanding factors contributing to poverty and to facilitate effective, even short-term, responses to poverty
- As a social fund providing long-term solutions to poverty by facilitating institutional strengthening and institutional changes and therefore improving social capital.

Approaches to Menu Design: Negative or Positive Menus?

Subproject menus can be designed to identify activities that the social fund will finance, which is a positive approach, or alternatively to identify activities the social fund will not finance, which is a negative approach. The exclusive negative menu approach, specifying the subprojects the social fund will not finance, is guided by factors, such as the following:

- The poverty situation in the country and its identified priorities
- The mandate and the objectives of the social fund
- The role and scope of social fund activities within the wider social program

- The determination of the activities that will affect poverty the most (in terms of priority needs and number of beneficiaries)
- Considerations of sustainability and legality.

This menu would exclude benefits that are not identified as high priorities, that are already addressed by other programs, or that do not affect poverty or meet social fund criteria for community participation. Given the community focus of the JSFs, subprojects located on private land or aimed at providing benefits to individuals are excluded. Also, ownership of land must be verified by provision of clear titles.

Following are the advantages of a negative menu approach:

- It clearly defines the scope of the social fund to its officers, beneficiaries, and sponsors and thus avoids costly and time-consuming misunderstandings.
- It makes screening and appraisal easier, thus reducing processing time.
- It facilitates development and monitoring of standards and performance evaluation; it also permits application of standardized systems and routines in operations and management information systems, and administration; it encourages the focus of social fund resources and energies on things it can do well.
- It encourages effective networking and interaction with other programs and agencies of government, as well as NGOs, thus strengthening the overall social policy implementation system. For example, a fund may not be equipped to handle water projects; they can be handled by other organizations in collaboration with the social fund.

There are several disadvantages to a negative menu approach:

- Problems of coverage can arise. Since not all areas are covered, the exclusion of some areas may have to be justified. Particular difficulties appear when excluded areas are advocated by stakeholders with power; conversely, excluded areas may affect stakeholders with little power, so their concerns may not be effectively articulated and recognized.
- It can create problems for decisionmakers who must tread a thin line between bureaucratic adherence to the rules and flexible responses to deserving cases. How can the exception principle be applied by management? This requires good judgment, possible only with experienced and knowledgeable officers. Senior management should be involved when exceptions are to be made.
- Some terms of exclusion may lead to discrimination against specific groups of the poor, for example, excluding projects on land where clear titles do not exist. This may discriminate against squatter communities. Exclusion of individual benefits can discriminate against urban microenterprises.

The positive menu approach includes activities the social fund will finance. This has the advantage of providing clear guidance on the activities to be financed. However, the attempt to be inclusive can be fraught with certain difficulties.

- It may be unwieldy, even impossible, to include all possible activities.
- The inclusion of additional activities has to be left to the judgment of an individual officer, which could unwittingly extend the scope of the social fund.
- It renders difficult the use of standards and monitoring, making overall operations less efficient and more costly, since standardization more readily facilitates the application of efficient system solutions.

In practice, both the positive and negative menu approaches can be combined, specifying a limited range of subproject categories as eligible, while identifying additional categories as excluded from support. This approach will facilitate access of the target groups to social fund subprojects, once the menu has been developed by reviewing the poverty situation in the country, the identified priorities, the mandate and the objectives of the social fund, the role and scope of social fund activities within the wider social program, the activities that will meet the most priority needs and serve the most beneficiaries, and considerations of sustainability and legality.

Social funds could therefore usefully adapt combined approaches to their subproject menus, clearly specifying priority areas, but also indicating subproject types that do not fall within the fund's scope and which are therefore not likely to be funded. Clear subproject menus will facilitate access of target groups more effectively than vague ones.

Sectors to be Targeted

The selection of sectors for targeting raises a number of theoretical as well as practical problems. At the theoretical level, there are problems such as the definition and measurement of poverty and the identification of beneficiaries. Since poverty is a multifaceted phenomenon, manifesting in a number of ways, measures of poverty adopted are most important. Per capita income or consumption, though useful indicators, may have weaknesses and hide important dimensions of poverty. Physical quality of life indicators are also extremely useful, as are indicators of income distribution and poverty concentration. However, they all address material manifestations of poverty and do not necessarily deal with the "consciousness" of poverty, that is, the way in which people perceive themselves and are perceived with respect to poverty. Such perceptions strongly influence social behavior and affect attitudes and expectations toward a fund. These could become critical determinants of success. These issues have numerous ramifications and must be considered when designing the social fund. The concept of social capital, for example, has recently emerged in the theoretical literature; it provides many useful insights into the problem of poverty and its solution. The JSFs has incorporated this idea into its operations at the level of subproject development and evaluation. On the practical side, there are issues related to the sociopolitical environment within which the particular social fund must operate and how stakeholders perceive the social fund. In the final analysis, as mentioned earlier, the determinant of effectiveness will be the perceptions of the fund and how well it meets its stated objectives of poverty alleviation. The environment of the social fund will vary from country to country; manifestations of poverty will vary as much as the extent of poverty. The social fund will need to target particular sectors because of the role they play in determining the overall incidence and severity of poverty.

The JSFs Project Menus

Jamaica's socioeconomic environment has been characterized by slow economic growth. In particular, the reduced role of the public sector has had a profound effect on social infrastructure, especially since significant sums had been spent in previous years to improve community social facilities. Responding to this environment and to the particular deficiencies that are seen as important to poverty in Jamaica, the JSFs adopted a subproject menu that focused on four main areas:

- Social infrastructure, which includes schools, health centers, community centers, day care centers, water, and sanitation, and which is dictated by the identification of the most critical areas of need, based on prior community studies and government priorities.
- Economic infrastructure, which includes those projects that affect the poverty of targeted groups directly, for example, feeder roads and small agroprocessing facilities. There is great demand for urban-based economic projects, especially from depressed inner-city zones, and for infrastructure projects, such as small-scale irrigation works, which may also significantly affect the income-earning opportunities of the poor in rural communities.

- Social services.
- Institutional strengthening.

In the case of economic infrastructure projects, individual benefits must be separated from benefits to the wider community and individual microbusiness enterprises benefits from community projects. The test of the number of beneficiaries can resolve this problem, because projects that result in a high per capita benefit to individuals in relation to the national average or to the average for the fund may be screened, all things being equal. The determinant of sectors targeted is need. The sector targeted should be an area of priority need, and the fund's assistance should significantly impact poverty.

Consultative Process in Developing Eligibility Principles and a Subproject Menu

A meaningful and effective process of consultation is critical to the successful development of social fund eligibility principles and subproject menus. This ensures the involvement of key stakeholders from the poverty alleviation network in the planning and design processes, thus increasing the chances of success in targeting the most critical needs and the most vulnerable groups, as well as in developing strategies, policies, and procedures to facilitate access to social fund resources.

In the case of the JSFs, the consultative process involved a number of stages, including the following:

- National-level consultations on poverty involving the government, private sector, NGOs, community representatives, and international agencies
- Sectoral, ministry-level consultations for research and policy development
- Project-level research and policy development, for example, through special studies on critical poverty issues such as urban violence and poverty, using participatory techniques and involving communities
- Development of a broad national policy on poverty.

The outcomes of the consultations at various levels were extremely useful in guiding the development of the subproject menu and project selection strategies. Consultations with the NGOs, for example, influenced the selection of organizational strengthening as a menu priority, while the findings of the research on urban violence were instrumental in deciding to fund a conflict resolution project, which fell within the social services counseling and training modality.

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Zambia Recovery Project—Evaluations and Perspective of the Central Government

by Irene M. Kamanga, Permanent Secretary, Ministry of Finance and Economic Development, Zambia

The Social Recovery Project (SRP) in Zambia is an effective demand-driven financing agency that empowers communities to be agents of their own development. The SRP also supports the government in developing poverty-focused policies. The SRP's community-based initiatives component works through the government of Zambia's Micro-Projects Unit (MPU) in the Ministry of Finance and Economic Development. The SRP also supports the Central Statistics Office and a nongovernmental agent, the Participatory Assessment Group, to undertake both quantitative and qualitative poverty monitoring. The analysis of poverty-related data is supported by the SRP's Study Fund component.

The SRP as an Executive Agent

The government of Zambia views the MPU as an effective and efficient executive agent with the following characteristics:

- It is close to, yet independent from, the Ministry of Finance and Economic Development.
- It has clear objectives and targets and concentrates on delivering according to its contracts. It enjoys its own human resources strategy and management accountability system. It is small and maintains good communication with all entities concerned.
- It has high management discretion as to how it achieves its goals. It contracts other bodies—governmental, private, and nongovernmental organizations (NGOs)—and establishes clear partnerships.
- It has maintained a learning process through regular reviews and evaluations. Annual beneficiary assessments and several technical evaluations and management reviews have been commissioned by the MPU itself for midterm evaluation and completion purposes and also by other agencies such as the International Labour Office (ILO) and the European Union (EU). The results are discussed with MPU management, the government, and donors. Discussion papers are circulated, and MPU responses and action plans are agreed upon by stakeholders through the steering committee. The project cycle activities have thus evolved, and the development of the MPU remains dynamic and iterative.
- It is accountable and transparent, and regular independent audits are undertaken at all levels. At the community level, the community, district staff, regional officers, and provincial auditors regularly monitor project expenditure. At the management level, independent auditors carry out annual audits.

The image of the MPU as an executive agent, purposeful and performance-oriented, is attracting the attention of other donors, government departments, and politicians aiming to implement community-based projects in specific sectors. A community transport infrastructure project under the World Bank-supported Roads Sector Investment Programme and a pilot environmental fund project soon will be part of the SRP's portfolio of work. A total of 1,103 applications were received in 1996 (1,064 in the education sector), and 203 were approved. The demand from communities for the services of the MPU outstrips its human and financial resources capacity. District staff are using these resources to realize their district plans. The SRP I was fully committed two years ahead of schedule, and the SRP II is following the same pattern.

The SRP is a victim of its own success. The challenge is to maintain the management efficiency and responsiveness of the MPU as other donors and components join it and as demand from communities and from the government for its services continues to increase.

