Social Funds: Strengths, Weaknesses, and Conditions for Success

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Human Capital Development
The World Bank
PSP Discussion Papers reflect work in progress. They are intended to make lessons emerging from the current work program available to operational staff quickly and easily, as well as to stimulate discussion and comment. They also serve as the building blocks for subsequent policy and best practice papers. The views expressed here are those of the authors and should not be attributed to the World Bank or its Board of Executive Directors or the countries they represent.
### SOCIAL FUNDS: STRENGTHS, WEAKNESSES, AND CONDITIONS FOR SUCCESS

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Abstract

Social funds have become an important mechanism for channeling government and donor funds. They are quasi-financial intermediaries that finance projects in multiple sectors and mobilize and disburse funds quickly to community organizations, non-governmental organizations, and government agencies. Their simplicity, flexibility, and low cost have contributed to their appeal to governments undertaking economic and political reforms. Social funds help to cushion the poor during the reform period by channeling resources to projects that directly provide benefits to low-income communities. This paper examines the institutional design, objectives, and accomplishments of social funds in eleven countries in Latin America, Sub-Saharan Africa, and Southeast Asia to determine what types of objectives social funds can and cannot achieve and what institutional arrangements within a country best facilitate a fund's meeting those objectives.

As more and more governments have set up social funds, the body of literature on social funds has proliferated as well. Much of this literature has focused on one region rather than taking a more global, cross-regional approach. The advantage of a global approach is that it better captures the institutional variations among social funds that have emerged because of differences in social, political, and economic contexts. This study suggests that the institutional features of social funds are the linchpin to understanding what types of objectives social funds can achieve and what their short- and long-term roles might be. Social funds clearly have a role to play in economic development strategies but to use them effectively, policymakers must be cognizant of their strengths and weaknesses and the conditions that facilitate or hinder their performance. By focusing on their institutional characteristics, this paper attempts to offer insights into the implications of different institutional designs for the performance of social funds. The result is a set of core principles around which social funds should be organized. But it is critical as well to understand that each of these principles generates both strengths and weaknesses. This study attempts to illuminate these aspects and their implications for the objectives and roles of social funds.

This paper reviews the experience with social funds supported by the World Bank. It highlights successes and failures and provides a practical guide for the design and implementation of future social funds.

The paper is divided into four sections: the first lays out the institutional characteristics of social funds and their short- and long-run objectives; the second reviews the experiences of social funds to date in achieving their specific goals; the third presents the persistent challenges facing social funds, policymakers and donors; and the fourth concludes with a summary of the strengths and weaknesses of social funds and recommends conditions that facilitate their operations.
Acknowledgements

I would like to thank Helena Ribe for her invaluable guidance on this project. I would also like to express my appreciation to Steen Jorgensen, Manny Jimenez, Carol Graham, Soniya Carvalho, David Steel, Alexandre Marc, and Julia van Dorelen for reading and commenting on an earlier draft, to Melinda Salata for editing the paper, and to Maria Paz Felix for technical assistance. Not to be left out are the Bank staff who work on social funds. They provided critical documents and insights into their projects and I appreciate very much their cooperation in this endeavor.
## Acronyms

### Countries and Social Funds

<table>
<thead>
<tr>
<th>Country</th>
<th>Social Fund Name</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>Bolivia</td>
<td>Social Investment Fund (SIF)</td>
</tr>
<tr>
<td>Egypt</td>
<td>Social Fund for Development (SFD)</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Social Investment Fund (SIF)</td>
</tr>
<tr>
<td>Guinea</td>
<td>Socio-Economic Development Support Project (SEDSP)</td>
</tr>
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<td>Guyana</td>
<td>Social Impact Amelioration Program and Agency (SIMAP)</td>
</tr>
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<td>Honduras</td>
<td>Social Investment Fund (FHIS)</td>
</tr>
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<td>Nicaragua</td>
<td>Social Investment Fund (SIF)</td>
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<td>Sao Tome &amp; Principe</td>
<td>Social and Infrastructure Fund (SIF)</td>
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<td>Senegal</td>
<td>Agence d'Exécution des Travaux d'Intérêt Public contre le Sous-Emploi (AGETIP)</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Janasaviya Trust Fund (JTF)</td>
</tr>
<tr>
<td>Zambia</td>
<td>Social Recovery Fund (SRF)</td>
</tr>
</tbody>
</table>
SOCIAL FUNDS: STRENGTHS, WEAKNESSES, AND CONDITIONS FOR SUCCESS

Introduction

A. Establishing a role for social funds

Social funds are quasi-financial intermediaries that finance projects in multiple sectors, mobilize funds from both donors and government budgets, and generally aim to disburse their funds quickly to community organizations, non-governmental organizations (NGOs), and government agencies. Social funds exist in Latin America, Africa, Asia, and now, Eastern Europe. Their simplicity, flexibility, and low cost as well as their ability to generate visible benefits rapidly have contributed to their appeal to governments undertaking economic and political reforms. Governments have used social funds to cushion the poor during the reform period, reducing the possibility that political resistance might derail reforms. Social funds have also aimed to increase community participation in development efforts and to improve the technical and institutional capacity of local-level organizations in both the public and private sectors.

This paper examines the experiences of social funds in 11 countries. The purpose was to ascertain what types of objectives governments set for social funds and the funds' ability to achieve these objectives under different conditions. Directly related was the question of what types of institutional arrangements best supported the various objectives.

One of the striking characteristics of social funds is their institutional flexibility: countries can employ social funds to serve different purposes depending on their social, political, and economic needs. In Senegal, the initial objective has been to strengthen the capacity of the private sector to deliver some vital public goods and services. In Zambia, the social fund aims to help communities and local governments develop their own institutional and technical capacity. By working with organizations including community groups, private-sector firms, NGOs, and public-sector agencies, social funds can help to devolve responsibility to local-level organizations.

This institutional flexibility also enables a social fund to shift goals and strategies over time when conditions warrant. In Bolivia, the end of the economic emergency allowed the government to exchange its emphasis on rapidly providing temporary employment opportunities for a greater focus on increasing the delivery of social goods and services. In Senegal, the Agence d'Exécution des Travaux d'Intérêt Public contre le Sous-Emploi (AGETIP) is expanding the scope of its activities by working with community groups and NGOs.

The institutional flexibility of social funds, however, does not exempt governments and donors from establishing clear goals for them within the broader country strategy. An ad hoc approach may reduce the incentives to governments to carry out critical public-sector reforms or to burden successful social funds with tasks that fall into the jurisdiction of central ministries and public agencies. The funds operate with limited financial and human resources and will not solve the larger and persistent economic and social problems that challenge most developing countries today.
But, they clearly have a role to play in economic development strategies. If policymakers are going to employ social funds effectively, they must be cognizant of the strengths and weaknesses of the funds and the conditions that facilitate or hinder their performance. The study addresses some essential questions that policymakers and donors should consider. First, based on the experiences of other countries, what objectives can governments and donors expect social funds to achieve? Conversely, what can social funds not accomplish? Second, given the institutional qualities and operating procedures of social funds, what are their strengths and weaknesses? What conditions are critical for social funds to achieve their objectives?

To address these questions, this study examines the institutional design, objectives, and accomplishments of social funds in Latin America, Sub-Saharan Africa, and Southeast Asia. The institutional features of social funds are the linchpin to understanding what types of objectives social funds can achieve and what their short- and long-term roles might be. Countries have adopted different institutional variations which offer some insights into the implications of institutional design for the performance of social funds. Emerging out of the experiences to date is a set of core principles around which social funds should be organized. But it is critical as well to understand that each of these principles generates both strengths and weaknesses. The intent of this study is to illuminate these aspects of social funds and their implications for the objectives and roles of social funds.

B. Organization of the report

The report is divided into four sections. Part one lays out the social funds' institutional characteristics and their various short- and long-run objectives. Experiences with different institutional designs suggest that certain principles are key to a social fund's ability to carry out its objectives. Part two reviews the experiences of social funds to date in achieving their specific goals. While social funds have been able to provide significant amounts of temporary employment and rehabilitate or build public infrastructure in the process, they have encountered difficulties when pursuing less discrete objectives. The third section examines the persistent challenges facing social funds, policymakers and donors. In conclusion, the fourth section summarizes the strengths and weaknesses of social funds and identifies the conditions that inhibit or facilitate their operations.

This report is the first phase of a larger, ongoing effort to understand the role of social funds in economic development strategies, to ascertain what types of objectives social funds can best achieve, and to improve their institutional design for meeting those objectives. The purpose of the ongoing second phase is to provide specific lessons to Bank staff, social funds staff, and country policymakers for improving the design of social funds. To accomplish this, we are focusing on two related components that influence the ability of social funds to achieve their objectives. First, we will identify the different actors that participate in social fund projects, their functions, roles, and responsibilities, and their relationships to other actors. Second, we will examine the project cycle of the social fund – promotion, project identification and design, appraisal, technical supervision, monitoring, completion, and evaluation. By shifting focus from the conceptual issues underlying social funds to specific operational mechanisms, we hope to specify more clearly the relationships among economic, political, and social conditions, institutional design, and the ability to fulfill objectives.

