Employment and Social Investment Funds in Central/Eastern Europe and The Commonwealth of Independent States (CEE/CIS)

Piet Goovaerts

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ILO

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Preface

Since the first Social Fund was launched in Bolivia in 1986 such institutions have become powerful tools in channelling rural and urban assets as well as social services to the poor. Their primary intention was to respond to increased criticism of the effects of structural adjustment programmes on the most vulnerable groups. These funds were thought to constitute an attractive short- to medium-term alternative as they cast a social safety net to those particularly harmed by the process of economic reforms. Social Funds gradually evolved into instruments of social policy. They were introduced in a variety of situations and in countries with diverse socio-economic background. The World Bank, which has been the main actor in the development of Social Funds, approved more than 60 of them by the end of 1998 for a total commitment of US$ 1.5 billion. To date, more than US$ 3 billion have been invested into Social Funds or similar institutions when one adds the financial contributions of other institutions involved, i.e., the European Union, Inter-American Development Bank, the Arab Fund and KFW, etc.

This working paper reviews the recent experience of Employment and Social Investment Funds already implemented in Central and Eastern Europe and Commonwealth of Independent States. It is one of a series of documents in the Employment-Intensive Investment Branch research programme on Social Funds. Other similar documents have been prepared for Africa and Latin America, respectively. The purpose of these studies is to examine thoroughly the accomplishments and shortcomings of Funds in areas of particular concern to the ILO. The conclusions will appear in a synthesis monograph on the relevance of Social Funds as tools for employment creation, poverty alleviation and gender promotion. The monograph will also present a number of recommendations aiming at improving their efficiency.

This study was written by Piet Goovaerts who has gathered extensive experience on Social Funds in this part of the world as a World Bank and ILO consultant. As such, he has been involved in the design and implementation of several Social Funds in CEE/FSU countries since 1993 when the first Social Fund was launched in Albania. In this region, Social Funds are very distinct due to the specific conditions of the transition from central planned economies to more liberal economic developments. According to the author, a number of preliminary conclusions can already be reached on the implementation of CEE/FSU Social Funds despite their recent start. Namely, these Social Funds still lack impact monitoring procedures and it is urgent to improve them. In order to achieve the more complex objective of employment generation for the poor, it is necessary to conceive these Funds as longer term institutions. For this purpose, they should diversify more their field of activities. Particularly, they should include more productive assets supported by micro-finance schemes and micro-business development. Social Funds should also contribute to the emergence or strengthening of local governments although this is a longer-term task, given the central planning tradition of these countries. This would facilitate a more realistic appraisal of projects and, therefore, ensure a better sustainability. Philippe Garnier, Employment-intensive Investment Branch, was responsible for the final editing.

Jean Majeres, Head,
Employment-Intensive Investment Branch.
## Acronyms and Abbreviations

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<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADF</td>
<td>Albanian Development Fund</td>
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<tr>
<td>AGETIP</td>
<td>Agence de Travaux d’Intérêts Publics (Works Agency for Public Interest)</td>
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<td>ASIF</td>
<td>Armenian social investment fund</td>
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<td>BRIF</td>
<td>Bulgarian regional initiatives fund</td>
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<tr>
<td>CEE/CIS</td>
<td>Central/Eastern Europe/ Commonwealth of Independent States</td>
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<tr>
<td>CIR</td>
<td>Community infrastructure rehabilitation</td>
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<td>CISH</td>
<td>Community investment share</td>
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<td>ECA SIF</td>
<td>Eastern Europe and Central Asia social investment fund</td>
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<td>IFPRI</td>
<td>International Food Policy Research Institute</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>KFCI</td>
<td>Kosovo fund for community Initiative</td>
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<td>LIL</td>
<td>Learning and Innovation loan</td>
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<td>MP</td>
<td>Micro-project</td>
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<td>MS</td>
<td>Management Information System</td>
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<td>MSIF</td>
<td>Moldovan social investment fund</td>
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<tr>
<td>NGO</td>
<td>Non governmental organization</td>
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<td>OM</td>
<td>Operation and maintenance</td>
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<td>RSDF</td>
<td>Roumanian social development fund</td>
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<td>SF</td>
<td>Social fund</td>
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<td>SIF</td>
<td>Social investment fund</td>
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<tr>
<td>SME</td>
<td>Small and medium enterprise</td>
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<td>TASIF</td>
<td>Tajikistan social fund investment</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>WB</td>
<td>World Bank</td>
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I. EMPLOYMENT AND SOCIAL INVESTMENT FUNDS (SIFs) IN CEE/CIS

1.1 Introduction

There are nine SIFs in operation in the CEE/CIS. The Albanian Development Fund (ADF) is the first fund which was launched as a pilot operation in 1993, followed by the Armenian SIF (ASIF) in 1995, which have already implemented their first WB loans and are implementing further ones. They were followed by the Tajikistan SIF (TASIF, 1997), the Georgian SIF (GSIF, 1996), the Moldovan SIF (MSIF, 1999) and the Bosnian SDF (1999). All four are operating on their first WB loans. The Bulgarian Regional Initiatives Fund (BRIF) is managed by UNDP and operates on a World Bank learning and innovation loan (LIL) as a pilot phase, awaiting appraisal for the standard follow-up loan. The Romanian Social Development Fund (RSDF) is in the process of obtaining WB loan effectiveness. The Kosovo Fund for Community Initiative (KFCI) is being set up as an emergency support measure with a WB grant from the post-conflict unit, in addition to a Japanese grant managed through the WB’s post-conflict unit (signed in October 1999).

There have been requests to set up SIF in Russia and Azerbaijan, but action is still pending. There has also been a preparation exercise for an SIF in Uzbekistan (SIM Fund) but there have been considerable delays. There are plans for SIFs underway in Turkey and Ukraine.

In November 1998, the ASIF held in Yerevan a first SIF-CEE/CIS meeting to share experiences and promote cooperation. The active SIFs decided to set up an SIF network in the CEE/CIS, called the ECA network,\(^1\) and elected Gagik Khatchatrian (Armenia) as temporary chairman. G. Khatchatrian was the first executive director of the ASIF and is currently senior adviser to the Bulgarian Fund. The ECA network intends to have similar activities to those of the networks established in Latin America (La Red Social de America Latina y el Caribe/Mexico) and in Africa (AFRICATIP/Dakar).

The experience of SIFs in the CEE/CIS is therefore very recent. It came relatively late, compared to the first SIF which was established in Bolivia (FISE and FIS) in 1986\(^2\) and started operating on WB funding. The funds in Latin America proliferated only in the early 1990’s: in Chile (FOSIS), Ecuador (FISE), El Salvador (FIS), Guatemala (FONAPAZ and FIS), Guyana (SIMPAP) Honduras (FHIS), Nicaragua (FISE), Panama (FES), Peru (FONCODES) and Uruguay (PRIS/FAS). On the occasion of the tenth anniversary of the Bolivian fund, the World Bank organized the first worldwide conference on social funds in Washington.