Effectiveness of the SRP

The effectiveness of the SRP is considered by the government both in terms of the benefits accruing to participating communities and in terms of the costs of achieving outcomes. The effectiveness is also reviewed in terms of how well the SRP supports government policy, which emphasizes rehabilitation and improvement of existing social infrastructure. The government also recognizes human resource development as critical to the poverty reduction strategy for Zambia.

Although the MPU has rehabilitated 16 percent of all primary schools in the country, 4,000 schools still need rehabilitation or extension. The total population of school-going children requires double the present number of school places. Twenty-one percent of the rural health centers scheduled for improvement have been rehabilitated by the MPU. This illustrates the magnitude of the problem and the scope for continuing activities of the SRP.

The gains accruing from the rehabilitation of social infrastructure have been identified by various beneficiary assessments. Some of these benefits are: improved morale of teachers, primary health caregivers, pupils, and patients; improved willingness to teach and learn; improved access to services; reduced maintenance costs; reduced travel or commuting distances, especially for women; and increased likelihood of improved mother and child health.

The SRP has found it difficult to quantify benefits. Any improvements to indicators, such as attendance rates, examination passes, and improved nutrition rates, cannot be attributed exclusively to improvements in the social sector infrastructure. Other factors, such as availability of books, medicines, and motivation of trained staff, make quantification of benefits difficult. In many cases, school attendance has not increased, but overcrowding and excessive shifts have been reduced. In some urban areas better classrooms may even have led to better-off parents gaining access to the few places for their children, while the poorer parents were left out. Mortality rates may be increasing due to the AIDS epidemic. Recent policy changes, especially for cost sharing in health and education at a time when poverty is increasing, also make it difficult to quantify the benefits of community-based social infrastructure projects.

It is the task of the SRP-supported Living Conditions Monitoring Survey, the Participatory Poverty Monitoring of the Preparatory Assistance to the Government, the Household Food Security and Nutrition Monitoring Project, and others to monitor and assess the impact of government efforts in the social sectors in developing human resources.

The implicit goal of the SRP to include economic infrastructure as a major part of its project portfolio to create a favorable environment for the development of enterprises has not yet been fully achieved. Only a few projects have made it through the demand-led selection process, mainly because of the lack of clarity of ownership issues. The SRP needs to address these issues by developing appropriate mechanisms.

The objective to make the poor less vulnerable has also been difficult to measure. All capable members of a community who will benefit from the project are expected to participate, and they do. This imposes costs on the poor and less poor, because participation requires time and therefore carries the burden of attached costs. Recent evaluations have found that women participate in the unpaid, unskilled labor market, while usually men receive skilled and paid employment at the project site. The beneficiary assessments have found, however, that women and children benefit the most from education, health, water, and sanitation projects, which makes them less vulnerable in the long term.

While targeting interventions to vulnerable groups within communities has been difficult, the SRP has made efforts to target a significant proportion of the poorest people who live in rural and remote areas. Although 44.6 percent of its projects lie in remote areas, the SRP recognizes that specific strategies are needed to reach communities in those areas. The data and analysis from the other components of the SRP, the Living Conditions Monitoring Survey and the Participatory Poverty Assessment, have been used to identify areas of special need that have particularly high poverty indicators, such as malnutrition, high incidence of female-headed households, and poor access to basic services. Participatory rural appraisals and needs assessment exercises have been commissioned in those areas. A mapping exercise is underway, which will help districts identify the most needy communities so that districts can adopt a more proactive role in informing, advising, and planning with them.

The SRP has also accepted that its microprojects do not necessarily benefit the incapacitated poor. Other programs in Zambia target these members of society. The SRP supports studies and evaluations for the government drought-relief programs and welfare schemes that affect policy formulation for programs designed to benefit the poorest and incapacitated members of society.

Benefits accruing from SRP activities are unquestionable. Its effectiveness is also measured by the costs of implementing a project. Recent evaluations and analysis show that at the end of 1996 the overall administration costs remained below 20 percent of the total finance expended. This cost included all expenditures other than direct transfers to project communities, MPU staff, district and community training, monitoring expenses, and consultants costs.

To remain cost-effective, the SRP realizes that the longer a community-based project takes, the higher its operating costs will become. For example, a visit to a community benefiting from a project costs over US$250. To minimize the number of visits necessary and therefore the costs of a project, without compromising smooth project implementation, the SRP aims to ensure that:

- The design of the project is adapted to the technical capacity of the community.
- The community is properly prepared before the start of the project, and their counterpart contribution is made available before project approval.
- A thorough field appraisal is conducted that includes an assessment of felt needs, community capacity, and commitment, as well as an assessment of the technical issues with respect to project design and implementation.
- The quality of technical supervision is adequate.
- Regular monitoring of projects is carried out by MPU and district staff.

Implementation periods have been dramatically reduced from an average of 33 months in 1992/93 to 15 months in 1996. Recent evaluations show that the money spent on projects is spent effectively compared to the spending of other providers of similar services. The government therefore maintains that the SRP is effective and efficient.

Participation and Empowerment of Districts and Communities

District

The SRP has spearheaded the decentralization process for government by instituting systems and procedures for project selection, appraisal, and monitoring and evaluation. Training and a policy of learning by doing have resulted in district staff that are better equipped to help communities to achieve their own objectives. The SRP addressed the challenge of poor capacity by intensifying training in technical and facilitation skills. The role of district staff as enablers is being reinforced. The challenge of coordinating district activities is being addressed by the government.

Communities

A major benefit of the SRP has been the empowerment of participating communities.

The SRP recognizes that communities are capable of managing their own projects, handling and accounting for large amounts of money, for hiring and firing, and for completing technically sound infrastructure even in the most remote areas of Zambia. The strategy of empowering by giving communities control over resources has brought about a dramatic change in the level of participation of communities in project processes: from being recipients of charity or relief activities, men and women of beneficiary communities now identify and analyze problems, plan solutions, and take responsibility for those solutions.

Beneficiary assessments have identified six key factors that affect participation:

- Access to and the flow of information
- Community organization and leadership
- Community members' involvement, their numbers, and their gender
- Types of community contributions
- Types of projects and the felt need
- Simplicity and timeliness of projects.

The MPU project cycle activities have evolved so that these key factors are always assessed. Other government and donor programs that require community participation are now using the same procedures, which is a significant indicator of their success. Incorporating these factors has resulted in a greater sense of community ownership of projects, enhanced capacity of the community, more accountability in project processes, and a greater sense of responsibility all around.

Issues and Challenges of Community Participation

Community participation has posed various issues and challenges, among them the following:

- Self-reliance
- Involvement of NGOs
- Food for work program
- Gender representation
- Maintenance of infrastructure and sustainability
- Paucity of community-based institutions.

Self-reliance

The SRP is sensitive to the risk of undermining self-reliance in affected communities. It grapples with the dilemma of supporting community initiatives without creating a sense of dependency in which communities always rely on outside assistance for solutions to their problems. The SRP sees its role as a supporter to existing community initiatives, one of a partner that supplies assistance only to those who have visible evidence of self-reliance, rather than those that expect handouts. The SRP is not involved in preproject identification activities, but rather relies on district staff, subdistrict institutions such as health advisory committees, parent-teacher associations, resident development committees, NGOs, and churches to facilitate the process of project identification with would-be participating communities.

Experience has shown that if potential clients of donor funds receive information about funds availability and the underlying conditions of their use, their requests are likely to match the conditions of the donor, especially if the donor is involved with the information dissemination.

Involvement of NGOs

Beneficiary assessments have regularly found that, if an NGO is involved with a community-based project, the standard of construction, speed of implementation, and project management improves, but the sense of ownership, responsibility, and capability of the community are undermined. NGOs tend to take over decisionmaking, planning, and implementation for the communities.

Food for Work

Because Zambia has suffered two serious droughts since 1991, a food for work program was introduced. MPU experience has shown that in areas where the food for work program was implemented, the communities were unlikely to participate in SRP-supported projects without remuneration, because they received remuneration for their work in kind under the food for work program. Hence, the MPU avoids working in these regions.

Gender Representation

Women usually participate in the unskilled and unpaid work in the project cycle, but find it difficult to become as involved as men in decisionmaking. The MPU recognizes this problem and now requires that women comprise at least 50 percent of project committee members, so that they, too, benefit more fully from the management training of learning by doing.

Maintenance of Infrastructure and Sustainability

Various evaluations have shown that, although the sense of ownership and responsibility has improved as a result of community participation in projects, maintenance of infrastructure remains disappointing. The government of Zambia, with SRP support, has initiated a study to assess the main factors determining maintenance, to review government policy, and to make recommendations for donors as well as the government.

Community-Based Institutions

Presently few local institutions with specified powers and responsibilities represent communities of interest. Various sectors are being reformulated at present. Community, subdistrict, and district institutions are starting to emerge. The MPU will be able to support these institutions, thereby increasing its investment in other sectors.

Conclusion

The SRP is an effective tool that addresses the critical demand for improved social infrastructure. Although the benefits are difficult to quantify, qualitative assessments show the SRP to have been extremely useful. The challenge is to maintain the efficiency and responsiveness of the institution as demands on the SRP increase.

The SRP is also effective in reinforcing the roles of district staff as enablers and of communities as managers of their own development. The SRP is facing the challenges of helping communities to create institutions that represent communities of interest, targeting the poorest remote areas, and ensuring that women are also beneficiaries of the empowerment process.

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Sustainability of Subprojects, Their Operation and Maintenance

by Werner Neuhauss, Sector Economist, Social Policy Department, KfW, Germany

Foreword

Social funds have been set up in countries that are suffering recessions as a consequence of structural adjustment programs. The aim was to create institutions that would implement social infrastructure programs in the most labor-intensive way possible but more efficiently and dynamically than the traditional state administration. In their first phase, the main emphasis was, and still is, on measures that create short-term employment and generate income for socially disadvantaged groups effectively, based on the idea that frequently problems to be addressed are temporary. Much less importance is given to the sustainability of the projects or to institution building.