1 There are several studies that review social funds. For an in-depth analysis of the Emergency Social Fund in Bolivia, see Jorgensen et al. (1991). For a comprehensive review of social funds in Latin America, see World Bank (1994) and for social funds in Africa, see Marc et al. (1994). Gopal et al. (1994) review procurement and disbursement issues as they relate to community-based projects.
C. The sample

The data for this study were collected in June 1993. Two factors influenced the choice of social funds to include in the sample. First, a key objective of the study was to capture the institutional diversity of social funds rather than to attempt an exhaustive and complete study of all social funds currently financed by the World Bank. Second, the quality, amount, and availability of data varied widely across countries. This has resulted in uneven treatment among social funds within the discussion. Bolivia, Honduras, Senegal, and Zambia receive more frequent and in-depth attention because of the greater availability of quantitative data, in-depth field reports, and more experience on the part of these social funds with disbursements to sub-projects.

Staff Appraisal Reports, interviews with Bank staff, and project files, including supervision and consultant reports, provided primary sources of information. Mid-term reviews, where available, provided valuable information on the accomplishments, strengths, and weaknesses of a social fund. Mid-term reviews for the Emergency Social Fund (ESF) and the Social Investment Fund (SIF) in Bolivia, the social fund in Honduras (known by its Spanish acronym FHIS), and the AGETIP in Senegal, and two reports on the Zambian social fund provided valuable data. Interviews with task managers were very useful in drawing attention to specific conditions that contributed to or impeded progress, the underlying philosophies guiding the design of the social fund, and the lessons that have been learned "on the ground."

The sample draws on the experiences of 11 countries in four regions (Table 1). Some countries, such as Bolivia, Honduras, and Sao Tome have initiated second loans or credits to their social funds. Bolivia is the only country that has undertaken two different types of operations. The first, the Emergency Social Fund (ESF), was an emergency operation designed to generate employment opportunities rapidly during a period of economic crisis and adjustment. Subsequent to closing the ESF, Bolivia established a social fund to focus on longer-term policies to reduce poverty.

The credits and loans range in size from the $140.0 million loan to Egypt to the $5.0 million credit to Sao Tome (Table 1). Except for Egypt, loans or credits to social funds are relatively small. The average size of a loan or credit was $27 million. Without Egypt in the sample, the average size falls to $20.5 million.

Countries have been attracted to social funds for their relatively rapid disbursement schedules (Table 1). On average, these credits or loans are scheduled to be disbursed within four years in contrast to the average of seven years for other Bank loans or credits. But progress in disbursing funds varies. Disbursements to Bolivia's ESF I and SIF I, Honduras' FHIS I were completed on schedule. Zambia's SRF is disbursing up ahead of schedule. Bolivia's ESF II and Senegal's AGETIP I took an additional year to complete. Ongoing disbursements to social funds in Egypt, Guatemala, Guinea, Guyana, Nicaragua, Senegal (GETIP II), and Sri Lanka are all experiencing at least a 50 percent lag.

Since collecting the data for this study in June 1993, some of the social funds have instituted important changes. For example, in June 1993, disbursements of the Egyptian social fund were lagging behind schedule due to several factors. Over the course of the year, however, as the social fund removed many of the impediments and began to finance community development and public works projects, credit disbursements have progressed. In Zambia, annual reviews and beneficiary assessments provided constructive feedback to the staff of the social fund that they used to improve operations. These changes, however, do not alter the main themes and lessons of the study.
Table 1. Basic Data on Social Funds

<table>
<thead>
<tr>
<th>Social fund</th>
<th>Approval date</th>
<th>IDA/IBRD credit or loan ($US millions)</th>
<th>Planned disbursement schedule (in years)</th>
<th>Actual disbursement schedule (in years)</th>
<th>Disbursement progress (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia, ESF I</td>
<td>6/87</td>
<td>10.0</td>
<td>1.1</td>
<td>1.1</td>
<td>-</td>
</tr>
<tr>
<td>Bolivia, ESF II</td>
<td>3/88</td>
<td>112.0</td>
<td>2.5</td>
<td>3.3</td>
<td>-</td>
</tr>
<tr>
<td>Bolivia, SIF I</td>
<td>4/90</td>
<td>20.0</td>
<td>3.3</td>
<td>3.3</td>
<td>-</td>
</tr>
<tr>
<td>Bolivia, SIF II</td>
<td>6/93</td>
<td>40.0</td>
<td>3.7</td>
<td>-</td>
<td>(200)</td>
</tr>
<tr>
<td>Egypt, SFD</td>
<td>6/91</td>
<td>140.0</td>
<td>5.3</td>
<td>-</td>
<td>60</td>
</tr>
<tr>
<td>Guatemala, SIF</td>
<td>11/92</td>
<td>20.0</td>
<td>4.0</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Guinea, SEDSP</td>
<td>3/89</td>
<td>9.0</td>
<td>5.0</td>
<td>-</td>
<td>61</td>
</tr>
<tr>
<td>Guyana, SIMAP</td>
<td>4/92</td>
<td>10.3</td>
<td>3.3</td>
<td>-</td>
<td>59</td>
</tr>
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<td>Honduras, FHIS I</td>
<td>6/92</td>
<td>10.2</td>
<td>2.3</td>
<td>2.3</td>
<td>-</td>
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<td>Honduras, FHIS II</td>
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<td>Sao Tome, SIF I</td>
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<td>-</td>
<td>(16)</td>
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<td>4.0</td>
<td>-</td>
<td>4</td>
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<td>-</td>
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<td>Senegal, AGETIP II</td>
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<td>-</td>
<td>84</td>
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<td>Sri Lanka, JTF</td>
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<td>57.5</td>
<td>5.1</td>
<td>-</td>
<td>78</td>
</tr>
<tr>
<td>Zambia, SRF</td>
<td>6/91</td>
<td>20.0</td>
<td>5.7</td>
<td>-</td>
<td>(40)</td>
</tr>
</tbody>
</table>

a Planned disbursement schedule is the period from date of effectiveness to formal closing date as reported in Staff Appraisal Reports.

b Only five loans have been fully disbursed. These numbers indicate how many years it actually took to disburse the entire loan.

c For loans still being disbursed, this column indicates whether disbursements are behind or ahead of the schedule established in each Staff Appraisal Report. Numbers without parentheses indicate a lag in disbursements while those with parentheses indicate that disbursements are ahead of schedule. A lag is that share of a loan or credit scheduled but not disbursed. For example, while 60 percent of Egypt's scheduled disbursements were not released, 200 percent of Bolivia's funds for SIF II were released ahead of schedule. This data was taken from the supervision report available as of September 1994.

Sources: Statement of Development Credits or Statement of Development Loan, July 30, 1993; Staff Appraisal Reports; Supervision Reports available as of September 1994.
I. Patterns and Trends in Institutional Design

Social funds differ from government ministries and public agencies on two key aspects. First, social funds finance but do not implement projects. They therefore rely on other organizations and communities to propose, plan, and implement projects. Using public and private organizations to initiate, design, and implement projects has helped to keep administrative costs low. Second, most social funds enjoy some degree of political and institutional autonomy from central government authority thereby bypassing existing government regulations and procedures. Autonomy is critical in several ways but one of the hallmarks of social funds has been to allocate funds according to pre-established criteria. Experience in Egypt, Guinea, and Sao Tome, where autonomy was either not granted or not respected, has led to increased recognition that preserving the institutional and political autonomy of social funds is critical to the ability of social funds to meet their objectives. Where autonomy is low or absent, political actors have greater opportunities to interfere in the allocation of social funds resources.

This is not to say that social funds constitute a homogenous group. There are variations among countries in the degree and type of institutional autonomy, the types of actors that participate, and the extent to which they rely on other organizations to generate project proposals.

A. Social funds as intermediaries

As financial intermediaries, social funds employ the organizational capacity of a variety of private- and public-sector organizations to design and implement projects. This decentralized approach makes social funds dependent on existing institutional capacity in the short run but ideally gives the funds the flexibility to exploit the diverse technical strengths of different actors, to benefit from the geographical coverage that multiple organizations might be able to provide, and to finance projects simultaneously in multiple sectors.

Social funds differ, however, in their reliance on this approach (Table 2). Bolivia's ESF and the subsequent Bank-financed social funds in Honduras, Nicaragua, and Guatemala have relied heavily on other organizations, both public and private, and on communities to propose, plan, and implement projects. Senegal's AGETIP, which finances public works projects, uses a demand-driven approach but only accepts project proposals from municipalities and central ministries.²

Institutional capacity (both public and private) that is weak or largely absent seriously challenges a fund's ability to implement projects using local organizations. Under these conditions, a tradeoff emerges between meeting social needs in the short run and building up the institutional capacity required in the long run. This was the case in Guinea and Sao Tome where the limited institutional capacity and the urgent need to meet some basic needs forced the social funds to pre-appraise a set of projects rather than relying on other organizations to generate demand for social fund financing. In Sao Tome, the social fund, in consultation with the government and donors, developed a list of priority projects for urban and rural areas. As essential basic needs are met and institutional capacity and diversity increase, Sao Tome plans to shift toward smaller-scale projects and expand the participation of community groups and NGOs.³

² Subsequent to this study, Senegal has moved toward incorporating NGOs into the AGETIP process.
salaries comparable to the private sector.