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\(^1\) ECA stands for Eastern Europe and Central Asia, and is the departmental acronym used by the World Bank.

1.2 SIF objectives

Richard Pomfret\(^3\) clearly states that “transition from central planning to a more market-oriented economic system was the only [economic development] option to the Central Asian republics after the dissolution of the USSR”. He continues

*besides the widely accepted elements of liberalization, openness and good governance, the alleviation of poverty is a contributor to economic growth, as well as a desirable goal in itself. ... More generally, the challenge facing the governments of the newly independent Central Asian republics was how to manage the transition to a market economy in a society grown accustomed to the satisfaction of basic needs by the state. ... A common feature of both Polish and Chinese growth has been the emergence of new small- and medium-sized enterprises, suggesting that the critical issue is not just speed of reform, but whether the reform process encourages or discourages new enterprises. ... The argument for fighting poverty is not just a negative one of avoiding a political backlash. There is also considerable international evidence that reducing poverty leads to fuller utilization of human resources and helps widen the pool of potential small-scale innovators and entrepreneurs. ... By assisting the poor to help themselves to escape the poverty trap, such (financial) innovations can have a big return in alleviating poverty and promoting growth.*

Although R. Pomfret was speaking specifically of the Central Asian republics and their accessibility to finance, a parallel with the other CIS countries and SIF-type poverty alleviation activities can certainly be drawn.

In the May 1997 Washington conference on SIFs, their objectives were carefully addressed. The WB’s Managing Director, Sven Sandstrom\(^4\) puts it clearly:

*Social funds are no panacea. Sustainable poverty reduction requires a complement of actions from sound macroeconomic policies to broad social investments to targeted investments focused directly on the poor. Social funds are only one of many instruments to reduce poverty. It is important to keep the overall strategy in proper perspective.*

Most of the other keynote speakers were equally careful.\(^5\)

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\(^3\) Pomfret, Richard “Economic Developments (in Central Asia) during the 1990’s and aspects for the future”.


\(^5\) *Ibid.*, World Bank, “Social Funds and Reaching the Poor”. Vinod Thomas, Director, Economic Development Institute (pp. 21-22: ref. “key experiences are under scrutiny ... These papers offer substantial evidence and experience of what might be working and what might be working less well around the world...”); Ishrat Husain, (then) Principal Advisor, Poverty Reduction and Economic
Joe Stiglitz, the WB’s Vice President and Chief Economist at the time is of the view that

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

*These actions encompass the creation and maintenance of a social safety net, including the following: * access to basic health services; * promotion of education and training; * investment in infrastructure; and * transfer of technology and know-how to the poor.*

*The record, however, shows that in many, if not most, (developing) countries, the poor have by and large not benefited from government programs and projects in these areas. ... The attractive feature of social funds is that they use the comparative strengths of each of the government, private sector, and community organization partners and coalesce them into an integrated whole.*

The ILO’s approach tends to be policy oriented with regard to poverty alleviation through employment generation, but is very cautious. Samir Radwan, (...) concludes that:

*previous approaches have not met with great success, and therefore there is a need for a fresh approach to poverty reduction that takes into account current features of the international and regional economies. What is needed is a new growth regime in which social objectives are treated as an inherent part of economic policy, both as targets of such policy and as contributors to long-term growth. It is argued that employment-intensive growth is the most effective way to combat poverty.*

M. B. Schmidt and A. Marc (1998) argue the following:

*The diverse array of national histories, cultures, and political systems across the CEE/CIS contrasts sharply with the centralized economic system that was common*
to the region during a large portion of the twentieth century. ... What distinguishes transition from reforms in other countries is the systemic change involved, that is, to shape and reshape institutions away from the legacy of planning, formerly established property rights, and affecting the relationship between citizens and the state, with greater freedom of choice but also much greater economic risk. The transition from a planned economy to a market economy involves complex institutional, structural and behavioral change ... At the same time, the experience reveals that the common legacy and associated changes arising from the disruption in the highly planned economic system and subsequent liberalization has important implications to social funds. 8

In his contribution to the IFPRI study on Employment for Poverty Reduction and Food Security, Jorge Wurgaft provides a table which reflects the SIF fund availability per year as a percentage of GDP. This table indicates that FSE in Bolivia had a fund availability of 1% of GDP, FODESAC in Costa Rica was 1.7% of GDP, FHS in Honduras was 0.7% of GDP and PRONASOL in Mexico, 0.7% of GDP. In Mexico, the total amount was 2.3 billion US dollars, representing also 7.7% of total social expenditure. He further states:

The annual average amount of resources obtained by these two countries is equal to 1 percent of the GDP, so that it also has an impact at the economic level and on the balance of payments. In Bolivia, the contributions to FSE were equivalent, on average, to a 5% increase in exports of goods, while in Honduras, they were equal to a 3% increase, representing a positive contribution to economic activity in both countries. 9

However, with on average US$ 25 million funds for four years in Armenia, Georgia, Moldova, etc., this represents far less than 0.5% of GDP. The macro-economic impact is weak by definition.

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9 Ibid., ).
1.2.1 Overall objectives of SIFs

Schmidt and Marc further claim that:

The relative success of SIF operations [in CEE/CIS] -- even though for some the track record is short -- has demonstrated to political leaders an effective institutional mechanism to deliver benefits rapidly and effectively during economic transition. Benefits emanate from improved roads, water supply systems, schools and health facilities, and available credit financed through SIFs. Success has generated interest in the region to use SIFs to undertake a variety of functions: restore small-scale infrastructure, attract and channel public and private investment resources, create temporary jobs, develop private businesses, strengthen transparency and capacity of local governments, foster civic responsibility and community initiative, and contribute to post-conflict reconstruction.\textsuperscript{10}

The ILO has been associated with employment programmes for nearly two decades, mainly in Africa and Asia. According to J. Majeres,\textsuperscript{11} the main purpose of labour-intensive works programmes has been to influence investment policies so as to maximize their impact on employment generation and to alleviate poverty. For the ILO, employment policy and structural poverty alleviation are closely interrelated.

In short, there have been, until now, two approaches aimed at accelerating economic employment and reducing poverty:

- the first gives absolute priority to economic growth, expecting a trickle down effect to benefit the entire population. This has been too optimistic as has been confirmed by facts;

- the second approach attempts to add a social component to economic policy, such as special programmes set up in the context of structural adjustment policies (i.e., social investment funds). These programmes often include public works or employment generation schemes. As was stated as a conclusion of the May 1997 Social Fund Conference in Washington, these programmes have not produced a noticeable macro-economic impact either.

The overall objectives in employment and social investment funds have been clearly established for several years. J. Majeres (1995) writes in The Concept of Labour,- and Local Resource-Based Investments: The Evolution of the ILO Approaches:

\textit{During the 1970s and 1980s, the main aims of the employment programs in developing countries that requested ILO assistance (particularly in Sub-Saharan

\textsuperscript{10}Ibid., 8).

Africa) were direct employment creation and income distribution. However, employment generation schemes were often viewed by governments and donors only as short-term job creation, appropriate for emergency and relief situations.