In all the countries where social funds were created is a great shortage of social and economic infrastructure. It is the poorer sections of the population who suffer most from this lack. So, social funds can also be seen as a medium-term policy instrument to combat poverty. The income and employment effects for the poor achieved by financing the construction of infrastructure facilities will certainly continue to play an important developmental role. But in the medium-term view, beside executing the work, ensuring that the project will be of lasting benefit, that is, that its effect will be sustainable, is at least equally important.

For the purposes of this paper, the sustainability of an infrastructure project means that a project can be and is used by the target group throughout its useful life. This implies that the physical maintenance of the facility is ensured. It also implies that other financial and institutional conditions are met so that use by the target group continues when outside support is withdrawn.

Problems of Achieving Sustainability

Sustainability cannot be added to a project later. Rather, the various elements of sustainability have to be included in all phases of the entire project cycle.

The facility must meet the expectations of those who will benefit directly with respect to location, technical design, and possibilities of use. If these expectations are not considered during the planning phase, the facility may be inadequately used and the local people will be less likely to ensure its maintenance. Maintenance may involve contributions from them in the form of cash or labor and material. Sociocultural questions will always have to be addressed if a commitment to maintain a facility is to be ensured. Target groups need to receive direct benefits so that they may have a sense of ownership of the facility and feel responsible for it.

When set up, the facility must be of appropriate technical quality, as well as adapted to local conditions. This presupposes that meaningful sectoral quality standards are defined and adherence to them is consistent. The line ministries or the institutions responsible must have the appropriate technical and administrative competence to develop appropriate technical standards. Some social funds, for example, develop standards for building construction adapted to local conditions by increasing the quantity of local materials used to reduce future costs of operation and maintenance.

An infrastructure facility can be put to its designated use only when certain complementary conditions are fulfilled. In the case of a school, for instance, a school is usable only if a teacher, school furniture, and teaching materials are available. The construction of the facility must be integrated in an overall package right from the start.

The office responsible for the operation and maintenance of the facility, for example, a line ministry, the communal administration, or a users' committee, must be technically and administratively capable of ensuring that facilities remain operational and receive necessary maintenance. The capabilities and limitations of these institutions have to be considered from the outset in the planning and execution of an infrastructure project. If the institutions that inherit responsibility for project maintenance are not involved from the beginning, they may fail to identify with the project and be less likely to assume charge for it once construction is over. Additionally, users must know which institution is responsible for maintenance, so that they can identify the responsible party or person. This will enable the transfer of responsibility to be reversed, if necessary.

The costs of operating and maintaining the facility must be raised through user charges or taxes, or a combination of the two. The strong willingness to pay for these services, even by the poor, provides opportunities for instituting user charges. If the costs are met through these charges, a well-functioning mechanism for collection must be available. Financing user charges through taxes requires adequate tax revenue and an efficient fiscal administration.

However, experience has shown that meeting all these conditions for ensuring the sustainability of investments is considerably difficult, not just in the projects supported by social funds, but in other projects as well.

Special Features of Social Investment Fund Programs

Given the lack of resources in developing countries, without external assistance, social infrastructure investments would be made gradually and commensurate costs of operation and maintenance would rise gradually as well. External assistance through development cooperation enables social infrastructure to be developed more quickly, requiring a rapid increase in the resources necessary to ensure adequate operation and maintenance. When infrastructure facilities are expanded rapidly through a social fund, there are important implications for the resources needed to meet recurrent costs. The social funds enable infrastructure projects of various kinds to be planned and executed quickly and efficiently, with a high degree of flexibility and in close cooperation with local small enterprises. A relatively high share of local resources—know-how, labor, materials—is used. This causes a large increase in social infrastructure facilities within a relatively short period, creating a financing gap between the number of facilities to be maintained and the insufficient funds available for their operation and maintenance. These recurrent costs can be met if resources are raised from the increased incomes of the target community that the social fund investments may be stimulating, by reallocating funds from other budget items, by increasing taxes, by improving tax collection, or by enacting reforms for the financing of recurrent budgets, for example, by instituting user charges or fees.

These methods to raise revenue require significant sector reforms, which social funds are not equipped to effect. The fact that other institutions inherit the projects supported by social funds is an impediment to the achievement of sustainability.

Social Funds Sustainability Strategies and Their Problems

In view of this situation, there are on principle two alternative courses of action to improve sustainability: Strategy A concentrates on involving sectoral institutions that are actually responsible; Strategy B concentrates on avoiding sectoral institutions.

Each alternative offers a number of variations, which can be combined:

- ***Variation A1***—The social fund concludes agreements with line ministries and/or district or local administrations, in which the latter undertakes operations and maintenance for the facility. To avoid risks to the sustainability of schools, new buildings are often financed only if the education ministry can prove to the social fund that salaries for teachers in the new schools have been requested.
- ***Variation A2***—The social fund initially concentrates on employment and income effects and selects projects that will not overburden local offices with additional operating costs once projects are executed. This can also be achieved if users or local institutions responsible must contribute to financing the investment and the social fund provides the additional finance. The fact that social funds generally support only smaller, simple facilities increases the likelihood of achieving sustainable outcomes. In West Africa such projects include drainage channels, paving roads, and building walls. They involve little or no follow-up costs for recurrent cost budgets.
- ***Variation A3***—Parallel support is given to sector institutions under sector adjustment or investment programs, which include measures to improve general conditions in the sector. These also include reforms to improve state revenues.

In the second alternative, the following variations are possible:

- ***Variation B1***—Responsibility for ensuring sustainability is transferred to the beneficiaries, who may be organized in user committees, school associations, and the like. Many social funds have placed great emphasis in recent years on involving the target groups, in some cases through facilitating greater involvement of nongovernmental organizations (NGOs).
- ***Variation B2***—Some kinds of economic infrastructure lend themselves more easily to identifying direct beneficiaries and therefore to recovering operation and maintenance costs, for example, markets and slaughterhouses. Leasing such infrastructure to private operators is an appropriate option here, for they will then take responsibility for recovering recurrent costs. Models of this kind are on principle also conceivable for other types of facilities such as water supply schemes.
- ***Variation B3***—Social funds gradually take over tasks that are actually the responsibility of line ministries and administrations, thereby creating parallel institutional structures.

All these alternatives have weaknesses, as well as strengths.

- ***Variation A1***—Social funds generally have few means to compel administrations and ministries to fulfill their obligations. Frequently, shortage of funds and budget law restrictions prevent them from keeping their agreements.
- ***Variation A2***—If social funds concentrate on small, that is, employment-intensive projects where operations in the strictest sense is not really needed as, for example, with cleaning drainage channels and other such public works, there is risk that social fund measures will not supplement initiatives of the local population, but rather increasingly make them superfluous. When social funds finance rehabilitation of infrastructure, evidence shows that after rehabilitation needs are met, the social fund then comes under growing pressure to finance new construction.
- ***Variation B1***—Although this is theoretically almost certainly the ideal solution, the difficulties of implementing it should not be underestimated. It is often difficult to organize

groups or committees of this kind, and owing to the amount of time required, the programs can only affect a limited number of people. If practically the whole population of a locality regularly uses the facilities, and if the basic functions are relatively easy to learn, as with schools, it is easier for grassroots organizations of this nature to do good work. It is helpful if the future users and operators can be given appropriate basic training while the facility is being built. If the facility is complex, for example, water supply and sanitation, or of a different nature such as a loan program that requires debt servicing and repayment, more professional skills are needed.

Hence, NGOs are increasingly involved in the process of forming user organizations, although adequate professionalism is not always guaranteed, even with the best of intentions. In some countries, the government sometimes takes a critical attitude to NGOs for political reasons as well. Social funds themselves generally have only a few staff members with the appropriate training and experience to support these social processes. The problems entailed in option B2 are discussed in detail in the following paragraphs.

Various Approaches under German Financial Cooperation

To counter these difficulties in practice, the emphasis on specific elements to ensure sustainability of projects supported by Kreditanstalt für Wiederaufbau (KfW) depends on the region.

In West Africa, strategy A is clearly given preference, that is, projects that cannot be guaranteed sustainability by the agencies concerned are not financed. In Niger, for example, it is difficult to ensure that even simple maintenance of sewage disposal systems, such as regular cleaning of open sewers, will be done. Apart from excluding projects in which difficulties of this kind are to be expected, particular value is attached to the application of simple standards and the use of adequate materials. This does not exclude extending the scope of intervention, for example, participating in programs to secure food supplies, but the social fund's part is always limited to executing projects. One exception occurred in Mali, where a maintenance fund was set up to be funded from national revenues.

It is important to integrate strategies in sector investment programs, if any, as they always include sectoral reforms and the enhancement of institutional capacities, at least in Sub-Saharan Africa. We regard this, together with anchoring the idea of ownership, as a decisive element. In Latin America, on the other hand, social funds find they are increasingly assuming tasks that are actually the responsibility of line ministries and local administrations, as measures such as written agreements with the ministries to assume responsibility for operating costs, or the involvement of NGOs to ensure operation, have not always yielded the desired results (option B).

These new tasks include the following:

- Paying teachers' salaries for a time for some of the schools they funded, for example, in the case of the social fund in Guatemala
- Financing a maintenance fund to keep the facilities financed by the social fund in good order, for example, in the case of the social fund in Nicaragua
- Financing training given by NGOs to water users' committees and municipal administrations to ensure that they could operate and maintain the facilities in their area of responsibility, for example, in the case of the social fund in Honduras.

As flanking measures, KfW has agreed to finance the following, often in cooperation with other donors, to improve the sustainability of social fund programs in several Latin American countries:

- Support for target groups and administrations in preparing the project and making the application with training schemes for the future operators
- Assumption of project planning costs

- Support for consulting services in developing appropriate technical standards for the design of water supply projects and their execution
- Support for local experts to work with the social fund's core personnel to improve the technical quality of works
- Support in building up a special department in the social fund to ensure participation and involvement of users in all stages of the project cycle.

KfW supported a study in Honduras in 1995 to examine and analyze the causes of poor sustainability of infrastructure projects supported by the social fund. The lack of technical capacity in user groups and municipal administrations and a lack of information about sustainable outcomes were found to be critical bottlenecks. Sector-specific training plans and materials that communicated clear instructions for operations and maintenance, for computing water user charges, and for developing formats for prequalification of contractors, as well as for specimen contract documents to contract with NGOs, were developed.