In two words: 

...Government programs require the models...

And distrusts processes: comprisons from civil service salary schedules and comprisons from the government's procurement

E. Institutional and political autonomy

Chair to reach the poor.

...deficits exist in the ESR's capacity. The disbursement of funds may be in the hands of donor agencies or local community organizations, but the distribution within the recipient community, even within the recipient country, may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc. The use of funds may be very ad hoc.
The degree of institutional and political autonomy has differed across social funds as well as within individual countries over time (Table 2). While autonomy has been a central feature in Latin American social funds from the beginning, its importance has risen more recently among African social funds, with the exception of the AGETIP model in which autonomy has always been a prominent feature. In Guinea and Sao Tome, resistance among Bank staff to establish new bureaucracies with autonomy from central government authority resulted in the placement of these social funds within government ministries. The result in Guinea was to expose the social fund to political pressures to disregard established project approval criteria. In Sao Tome, excessive control over executive decisions by top political officials hampered the ability of the social fund staff to make and carry out decisions.

Physical location of the social fund, however, does not necessarily imply greater or lesser autonomy; if political authorities are committed to the institutional integrity of the social fund, autonomy is feasible. For example, even though the SRF in Zambia resides within the Ministry of Finance, political authorities are committed to the Unit's autonomy. This includes using technical criteria for project approval and upholding the Unit’s exemptions from government procurement and disbursement regulations.

The trend toward political and institutional autonomy for social funds has become increasingly evident over time, both in Latin America and Africa. The experience in Africa, especially, has led to a growing awareness of the vital connections between autonomy and fund performance. Because political interference impeded implementation of the social fund, Sao Tome instituted legal changes to ensure greater internal control over the fund's operations. The proposed social fund in Burundi, representative of the trend toward greater autonomy, has the legal status akin to a NGO.

Ensuring political and institutional autonomy has been a major challenge in Egypt. Government officials control 50 percent of the seats on the Board of Directors and they also retain the most powerful positions. Interference by political officials in the project approval process, combined with a long-standing reluctance on the part of public officials to cooperate with private-sector organizations, has resulted in the diversion of social fund monies to government agencies that may not necessarily meet the project criteria of the social fund.7

Table 2. Degrees of Institutional Autonomy and the Use of Demand-based Approaches

<table>
<thead>
<tr>
<th>AUTONOMY&lt;sup&gt;a&lt;/sup&gt;</th>
<th>High degree</th>
<th>Moderate</th>
<th>Low degree</th>
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<td>Guinea SEDSP</td>
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<td>Laude Units&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Sao Tome SIF&lt;sup&gt;c&lt;/sup&gt;</td>
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<td>Nicaragua SIF</td>
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<td>Guyana SIMAP</td>
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<tr>
<td>Sri Lanka JT F</td>
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<td></td>
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</tr>
<tr>
<td>Senegal AGETIP I, II</td>
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<tr>
<th>DEMAND-DRIVEN&lt;sup&gt;d&lt;/sup&gt;</th>
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<th>Moderate</th>
<th>Low degree</th>
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<td>Bolivia SIF</td>
<td>Guinea SEDSP</td>
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<td>Honduras FHIS</td>
<td>Guyana SIMAP</td>
<td>Sao Tome SIF&lt;sup&gt;c&lt;/sup&gt;</td>
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<td>Sri Lanka JT F</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nicaragua SIF</td>
<td>Egypt SFD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zambia SRF</td>
<td>Senegal AGETIP&lt;sup&gt;e&lt;/sup&gt;</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Autonomy consists of four elements: 1) legal status; 2) the legal authority to approve projects; 3) exemptions from civil service salary schedules; 4) exemptions from the government's procurement and disbursement procedures.

<sup>b</sup> The Zambian Microprojects Unit is located within the Ministry of Finance but appears to retain control over its project selection process.

<sup>c</sup> In July 1993, Sao Tome incorporated legal changes to give the social fund more autonomy.

<sup>d</sup> Demand-driven refers to the degree of reliance by the social fund on other organizations to initiate requests for project financing.

<sup>e</sup> Senegal I and II accept project proposals from municipalities and central ministries only; plans to integrate NGOs into AGETIP operations are underway.

**Sources:** Staff Appraisal Reports; interviews, June 1993, Washington, D.C.
II. Setting and Meeting the Objectives

Social funds aim to reduce poverty by financing programs that directly benefit the poor. They do so by creating employment and income opportunities, rehabilitating and constructing social and economic infrastructure, improving and expanding social services, establishing small-scale credit programs, and building institutional capacity. In addition, effective social funds can help build political support for economic adjustment programs by increasing access to basic goods and services.

Setting objectives for a social fund and allocating its resources across sectors depends partially on the economic and political conditions and the institutional and technical capacity of a country. Some objectives address short-term social, political, and economic needs, such as creating temporary employment opportunities, while others address longer-term needs, such as building institutional capacity.

This section examines the objectives of social funds, their ability to reach these goals, and the factors that promote or inhibit their success. Social funds have been most successful in building infrastructure, providing temporary employment, and disbursing funds relatively quickly. They have been less successful in generating demand for social services and credit projects. While community groups and NGOs are willing to and capable of building or rehabilitating schools and health clinics, they have shown less capacity to absorb funds for the accompanying services, equipment, and supplies.

A. Creating employment opportunities

Creating employment rapidly is a primary objective of most social funds, especially in countries experiencing a severe economic crisis where the risk of widespread social upheaval from structural adjustment policies is great, as was the case in Bolivia in 1987. Social funds create the bulk of their employment opportunities for low-income and unskilled labor by financing labor-intensive public works or infrastructure projects. For example, in Bolivia, the ESF generated 96 percent of its employment through public works projects. Infrastructure projects include building or rehabilitating economic and social infrastructure, such as roads, bridges, schools, health clinics, and other public facilities, and utilities, such as water and sanitation systems.

Social funds in Bolivia (ESF), Honduras, Senegal, and Zambia each disbursed at least 80 percent of their project funds to a combination of social and economic infrastructure (Table 3). Of the $190.8 million invested in Bolivia through the ESF, 88 percent was distributed almost evenly between social and economic infrastructure projects. Data for Honduras do not distinguish between economic and social infrastructure, but overall, the FHIS allocated 79 percent to infrastructure projects, such as constructing or rehabilitating water and sewerage systems and primary schools. Senegal, motivated by high levels of unemployment in urban areas, has financed economic infrastructure projects in the main urban centers as a means of creating employment opportunities while building necessary infrastructure. Sao Tome, with extremely dire economic conditions and limited technical and institutional capacity, differs from the other early social funds in that it proposed a relatively equal distribution between infrastructure and social services. Faced with critical needs in both rebuilding infrastructure and providing social services, Sao Tome’s initial projects focused on rebuilding water and electricity infrastructure and providing textbooks and essential medical drugs.

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8 This is not the case where social funds finance community self-help projects, as in Zambia. Communities often contribute their labor to cover project costs.
Table 3. Sector Investments as a Share of Total Sub-Project Costs as of June 1993* (in percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic infra</th>
<th>Social infra</th>
<th>Social services</th>
<th>Credit schemes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia ESF II</td>
<td>43</td>
<td>44</td>
<td>9</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Bolivia SIF II</td>
<td>—</td>
<td>47</td>
<td>53</td>
<td>—</td>
<td>100</td>
</tr>
<tr>
<td>Egypt SFD</td>
<td>13</td>
<td>—</td>
<td>27</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>Guyana SIMAP</td>
<td>—</td>
<td>54</td>
<td>46</td>
<td>—</td>
<td>100</td>
</tr>
<tr>
<td>Guatemala SIF</td>
<td>21</td>
<td>49</td>
<td>20</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Honduras FHIS I</td>
<td>79</td>
<td>—</td>
<td>14</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Nicaragua SIF</td>
<td>24</td>
<td>55</td>
<td>21</td>
<td>—</td>
<td>100</td>
</tr>
<tr>
<td>Sao Tome SIF I, II</td>
<td>42</td>
<td>11</td>
<td>47</td>
<td>—</td>
<td>100</td>
</tr>
<tr>
<td>Senegal AGETIP I</td>
<td>86</td>
<td>14</td>
<td>—</td>
<td>—</td>
<td>100</td>
</tr>
<tr>
<td>Sri Lanka JIF</td>
<td>26</td>
<td>—</td>
<td>34</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Zambia SRF</td>
<td>6</td>
<td>91</td>
<td>0</td>
<td>3</td>
<td>100</td>
</tr>
</tbody>
</table>

* Data for Bolivia (ESF), Egypt, Honduras, Senegal, and Zambia reflect actual investment patterns as of June 1993. Data for all other social funds reflect planned allocations as presented in Staff Appraisal Reports. Economic infrastructure includes rehabilitating or constructing roads, bridges, and other public works; social infrastructure includes schools, health clinics, and day care centers; social services include payments for salaries, equipment, and other support to schools and clinics; credit refers primarily to rotating credit schemes to support small-scale enterprises.

b Egypt's categories do not fall into the traditional ones used here. Public works and public transport are classified as economic infrastructure; community development as social services; and enterprise development as credit.

c Food costs absorb 38 percent of all project funds.

d There is no distinction made between social and economic infrastructure in project documents.