Subsequently, this approach was reviewed. The “labour-intensive” approach has been extended to a wider “local resource-based” approach that incorporates local resources, including labour, and, more generally, materials, tools and equipment, finance, know-how, and institutions. The aim is to maximize the use of all locally available resources, contributing to the development of the domestic market and, simultaneously, saving on foreign resources and exchange requirements. The local resource-based approach emphasizes the following objectives:

1. create immediate employment and income for the poor;

2. create the basis for permanent/longer-term employment and income opportunities for the poor (through the operation and maintenance of assets created) and increased economic activity (especially in agricultural related production);

3. ensure cost-effective construction and increase the sustainability of infrastructure works through optimum use of local resources -- an objective that will also make maintenance affordable;

4. strengthen backward and forward linkages in the local economy by developing artisanal or small enterprise activities (such as the manufacture of tools, simple equipment, and so forth) and facilitating marketing of agricultural produce (creating storage, market places, access roads);

5. promote the participation of decentralized government agencies and the local population in the selection, construction and maintenance of infrastructure;

6. promote the involvement of private contractors using labour-based techniques in construction and maintenance works;

7. strengthen the local institutional and operational capacity of both the public and private sectors and local community-based organizations through technical, managerial, and organizational training;

8. contribute to the formulation of investment policy favoring the effective use and further development and protection of the local resource base; and

9. contribute to the creation of an overall policy environment favorable to large-scale replicability of the approach.\textsuperscript{12}

\textsuperscript{12} Ibid., 2).
According to W. Keddam (1998)

*a large variety of employment-intensive programmes thus exists. Not all of these have identical or even similar objectives; rather, a wide range of objectives is being pursued, a wide range of practices has developed and a wide range of experiences has accumulated. .... A final stage in the growing number and volume of public works was the invention of the safety net approach by the Washington-based institutions to cope with the adverse social consequences, first, of structural adjustment, and, more recently, of the transition from a centrally planned to a market-oriented economy. All public works programs have multiple economic objectives including employment creation, income redistribution and creation of assets. .... The theme of effective (short-term) poverty alleviation is taken up in further reviews by Ravallion and IFPRI, reviewing evidence from India and Bangladesh, concludes that public works are amongst the most cost-effective measures for poverty alleviation.*

1.2.2 Specific SIF project objectives in CEE/CIS

In comparing the objectives of the different SIFs, taking the ASIF objectives as yardsticks, there are serious overlaps and evident differences. For each objective which is common for other funds, although differently formulated, the acronym of the fund will be mentioned at the end of the objective, and where required specific concept will be mentioned. The list ends with a series of specific objectives which differ for almost each of the SIF under scrutiny here:

- improve the living standards of communities through the provision of needed funding for rehabilitation of small-scale social and economic infrastructure (ASIF, MSIF: aims at rural areas and targets vulnerable layers of society; GSIF: targets vulnerable groups and remote mountainous areas in particular; Albanian RDF precursors of the ADF; WMEDP-PADB: urban infrastructure; ADB: rural focus; TASIF, KDF: to improve the living conditions of the poor and to upgrade basic social and economic services in their communities);

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15 WMEDP-ADB: Loan of the WB executed by the Albanian Development Fund focusing on urban areas.
• assist communities and grassroots organizations in increasing their technical and managerial capacities for micro-project preparation and implementation, and encouraging the attitude of self-help (ASIF, MSIF: specifically mentions operations and maintenance and targets local government; GSIF, WMEDPP-ADF: assist local governments obtain local development skills; KCDF; see above);

• provide employment generation through involvement of private contractors in labour-intensive micro-projects (ASIF, MSIF, GSIF, ARDF: rural focus; WMEDPP-ADF: urban focus, immediate and long-term employment; KCDF: job creation is an output);

• enhance the capacity of local organizations and private enterprise, involved in micro-projects to work in market-economy conditions (ASIF, MSIF: provides two objectives separately for consultants and contractors; GSIF, ARDF: create rural market economy; WMEDPP-ADF: development of micro-enterprises; KCDF: enhance community solidarity and initiative, and reinforce community participation in local governance structure);

• develop the Tajikistan Social Investment Fund (TASIF); to establish the Kosovo Community Development Fund as an efficient, transparent and accountable local institution (KCDF);

• participate in studies aimed at the improvement of information databases essential for the improvement of the living standards of the people of Armenia (ASIF, GSIF: build greater capacity for policy makers to monitor and analyze trends in the level and structure of poverty in Georgia);

• strengthen local government and assist in management of social key assets divested from state enterprises and collective farms (MSIF);

• upgrade primary school education in communities covered by the MSIF activity (MSIF);

• introduction of health care education programmes (MSIF);

• de-institutionalize children and return them to their families or provide an alternative family environment; aid handicapped children; prevent institution-alization of children in the future (MSIF);

• assist local governments gain access to credit for investments in local infra-structure and services (BH-LDP);

• provide minimal levels of cash assistance for the poorest households in 1996 to help overcome their difficulties in the transitional period, and support to orphans and the war-injured through direct assistance and retraining programmes in selected areas (Bosnia-Herzegovina: Emergency Social Fund).
Thus, the majority of the SIFs in the CEE/CIS focuses on small community public works. Recent SIFs have started to include some community development activities, which are hard to define in the WB context. Indeed, business development is hard to include in SIFs, because it is considered unfair competition and is associated with credit and banking issues. This rigidity is regrettable, since there is an urgent need and a great demand for the development of small businesses in these countries.

The most common objectives are the first four mentioned above. These were included in the ASIF, GSIF, MSIF and KCDF, which were prepared by most of the same people. They also seem to be the main goals of the other funds, even if not all four appear explicitly.

In a few examples (the TASIF and KCDF) the institution-building component is clearly mentioned as an objective. It is important in the first phase to recognize that institution building is as important as the intended objectives regarding the beneficiaries. The intent there is that a solid and efficient institution is more beneficial to the end beneficiaries than a weak institution. SIFs are more efficient if they have been built up carefully and thoroughly. There are often pressures which lead to reductions in this preparation schedule. In view of the short experience in the CEE/CIS, conclusions cannot be made, but it appears that impatience leads to weaker community-oriented approaches, which is considered to be one of the SIFs’ strengths.

1.3 Institutional set-up of the SIFs and how they work

SIF were developed to achieve greater operational efficiency and to better target objectives than government-line ministries and agencies. They were therefore designed with a high degree of autonomy of line functions in governments with particular objectives and were given specific operating mechanisms. These characteristics do not distance them from their real “boss”: the government. SIFs are considered by all parties concerned, whether for or against, to be a unique mechanism whereby governments, private sector and civil society work together in a coordinated way. In order to achieve this efficiency and this cooperation, SIFs have developed a unique set of operating tools.

What is frequently the cause of confusion in this matter, is that the chosen type of activities, namely community infrastructure rehabilitation, micro-finance, SME development and social service development, becomes the focus of attention, whereas these are the only means deemed by specialists to be the most efficient way to achieve objectives and to reach the targeted beneficiaries in a particular context.