Moreover, KfW recently suggested a revolving fund in Honduras to finance maintenance costs through local administrations. The initial finance could come from donor support. This idea is still under discussion. Similar approaches also exist in Egypt.

Conclusions

The measures described here will not be sufficient in themselves to ensure operations and maintenance of facilities. The following paragraphs, however, summarize the most important points.

The construction of sound facilities adapted to local conditions with simple technology certainly helps to reduce follow-up costs to a great extent, and this is of crucial importance. We still see this as a promising field of work, especially for engineers.

Although there has been positive experience, the achievements of NGOs and user committees should not be either under- or overestimated. NGOs are not automatically better because they are not part of the government. Frequently they become directly or indirectly financially dependent on the government or donor organizations. They cannot fill the gaps left by an absent state.

Public administrations, to make good use of the greater technical and administrative competence they acquire through training programs, need to have the necessary financial resources. Since most social funds worldwide are financed mainly by external donors, sustainability of infrastructure facilities can be secured over the short term if the social fund finances recurrent costs for a limited period; however, this cannot be a permanent solution. No experience has been gained as yet with the self-financed fund in Mali. It is not possible to sustain infrastructure projects, either those financed by social funds or those under classic sector projects, unless the necessary funds for maintenance are included in the planning of the concerned sectors.

The financial resource bases of district and municipal administrations must be improved, both through their own revenue and through secured and precisely defined claims to allocations from the central government. That will require a continuation of decentralization efforts, which have already started in many countries; social funds can play an important catalytic role in expediting decentralization.

Improvements are also needed in administration systems. To quote one example, a start could be made with the shortage of land registers, which has been identified as a major obstacle preventing administrations from increasing their own revenues. So should social funds also fund land registers? As it has, on occasion, been apparent that institutions are furthering their own interests in extending the work of social funds in this way, it must be asked at this point whether it is right to keep transferring new work to social funds, for example, as financial intermediaries if they were to venture into the field of microfinance. There is a danger that they will ultimately become super bureaucracies, existing in parallel to traditional authorities, which will continue to exist, albeit reduced in status.

This could prove risky, because social funds would then be moving away from their central competencies. Their efficiency could be reduced if they are overloaded. Necessary and serious reforms in sector policy and in administration systems, including the legal system, need to be supported by the entire apparatus of government and not just by one section. We are convinced that more efforts should be concentrated on transferring the positive lessons learned from social funds to line ministries and sector institutions. Where social funds have particular comparative advantages, namely, in carrying out small projects, they can be available to all public offices as central service units, but the responsibility for these projects should remain with the clients, such as line ministries and district administrations, or be given back to them.

Donors should press for improvements to be made on institutional and administrative levels, particularly in the development of social infrastructure. They should also continue to pressure for sectoral reforms and maximize the potential of social funds to facilitate them. International support from donors can be judged successful only if it can effect reforms in national policy that lead to more sustainable development.

Finally, the principles for reform discussed in the *World Development Report 1994*, which was concerned with infrastructure for development, are also relevant for the discussion on social funds:

- Manage infrastructure like a business, not a bureaucracy
- Introduce competition—directly if feasible, indirectly if not
- Give users and other stakeholders a strong voice and real responsibility.

Progress in this direction will improve the likelihood that investments will be sustainable.

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Appraisal and Environment Assessment of Social Fund Subprojects: The Case of Ethiopia

by Abebaw Alemayehu, Deputy Director, Social Fund, Ethiopia

Country Background

Ethiopia was ruled by a feudal king until 1974, after which it was under military rule for 17 years until 1991. This period of civil war in Ethiopia was marked by an economic growth rate of 1.9 percent, a population growth rate of 2.9 percent, and serious drought and famine, as well as many complex social problems typically associated with poor economic performance.

Pilot Phase of the Social Fund

The pilot Ethiopian Social Rehabilitation Fund (ESRF) was created in December 1992 as part of the Emergency Recovery and Reconstruction Program (ERRP) to alleviate social problems that were brought about by the end of the long drawn-out war. The end of the war resulted in demobilization of a large number of soldiers, the influx of thousands of returning refugees, and thousands of families headed by women. It also left many more orphans and disabled persons who need to be rehabilitated and reintegrated into mainstream society permanently. The ESRF was established to provide financial and technical assistance to these groups of the population through community-based social and economic rehabilitation projects.

The ESRF's performance was measured through an independent evaluation after 18 months of operation, a midterm government and World Bank review in October 1994, and a number of supervision missions. The joint evaluation and midterm reviews, though identifying some points for corrective action, all nevertheless found the ESRF had been effective in achieving the objectives for which it was established and hence recommended an expanded program.

Based on the evaluation, the Ethiopian government decided to continue the ESRF as part of its poverty reduction program and expanded the fund to all regions of the country. It also decided to organize implementation on the basis of new federal structures, contributing 15 percent of the expected costs of the expanded program, which was established as the Ethiopian Social Rehabilitation and Development Fund (ESRDF). As a result, ten regional fund offices, including three subregional offices and a coordinating central office at Addis Ababa were established.

Experience of the Pilot ESRF

Establishment and Achievement

The ESRF started operations in December 1992 with three pilot regions; up to 10 percent of its funding was for nonpilot regions. The aim of the pilot operation was to test whether a social fund could be an effective way to provide millions of poor households greater control over their economic and social advancement.

Start-up funding for the ESRF was provided by the Ethiopian government (US$4 million), the World Bank (US$5 million), and the United Nations Development Programme (UNDP) (US$487,000) for the capacity-building and training component. As the pilot fund proved its ability to perform, it received additional support of US$3.6 million from the Canadian International Development Agency (CIDA) and US$1.5 million from the Norwegian Agency for International Development (NORAD).

Institutionally, the ESRF was designed to operate with speed and efficiency. It had a central management unit with five key professionals, including the manager, and three subunits with three key professionals each (at start-up), including the subunit head. In the pilot phase, a total of 1,026 microproject proposals were received from the community and other collaborators. Of these proposals, 219 projects were approved for funding. The microprojects were for social and economic infrastructure improvements, as well as productive and income-generating activities.

Lessons Learned

Participation of a broad range of agencies and communities in the identification, design, implementation, and operation of microprojects is possible only if an organizational framework allows the active participation of different entities. To this end, the government placed the ESRF outside the normal bureaucratic structure, thereby bestowing upon it some degree of administrative and financial autonomy and flexibility. Compared to its workload, the ESRF's administrative overhead was low because staffing levels were increased gradually with growth in the workload.

Communities can actively participate at every stage of the project cycle if they are given the chance to do so. Under the ESRF, communities not only initiated the largest number of proposals, but also contributed about 17 percent of the project cost during implementation.

The ESRF has been able to deliver essential community infrastructures and services at a cost savings of between 6.9 percent and 30 percent when compared to public agencies, because its project selection and disbursement procedures were simple and transparent.

The ESRF has also been able to reduce the time needed for project delivery as compared to similar projects delivered by public agencies. The time saved by the ESRF ranges from a high figure of 60 percent for shallow wells to a low figure of 33 percent for primary village schools. This was possible because of project supervision.

Project cost overruns were always minimal, averaging only about 2 percent of original project commitments.

Although the ESRF performed well in the areas cited, initially it did not achieve much in key areas of women's participation and the environment. In community-managed microprojects, the participation and representation of women was marginal.

Fuelwood was used for construction of schools and health facilities. Sanitation was not considered as a component of health and school facilities that were rehabilitated and constructed by the fund. Fund staff awareness of negative environmental impacts and in promoting environmentally beneficial subprojects was low in the earlier months of ESRF operation.

The Ethiopian Social Rehabilitation and Development Fund

The ESRDF was established on February 13, 1996, with a proclamation approved by the House of the People's Representatives of the Federal Democratic Republic of Ethiopia. The ESRDF's establishment was a result of the positive evaluation of the ESRF's pilot phase.

The ESRDF is an autonomous government entity directly accountable to the prime minister of Ethiopia. It is a countrywide program focusing on poor communities, mainly in rural areas throughout Ethiopia, with a special focus on women. The ESRDF is meant to build on the ESRF and to improve upon it in several respects. In contrast to the ESRF's emphasis on rehabilitation and reintegration of its target groups, the ESRDF is geared to contribute to Ethiopia's long-term growth by playing a central role in reducing poverty. The ESRDF aims to:

- Extend coverage of health, education, water, and sanitation services so that these services will reach more of the poor in Ethiopia
- Increase agricultural production through small-scale irrigation projects for poor farmers
- Help communities increase their technical and managerial capacities in all aspects of subproject activities through the provision of capacity-building and training programs
- Promote and make use of a community-based approach in the identification, preparation, and management of subprojects.

Unlike the ESRF, the ESRDF operates on a decentralized basis through regional offices. Regional offices are responsible for promoting the activities of the fund and for receiving, processing, and recommending community applications for ESRDF support. Regional steering committees are responsible for approving subprojects proposed by the regional offices.

The central office monitors and evaluates project implementation in all regional offices, manages financial transfers, and oversees the smooth implementation of the program. The ESRDF board is the highest policy-level structure of the fund. The ESRDF, with its long-term development perspective, seeks also to improve the ESRF in three important areas: promotion, project appraisal, and management information systems.

Promotion

The ESRDF, being a demand-driven institution, depends on the capacity of communities throughout the country to conceive and prepare project proposals. Except for government agencies in urban areas, though, communities have not the experience or technical expertise to present a project in a way that would satisfy the appraisal procedures of the ESRDF. Moreover, many communities in remote areas could not easily be reached by the lean ESRDF structure.

To address this problem, several districts (*woredas*) characterized by acute poverty have been selected. Community facilitators are to be recruited and deployed in those areas to carry out effective promotional activities and to support the community in formulating and submitting proposals for ESRDF funding. Therefore, the aim of promotion is not only to generate as many proposals as possible, as it used to be, but to generate as many proposals as possible from targeted poor communities, especially women. Without effective promotional mechanisms, the poor will stand the least chance of knowing about programs designed to help them.