Social funds try to maximize the amount of employment a project generates by imposing certain requirements on the organizations that sponsor the projects. Senegal and Sri Lanka require contractors to use labor-intensive construction techniques and to spend at least a specified minimum percentage of project costs on wages. In Senegal, labor costs constitute about 20 percent of total project costs for road construction or rehabilitation, between 25 to 30 percent for rehabilitating buildings, and more than 30 percent for street and drainage cleaning projects. In Sri Lanka, rural public works projects are required to spend 50 percent of total costs on labor.

When looking at the total investment and administrative costs of generating one person-month of employment, the figures for the ESF in Bolivia, the FHIS in Honduras, and the SIF in Nicaragua are fairly comparable at $276, $320, and $286, respectively. The AGETIP in Senegal has a slightly higher rate at $357 per person-months of employment generated (Table 4).
Table 4. Magnitude and Costs of Employment Created in Bolivia, Honduras, Nicaragua, and Senegal

<table>
<thead>
<tr>
<th></th>
<th>Bolivia ESF</th>
<th>Honduras FHIS</th>
<th>Nicaragua SIF</th>
<th>Senegal AGETIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total costs(^a)</td>
<td>201.7</td>
<td>33.5</td>
<td>21.0</td>
<td>33.9</td>
</tr>
<tr>
<td>($US millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total employment generated</td>
<td>731,000.0</td>
<td>104,400.0</td>
<td>73,500.0</td>
<td>95,209.0</td>
</tr>
<tr>
<td>(person-months)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost per person-month of employment ($)</td>
<td>276.0</td>
<td>320.0</td>
<td>286.0</td>
<td>357.0</td>
</tr>
<tr>
<td>Time period(^b)</td>
<td>48.0</td>
<td>6.0</td>
<td>18.0</td>
<td>41.0</td>
</tr>
<tr>
<td>(months)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Person-month of employment generated per month</td>
<td>15,229.0</td>
<td>17,400.0</td>
<td>4,083.0</td>
<td>2,322.0</td>
</tr>
<tr>
<td>Administrative costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(percent of total costs)</td>
<td>5.5</td>
<td>9.0</td>
<td>6.5</td>
<td>5.0</td>
</tr>
</tbody>
</table>

\(^a\) Total costs include sub-project costs, operating costs of the social fund, special studies, and technical assistance.


Administrative costs as a share of total costs are relatively equal across the four projects, with the exception of Honduras. The AGETIP in Senegal maintained administrative costs below 5 percent of total project costs.\(^{14}\) Administrative costs as a share of total commitments in Bolivia over the life of the ESF were 5.5 percent; Nicaragua, over the first 18 months of operations, was spending about 6.5 percent of total commitments on administrative costs; and Honduras, after 5 months of operations, reported administrative costs as 9 percent of total commitments.\(^{15}\)

Senegal was the only country to provide data comparing the performance of the social fund to that of government programs. Compared with other employment schemes in Senegal, AGETIP appears to be a more efficient mechanism. One scheme sponsored by the government of Senegal incurred a cost of $11,000 per job created. The AGETIP was also able to achieve unit prices 5 to 40 percent lower than government programs.\(^{16}\)


B. Improving the delivery of social services

The second objective of many social funds is to improve the delivery of primary health, nutrition, and educational services to low-income areas. In most developing countries, governments have limited capacity to deliver basic public goods and services outside of key urban areas, and social funds have attempted to fill this gap. Projects include supplemental feeding schemes, community child care programs, family planning programs, preventive health and nutrition programs, education, and staff training. Experience in this area, however, has been limited to date with the exception of Bolivia, Honduras, and Sao Tome.

Many social funds allocate less than half of their resources to social service projects. The priority for the ESF in Bolivia was to generate employment rather than to provide social services. As a result, the ESF spent about only 9 percent of total project funds on social services including programs for meals, inoculations, and staff training. Social assistance projects reached 230,000 persons compared to the 1.7 million persons who benefited from economic infrastructure projects.17

The SIF in Bolivia, in contrast, aims to allocate more resources to social services than the ESF. This reflects a change in objectives from short-term economic crisis management to longer-term poverty reduction strategies. The SIF intends to allocate 47 percent of its total project funds to social infrastructure and 53 percent to social services with no resources allocated to economic infrastructure (Table 3). As a result, during the first two years, the SIF delivered benefits to approximately 24 percent of the population, or 1.6 million persons, through its health and education projects, compared to the 230,000 persons under the ESF.18

Honduras allocated 14 percent of total project funds to basic needs, such as nutrition programs, training of primary health care staff, and provisions for health clinics and schools. About 62 percent of the funds allocated to basic needs, however, supported a school-desk manufacturing program. Because schools desks are relatively easy to manufacture and distribute widely, this project supported the FHS's initial goal of demonstrating its institutional capacity to deliver benefits to a large portion of the targeted population in a short period. Beginning with simple projects also afforded the FHS time to develop its institutional procedures and build credibility with NGOs.19

Sri Lanka and Guyana, by design, emphasize social services, allocating 37 and 46 percent of their funds, respectively, to social services (Table 3). In Sri Lanka, the social fund finances a nutrition program that aims to reduce moderate and severe malnutrition in children under three years of age, lower the incidence of low birth weight, and decrease the prevalence of maternal malnutrition and iron deficiency anemia.20 The social fund also finances training for NGO personnel, the costs of monitoring programs, evaluation and special studies, equipment for health posts, and other operating costs of the nutrition projects.

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17 It is important to note that the number of beneficiaries can be misleading because individuals may receive multiple benefits. Where people benefit from several projects, the total number of beneficiaries can give the misleading impression that a social fund has achieved wide coverage of the population. None of the countries surveyed here tried to reconcile this problem to give a more accurate assessment of what percentage of the population received benefits from social fund projects.
The social fund in Guyana, the Social Impact Amelioration Program and Agency (SIMAP), finances the rehabilitation of primary health care facilities, child care centers, and water and sanitation systems, as well as nutrition surveillance, education, and food distribution programs. By targeting young children and pregnant and lactating women, SIMAP is attempting to reduce the incidence of malnutrition and low birth weight in Guyana.

The experience in Zambia highlights the difficulties of expanding social services through a social fund. The SRF differs from other social funds in that it does not aim to generate employment opportunities through public works projects. Instead, the SRF finances small-scale projects that meet the needs of each community requesting funds. The initial allocation of funds for social services was 10 percent of total costs. During 1992, however, the social fund received no proposals for social services, and as a result, some of the funds allocated to this category were reallocated to self-help civil works projects.21

Sao Tome, on the other hand, pre-appraised a set of projects to meet certain vital basic needs. Two of the more successful projects were the distribution of essential drugs and textbooks. The project distributing books reached 81 primary and secondary schools (almost 30,000 students) that, prior to the project, had no textbooks.

C. Financing credit programs

Credit programs aim to provide income-generating opportunities to small-scale entrepreneurs by establishing revolving funds or other credit arrangements.22 As the data in Table 3 indicate, most social funds allocate less than 10 percent of their portfolio to credit activities. For example, Bolivia ESF, Honduras, and Zambia have disbursed 4, 7, and 3 percent, respectively, of their project funds to credit programs. Two exceptions are Egypt and Sri Lanka. Egypt disbursed 60 percent of its funds to credit schemes as of May 1993, though upcoming commitments indicate that the share of resources allocated to credit projects will decline as public works and community development programs get underway.23 Sri Lanka's JTF allocated 43 percent of its total project funds to credit operations.

Social funds shy away from credit operations for several reasons. The perception among Bank staff is that social funds are quick-disbursing mechanisms and, therefore, not compatible with credit operations, which require careful and often time-consuming appraisals before granting funds. Social funds also do not have the staff resources or level of technical expertise required to assess the risk and viability of sponsoring organizations and credit operations. In addition, credit programs do not deliver benefits as rapidly as investments in infrastructure or social services.24

22 For a thorough and current analysis of Bank lending for small and medium enterprises, see Webster et al., 1994.
23 Interview, June 1993, Washington, D.C.
24 See Webster et al., 1994.
Another reason that social funds have not invested in credit programs is that the programs are highly dependent on institutional capacity to support entrepreneurs. Where successful credit programs already exist, the social fund is more likely to use its resources to help expand these programs into new regions. This was the case in Honduras, where participating NGOs had to have at least five years of experience in providing credit to rural and urban micro-entrepreneurs.\(^{25}\) Entrepreneurs qualified for loans based on their projects' viability rather than on their ability to provide collateral; moral guarantees through solidarity group lending provided a substitute for collateral. At the mid-term review, Honduras had allocated 7 percent, or $2.1 million to informal sector projects. Twelve NGOs with past experience in managing credit operations or revolving funds implemented the projects.