SIFs are being put under enormous pressures to produce quick results. Mainly, from the World Bank’s point of view, disbursement is the prime measure of success of a project. Again, this pressure shifts the focus from the objectives to the delivery of the product that intends to achieve these objectives: community infrastructure, micro-finance loans, social services and SME business services and loans. Unfortunately, this is misleading and often the output does not compensate the sophisticated and costly set-up of an SIF.
This pressure is not the major problem in itself. In fact, it can be healthy, if and as long as the institution is being guided towards its main functions: to be a social investment fund, to act as one, and to keep in mind that to achieve its objectives and to reach out to the targeted beneficiaries, SIFs have to achieve disbursement.

Paragraph 1.2 shows that SIFs can be very versatile and the types of activities listed above are another reflection of that versatility. But it also shows that SIFs have a large mix of objectives, which according to basic management rules is not considered to be a most efficient way to achieve results. The mix of objectives and types of activities used for achieving the objectives and reaching out to the beneficiaries results in a rather complex institution-building exercise, which is not always achieved. The consequence of that versatility is also that no two SIFs will ever be the same, and that there is no standard format of institution to apply every time.

On the one hand, World Bank evaluations\(^{16}\) claim that emergency SIFs are most successful when the types of activities and objectives are very precise and limited in number. Actually, several studies do not recommend mixing different activities within the same SIF. On the other hand — and this is certainly the ILO's position\(^{17}\) — the objective of poverty alleviation and employment generation to address poverty alleviation, is a complex and long-term objective and has to be treated as such.

In the practice of the SIFs in the CEE/CIS, the mix of objectives, sometimes combined with different types of activities (not too often as of yet), turns out to be much too complex to develop into an efficient delivery instrument. And the CEE/CIS have the added handicap that they have to adapt to the market economy orientation, as mentioned earlier. Institution building has been the main concern over the first two to three years of operations. The institutional set-up has developed primarily from the earlier SIFs (Armenia) to the later ones (i.e., Moldova and

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16 See World Bank: “Portfolio Improvement Program Review of the Social Funds Portfolio”.

17 This does not imply that the WB and the ILO are on opposite paths here, on the contrary. The WB’s “project-oriented” approach whereby projects are parts of a larger programme have a global programme approach, but the WB’s main policy approach lies more in structural economic reform at the macro-level. The ILO’s mandate is employment generation — under adequate conditions — and therefore its focus on employment generation as a mean of poverty alleviation is more policy and socio-economically oriented and holistic in the narrower “employment” field. Since 1987, the ILO has created a dialogue with the Bretton Woods institutions (ILO’s High-Level Meeting on Employment and Structural Adjustment in 1987), followed by the June 1996 International Labour Conference. The 1987 meeting launched the ILO’s work in the promotion of structural adjustment policies that correspond to ILO values. It has contributed to a deepened understanding between the institutions on various labour market and social issues, and has expanded to cover not only structural adjustment but also broader economic issues relating to globalization and economic growth. The 1996 conference urged the ILO to strengthen this dialogue with the aim to promote better mutual understanding of interrelationships between economic, social and employment policies. The conference identified the main themes which should be the focus of the dialogue: the role of the social partners, the quantity and quality of employment, social safety nets, vulnerable groups and employment targets in social adjustment programmes.
Bulgaria). The development of operating tools such as the MIS, the operational manual and accounting has been very thorough.

1.3.1 Description of the institutional characteristics

SIFs come in a wide variety of forms and shapes, and no two will actually be the same, even if their objectives match each other closely. But in general there are five elements which characterize the institutional set-up of SIFs: efficiency, accountability, transparency, autonomy and the fact that they are “funding agencies”. We will analyze these elements starting with the last one.

* **SIFs are funding agencies**, as opposed to implementing or executing agencies. They compare to “banks” which have funds available for carry out certain types of “projects”. They manage funds with objectives in mind. Although they may not always have all the capabilities on hand required to assess, appraise and deliver these types of “projects”, they have access to all the necessary expertise, particularly that of financial management.

* **SIFs are (quasi) autonomous**. The autonomy of SIFs has been explained in a multitude of ways: in order to compensate for the inefficiency of government administrations in some countries; in order to undertake things differently than the rules of local administrations allow in order to target better and not be subject to national legislation; to set an example of efficient operations and hope for a multiplication or copying effect. On the whole, all these explanations are valid. Their autonomy makes it possible to undertake certain types of activities in a “different way” than do government and non-government agencies. They are supposed to be targeted operations to be carried out with great efficiency. SIFs are also supposed to be able to adapt to changing circumstances and therefore change their modes of operation. In that respect, they are very much like banks which change their “lending products” with the changing economy. Efficiency is an important factor, which strongly relates to staffing. Without autonomy there are no SIFs. Autonomy is not always as complete as it should be, and in general there are always some parties which exercise more control than required over an SIF’s activities. This is practically unavoidable.

On the other hand, the autonomy is not intended to turn the SIFs away from their actual “bosses”, which are the World Bank and other international financial institutions. They mainly provide loans and credits through State budgets. The State is controlled by certain parties, which wish to claim the benefits. On the whole, the WB’s reviews of SIFs worldwide indicate that greater autonomy leads to better results. This is a lesson learned which is very difficult to transmit to those parties who wish to claim their rights.

* **Transparency**. This is where SIFs differ significantly from other types of “projects”. SIFs have objectives and one or more types of activities they intend to use to achieve these objectives, but they do not have a detailed work plan. The specific activities which an SIF will co-finance will be identified during the operating lifetime of the SIF, and not *a-priori*. This is, for example, the case when the WB provides funds to build a dam or a road: the feasibility study establishes the entire work plan. This is against WB principles, which only allows use of WB
funds for pre-determined activities. For that reason, SIFs have developed two main mechanisms which make them very comparable to banks: the operational manual (OM) and the management information system (MIS). To ensure that the selection process of the “fundable” bankable projects matches the objectives set out for the SIF, the OM describes in very detailed ways the procedures to be followed. The key steps and decision-making moments in the process of selecting and financing the implementation of each project is then monitored by the MIS.

SIFs are also generally set up in a two-tiered management system: a Board or Steering Committee (SC) and an Executive Office (EO). The Board or SC is in charge of policy, strategy and procedure compliance, and the EO is in charge of the daily management in accordance with the procedures spelled out in the OM. The EO reports regularly (monthly or quarterly) to the Board or SC and to the World Bank (or any other donor involved), on the basis of data generated by the MIS. In addition to the reporting, very strict auditing mechanisms are applied to provide the Board or SC with the necessary means to verify process and procedure compliance.

Transparency is further achieved by putting the SIF under direct public scrutiny: the entire process of project identification, selection and implementation is demand driven and the beneficiaries are involved in every step of the process, called “project cycle”, “micro-project cycle” or “sub-project cycle”. The OM procedures are disseminated to the end beneficiaries in a variety of ways, but with basically two intentions: (i) to ensure transparency in the use of SIF funds, and (ii) particularly in the CEE/CIS, to infuse society with the concept of the transparent usage of public funds.