Project Selection

The ESRF's appraisal procedures were meant more for speed than accuracy. The justification for an ESRDF subproject is that it will contribute to improving the health, education, and income-generating capacity of Ethiopia's poor. The focus of the ESRDF's appraisal process is narrower, while the rigor in selection is higher.

The ESRDF appraisal revolves around the general principles of social, technical, economic, environmental, and gender feasibilities. The appraisal criteria for irrigation and water supply include economic analysis (economic rate of return) and environmental impact assessment. For schools and health facilities, an assessment of cost-effectiveness and provision for operations and maintenance beyond the project period, including adherence to norms established by the appropriate ministries, are the key criteria.

The ESRDF has developed a computer-based management information system, used mainly to track the physical and financial progress of projects, which was not possible in the pilot phase.

Environmental Impact Assessment of Subprojects

To address environmental issues and ensure a sustainable economic growth, the Ethiopian government has developed a national conservation strategy (NCS). The NCS articulates a set of policies, strategies, actions, and investment programs that address the prevalent environmental and development issues in the country. Under the NCS, each national regional government is responsible for formulating regional conservation strategies based on the NCS guiding principles. The NCS is comprehensive in scope, highlighting a range of issues across several sectors, including land degradation and loss of forest cover, insufficient supply and poor quality of water resources, urban degradation, progressive loss of biodiversity, and inappropriate rangeland management. Among activities being undertaken in line with the NCS are afforestation, protection of natural forests, construction of bund and check dams, and area closure.

Within the context of this overall strategy, the ESRDF has two environmental goals. The first is to ensure that each subproject approved for funding is reviewed for potential negative environmental impacts and that appropriate mitigating measures will be taken for any impacts identified. Projects with negative environmental impacts that cannot be adequately mitigated will not be approved for funding. The second is to use the project as a practical vehicle for pursuing the government's environmental objectives through promoting better environmental practices and increasing the positive environmental impact of subprojects.

Although the pilot operation of the ESRF demonstrated the effectiveness of the social fund approach for both rehabilitation and long-term development, as confirmed by an independent evaluation that justified the program's expansion to all parts of the country, environmental concerns were not high on its agenda at the beginning. This was partly due to the fund's lean structure and partly due to the low level of environmental awareness among the staff. Only a regional manager and two project officers were handling the whole range of operations in each of the three subunits. Concern for environmental issues heightened, however, after the implementation of some 60 subprojects.

The low level of environmental awareness during the initial period of pilot operation manifested in various mistakes, from which lessons were drawn for subsequent corrective actions. For the construction of schools and clinics, for instance, timber instead of hollow blocks or bricks were used. In Addis Ababa, the capital city, the rehabilitation and expansion of schools were undertaken without building pit latrines. Open drains were also constructed in the absence of an arrangement with municipal bodies to provide containers for disposal of solid waste. The necessity of incinerators when constructing health stations was also not appreciated at first. No environmental assessment was carried out for five of the microdams constructed during this period. The first project appraisal forms also lacked an environmental checklist for assessing negative impacts.

Later, however, with increased awareness these and similar shortcomings were corrected. Some projects with a positive environmental impact were promoted and successfully implemented. Among these were gully treatments, tree nurseries, and assistance to conservation schemes in the form of hand tools.

Despite the low level of environmental concern shown during the learning phase of the ESRF, no major adverse environmental impact has materialized. The only negative experience worth mentioning in this regard is red ash and stone quarrying microprojects, which led to the degradation of surrounding land.

ESRDF Projects and the Environmental Classification System

By World Bank classification, the ESRDF's projects in general fall under category B. A proposed project is classified as category B if its potential environmental impacts are site-specific and do not significantly affect human populations or alter environmentally important areas, such as mangroves, wetlands, and other major natural habitats. Few if any of the impacts are irreversible, and mitigatory measures can easily be designed. A partial environmental analysis is required, adapted to the particular environmental issues of the project.

Most subprojects likely to be proposed by communities are expected to have localized and limited negative environmental impacts; the only potential area of concern is small-scale irrigation subprojects.

Small-scale irrigation subprojects require special attention; certain of their environmental impacts have ecological and socioeconomic implications. These include the following effects on the human and natural environment, which are most significant in the context of ESRDF subprojects:

- Existing land uses to be displaced or converted
- Loss of land surface area to drainage and irrigation structures
- Introduction or increase in incidence of waterborne or water-related diseases
- Siltation.

Other potential environmental impacts include the following:

- Water-logging from inadequate drainage, over-irrigation, and seepage from canals and ditches
- Salinization of soils
- Increased soil erosion
- Increased stream sedimentation.

To protect the environment from such adverse effects of irrigation subprojects, a number of mitigation measures need to be implemented, among which are the following:

- Compensation and accommodation of displaced people in the area to be developed
- Physical soil and water conservation
- Proper site selection and appropriate design and layout of furrows
- Avoidance of unsuitable gradients
- Efficient water application
- Installation and maintenance of adequate drainage
- Reduction of potential salinization by periodically flushing the irrigated land
- Avoidance of stagnant or slowly moving water
- Disease prophylaxis and treatment.

Categories of subprojects other than small-scale irrigation, though expected to have relatively minor negative environmental impacts, still need some attention. The construction of health centers and schools with wood, for instance, should be avoided so as not to aggravate the problems associated with deforestation. Poorly managed water supply or sanitation schemes could pose more serious health hazards than they were originally meant to mitigate. The same applies to medical wastes generated by health centers, which can create health hazards unless methods of proper disposal are instituted.

Although the ESRDF's overriding objective is the alleviation of poverty among remote rural communities, urban areas are not excluded from its activities. Thus, the fund also addresses urban environmental problems associated with communal latrines, drainage, waste disposal, and similar environmental sanitation subprojects when requests come from slum areas. When funding the construction of community latrines, an access road is also incorporated into the subproject so that suction trucks can collect and dispose of wastes. These access roads also confer other benefits to the community, as they can be used by fire trucks and ambulances as well.

The construction of retaining walls has also been funded in town sectors to mitigate soil erosion and the collapse of land.

The ESRDF Environmental Review Process

With the establishment of the ESRDF, the fund has committed to address environmental issues more adequately. The four-day environmental workshop for ESRDF staff, which showed how to look at the ESRDF portfolio from an environmental perspective, is a result of this commitment.

The ESRDF also established a core environmental team at its central office, which comprises the following:

- An advisor on gender issues and environment (focal person)
- Social infrastructure team leader
- Small-scale irrigation team leader
- Water supply and sanitation team leader.

At present, the team is preparing the ESRDF environmental action plan and modifying the environmental appraisal checklist. The establishment of the team was motivated not so much because ESRDF-funded subprojects were found to have caused many adverse effects, but rather to accelerate the incorporation of environmentally beneficial projects in the portfolio and boost community awareness of environmental issues.

Promotional efforts are also being stepped up to encourage communities to identify environmentally friendly and beneficial subprojects in the areas of forestry and reforestation, soil and water conservation, and urban environmental sanitation, among others. That the ESRDF's promotional and awareness creation efforts have started to bear fruit is evidenced by the numerous applications coming from communities requesting funds for subprojects that will have a positive environmental impact. An exemplary case dating back to the ESRF period, where the direction of a project changed because of the participation of the affected people, is the Mitmak Gully Treatment Subproject in Tigray. At first, a fund application for building a primary village school was submitted to the regional ESRF office by the Education Bureau of the Tigray regional government. An appraisal team was thus dispatched to hold talks with the community. They found out that the community's most urgent need at the time was treatment of a gully that was fast degrading the grazing land, thereby severely affecting the livelihood of the villagers. Their previous effort to stem the problem via a retaining wall had proved unsuccessful. In compliance with the communities' wish, the gully treatment was duly undertaken, and the school was built later by the villagers themselves, as they had pledged to do during the consultation.

The need to provide environmental technical assistance is clearly recognized by the ESRDF, especially during the formulation of relatively complex subprojects such as small-scale irrigation schemes. Fund request forms are thus designed in such a way that these issues are adequately addressed from the very outset. Small-scale irrigation subprojects have significant potential environmental impacts, especially those associated with microdam construction. Because communities lack the ability to mitigate these impacts, the services of a consultant are retained unless nongovernmental organizations (NGOs) or line bureaus are going to bear responsibility for mitigation.

The ESRDF subproject cycle starts with promotion, one aspect of which is injecting environmental awareness among communities so that, as much as possible, either those projects with positive environmental benefits or those with the least negative impacts are identified. Community training is also undertaken as part of the effort to enhance their innovative capacity for identifying projects of this nature.

Fund request forms to be completed by communities are also designed to facilitate the collection of basic information useful for environmental screening of proposed subprojects. Technical bureaus and NGOs that assist communities in project formulation are required to fill in more detailed and stringent forms. The eligibility criteria for small-scale irrigation and water supply subprojects especially verifies that the subproject has been submitted, reviewed, and positively screened by the regional Bureaus of National Resources and Environmental Protection. After project officers have carefully studied these forms, if serious negative impacts are expected, either mitigative modifications will be introduced or the proposal will be dropped altogether. So far in ESRDF experience, however, no subproject proposal has ever been rejected on environmental grounds.

During implementation, monitoring is carried out to ensure that recommended mitigative measures are properly applied and all agreed-upon procedures are followed. The monitoring exercise will also continue during the post-implementation phase to verify that the subproject is functioning effectively without violating the environmental standards and procedures set for it. In health centers, for instance, the proper use of incinerators, the correct disposal of wastes, and the cleanliness of the premises and its surroundings will be verified. For small-scale irrigation projects, observers will check from time to time to determine if people are drinking water from the dam. The quality of water from water supply projects is monitored both at the source and at homes. The management and proper maintenance of the facility by the community also must be checked from time to time, along with water transport and storage practices, site and home cleanliness, and personal hygienic practices. In educational subprojects post-implementation monitoring includes verifying that school gardens are in place and that trees are planted.