Based on arrears, Honduras has been very successful: arrears on loans have been less than 5 percent. In their mid-term review, Bank staff identified several factors that contributed to the success of the program. The social fund used qualified NGOs to administer the program, the NGOs charged market interest rates to borrowers, and the NGO assumed all credit risk vis-à-vis the revolving fund. This induced the NGOs to evaluate business proposals carefully, build solid recovery mechanisms, and ensure adequate capitalization of the revolving funds. In addition, the FHIS financed technical assistance to entrepreneurs, which helped to increase loan recovery rates.

A variety of problems can hinder social funds from instituting successful credit programs. Sri Lanka committed 43 percent of project funds to credit operations but disbursements have been slower than expected.\(^{24}\) Political problems arising between the government of Sri Lanka and the NGO community, poor management of the JTF itself, and the need to establish new eligibility criteria for the sponsoring organizations have all contributed to slow disbursements.\(^{27}\) Most important, Sri Lanka's experience demonstrates the need to coordinate credit programs of social funds with government programs. The slower-than-expected disbursement of funds in Sri Lanka also results from the availability of subsidized credit from government agencies that discourages NGOs or financial organizations from participating in the JTF programs.\(^{28}\) This will remain a critical obstacle until the government of Sri Lanka establishes policy guidelines on subsidizing credit.

\section*{D. Increasing and diversifying institutional capacity}

Many countries establish social funds to fill an institutional gap left by weak public and private sectors. At the same time, social funds rely heavily on the ability of a variety of organizations to plan and implement their projects. Increasing and diversifying the institutional capacity of participating organizations, public agencies, and community groups is vital to the social fund's ability to have an economic and social impact both in the short- and long-run. Weak or absent institutional capacity, as in Sao Tome and Guinea, hinders the social funds from disbursing resources rapidly. This generates a potential tradeoff between meeting short-run objectives, such as providing temporary employment opportunities, and building up local capacity in the long run.

\(^{25}\) This section draws from the Honduras, FHIS, Mid-term Review, January 1992, p. 6.
\(^{27}\) Sri Lanka, Aide-memoire, December 1992, pp. 5-7.
\(^{28}\) Ibid, p. 6.
Social funds contribute to institution building in two ways. First, they provide technical assistance to improve the ability of participating organizations to plan, implement, and sustain projects. Such assistance ranges from teaching basic financial management or record-keeping skills, helping communities organize themselves, to providing an engineer to help design a project. Second, social funds also contribute to a country's institutional capacity when they maintain implementation standards and performance criteria for participating organizations, including government ministries and public agencies. Social funds that cut off access to resources for organizations that do not cooperate help to establish incentives to follow standard operating procedures.

The role of social funds in developing institutional capacity and the need to reform public-sector agencies and ministries is too often overlooked by donors and policymakers. Countries are tempted to use social funds to finance traditional public-sector goods and services without paying sufficient attention to public-sector reform. There are dangers in having social funds finance public goods and services on a permanent basis. First, social funds may provide countries with an excuse for delaying public-sector reforms. Ideally, social funds should provide temporary relief to public agencies by financing priority projects while public agencies reorganize. Second, social funds can inadvertently become a convenient off-budget financing mechanism for inefficient ministries or public agencies. This is a major concern in Egypt where public-sector agencies have sponsored the majority of social fund projects. To correct this, the Bank has suggested placing a cap on the amount of funds available to public agencies and recommended earmarking a minimum of 33 percent of funds for NGOs and private volunteer organizations (PVOs) as a means of reducing public reliance on the social fund for off-budget financing. 29

Social funds vary in their reliance on public-sector agencies to implement projects. Zambia's stress on community self-help projects eliminates central government agencies from participating in SRF programs. In contrast, Senegal's AGETIP uses only government agencies as sponsors because of its focus on public works projects that will be legally owned by government agencies, though the fund hires private-sector contractors to implement the work. 30 More typical, however, are Bolivia and Honduras, where a wide variety of organizations participate in social fund projects.

Even so, the bulk of funding goes to public-sector agencies, demonstrating the need to supplement social fund activities with public-sector reform (Table 5). In Bolivia, public-sector agencies captured 74 percent of all project funds and carried out 66 percent of all projects; religious organizations, NGOs, and grassroots organizations received 19 percent of project funds and implemented 27 percent of all projects. In Honduras, government agencies or ministries also received the bulk of project funds, gaining 79 percent of funds and implementing 85 percent of all projects; neighborhood organizations, NGOs, and religious groups received 20 percent of funds and implemented 15 percent of the projects.

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30. The second phase of this project plans to incorporate NGOs and community groups on a small-scale, trial basis.
Table 5. Distribution of Project Financing by Type of Sponsoring Organization in Bolivia and Honduras

**Bolivia ESF I and II**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Number of projects</th>
<th>Percent of total</th>
<th>$US million total</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>City governments*</td>
<td>538</td>
<td>17</td>
<td>32.0</td>
<td>17</td>
</tr>
<tr>
<td>Government agencies</td>
<td>578</td>
<td>18</td>
<td>43.2</td>
<td>23</td>
</tr>
<tr>
<td>Development corporations</td>
<td>493</td>
<td>15</td>
<td>33.6</td>
<td>18</td>
</tr>
<tr>
<td>Religious organizations</td>
<td>421</td>
<td>13</td>
<td>15.7</td>
<td>8</td>
</tr>
<tr>
<td>Departmental governments</td>
<td>327</td>
<td>10</td>
<td>10.0</td>
<td>5</td>
</tr>
<tr>
<td>NGOs</td>
<td>220</td>
<td>7</td>
<td>11.5</td>
<td>6</td>
</tr>
<tr>
<td>Grassroots organizations</td>
<td>219</td>
<td>7</td>
<td>10.2</td>
<td>5</td>
</tr>
<tr>
<td>Government ministries</td>
<td>205</td>
<td>6</td>
<td>22.1</td>
<td>12</td>
</tr>
<tr>
<td>Other*</td>
<td>216</td>
<td>7</td>
<td>12.5</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,217</strong></td>
<td><strong>100</strong></td>
<td><strong>190.8</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

* Includes both department capitals and non-capitals.

**Honduras FHIS**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Number of projects</th>
<th>Percent of total</th>
<th>$US million total</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal governments</td>
<td>1,625</td>
<td>79</td>
<td>17.4</td>
<td>61</td>
</tr>
<tr>
<td>Neighbor organizations</td>
<td>194</td>
<td>9</td>
<td>2.2</td>
<td>8</td>
</tr>
<tr>
<td>NGOs</td>
<td>60</td>
<td>3</td>
<td>3.4</td>
<td>12</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>57</td>
<td>3</td>
<td>1.0</td>
<td>3</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>55</td>
<td>3</td>
<td>1.7</td>
<td>6</td>
</tr>
<tr>
<td>Religious organizations</td>
<td>42</td>
<td>2</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Other government</td>
<td>11</td>
<td>0.5</td>
<td>2.6</td>
<td>9</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>0.5</td>
<td>0.2</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,056</strong></td>
<td><strong>100</strong></td>
<td><strong>28.6</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

1. Improving public-sector capacity

Many social funds rely heavily on public-sector agencies to implement projects, thus, the public sector remains a key player in the efforts of social funds to meet their objectives. Local and regional governments in Latin America often play an active role in social fund projects. In Guatemala, the social fund intends to work closely with municipal governments on social projects because local governments, as the legal owners of public assets, are responsible for maintenance after project financing is complete. Where local governments have the authority to raise revenue through taxes or user fees, they play a critical role in maintaining public works.

Social funds can influence the performance of public-sector agencies in two ways. First, like other participating organizations, public-sector agencies must comply with the operating procedures and implementation standards of the social fund. They must submit to periodic audits that social funds conduct as well as comply with record-keeping, disbursement, and procurement procedures. Such compliance has had a visible effect on the quality of projects sponsored by public agencies in Honduras, Sao Tome, and Egypt.31

Second, social funds can influence participating organizations by developing and transferring more effective methods of planning and implementing projects. In Honduras, the Ministry of Education, after learning that the FHIS was building five times more schools in a year than the Ministry itself, initiated a study of the social fund to incorporate social fund procedures into the Ministry's operations.32 Donors and policymakers often overlook the opportunity that social funds provide to experiment with new institutional formats and procedures that could be adopted by public-sector agencies and ministries. Most countries lacked explicit plans to transfer relevant lessons to other public-sector organizations. The AGETIP in Senegal, for example, has demonstrated that its procurement and disbursement procedures are more efficient and effective than those currently used by the government, but there is no plan to restructure the government's procedures.33

Social funds could begin transferring skills to public-sector agencies by focusing on a few basic areas, such as management information systems, procurement, and disbursement. For example, in Bolivia, before dissolving the ESF, the staff trained members of other public agencies to use the ESF's management information system. Governments should give serious consideration to the applicability of other operating procedures to public agencies, such as procurement and disbursement procedures or the development of project financing criteria.

2. Increasing community participation

International donors have become increasingly aware of the positive relationship between community participation and project sustainability.34 Giving communities more responsibility for project selection, supervision, construction, and maintenance has several advantages, at least in theory. First, it increases the possibility that projects will match the needs of the community rather than reflecting the priorities of a government agency. Second, when communities develop a sense of ownership toward a project, their commitment to sustaining the project may be greater. Third, community involvement reduces dependency on support from outside agencies.