• **Accountability**: financial accountability is an obvious standard objective of any project. These days, with the advanced development of computers, accounts are being integrated in the MIS system, which improves both transparency and accountability. The links between the disbursements and the physical progress for which payments are being released are more or less automated or at least clearly established. As for any large financial operation, annual financial auditing is a standard procedure for SIFs.

However, SIFs are also made accountable with regard to objectives: are the targeted beneficiaries actually eligible for SIF financing, and are the eligible beneficiaries satisfied with the delivered benefits? Targeting and beneficiary satisfaction are measured through beneficiary impact and satisfaction assessments.

• **Efficiency**: this has become the key word in describing SIFs. Serious efforts are being made to render SIFs efficient in the CEE/CIS. Efficiency, however, is being constrained by a number of factors, which are not always in the hands or responsibility of the key management of the SIFs. On the other hand, Latin America SIFs reportedly, put efficiency so high on the agenda that the quality of the output may be sacrificed. If that is proven to be true, the report by
Judith Tendler (1999)\(^{18}\) is to be taken seriously, even if many of the arguments presented in her report are unfair and can be used in exactly the opposite way.

The first key to efficiency is the staffing of the Executive Office. It is gradually being accepted that most of the tedious tasks in the project cycle can be delegated to outside consultants. This was not an easy decision in the CEE/CIS, as outside consulting is alien to the former regime. The types of skills required did not exist either, or at least not in the same form as expected for SIFs: i.e., promotion campaigning, appraisal, impact and beneficiary assessments -- all with community participatory mechanisms -- are specialized tasks which are totally new to the environment. In Armenia, it led to the creation of larger than needed promotion and appraisal units. Whereas an SIF unit, for approximately US$ 5-10 million disbursements annually, should consist of about 15 professional staff, in Armenia the staff numbers 35-40. In Tajikistan, the candidates recruited for key management positions could not believe that they would only have one or two subordinates: this undermines their image as managers. Never mind that they would supervise 20 consultants permanently and authorize around US$ 250,000 of payments monthly in not less than 100 disbursement orders!

The second key to efficiency is the distribution of tasks and the proper functioning of the roles of the Board or SC versus the Executive Office (EO). The role of the Board or SC is essential in achieving transparency and in setting policy and strategies. It should not play a part in daily management, but in project selection and approval. Most executive managers or directors of funds spend a disproportionate amount of time in appeasing or refusing such interferences, when they would be more efficient by properly managing the SIF’s EOs. In Georgia, during the last elections, the interference was so heavy handed that the EM almost resigned: he was offered alternative positions to clear the path. The interference did not come from the Board only, but from all parties involved in the election process.

The third key to efficiency is the availability of funds. Government counterpart funding to SIFs has been a cause of delays (a current example is the Georgian SIF). This is a standard constraint for most WB projects -- obviously, not in all countries. In some cases, payments by local banks are very slow, which causes contractors to be less dedicated to the work, and project delivery is slowed down. Collection of the communities’ investment share (CIS) is a tedious process, and has caused delays, but this should not be equated automatically with inefficiency. After all, the collection of the CIS is an essential component of SIF objectives.

The fourth and last key to efficiency, in terms of impact and achievement, is high disbursement rates. This is not to be confused with a speedy start of disbursements, or with accelerated micro-project cycles. When a steady stream of disbursement is created, efficiency is

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\(^{18}\) See Judith Tendler (1999): “The Rise of Social Funds: What Are They A Model Of?” It would appear that many arguments raised in this report are construed to support an opposite case, that local government structures are more appropriate channels to invest in poverty alleviation then SIF. Several of the arguments raised are distinctly errors or weaknesses, and are correctable. But the report then argues that correcting errors or weaknesses is not appropriate and is an indication of the inappropriateness of the SIF.
achieved without jeopardizing quality. This means that a steady number of micro-projects is under implementation.

"Jumping the gun" may prove very detrimental to an SIF: It will need at least one year for institution building, during which disbursement should enable SIFs to set up procedures, learn the trade of management by delegation and establish their credentials as delivery and transparent agencies. After a year, the disbursement flow should increase rapidly, but steadily. The WB and governments tend to favour quick and heavy disbursement from the start. This is harmful in many ways. Mainly, the quality of the outputs is affected and the institutional capacity to increase the output is never really built up, since the offices operate in emergency mode and cannot work on institution building. At the end the overall output is slowed down.

Shortening the length of a micro-project cycle is not to be equated with efficiency per se. It is important to move through the micro-project cycle efficiently, but the quality of each step should remain a top priority. The length of the micro-project cycle only affects the speed with which an SIF starts to disburse in its first months of operations. Once a healthy number of micro-projects is in place, the length of the cycle is relatively irrelevant, as all separate cycles overlap. The important element here is to create a continuous flow of micro-projects. This includes the slowing-down effects from CIS collection, procurement exercises and implementation delays.

SIFs in the CEE/CIS are now being designed with efficient staffing structures. The staff is getting used to management by delegation, although this is a difficult concept, even in a country like Bulgaria, which in economic terms is ahead of many of the CIS countries. However, the efficiency in creating a continuous flow of micro-projects has not really been achieved. In Bulgaria, the Regional Initiatives Fund (precursor to the BSIF) has delivered numerous projects, but institution building is still behind. In Armenia, institution building has been progressing for four or five years, but only average output has been achieved. The ASIF has been very slow to grasp the concept of delegation. Institution building in Moldova is impressive, mainly as regard sustainability, but it still has to be seen whether there will be heavy disbursement. In Georgia, the quality of institution building is moderate and output is severely constrained by outside factors, such as counterpart funding.

Then there is the characteristic for which SIFs are being appreciated by higher-level decision-makers: The capacity to use the comparative strengths of governments, non-government or community organizations and the private sector in an integrated way. This is not an institutional feature, but it is clearly the consequence of institutional design. The autonomy from national governments puts SIFs in the middle: the non-governmental sector. SIFs work with NGOs without cutting the umbilical cord with the government. The SIF -- and this seems particularly important in the CEE/CIS -- have also made a good contribution by setting the example to the local communities that private business is useful to develop their own environment. Private business, as a consequence of the previous doctrine in the region, is very much perceived by the public at large in the CEE/CIS as "thieving" on everybody for the sole benefit of business and its owner(s). SIFs are a good mechanism for inverting this perception and improving business practices.
SIFs are also one of the few types of projects assisted by the big international donors to invest in the poor. There are obviously other social network support activities, but they do not aim specifically at productive economic development. Micro-finance projects, which are sometimes undertaken in the framework of SIFs, but more frequently outside them, have a more or less equivalent approach. There is an ongoing debate as to whether SIFs could be adequate intermediaries for the development of micro-finance institutions. Other project types target the middle income class (perhaps even the lower middle incomes) and rarely contain mechanisms for the poorer classes to take part fully in the exercises and benefits.