Trends

Although concern for the environment is a new concept for ESRDF professionals, incorporating sound environmental criteria in the process of project selection and design is well under way, and there is progress in increasing the awareness of environmental issues. Environmental issues that have not been addressed to date, especially those concerning small-scale irrigation projects, are receiving increasing attention. Efforts are also being made to develop standard design criteria for microdam projects. The incorporation of environmentally beneficial projects into the ESRDF portfolio is progressing well, and all signs indicate that the pace will quicken as more and more communities apply for innovative and environmentally beneficial subprojects.

The ESRDF will always need to stay abreast of international developments in environmental matters, while upgrading the skills of its staff through training locally and abroad. Application and appraisal forms for subprojects will also be improved through periodic updating of environment checklists. The aim is always to make these checklists as simple, workable, and practical as possible, without, however, compromising their effectiveness as tools of proper environmental assessment. The ESRDF will also pursue its goal of serving as a vehicle of the government's environmental objectives more actively, providing policy feedback and translating into practice strategies and plans of action.

Conclusion and Recommendations

When a social fund project is launched in a particular country for the first time, focus is likely to be restricted to such strategic goals as poverty alleviation, often in disregard of the environmental dimension. As was amply demonstrated during the pilot ESRF, it was only later that negative environmental and social impacts came to be appreciated, and measures devised to identify and mitigate them.

The tendency to view environmental concerns as a donor-driven luxury is also strong at the beginning, since most professionals engaged in tackling issues of development either lack the requisite level of knowledge and awareness, or given the massive poverty they have to contend with, are tempted to dismiss environmental concerns as a futile and costly distraction from the real problems of society.

Nevertheless, social fund projects have real and substantial environmental implications, ranging in seriousness from those health and education subprojects that require only review or limited environmental assessment to those such as small-scale irrigation subprojects that should be subjected to comparatively deeper assessment. Even with small-scale irrigation subprojects, however, the depth and rigor of assessment should be adapted to the social fund context, where the guiding principle is to respond quickly to communities' demands and deliver subprojects in the shortest possible time. The assessment procedures thus need to be as simple, workable, and practical as possible.

Capacity building in the environmental awareness and assessment process, which is rudimentary now in the ESRDF, should be more actively pursued. Organizing training and workshops locally for project officers to improve proficiency in environmental appraisal and training of trainers abroad for environmental appraisal of irrigation subprojects are among measures considered for immediate action. The environmental capacity-building effort of all social fund projects should, however, be given more support by the World Bank through technical assistance, training, and advice.

More effort should also be exerted to promote gender issues in relation to environmental concerns, since the link between environmentally beneficial subprojects and women is a strong one. Apart from their roles as providers of household welfare and security, they are also responsible for water, sanitation, energy, and food security.

The ESRDF's environmental objectives will be difficult to realize without links to supportive agencies and institutions dealing with environmental issues. Hence, to this end new ties must be created, and existing ones must be strengthened through formal sets of agreements that define expected support services.

A point that needs to be well understood is that social fund projects should not focus only on funding health, education, and water supply subprojects, which in every country are already likely to be the concerns of other institutions and line ministries. Emphasis should rather be on encouraging communities to propose environmentally beneficial subprojects, such as soil and water conservation, tree planting, preservation, and restoration of historical heritage sites.

A manual offering practical and easy-to-use guidance for the environmental assessment of social fund subprojects also needs to be prepared by the World Bank. Each national social fund can then adapt this guide to its local conditions to carry out limited or full environmental assessments. The manual could also set standards for the development of an environmental assessment guide that each national social fund could use to evaluate its proposed projects.

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Information Systems, Outreach, and Communication of Social Funds

by Sam Kahkobwe, Director, Social Action Fund, Malawi

Preamble

Information systems, in the context of social funds, constitutes the structures for and methods of data collection, data processing, and dissemination of information generated on the one hand. On the other hand, *outreach* and *communication* constitute strategic tools that feed into and out of a management information system (MIS) to improve delivery of project objectives. This chapter draws mainly from the experiences of the Malawi Social Action Fund (MASAF), one of the youngest in the current generation of social funds supported by the World Bank. Much of the substance relates to the Community Sub-Projects (CSPs) component of the MASAF Project.

Background on the MASAF

The MASAF Project was formulated immediately after Malawi underwent momentous political change, a process that allowed, among other significant changes, open discussion on the question of poverty in the country. Before then, to talk about poverty alleviation was more or less a hidden agenda for those who wanted to improve the lives of those living in deprivation, because the government insisted that poverty did not exist in Malawi. There was little community participation in self-help development work, while the limited social infrastructure was in a state of disrepair. The approach adopted by existing programs for small projects did not give much room for the people to exercise choice. It took the government two to three years to respond to requests, and when approval was granted, the people had no idea of how much funding their project had, who was purchasing the project materials, and when the materials would be delivered. The single-party state had lost favor in the eyes of the people because of its high-handed approach to most aspects of public life. As a result, any effort by the government toward self-help community development was received negatively and distrustfully and was perceived as *thangata* (forced labor), which was a legacy of the colonial days.

This apathy provided political capital to the new government that assumed power in 1994 when it proclaimed poverty alleviation as the central development objective in its manifesto and decided to spark development at the community level. In keeping with this policy, donor support for improving community infrastructure was sought. The World Bank was one of the first agencies to give support, and the Malawi Social Action Fund was conceived. A multisectoral project preparation team led by the Ministry of Economic Planning and Development undertook the task of project preparation. In view of the need for innovation in the prevailing political atmosphere, the team first and foremost chose to understand the perceptions and dynamics of the poverty phenomena in different communities in Malawi and to learn from other project experiences in the country, as well as from similar projects in Zambia and Ethiopia. A study tour to the Social Recovery Project in Zambia and Emergency Rehabilitation Fund in Ethiopia was made in September 1994.

Rationale, Design, and Implementation of the Information, Education, and Communication Strategy

The bulk of the activities of the Social Recovery Fund Project in Zambia bolsters rehabilitation, while the Ethiopian Social Rehabilitation Fund supports income-generating activities. On the political front, Zambia has a relatively more open system than either Ethiopia or Malawi. It was clear from the findings of the study tour of the social funds of Zambia and Ethiopia that the proposed social action project in Malawi could succeed only with a reorientation of people's attitudes, roles, and responsibilities toward the development of their own well-being. Consequently, the software aspects of the MASAF objectives, as stated in the MASAF Project Concept Document (PCD), were designed to promote a change in the way all development actors, including the government, worked with their clients. Participation, therefore, was a key factor in the concept, design, and strategy adopted by Malawi. The PCD defined MASAF as "a quick-disbursing, community-responsive mechanism to channel funds directly to projects identified and managed by communities themselves."

The primary eligibility criteria for financing a subproject through MASAF is that the subproject must affect a wide range of poor people in the communities. The target group is a community that collectively defines itself by some administrative or spatial parameters and expresses the need to undertake a development project of their choice.

An information, education, and communication (IEC) strategy was, therefore, included in the design of the project at its outset to ensure a complete understanding of MASAF's objectives and working principles by beneficiary communities, public sector agencies, nongovernmental organizations (NGOs), the private sector, and any other interested groups.

This approach was also needed because of the wide controversy the project created in the minds of many people, including donors. While some people saw MASAF as a panacea for failures in the Malawian development approach, others saw it as a Pandora's box that would ruin other initiatives. There were concerns about the principles of direct community financing and independent project management because of a perceived lack of capacity at the community level. Community participation was erroneously interpreted to be necessarily top-down because of past experiences, not as the self-assertive and empowering process that MASAF advocates.

Stakeholders Analysis and Consultations

Given such a background, the PCD considered the need for stakeholder participation from the design phase of the project through to implementation and evaluation. In the design stage, key stakeholders for an IEC strategy were defined as those groups:

- Whose understanding and acceptance of MASAF design would help facilitate the free flow of MASAF messages at all levels
- Whose input would be valuable in clarifying and improving MASAF design.

Four major groups of people were interviewed: district commissioners, heads of sector ministries, NGOs, and representatives of the donor community.

The findings of the stakeholder analysis confirmed the expectations of the project preparation team. Most of the concerns expressed reflected larger questions raised in countries the team visited, as well as in the literature on social funds. These included concerns about autonomy, the lack of capacity at the grassroots level, institutional impacts, and sustainability. In the context of Malawi, problems of transportation could affect district officials and extension workers, facilitators needed to be trained, and the fund needed to be centralized relative to the District Development Fund. This is a financing mechanism for the DDC established under the deconcentration policy of District Focus for Rural Development under the United Nations Development Programme (UNDP) Fifth Country Program introduced in 1993. Additional issues identified were that the role of the district development committees had not been defined, and some feared that MASAF might undermine the value of NGO programs and other microprojects' initiatives being implemented in the country.

Systematic Client Consultation

The systematic client consultation was undertaken with communities within the MASAF context primarily to bring them into the loop of project preparation and to fill key information gaps from the community's perspective to ensure that project modalities facilitated full community participation. As the first of a series of consultations to end in the design of a participatory monitoring system or beneficiary assessment that would be part of the project framework, the systematic client consultation investigated three major areas:

- The existence and strengths of community organization and institutional networks
- Community experiences and attitudes toward participation
- Community technical capacity, that is, skills in the community and in particular the feasibility of direct common financing as proposed in the PCD.

These investigations confirmed that the basic design of the project was acceptable, particularly to the community, provided that some of the operational procedures were tested in the field and that continued collaboration with other complementary agencies at the grassroots level could be ensured. A one-year pilot phase began in 1995. During this period, considerable publicity for MASAF, training activities, and reports on project experiences resulted in unprecedented inquiries and demands for assistance. In the pilot year, of US$1.3 million disbursed funds, 4.0 percent was spent on IEC activities. In the main phase (June–March 1997), 2.5 percent was spent mainly on radio advertising, workshops, and publications.

In general, therefore, the IEC strategy was conceived to promote MASAF as a viable and alternative source of finance, clearly integrated with existing institutional structures, but distinct from them because of its autonomy and quick disbursement procedures. Several promotional activities, meant to create awareness about the project and to stimulate interest, especially at the principal beneficiary level, were undertaken. A variety of means were used to clarify MASAF principles, procedures, and potential benefits to stakeholders over time .