31 Interviews, June 1993, Washington, D.C.
33 Interview, June 1993, Washington, D.C.
34 See Briscoe and de Ferranti, 1988; Bhattachary and Williams, 1992.
Relying solely on community organizations, though, does not necessarily guarantee that all critical needs of a community will be represented. In Zambia, where project criteria explicitly favor small-scale, self-help community projects, the relative abilities of community organizations to write acceptable project proposals have resulted in a skewed sectoral distribution of funds. Because parent-teacher associations are better organized and more experienced in writing funding proposals, almost 90 percent of all applications received and more than 70 percent of those approved were for education projects.35

Social funds that finance community-based projects often induce participation by requiring communities to provide labor, cash or in-kind contributions. Their willingness to contribute is one rough measure of its commitment to a project. Communities often provide from 5 to 20 percent of project funding. Guatemala, however, plans to use a sliding scale that takes into account the priority of the project and the ability to pay.36 If a community is very poor or a project has high priority, the social fund will lower its counterpart requirements.

Willingness and ability to pay varies across communities and sectors. The ability of poor communities to pay is very difficult to assess, but recent studies have shown that the willingness to pay for projects is a function of more than income.37 The willingness of communities to pay for goods and services may be higher than expected, as long as the goods and services are something important to the community and represents an improvement over past goods and services. Several factors that contribute to a community's willingness to pay and participate include perceived benefits, value of time, level of service, existing resources, and the credibility of the external funding agency.38

Community organizations also have a critical role in organizing maintenance activities and collecting user fees. One of the problems social funds have wrestled with is how to maintain investments in infrastructure after social fund financing is complete. Honduras has explored the possibility of community organizations working with local public water utilities to manage water and sewerage infrastructure. With the help of an NGO, the FHIS is organizing committees in local communities, which, together with the public water authority, will set user fees and establish collection and maintenance procedures.39

3. Working with NGOs

Incorporating NGOs into social fund activities has the potential to generate benefits for both NGOs and social funds. NGOs assist social funds in reaching their objectives by providing a link between the funds and the communities involved, helping social funds to distribute resources widely, to reach the lowest income areas, and to generate community participation. Qualified NGOs can also reduce the administrative burden on social funds by assisting with project supervision. In turn, NGOs benefit by gaining access to international donor funds and improving relations with the government.

While the popular image of NGOs suggests that they are more knowledgeable about community needs, are more successful at motivating community participation, and are key providers of goods and services to poorer areas neglected by government agencies, this is not always the case.40 NGOs represent a diverse collection of organizations, some of which perform better than others. The ability of NGOs to carry out different objectives also varies considerably.

35 Zambia, Annual Report and Audit, 1992, p. 3.
36 Guatemala, Staff Appraisal Report, 1992, p. 22.
39 Interview, June 1993.
40 For a thorough analysis of the Bank's experience with NGOs, see Paul and Israel, eds., 1991. On Zambia, see Chase, 1993.
Working with different organizations is part of the social funds' strategy for distributing resources widely and gaining access to low-income areas. In one of the key functions, NGOs act as intermediaries between communities and social funds in planning, implementing, and sustaining projects. When communities are not able to put together an acceptable project proposal, NGOs can assist. Where countries require project sponsors to have formal legal status, community-based organizations may need to pair up with NGOs to obtain funds.

On the other hand, NGOs do not necessarily service the poorer regions, and most social funds have had to devise incentives to induce NGOs to move out of urban or peri-urban areas and into the poorer, less accessible rural areas. Recognizing the higher costs of reaching some of the more remote and poorer locations, social funds in Honduras and Guatemala are considering partially subsidizing administrative costs for NGOs willing to work in underserved areas. The SIF in Bolivia is also devising incentives to encourage NGOs to expand their coverage into lower-income areas.

NGOs do not always encourage community participation. In Zambia, a preliminary study of 60 projects suggests that international NGOs and church groups prefer to hire skilled professionals to work on projects to ensure the quality of the finished product. In the long-run, however, this approach undermines the willingness of the community to maintain a project.

Adequate supervision and technical assistance helps to minimize potential tradeoffs between the quality of projects and long-term sustainability through community participation. Supervision, however, has been a weak link in social fund operations due to a lack of staff resources. Supervising projects consumes a large portion of resources for all social funds, where travel is difficult and the country is large, the time and cost of supervision is even greater. By subcontracting supervision responsibilities to qualified NGOs or local governments, social funds can limit their administrative costs. In Egypt, the social fund bundled together smaller sets of projects and contracted out their supervision to qualified NGOs.

NGOs are a valuable resource in developing countries, but relations between governments and NGOs are often hostile. One of the earliest challenges to social funds was to establish their credibility with NGOs and the public. The HHS in Honduras selected very simple projects, like the desk manufacturing program, that were easy to accomplish, had high visibility, and wide distribution. Establishing credibility is not always easy, though. In Guyana, changing public-private relations after years of corruption in the public sector has been a slow process and the private sector remains skeptical that SIMAP will be able to carry out its functions. In Egypt, the public sector has traditionally viewed private-sector organizations with hostility, thus inhibiting the social fund's efforts to foster a partnership between the two sectors. The social fund also has a low level of institutional and political autonomy, giving political actors access to the fund's resources. The result is that these actors channel a large share of funds into financing public agencies and political objectives rather than private-sector organizations. As noted above, the Bank has recommended placing a cap on the amount of financing to public-sector agencies.

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4 Interview, June 1993, Washington, D.C.
43 Interview, June 1993, Washington, D.C.
4. Improving the performance of the social fund

To be effective, social funds must be able to hire and retain qualified and motivated staff and management, allocate resources according to objective criteria, and have the support and commitment of political leaders. In Bolivia, for example, the commitment of the president to the objectives of the ESF was fundamental to protecting its political and institutional autonomy. Autonomy, in turn, permitted the social fund to hire and retain the quality of staff and management necessary for achieving its objectives. Commitment among top political leaders to the institutional integrity of the social fund relieved pressure on the ESF to allocate money according to political rather than economic objectives.

Where political commitment is weak or absent, staff morale and the quality of operations is low. In Guyana, poor internal management and the lack of political support for SIMAP's objectives lowered staff morale and impeded their performance. For example, although SIMAP installed a new management information system to track operations and detect problems, the computer system made little difference because staff members failed to submit their data on a timely and consistent basis, rendering the system ineffective. In Egypt, the upper echelons of government did not have a clear understanding of the purpose and procedures of the social fund, rendering it vulnerable to political interference.

III. Challenges Facing Social Funds

Social funds face three significant challenges. First, social funds that rely on other organizations to initiate projects may not reach the very poor. While this approach keeps administrative costs low, social funds that target the poor need to devise different strategies. Second, social funds face a significant challenge in ensuring that communities, NGOs, and government agencies can finance recurrent costs of projects. Third, the quality of projects financed by social funds is not always satisfactory.

A. Limitations to targeting through a social fund

Social funds, like other organizations with scarce resources, try to maximize the chances that benefits reach the intended population while minimizing access by others. At the same time, social funds try to minimize administrative costs by combining several low-cost targeting mechanisms such as geographical and self-targeting mechanisms. But using a social fund to reach the poor has some serious limitations that policymakers should keep in mind. This section examines the experiences and strategies of social funds in targeting the poor.

The limitations to targeting the poor arise out of the institutional design of social funds. Specifically, the reliance on other organizations and communities to initiate projects puts the poor at a disadvantage. Poorer communities often have less ability to design and implement projects; they are unlikely to have experience working with international donors or know how to write acceptable research proposals. In addition, the more remote a community is, the less likely it is that NGOs are available to sponsor and supervise projects.

44 Interview, June 1993, Washington, D.C.
45 Interview, June 1993, Washington, D.C.
Relying on other organizations to initiate projects helps to reduce the administrative costs of the social fund. There is, however, a tradeoff. Experience in Latin America suggests that social funds may not channel as many benefits to the poor when project initiation is decentralized. The FHIS in Honduras has found that, while it was able to limit leakage of benefits to the well-off municipalities, the not-so-poor areas (they are referred to as "regular" communities) were able to garner more resources than initially earmarked for them. In 1991, 71 percent of the resources committed to the poorest 20 percent reached them while the regular communities received 170 percent of resources initially committed to them. On a per capita basis, the poorest 20 percent received $4.9 per capita while the regular municipalities received $8.0 per capita. 46

Building on the experience of the ESF, the SIF in Bolivia has increased its use of targeting mechanisms to ensure that at least half of its resources reach the poorest 50 percent of the population. In areas without viable institutions or organizations, the fund offers financial support for basic administrative infrastructure, personnel, and vehicles to expand coverage into these deficit areas. 47 The result has been that, between September 1991 and April 1993, the SIF approved 1,311 projects worth $111 million. About 75 percent of these funds went to rural areas in general; 80 percent of the funds were used in areas with the poorest half of the population while 55 percent went to the poorest 25 percent.