The benefits of this institutional approach to the poor and to the overall economy are under-valued and to a large extent go unnoticed because they are poorly monitored. There are attempts to simplify impact assessment methodologies,\(^{19}\) because the usual ones are cumbersome and apply to larger-scale investments for more specifically defined geographic locations and beneficiaries.\(^{20}\) SIFs in the CEE/CIS are not yet equipped with the adequate monitoring indicators to provide quantified and qualified impact assessments. There is an attempt in the Kosovo Community Development Fund to build in some of the indicators. The Kosovo environment, however, may be the worst for measuring impact, as there is an overload of financial assistance from all the large donors, which will entirely overshadow any fund allocation to any type of individual investment.

1.3.2 Institutional management issues

The most relevant managerial issues have been discussed above. They relate to the need to build the institution and deliver the benefits in an efficient way. This relates to the concept of delegating work to outside consultants as well as with the establishment of adequate procedures to supervise and monitor the efficiency of consultants, project committees and contractors.

As stated previously, SIFs can be to be compared to “banks”. This may seem to be a rather inappropriate comparison. However, most SIFs are managed as financial institutions rather than construction companies. After all, the process of providing the funding in line with objectives and procedures should be managed, not the construction component. Then their good use should be monitored. This is particularly complex in the CIS, as management of financial institutions is not a common skill – neither is the efficient management of the construction business. Further, the appraisal of micro-projects goes through a series of procedures with totally different characteristics, i.e., socio-economic aspects and community participation. These are not common either.


\(^{20}\) SIF impact assessments are rendered more difficult because of their design in disseminating the investment, whereas classical investment projects invest far more densely.
One of the management mechanisms which has not been installed with any efficiency in SIFs in the CEE/CIS is a performance evaluation system with incentives. There are obviously some performance evaluation reports being prepared, but they are mainly ad hoc, based on subjective evaluations. They may not be wrong in their judgment value, but they cannot be upgraded to a mechanism which can deliver incentives for performing staff in line with past performance, and thereby become a motivation mechanism for improving individual and overall SIF performance. This has been approached marginally in many SIFs, but it is a concept to which CIS governments widely object.

A weakness of SIFs in the CEE/CIS lies in the management usage of the MIS. MISs are not being used for efficient management purposes. They mainly serve as reporting and auditing tools. MISs are tools which provide the means for delegated management. This is explained and described below.

1.3.3 Operational tools and procedures

SIF operational tools and procedures are mentioned above. It is time to give a more detailed perspective to them. There are three or four main operating tools built into SIFs. Now, the accounting system is being integrated in the MIS, making it appears as one tool, but in fact the two remain complementary in their function, the two other tools being auditing, and performance and impact assessments.

Although these operating tools are highly developed in many SIFs, they remain poorly used for managerial decision-making and trouble-shooting. Auditing and performance and impact assessments are still simple in design, except for financial and technical audits.

Management Information Systems (MIS) have been developed in most SIFs of the CEE/CIS with technical expertise from the people who were involved in the creation of the SIF concept in the first place: the Bolivians.\(^2\) It has now evolved into a very powerful system, particularly with the extraordinary technological development of personal computers and office networks. MIS are now able to manage massive amounts of data in extremely short periods, and report excellent information depending on whether the data are entered meticulously and accurately.

Although SIFs on the whole manage low technology and simple, small projects, MISs are important in SIFs because SIFs fund hundreds of projects at the same time. They are spread thinly, over vast countries, each of the projects being managed, carried out and supervised by rather weak parties (community committees, local contractors, local supervisors). In addition, progress payments are made rapidly for projects which are often finished within less than 6 months, sometimes under 3 months. This compares to a banking institution which manages small savings or small credits: these banks need more sophisticated monitoring systems than the larger

\(^2\) Particularly Christian Hurtado, consultant for the WB on the ASIF, the GSIF, the MSIF, the KCDF, the BRIIF and many other projects in the region (and in Latin America).
banks which manage small numbers of bigger savings and loans. The point to be made here that one should not make averages and shortcuts, but each micro-project should be micro-monitored. This is similar to small credit and savings banks that micro-monitor each individual account, even if an account carries only a few dollars. Averaging and shortcutting create a blinding effect which runs counter to operating efficiency.

The first most important function of the MIS is to track the project cycle of each individual micro-project in order to make sure that the executive office and its staff are respecting operational manual procedures. From there, the MIS tracks the financial progress of each project based on its physical progress in accordance with the cost estimate of each project (versus the schedule of works). Following procedures and tracking a project’s financial progress are the main criteria used by the executive office to approve or reject a project proposal and by the accounting department to make progress payments.

MISs are used to a large extent for their reporting capacity to the Board or SC, to the WB and to donors, but they are not used sufficiently for daily management purposes. MISs can provide weekly or bi-weekly progress reports for each project, for each district, for each region and for the country as a whole. This can be developed in graphic form and would serve the purpose for the executive manager and the department managers to identify weaknesses and delays. Subsequently, work schedules can be organized to deal with problem cases and ensure supervision over delegated tasks. This is only done marginally.

MISs also contain various databases: the most important one is the unit price database for work items. This terminology can be extended to almost any type of services or other activities. Moreover, the MIS maintains lists of contractors and supervision, appraisal, design and impact assessment consultants (individuals, companies, NGO’s or other types of institutions), as well as all kinds of formats being used in the administrative management of the office and the personnel management.

The unit price database is a useful source of information which is increasingly being used for cost estimation, but which should also generate price indices and quick cost estimation methodologies. They are not used to their fullest extent.

All other databases are used as lists, but could be used for performance evaluation purposes of staff, consultants, contractors and overall impact of projects. In view of the fast growth of SIFs and the parallel development of modern computer technology, it can be expected that these mechanisms can be developed in the next few years.

A major constraint in the use of the MIS in the CEE/CIS is that few people are sufficiently computer literate to make use of such a sophisticated management tool. In the first place, it is not easy to find “up-to-standards” MIS managers for SIFs, although this has been rather successful in the ASIF and MSIF. The staff, which was not used to the SIF concept, was also computer shy. These are developments which require time, and progress is being made in most places.
The main justification for a sophisticated MIS is the fast, voluminous output of projects. This has not been fully achieved until now. In comparison with the Yemen Public Works Project (YPWP), which disburses at least US$ 1.3 to 1.5 million/month in 300 to 400 installments for over 150 projects simultaneously, the CEE/CIS SIFs have under-performed, and their MISs are under-used, although more sophisticated.

*The computerized accounting system*, based on international accounting standards, is now becoming an integral part of the MIS. This means that the financial progress data of the projects and of other expenditures monitored in the MIS are being automatically transferred to computerized accounting logbooks and that the accounting software is incorporated in the same server and system as the MIS.

Accounting is not a new type of management tool and it remains essential as always. With modern computer technology accounting can provide faster and better updated reporting and forecasting. The World Bank started installing a new disbursement system in its projects in early 1999 called the LACI system “Loan Administration Change Initiative”. This system bases its quarterly disbursements from the Bank in Washington to the country projects on projections of funding requirements and on actual disbursements as generated by the computerized accounts. The funding requirements are projections being generated in the MIS. For SIFs, each micro-project entered is being cost estimated very early on and is being scheduled for implementation so that close projections can be made.