Some of the key promotional activities included the following:

- A national logo competition was organized through the print media, whereby the public was asked to propose a logo for MASAF.
- The state president presided over the launching of the project in a rural setting at one of the pilot subproject sites where he presented the first tranche of money to the local project committee and unveiled the MASAF logo. Broadcast live and repeated later in the day on national radio, this particular event was instrumental in stimulating inquiries from the public about MASAF's capabilities. Diplomats and donor representatives who attended the launching ceremony witnessed a departure from past practices to an approach where people gathered not in well-known hotels, but in the village itself.
- Radio programs were used, which included jingles, magazines, and feature slots. The jingles prompted prospective beneficiary communities to decide on the development projects they wanted to undertake, whether they were organized, and what they were ready to do for

their share after which they could apply for assistance from MASAF. This approach aroused the curiosity of those who wanted to uplift their community life. At the midterm review, communities confirmed that they found the radio programs of considerable value, not only because of the information they contained, but also because they publicly acknowledged the value of the community's work, fostered a sense of ownership, and facilitated an exchange of experiences between different communities across the country.
- Other publicity methods included production of posters, information booklets, newspaper supplements, advertisements on public transport, and press releases.

One lesson learned was that the content of the IEC message needed, while promoting a demand-driven concept, to specify exactly the kinds of project requests that would be entertained by MASAF, for example, water supply and sanitation, and the kinds of project requests that would not be entertained, for example, highways. Other than stressing project eligibility criteria, the IEC strategy tended to emphasize organizational aspects and capacity assessment. All types of project requests were submitted to the MASAF Management Unit, including requests for credit for income-generating activities, construction of police units, orphanages, private schools, or private clinics. Another common misconception sparked by the high profile that MASAF received in the eyes of the public was the sense that the project would respond like an emergency fund. Other impacts of the IEC strategy were the following:

- The different perceptions and experiences of poverty at individual, household, or community level often generated friction in the community during project identification and prioritization, especially in areas where expectations for credit were high.
- The change of priorities tended to reduce community participation and negatively affected project preparation and mobilization of community contributions processes.
- Community priority projects in the health sector invariably conflicted with sector norms, and very often priority projects did not get selected. However, the Ministry of Health and Population has agreed to be flexible in the application of norms because of the lower costs of infrastructure supported by MASAF compared to the costs of infrastructure implemented by the ministry.
- Communities submitted projects for construction of police units. These are implemented through community self-help in Malawi. During project negotiations, the World Bank considered them outside its scope of financing and declined to finance them.

Following these misunderstandings, the management unit arranged five-minute programs on the radio to clarify, among other things, that MASAF was not an emergency fund and that it did not finance income-generating activities or commercial or institutional enterprises, such as private secondary schools or clinics.

Implementation has led to the emergence of one major stakeholder, the members of parliament. In view of the negative influence that partisan politics could have on MASAF, politicians were excluded by design. Experience has shown, however, that at least members of parliament need to play a role. All the projects in the pilot phase were implemented without the involvement of members of parliament or any politician because of negative pronouncements made about self-help work during the transition to multiparty democracy. However, after the successful pilot phase, members of parliament and all other politicians developed an interest in the project, leading to considerable interference in the project cycle processes. As a result, workshops for all members of parliament and traditional authorities were organized throughout the country to explain their respective facilitative roles. Members of parliament, as legislative representatives of the people, and traditional authorities, as hereditary custodians of the same, together became another outreach tool to ensure that all corners of the country, including the remotest areas, would hear and learn about MASAF. More project requests and more comprehensive application forms were received at MASAF zone offices.

While members of parliament have been useful as outreach channels, they also have tried to tamper with project procedures. Such indulgences have been effectively checked by project committees who were mandated by the entire community to manage projects on their behalf. These committees have come to firmly embrace the principles of independent management and decisionmaking as fundamental tenets that give them ownership and control to work on projects of their choice without being subjected to undue pressure from elites or political leaders.

The following are some of the challenges faced and lessons learned in the outreach program:

- In demand-driven projects, target audiences or clientele need to be well informed about the opportunities before them. If the demand is not defined, tremendous pressure may be brought to bear on the size of the fund and the delivery capacity of the management unit.
- The project allowed communities to propose a facilitator of their choice to assist them in project formulation and implementation. Currently most projects are being facilitated by politicians, community development assistants, and headmasters. However, this is the aspect that members of parliament have wanted to manipulate, and conflicts have arisen in instances where they have wanted to be the sole facilitators.
- To avoid conflicts and ensure smooth project implementation, facilitators chosen by the community should undergo project management training with the members of the project committee. The best facilitators have been those that are closest to the people, especially during project implementation.
- It was found that most communities preferred to keep application forms for their use at the district commissioners' offices or traditional authorities' offices, not with members of parliament.
- The application forms had to be revised several times before communities and facilitators could accept them as user friendly. The forms have been translated into vernacular languages for the same reasons.
- Widespread information can lead to the oversubscription of a social fund, and MASAF is likely to be pressured to increase allocations in accordance with demand. MASAF had 60 percent of its resources committed seven months before the project was effective. The challenge now is the management of demand in districts and communities that are lagging behind, not because of lack of commitment or will on their part, but because of other factors such as inability to provide up-front community contributions.
- Because of the project's popularity and the likely exhaustion of funds within the first two years of the planned five-year project life, the project steering committee has resolved that the approval of new projects should only be for those areas with fewer projects approved so far. Between the close of the current project and the proposed MASAF II, new approvals will be on a replacement basis, as originally conceived in the design, that is, by matching approvals with implementation capacity.
- Depletion of resources is occurring when communities in the country are gearing up to start new projects in their areas. The backlog of project requests may never be eliminated, and the credibility of the highly acclaimed project could be at risk.

Communication

Extensive publicity has given rise to the challenge of constantly updating the public on the progress and performance of the project. People have raised a significant number of questions about accountability at the community level and management unit level, as well as about geographic and population distribution. The most important communication channel for both publicity and feedback has been the coverage of launch ceremonies through radio bulletins that publicize zone officers actually delivering first checks to project committees. Often members of parliament or government ministers have been guests of honor at these functions. This has demonstrated to the nation that irrespective of political differences, the country can unite to achieve common development aspirations. Special features in national papers, as well as news supplements on special occasions, have also been an important element of communications. Apart from radio coverage, the Malawi News Agency reports substantially on MASAF's field activities.

Within the management unit, a published fact-file updates the numbers of projects approved each time the project steering committe has met. Newsletters called *MASAF News* and *Community News* are also published in English and some of the vernacular languages. The analysis of data collected during a recently concluded beneficiary assessment will suggest ways to improve operational procedures as well as design the proposed MASAF II project.

Project Management Structure

Despite the odds in the project's design stages, rigorous scrutiny has allowed the project concept and its management system to excel and attract prominence and admiration in the eyes of the general public. Being a people-centered fund and one that would involve a variety of institutions at various levels of society, the foundations for its success could not be anywhere but in stakeholder consultation and participation. Indeed, as the project fosters a new approach to development based on participatory empowerment, the project preparation process needed to move in the same direction to marshal the necessary institutions, processes, and possible procedures to establish a project management system to deliver at the end of the day.

For this system to function efficiently and effectively, the following critical factors had to be in place:

- Political will and commitment at the highest level of government
- Appreciation and agreement among key actors on the goals and objectives of the project
- Existence of apolitical, autonomous, and responsive management structure
- An information system that allows review, quick decisionmaking, and feedback.

Management Information Systems

The Malawi Social Action Fund is founded on five working principles, namely:

- Quick disbursement of funds directly to community project accounts
- Effective community participation in all project cycle stages
- Independent project management by a popularly elected committee
- Transparency and accountability at all functional levels of the project management structure
- Partnership among all stakeholders.

For all these principles to be applied, the project operates an MIS that derives its legitimacy and direction from a comprehensive *Project Implementation Manual*, which includes, among other handbooks, the following:

- *Community Sub-Projects (CSP) Implementation Handbook*
- *Community Project Management Handbook*
- *CSP Orientation Handbook*
- *Financial Handbook.*

The MIS is designed to support effective management of the project cycle processes and to reinforce the basic principles of the project to ensure timely control and management of activities. The volume of information processed in MASAF is so vast that, without an effective MIS, the management unit would not be able to review operational performance and take appropriate management decisions, as well as satisfy reporting requirements for all MASAF stakeholders. The MIS has a computerized project tracking program and its associated databases, as well as an automated accounting system. The data from the zone offices capture trends in the physical progress of projects, as well as their financial performance. To process, preserve, and access this data, a local area network using Microsoft Access Basic has been installed. This package enables flexible linking of documents or data across databases, spreadsheets, and word processors.

Project Tracking System

Under this system, four major databases are maintained as follows:

- A database that records generic information on each project at different stages of implementation as it advances. Various reports can be generated from this database to detect time lags between different project cycle stages, tranche movements, and the relationship between expenditure and physical progress.
- A database that helps the management unit to automatically create the relevant subproject documentation, for example, project steering committe approval sheets, project agreement forms, bank introductory letters, and subprojects' bank accounts, and names of signatories.
- A unit cost database captures prices of building and construction materials that communities procure directly, using guidelines provided in the *CSP Implementation Handbook*. This database assists the management unit in updating the standard price list and tracking adherence by community project committees to procurement guidelines, justification of tranches, and costing of new projects.
- A stakeholder database preserves information on all active stakeholders that work in partnership with MASAF. The information is used partly to track complementary activities and partly to distribute IEC materials.

Automatic Accounting System

The design and implementation of the automated accounting system was taken very seriously to satisfy the demands for a high level of transparency and accountability in MASAF. It operates on the Sun System software package, a dynamic system that allows the user to produce reports in a user-friendly way.

The MIS has specific controls to help implement community subprojects successfully. While the project tracking system follows a project from the date of submission of application at the zone office, the automated accounting system joins the tracking process after each project has been approved by the steering committee. From this point onward, each project is tracked by two systems with the automated accounting system emphasizing financial details. To facilitate proper management follow-up and accountability of funds by the project committee, funds for each project approved by the project steering committe are released to communities in four segments of 25 percent, 40 percent, 25 percent, and 10 percent, respectively. The system has a security feature called Audit Trail that tracks each action taken by an operator of the system, safeguarding the integrity of accounting records as well as reports issued by the system.