There are several mechanisms that social funds can employ to improve targeting of the poor. One is geographical targeting using poverty maps. The SIF in Bolivia uses poverty maps at two points in the project cycle: first, to assess a proposal's eligibility, and subsequently, to monitor the fund's progress in distributing resources. Upon receiving a proposal, the staff checks the project's location on the map to ensure that it falls within a targeted or priority area. As the staff marks the locations of projects underway on these poverty maps, the maps provide a quick visual check against neglecting some areas and favoring others.

Geographical targeting mechanisms are more refined in Latin America than in Africa because there is more highly disaggregated data on Latin American poverty. Social funds in Latin America use poverty maps to rank geographic areas according to access to social services such as potable water, schools, and health clinics. Based on this information, Bolivia, Guatemala, Honduras, and Nicaragua allocate more funds per capita to the poorer areas. Areas with medium degrees of poverty typically remain eligible for project funds because of the pockets of extreme poverty that persist within better-off municipalities. In Africa, the lack of detailed poverty data requires social funds to rely on other targeting mechanisms. Developing the databases for geographic targeting will take time, financial resources, and institutional capacity not currently available. 48 In lieu of detailed poverty maps, social funds in Africa use a combination of other mechanisms for targeting. Zambia conducts on-site evaluations during the appraisal stage to ensure that communities fall within the target population. These evaluations typically entail a visual assessment of social and economic conditions, such as access to potable water or the quality of housing materials.

Project eligibility criteria provides social funds with a powerful tool to target their resources toward low-income groups. Many Latin American funds, as well as those in Zambia and Burundi, have developed lists of specific types of projects that are eligible for funding. The funds rank these projects, giving higher priority to goods and services that are more likely to be in demand by the poor or that will have a greater social and economic impact on low-income households.

46 Honduras, FHIS, Mid-term Review, 1992, p. 8, Table 2.
47 Bolivia, SIF I, Staff Appraisal Report, 1990, p. 76.
48 For a good discussion on the approaches to targeting in Africa, see Marc et al., 1993, pp. 71-75.
To encourage high priority projects in poor areas, the Guatemala fund reduced the share of financing that communities and sponsoring organizations must contribute to the project and increased technical assistance. Very poor communities that decide to implement high priority projects will contribute labor, supplies, or cash equivalent to 5 percent of total project costs. Communities that are better-off or electing to implement a project with lower priority will have to contribute up to 20 percent of the total costs. Most social assistance projects require communities to contribute 5 percent; infrastructure projects require from 10 to 15 percent, depending on the degree of poverty; investments in income-producing activities or credit schemes require 10 to 20 percent.

Earmarking funds for specific areas or sectors provides useful guidelines but will not guarantee that resources actually reach their targets. The challenge to social funds is to generate interest in social fund projects among targeted communities or organizations. Many social funds have realized that project promotion is vital to educating communities and organizations about social fund activities, the availability of resources, and how to participate. Both the FHIIS in Honduras and the SIF in Bolivia stress project promotion strategies for distributing resources to targeted areas. In fact, as Bolivia shifted from the ESF to the SIF, increasing promotion efforts became a key change in the targeting strategy.

B. Financing recurrent costs

Financing recurrent costs is a significant and persistent challenge. This responsibility typically lies with the project’s sponsor. Most social funds have stipulations in their financing agreements that sponsors demonstrate the capacity to support recurrent costs before receiving project approval. When projects fall under the jurisdiction of a public agency, the appropriate ministry or government agency must assume responsibility for ongoing operations and maintenance costs. In Zambia, project proposals for health and education must receive approval from Provincial Planning Units before sponsors can submit them to the SRF because provinces control budgets for recurrent costs.

A review of ESF projects in Bolivia one to two years after the completion of ESF financing concluded that three factors increased the chances that a project would survive: access to stable sources of financing; participation of the beneficiaries in planning and implementation; and prior experience of the sponsoring agency or organizations. This section looks at three sources for financing recurrent costs: public revenue, user fees, and social fund resources.

Public revenue remains a critical source of financing projects, especially for basic health and education infrastructure and services that incur high operating costs. The study of ESF projects found that projects sponsored by central government agency were most likely to survive while projects sponsored by a grass-roots organization were the least likely to survive.

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*Bolivia, ESF II, Project Completion Report, 1992, p. 10. On a positive note, the study found that 80 percent of social assistance projects and 95 percent of social infrastructure projects were still operating one to two years after the completion of ESF financing.
Restructuring laws that govern the use of public revenue may be necessary in many places. In Guatemala, for example, municipalities underinvest in social services because the transfers they receive from the central government are legally limited to investments in physical infrastructure. In Senegal, the AGETIP has bolstered its monitoring of projects even after financing is complete to ensure that public-sector agencies remain committed to their investments. Public agencies that fail to maintain their projects lose their eligibility for future financing.

User fees are a potential source of revenue when access to benefits can be controlled and monitored. Access to health services or water taps are two examples where user fees could partially offset recurrent costs. But collecting user fees from final beneficiaries requires a degree of institutional capacity among project sponsors and a financial ability and willingness among beneficiaries to pay. For community-based projects, getting the community involved in selecting, planning, and implementing projects will increase their willingness to support the project after outside financing is complete. Honduras is experimenting with community-based water committees to oversee water infrastructure and collect fees for future maintenance.

The committees will work with the National Water and Sewerage Service, the legal owner of the infrastructure to set water tariffs, collect the fees, and deposit them in a revolving fund to finance future maintenance. The FHIS has contracted an experienced NGO to help communities to establish their committees and procedures.

Instituting user fees to finance recurrent costs often means coordinating changes at several levels. For example, under the essential drugs project in Sao Tome, hospitals and clinics are supposed to pay for the medicine distributed by the project. To do so, however, requires that hospitals and clinics implement their own cost-recovery mechanisms by charging patients fees for drugs and services. For the medical distribution program to succeed, the social fund will have to help clinics and hospitals to establish cost structures for goods and services and to implement cost-recovery mechanisms. Sao Tome faces an additional challenge because it is in the process of dismantling its socialist and centralized political systems. Because the general public had become accustomed to free public goods and services, the suggestion of user fees has met with considerable resistance among government officials who fear a political backlash.

Social funds sometimes finance recurrent costs but for a limited time only. Guatemala decided to finance teacher salaries on a declining basis to support investments in education infrastructure. In Sri Lanka, the JTF finances maintenance costs for community projects on a declining basis. It supports 100 percent of maintenance costs during the first year after completion, 60 percent in the second year, and 40 percent in the third and final year. To reduce costs, the JTF signs maintenance contracts with community groups to perform particular tasks. For example, farmers' societies help to keep irrigation systems working while families or villages help to clear drains and repatch road surfaces.

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51 Guatemala, Staff Appraisal Report, 1992, p. 11.
54 Interview, June 1993, Washington, D.C.
56 Gibson, 1992, p. 3.
C. Quality of outputs

Concern for the quality of fund-financed projects challenges all social funds and is a recurrent issue in supervision reports. The need to disburse funds rapidly and the lack of technical capacity among project sponsors contribute to the low quality of projects. Community-based organizations have the most difficulty conforming to project standards because they lack the technical skills among them or cannot afford to hire skilled labor.

How social funds design, implement, supervise, and evaluate projects can influence the quality of the final project. Social funds have developed several techniques to improve quality. One strategy is to restrict the number of types of projects eligible for financing. This limits the range of technology and technical expertise a social fund needs to maintain on staff. Another strategy emphasizes funding simpler projects, such as manufacturing school desks. Honduras adopted this strategy during its first year. Zambia, Honduras, and Bolivia, adopted a third strategy as well. They distribute simple, standard designs for infrastructure projects such as classrooms, health clinics, housing, latrines, wells, and boreholes and provide technical assistance to contractors and sponsoring organizations. Standardization means that technical supervisors do not have to spend their time learning multiple designs.

Regular supervision during project implementation is critical to ensuring good quality of projects but is probably the weakest area for social funds. Projects are less costly and of better quality if technical supervisors can prevent problems rather than spending their time fixing errors. In geographically large countries, or where travel is difficult because of the terrain and quality of transport infrastructure, the limited staff resources of social funds are further strained. Honduras and Zambia strengthened supervision by reducing the number of projects assigned to each supervisor. Establishing regional offices where personnel can make more frequent visits could also help to improve project quality. Zambia has instituted simple measures such as publishing supervisors’ travel schedules and found that communities can better organize themselves for supervision visits.

Finally, social funds can use evaluations of completed projects to provide incentives to organizations and contractors to conform to a fund’s standards. In Senegal, for example, contractors that do not comply risk losing their eligibility status for future projects. Evaluations also provide information to the staff of social funds for improving technical support to project sponsors. If certain problems appear consistently, the staff can adjust technical plans and alert technical supervisors to provide additional support in the problem area.

57 Ibid., p.3
IV. Conclusion: Strengths, Limitations, and Conditions for Success

Social funds are a valuable institutional resource. They have proven to be a flexible, simple, and straightforward mechanism for financing different types of projects. But, to maximize the contributions that social funds can make to economic development, policymakers must be aware of the strengths and limitations of social funds as well as the conditions that hinder or facilitate their operations. While the countries that have established social funds are politically, economically, and socially diverse, they generate very similar lessons and observations about the strengths and limitations of social funds. This concluding section examines these common themes and lessons.