With modern computer technology, managers should use the regular up-dated data for their management decisions to speed up or slow down promotion and appraisal. More of the individual micro-project preparation charges should be transferred to the micro-project (MP) costs. Subsequently, accounting records could reflect real overhead costs of the executive management office and proportional costs for project preparations and all kinds of impact and performance evaluation costs. This is more in line with the way that private companies deal with development and production costs.

*SIFs should be designed with three types of audits*: (i) standard financial audits according to international standards; (ii) technical audits or reviews to ensure quality of completed projects; and (iii) process auditing. Whereas the first two audits are more common, the third one is essential for transparency and for the delegation of autonomy to the executive office.

In addition to bank transactions, the MIS and the accounting system are the most important sources of information for a financial audit. For a technical audit, however, the MIS and field visits are the main sources of information. There should be an exchange of information between financial and technical audits so that the relationship between performance and progress payments can be assessed.

The “process audit” is sometimes called “management audit” and verifies whether all the processes in the project cycles and in all the preparation and evaluation work have been undertaken in accordance with the procedures of the operational manual. At the start of an SIF, it is recommended that “process audits” be carried out on a quarterly basis. This provides the Board or SC and the WB and other donors the necessary information to evaluate compliance with
procedures and therefore allows the executive office/director maximum autonomy in daily management decisions, such as the signature of contracts up to US$ 200,000 and approval of all projects below a certain threshold without referring to the Board or SC and the WB.

Audits are costly activities, and cannot be performed frequently. However, process auditing does not require sophisticated expertise and can be delegated to a good consulting company which specializes in the type of activities which the SIF implements. Once the practice is shown to be consistently positive, the frequency of process auditing can be reduced to twice a year.

Audits are contracted directly by the Board or SC, without any objection from the World Bank. They report to the Board or SC and the WB and other donors.

Impact and performance assessments or evaluations are learning tools for improving the methodologies and performance of an SIF and the justification or the proof that it has achieved its objectives.

These post-implementation assessments or evaluations are not used very efficiently. They generally provide a qualitative perspective of the effects of an SIF, but are not used as learning tools and have not provided substantive documentation of the socio-economic impact on the environment in which an SIF operates.

Firstly, these assessments should identify more precisely the effects that have, in socio-economic terms, an impact on the operating environment and provide an in-depth analysis. A number of areas of interest are identified below and in the ASIF case study. Unfortunately, most of the elements reflected are anecdotal and not substantive in nature. Through concerted efforts, however, it should be possible to gather more concrete and quantitative facts on these issues.

Secondly, the impacts of SIFs are of a very micro-economic nature. The rehabilitation of a school in a village is obviously an interesting input of development and an improvement of living conditions for that community. It also has a serious positive psychological connotation in the CEE/CIS, where economic stagnation or regression has led to little or no investments in small communities for about a decade or more. But it does not jumpstart a local economy, nor does it make the local beneficiaries any less poor than they were before. This is the main reason why the impact is so difficult to establish, let alone to measure.

Therefore, impact can be achieved by investing more in the community concerned, or by multiplying the investments in the same region again and again, until some kind of continuity is established on which local initiatives can be built. Continuity does not mean abundance, but sustained effort, even in small-scale investments. Diversification of the type of micro-investments is obviously another route, but might also be a longer-term formula.

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21 See page 23.
Multiple micro-infrastructure projects generated in SIFs seem to give an impetus to small construction businesses, contractors, suppliers, transport companies and local quarry exploitations and, by a trickledown effect, the basic services sector (i.e., local restaurants and mini-markets). These small local economies do not survive on the volume of investments alone. The injected investments are the initiators and the opportunities. This seems to be the case in rural Armenia (ASIF), in rural Ethiopia (ESRDF) and in Yemen (PWP) where attribution of this effect has not been fully established, but where few investments, or none at all, have been competing with the SIF.

The following indicators have been observed: construction unit prices fall sharply; more and more contractors compete for each micro-project (beyond the level that the combined micro-project investments can sustain the survival of all those contractors); contractors are willing to compete out of their region of origin and win the bids; building periods become shorter whilst quality improves; and building materials become more readily available. Quarries operate and provide employment, as do transport companies, equipment and building material suppliers.

These indicators are linked solely to the construction industry. It should also be possible to identify some economic improvements and institutional developments for the entire population. In Moldova, Armenia and Tajikistan, the local authorities appreciate the tendering mechanisms and use them for their other investments. The relationships between local authorities and the beneficiaries have changed. Civil society takes on more responsibilities to the communities. This is visible in schools, or in health or water projects. How to quantify this has not yet been resolved.

These post-implementation assessments would generate more interest in the senior economist circles and ultimately provide increased funding for SIFs, which then could achieve deeper and more lasting impacts, and jumpstart small local economies, which in time, have a noticeable effect on the overall economy. Clearly, one must bear in mind inflationary concerns, foreign exchange impact and budget support elements, which are all contradictory to this approach. But if good factual evidence of sound economic impact can be provided, these considerations can be re-weighted.

In designing SIFs, these indicators should be built in the baseline surveys so as to enable impact measuring. Baseline surveys are not yet established procedure. Traditional methods are costly and cumbersome, and have not provided relevant data. It seems, however, that SIFs gather large quantities of data in their MIS on the communities in which they work. It should be possible to turn this data into a flexible baseline picture of the operating environment.

1.3.4 Why are so many SIFs community infrastructure oriented?

According to different sources, roughly 75% of all SIF funding resources are being used for community infrastructure investments. Why SIFs use this component as their modus operandi so often can be seen as a contradiction. Indeed, when one applies cost-effectiveness calculation
methods of the kind developed by economists, it seems difficult to justify the use of an SIF-type public works scheme which is not solely designed for workfare as the best solution for alleviating poverty and generating employment. After all, public works, depending upon the type of infrastructure constructed/rehabilitated, can generate between 15% to 35% on average of their cost in employment. This employment generation is then split into skilled and unskilled workers, the latter constituting the bulk of the employment created. What the calculation method also seems to imply is that once the poverty rate is high, i.e., 35% to 40% or more, it does not appear likely that even a specifically designed workfare scheme will meet the standards set.

Micro-financing options and development of smaller SME’s may be more efficient mechanisms to achieve the objectives. At least one provides funds to those who lack access, and one develops small local business, which is considered one of the key factors of small employment generation and subsequent economic development.

The main reason that community infrastructure rehabilitation (CIR) is more prevalently used as a basic SIF activity is that the installation of such a programme is far simpler and requires a less sophisticated environment than for micro-finance and business development. Thus, an SIF/CIR-type project can deliver quick results and achieve recognition rather quickly. Additional reasons are that SIF/CIR-type projects have impacts on small SME development in the construction sector and that they assist in the adaptation to market economy reorientation. They establish credibility in private business to operate in the public domain and introduce concepts such as involving communities in the development of their own environment, competitiveness and short-term employment.