Reports from the Automated Accounting System

The efficiency of the automated accounting system is measured by the quality and timeliness of management reports, because a report produced and presented late is as good as having no report at all. The main reports produced monthly in the form of the monthly digest include the following:

- ***Summary of Projects Funded by MASAF***—This report gives total funds committed to various projects at the close of each month. It helps management to clearly determine the amount of funds to be set aside in order to implement various projects approved by the project steering committe, and it helps determine the pace of disbursements.

- ***Receipts and Payments Report***—The report highlights funds received from each donor every month, as well as on a cumulative basis. It highlights payments made according to disbursement categories in the development credit agreement. Management is able to relate the inflow of funds from donors to amounts disbursed to projects through progress reports on physical works from the project sites.
- ***Balance Sheet***—The report enables management to gauge the status of affairs at any particular date.
- ***Operating Costs Summary***—This report analyzes the operating costs of each division and compares actual expenditures by line item to the budgeted amounts. Variances are calculated and highlighted for management action where necessary.
- ***Work in Progress***—This report analyzes the amounts of funds from various projects that have been justified by the management unit, and helps management relate the physical work done at project sites to funds disbursed for the projects.
- ***Advances to Projects***—This report gives information on all projects that have received funds and are implementing projects with them. This information helps management in assessing the speed of project implementation. Management is able to identify slow-moving projects and make the necessary follow-up through zone officers.
- ***Disbursement of Funds by Donor***—This reports analyzes all commitments and disbursements made by each category and by each donor.
- ***Cash Flow Projection***—This is a crucial report, because it determines the speed at which projects can be implemented. The report shows the plan for disbursements based on ongoing projects and newly approved projects and assists in the timely communication of resource requirements to donors so that implementation is not derailed.
- ***Statement of Expenditures***—This report is used to replenish funds from the World Bank's account to the MASAF bank account.

The automated report speeds the application processes, because it captures all disbursement ratios for each donor.

Conclusion

An IEC strategy can be a good outreach mechanism, but it needs to be handled with care. The particular sociopolitical environment and poverty conditions of a country should determine the conceptual and implementation framework of the social fund, on which the design of an IEC strategy should be based.

The experience from Malawi shows that the spirit of self-help among the people had been dormant but was roused in an environment with the right incentives at the right time for people to help themselves. Participatory and demand-driven approaches to community development can be meaningful and effective only when communities receive and have control of finances and when they are enabled to manage implementation of projects independently.

Annexes

Annex 1: Workshop Program

Day 1: May 27

Morning: Plenary Presentations

8:00 **Registration (Lobby of the World Bank H Building Auditorium)**
Chair: Ishrat Husain, World Bank

9:00 **Opening Remarks**
Sven Sandström, Managing Director, World Bank

9:15 **Overview of Seminar Goals, Structure and Objectives**
Vinod Thomas, Director, Economic Development Institute, World Bank
Ishrat Husain, Principal Advisor, Poverty Reduction and Economic Management, World Bank

9:30 **Social Funds, Issues and Challenges from the Constituencies' Perspectives**
Eduardo Diaz Uribe, Chairman, La Red Social de America Latina y el Caribe
Magatte Wade, President, AFRICATIP
Manuel Chiriboga, Co-Chair, NGO-World Bank Committee

10:30 **Questions and Answers**

11:00 **Coffee Break**
Chair: Benno Sander, Director, Social Development, Organization of American States

11:30 **Keynote Address: Macroeconomic Policies, Poverty and Social Funds**
Joseph Stiglitz, Senior Vice President and Chief Economist (DEC), World Bank

12:00 **World Bank Portfolio Improvement Program: the Social Funds Review**
Prem Garg, Director, Quality Assurance Group, World Bank
Soniya Carvalho, Review Task Manager, PREM, World Bank
Christine Kessides, Principal Economist, TWUDR, World Bank

12:30 **Inter-American Development Bank's Report on Social Funds: Findings**
Samuel Morley, Senior Advisor, Social Programs Division, IDB
Margaret Goodman, Senior Evaluation Officer, Evaluation Division, IDB

1:00 **Lunch** (participants' own arrangements)

Afternoon: Parallel Thematic Sessions

2:30 **Introduction to Parallel Thematic Sessions by Session Leaders**

1. Social Funds: From Responses to Emergency and Crisis to Development
   Marco Camacho, Director, FIS, Bolivia
2. Financial Resource Mobilization for Social Funds
   Hussein El Gammal, Director, Social Fund, Egypt
3. Role of NGOs in the Design, Management, and Implementation of Social Funds
   Jane Covey, Executive Director, Institute for Development Research, USA
4. Decentralization, Local Governments, and Social Funds
   Patricia de Jager, Director, Federation of Municipalities of Central America, Guatemala
5. Social Funds, Private Sector Development, and Microenterprises
   Lamine Ben Barka, Director, AGETIPE, Mali

2:45 **Discussion** (coffee will be available in the meeting rooms)

5:30 **Summary of Discussion and Recommendations by Session Leaders**

6:00 **Reception Hosted by the Economic Development Institute (MC Lobby)**

Day 2: May 28

Morning: Parallel Thematic Sessions

9:00 **Introduction to Parallel Thematic Sessions by Session Leaders**

6. Designing Components of Social Funds: Sectors, Themes, and Access
   Scarlette Gillings, Director, Social Fund, Jamaica
7. The Monitoring and Evaluation of Social Funds
   Robert van der Lugt, Principal Evaluation Officer, OED, World Bank
8. Sustainability of Subprojects, Maintenance, and Operations
   Werner Neuhauss, Sector Economist, Social Policy Department, KFW, Germany
9. Appraisal and Environmental Assessment of Social Fund Subprojects
   Abebaw Alemayehu, Deputy Director, Social Fund, Ethiopia
10. Information Systems, Outreach, and Communication of Social Funds
    Sam Kakhobwe, Social Action Fund, Malawi

9:15 **Discussion** (coffee will be made available in the meeting rooms)

12:30 **Summary of discussion and recommendations by Session Leaders**

1:00 **Lunch** (participants' own arrangements)

Afternoon: Plenary Presentations and Discussion

Chair: Steen Jorgensen, Sector Leader, Social Protection Board, World Bank

2:00 Reports to Plenary by the Session Leaders of Parallel Sessions 1 to 5

3:00 Plenary Discussion

3:45 **Coffee Break**

4:15 Reports to Plenary by the Session Leaders of Parallel Sessions 6 to 10

5:15 Plenary Discussion

5:45 Summary of Session Issues and Debate
Steen Jorgensen, Session Chair

6:00 End of Day Two

Day 3: May 29

Morning: Parallel Constituencies' Consultations

9:00 **Introduction to the Parallel Consultations by Session Leaders**
Social Fund Directors: The Future of Demand-Side Financing
Eduardo Diaz Uribe, La Red Social, and Magatte Wade, AFRICATIP
NGO Representantives: The Role of Civil Society in Social Development
Manuel Chiriboga, NGO-World Bank Committee
Central and Local Goverments: Decentralization and the Social Sector
Patricia de Jager, Federation of Municipalities of Central America
International Development Agencies: Support to Social Funds
Azita Berar-Awad, Head of Unit, Development Policies Department

9:15 **Discussion** (coffee will be made available in the meeting rooms)

12:30 **Summary of Discussion and Recommendations by Session Leaders**

1:00 **Lunch** (participants' own arrangements)

Afternoon: Final Plenary Session

Chair: Robert Holtzman, Director, Social Protection Board, World Bank

2:00 Report to Plenary by Chairpersons of Constituencies' Consultations
Eduardo Diaz Uribe, Magatte Wade
Manuel Chiriboga
Patricia de Jager
Azita Berar-Awad

3:30 **Questions and Answers**

4:00 **Coffee Break**

4:30 Development, Equity, and Social Justice
H. E. Aminata Mbengue Ndiaye, Minister of Family Welfare, Senegal

5:00 **Questions and Answers**

5:30 Workshop Conclusion and Introduction to Regional Consultations
Ishrat Husain, Povery Reduction and Economic Management, World Bank

6:00 **Reception Hosted by the World Bank NGO Unit (MC Lobby)**

Day 4: May 30

Following the International Workshop, four regional consultations discussed the possible strategies to mainstream the workshop recommendations into the current and future work of social funds. Participants from the six constituencies—social funds directors, representatives of central governments, municipalities, NGOs, civil society, and international development agencies—attended these regional consultations, as well as a broader group of observers.

The Africa Regional Consultation on Social Funds

Partner institutions: AFRICATIP, African Development Bank, World Bank Africa Region
Participants: 80 to 100
Venue: J Building, World Bank (701 18th Street, NW), Washington, D.C.
Schedule: 9:00 AM to 5:00 PM with a lunch break
Organizers: Lamine Ben Barka (AFRICATIP), Cesaltina Abreu (Angola Social Fund), Alberto Harth, Laura Frigenti (World Bank).

The Latin America and the Caribbean Regional Consultation on Social Funds

Partner institutions: *La Red Social*, Organization of American States, World Bank Latin America and the Caribbean (LAC) Region, Inter-American Development Bank
Participants: 50 to 80
Venue: Organization of American States Auditorium (17th and Constitution Ave., NW)
Schedule: 8:30 AM to 4:00 PM with a lunch break
Organizers: Eduardo Diaz Uribe (Red Social), Benno Sander, Roy Thomasson (Organization of American States), Alain Colliou, Willem Struben (World Bank), Samuel Morley (Inter-American Development Bank)
The Eastern Europe and Central Asia, Middle East and North Africa

ECA-MENA Regional Consultation on Social Funds

Partner institutions: World Bank Europe and Central Asia (ECA) and Middle East and North Africa (MENA) Region
Participants: 30 to 50
Venue: H Building, Room H-1-200, World Bank (600 19th Street, NW)
Schedule: 9:00 AM to 5:00 PM with a lunch break
Organizers: Alexander Marc, Betsy McGean, David Steel (World Bank)

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