A. The strengths of social funds

1. Rapid financing for critical economic and social needs

By designing simple project approval, procurement, and disbursement procedures, social funds can distribute financing more rapidly than other public agencies. Granting political and institutional autonomy to social funds enables the funds to design procedures that best serve their needs. Social funds, such as the ESF in Bolivia and AGETIP in Senegal, have demonstrated the critical importance of political and institutional autonomy. Autonomy has enabled these funds to disburse money rapidly. In contrast, the low level of autonomy granted to social funds in Egypt, Guinea, and São Tomé has hindered its ability to develop adequate procedures and resulted in disbursements falling behind schedule.

2. Flexibility

Social funds are highly flexible mechanisms because they finance but do not implement projects. They can serve a variety of objectives simultaneously, work with different types of organizations, and finance projects in one or more sectors depending on the specific needs of the individual country. For example, generating employment opportunities is a high priority for the Senegalese government. The AGETIP, therefore, focuses on public works projects, channeling contracts to private-sector construction firms. In Zambia, reducing reliance on public resources by promoting self-help, community-based projects has been the objective. The SRF, therefore, works more with NGOs and community organizations.

3. Low-cost, low-risk opportunity for public-sector reform

Social funds are a response to the serious institutional gaps that exist in the public sectors of many developing countries. They provide governments with the opportunity to experiment with different institutional procedures, such as management information systems, procurement and disbursement procedures, and civil service regulations. Senegal is a good example: by redesigning its procurement and disbursement guidelines, it has reduced substantially the costs of providing employment opportunities to low-income workers as compared to government programs.

Equally important is the opportunity for governments to realize the political gains from increased transparency and accountability. When social funds allocate resources according to objective criteria, communities and NGOs are more willing to cooperate with the funds. Public accountability increases the possibility that resources will reach their targeted destination rather than being diverted for individual or political purposes. Yet, while social funds have demonstrated that more efficient methods are possible, efforts to transfer these lessons to other public agencies have been minimal.
4. *Expanded distribution of resources to poor, rural communities*

Social funds have been able to distribute resources to communities previously underserved by government agencies or private-sector organizations. The institutional flexibility of social funds, the judicious use of simple targeting mechanisms, and the promotion of the social fund to organizations and low-income communities all have helped to expand the funds' geographic coverage beyond the major population centers.

5. *Expanded participation and cooperation in economic development*

Social funds have increased the number of actors involved in economic and social development and improved cooperation and coordination among international donors, local-level governments, NGOs, private-sector firms, and community organizations. In Egypt, government officials are slowly changing their attitudes toward working with the private sector. In Honduras, the early successes of the social fund in providing widely visible benefits generated confidence among NGOs, inducing them to cooperate with the social fund. In Bolivia, Honduras, Senegal, and Sao Tome, new procurement and disbursement procedures have given smaller contractors access to public works contracts.

6. *Improved coordination among donors*

Social funds provide an arena in which donors and governments can coordinate programs and eliminate the potential for conflicting incentives. The social funds can also reduce transaction costs for donors that finance projects in multiple sectors by eliminating the need to interact with several ministries and public agencies. Efforts to initiate a credit program in Sri Lanka demonstrated the importance of increased coordination of interest rates. The social fund, which charges market rates for its loans, has been unable to attract many borrowers because the government continues to subsidize credit.

B. *The limitations of social funds*

1. *Social funds that rely heavily on others to generate demand for projects will most likely not reach the very poor*

Analysis of the ESF in Bolivia concluded that there is a tradeoff between relying on other organizations to propose projects and reaching the very poor. When NGOs or government agencies do not reach the poorest areas, then social funds must implement more active measures to ensure a wider geographical distribution of resources. Improved targeting, increased promotion of the social fund to communities and organizations, additional technical assistance, and judicious use of financial incentives to qualified NGOs willing to expand their operations into neglected regions can help to ensure that poor communities will receive the financing intended for them and that they can, in turn, implement worthwhile projects.
2. Social funds have limited resources and therefore must be part of a larger, coordinated effort to meet social and economic needs

Social funds are only one institutional mechanism for meeting the economic, political, and social needs of a country. Their contributions should not be construed as a substitute to reform public-sector agencies or line ministries. The establishment of a social fund should be part of a larger plan that delineates and coordinates the roles and responsibilities of related public-sector agencies and ministries. The underinvestment of resources in social services because of the inability of communities, NGOs, and governments to finance recurrent costs very clearly demonstrates this point. Neither social funds, central governments, NGOs, or communities can solve this problem on their own. Coordination among them, however, could utilize the strengths of each organization to tackle the most critical challenges.

3. Social funds face a tradeoff between rapid implementation of projects and building institutional and technical capacity

The severity of this tradeoff depends on the level of existing institutional and technical capacity. When local capacity is extremely limited, social funds may need to invest additional resources in this area. This has been the case in Guinea, Sao Tome, and Guyana, where the limited local capacity has required the social funds to pay particular attention to providing technical assistance to local organizations, public agencies, and community groups to ensure that they have the ability to undertake projects. In Sao Tome, where local capacity is severely limited, the social fund employs international contractors to implement projects that have priority. The fund requires international contractors to subcontract to local firms; through these partnerships, local firms gain technical, financial, and organizational skills.

4. Social funds have had limited success implementing credit programs

Social funds do not have the financial and technical resources to appraise or supervise credit programs. Designed more as rapid financing mechanisms, most social funds (with the exception of Egypt and Sri Lanka) have allocated less than 10 percent of their funds to credit programs. Credit programs are time-consuming to establish, require strong institutions to support entrepreneurs, and take longer than infrastructure or social service projects to deliver visible benefits. Honduras has established strict criteria for financing credit programs, worked with NGOs that have established programs, and been able to maintain high loan-recovery rates, but their success has not been duplicated by other social funds.

C. Factors that contribute to a successful social fund

1. Human capital

The cornerstone of an effective social fund is a qualified and committed staff. Good management of the fund lies at the heart of its success or failure. The internal organization of the social fund, incentives to employees to perform, and staff morale all emanate in part from the quality of management and leadership. The ESF in Bolivia established a pattern, followed by Honduras, Senegal, and Zambia, of paying staff salaries equivalent to the private sector and hiring an executive director with private-sector management experience. Training staff and then retaining them is crucial to building a coherent and cohesive institution.

[28] Webster et al., 1994, p. 3
2. Institutional autonomy

Institutional and political autonomy is also essential to a successful social fund. The authority to choose projects without interference from the board of directors or political entities reduces pressure on social funds to allocate resources according to political criteria. Exemption from civil service regulations and pay schedules permits social funds to pay competitive wages and attract competent employees. Finally, autonomy has enabled social funds to establish procurement and disbursement procedures more conducive to the decentralized and small-scale nature of their projects.

3. Political support and commitment

Commitment among the highest political authorities is vital to preserving the autonomy of social funds and to ensuring objective and transparent allocations of funds. Political leadership committed to the institutional integrity of the fund can limit the use of social funds for political purposes. In Egypt, where the political leadership has not understood the concept of a social fund, the fund has been vulnerable to political interference when allocating resources. Even when social funds have quasi-private-sector status, political commitment to their objectives remains important because of the need to coordinate fund activities with the programs and objectives of the central government.

4. Coordination with line ministries

By coordinating with line ministries and public agencies, social funds can ensure that their objectives complement those of the ministries. Further, such collaboration reduces resentment and hostility that might arise toward the special status of the social funds. Giving other public institutions a stake in the success of social fund operations — without jeopardizing the fund’s autonomy — may encourage the transfer of lessons learned within the fund to the line ministries or other technical agencies. Line ministries in Bolivia and Honduras can veto projects that do not support their policy objectives but do not have the authority to approve them. This ensures that social funds support broader objectives but reduces opportunities for political interference.

5. Supervision and audits

Proper supervision of projects and periodic audits improve the quality and integrity of social fund operations and reduce the potential to misuse funds. Supervision is essential, although it is time-consuming, expensive, and labor-intensive, especially in countries in which geography and the poor quality of transport infrastructure make travel difficult. Establishing regional offices reduces travel time and delegating supervision to qualified third-parties, such as NGOs, can decrease the administrative burden on social funds.

To make supervision and audits effective, the funds also must be willing to enforce their rules and regulations uniformly and consistently. When organizations violate fund regulations, social funds must be willing to impose an appropriate penalty.

6. Establishing learning mechanisms for the social fund

Periodic auditing and evaluations bolster public confidence in a social fund. But they are also an important means for social funds to improve their operations. Critical reviews can reveal weaknesses in the institutional framework and suggest ways to improve operations. Learning to identify problems and form new solutions contribute to the social fund’s ability to reach its objectives. For example, Zambia conducts periodic beneficiary assessments to determine the impact of its projects on participating communities. This is a valuable tool for uncovering both the strengths and weaknesses of its operations and designing solutions, where necessary. The Bank can play a pivotal role by transferring experiences and lessons across countries. The frequent and regular exchange of ideas among Bank staff, policymakers, and fund staff can facilitate problem solving.
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