Comparatively, setting up a micro-finance operation is more complicated in CEE/CIS contexts. There are generally major legal constraints in managing finance outside banking

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23 See Martin Ravallion -- Development Research Group, World Bank -- Appraising Workfare Programs (undated, but recent informal article): pp.3-4: “Any public program must be assessed relative to the best alternative use of the same resources. This will vary with country circumstances, including administrative capabilities. One option which would probably be feasible everywhere is a uniform allocation of the same budget, in which every household (whether poor or not) gets the same amount. Assuming that this is feasible, a workfare scheme aiming to reduce poverty should not be supported if the total gain to the poor as a proportion of the budget is less than the percentage of households who are poor.”

24 This does not imply that the calculation method is wrong, only that the standard is set too high, i.e., that one would never succeed in distributing evenly an equal amount of money to everybody, including the poorest. It may also mean that SIFs are not exclusively targeting the poorest.

25 According to Pomfret, micro-finance is considered to be a small loan mechanism with loan sizes roughly below US$ 2,000 and repayment schedules of a maximum of 3 to 12 months. This is not a universal definition, as some institutions like the WB will use the term “micro-finance” for loans up to US$ 100,000 or US$ 200,000. The distinction which the definition used in this study wants to make is that micro-finance more likely addresses the informal market, with specific alternative collateral mechanisms, whereas loans of bigger sizes address small formal businesses with more typical, even if adapted, collateral mechanisms. It is likely that the WB assimilates micro-business with micro-finance in its terminology.
institutions, often there are restrictions in using cash transactions and more generally non-banking institutions are not allowed to collect and manage savings. Besides, there are the institutional and financial-technical aspects to consider: the local banking industry is either under strong government control or is not geared to this type of activities, and the currency depreciation and/or the exchange rate mechanisms do not facilitate the financial management of micro-finance institutions. On the other hand, micro-finance is a slow growing mechanism even if it can often rapidly increase its original numbers of beneficiaries. International experience reflected in numerous reports indicates that the main concern for the first several years of operation is the creation of a solvent financial institution. Between the legal context and the institution building constraints, a micro-finance operation does not achieve the same sustainability or impacts that a CIR-type activity does. In fact, if it is not made sustainable, it may well backlash on the poor.

For SME lending as a development and poverty alleviation mechanism, the legal environment and the banking institutional environment are considered to be of such a nature that it is not up to SIF-like institutions to tackle these issues. Therefore, SIFs do not often get involved in SME credit. Once credit is removed from the portfolio, business support services do not on their own have a significant impact on employment generation and subsequent poverty alleviation. They are, therefore, rather meaningless. It is also not unusual to find that the legal-political environment may not be entirely favorable for SME development, even if official public information may say otherwise. This constraint is often met in the CIR-type SIF, whereby small contractors continue to compete with large contractors having survived the previous regime.

Experience shows that SIFs make use of different types of activities to achieve objectives. Poverty is a rather complex issue and cannot be addressed by one activity solely. Based on the South American experience, SIFs are no longer to be considered as short-term mechanisms and they need to diversify their activities to provide a larger array of opportunities addressing poverty issues more in their complexity. Finally, in order for SIFs to have a macro-economic impact, the investment volume has to be increased.

26 Nonetheless, micro-finance operations have been able to develop on the fringe (by legal exceptions) of the legal system, and have been able to prove their worth, which has influenced legal reform to allow its operation (i.e., in Russia).

27 The temporary operation of a micro-finance scheme may create a new demand which was previously not considered essential by the beneficiaries, and therefore a serious needs gap once the schemes ceases to operate.
II. RESULTS AND IMPACT OF SIFs IN ASPECTS OF PARTICULAR INTEREST TO THE ILO

2.1 The development of the Armenian SIF (ASIF): A case study

In some ways, the situation of Armenia was somewhat atypical for the CIS, as Armenia is a country with a huge Diaspora population.\textsuperscript{28} Many of its intelligentsia refused to become members of the Communist party. In order to escape membership, many competent youngsters went to study physics, astrophysics and mathematics. Armenians have been and continue to be very independent.

Further the earthquake in northern Armenia which occurred just before the collapse of the Soviet Union brought numerous international humanitarian NGOs to the country. With them, numerous Diaspora Armenians were present at the time of the break-up of the CIS. One of the most famous Diaspora personalities to be involved was the popular French singer, Charles Aznavour, who founded a humanitarian NGO to combat famine and the despair of war: “Aznavour pour l’Arménie”. A certain level of informal economy had developed in Armenia, with certain traits of liberal economy (small private trade), which was thriving mainly on remittances from the Diaspora. When the SIF was being designed, there was a certain sense of market-oriented economy. There were also numerous Diaspora Armenians highly experienced in market economy to assist the country in its transformation.

Without considering it an essential point in the history of the development of the ASIF, it is impossible not to mention the long-term international isolation of Armenia caused by two major events during this century: (i) the tragedy that took place in Turkey in 1919 which is the main cause of the large Diaspora population; and (ii) the war with Azerbaijan after the fall off the Soviet Union, over Nagorno Kharabakh, a large enclave inside Azerbaijan territory inhabited by a majority of Armenians and disputed historically for centuries. This event is still a source of controversy. The isolation and the destabilization which followed in 1989 were the major reasons for the economic stagnation and the resulting poverty in the country when the ASIF started to operate. Another major factor was the devastating earthquake 1994, it was still a country of desolation, but the worst was already over.

The ASIF was the first SIF in the CIS, and also the first SIF in which the author of this study and several other team members were actively involved.\textsuperscript{29} Therefore, the approach was cautious. Some of us had previous field experience in the region, but the ASIF’s design was

\textsuperscript{28} The current population of Armenia is about 4.5 million with a Diaspora population of about 5 million, mainly in the US, France, Argentina and the CEE/CIS.

\textsuperscript{29} World Bank Task Manager: Alexander Marc; other WB staff: Gita Gopal, Mohini Malhotra, Mary Beth Schmidt; Consultant: Piet Goovaerts (only core team members mentioned).
uncharted terrain. There was better than regular government support for the programme. At a very high level, the Ministers of Economy and Finance were very closely and constructively associated. The presence of an American Diaspora NGO, the Armenian Assembly of America (AAA), was a good jumping board to start up the programme. This provided the WB team with excellent communication and insight in Armenia, and with an unequalled enthusiasm to work for the good of the country, and for the poor, in particular. The AAA had been involved in different programmes for several years and was able to recruit excellent young Armenians to form the core staff of the pilot project. The pilot phase of ASIST was mainly financed by USAID.

From the very beginning, the independent mindedness of the Armenians -- but also their sense of having belonged to one of the world’s superpowers -- made assisting them in developing the ASIF a very tricky exercise. In addition, the Armenians and the Diaspora Armenians had an uneasy partnership, basically one of competition and frustration. The Armenians felt that Armenia was far more their country than that of their Diaspora relatives. As a result, with a few exceptions, most of the AAA local pilot project staff did not continue in the ASIF, when the pilot phase ended and the WB-loan started.

To start the development of the ASIF, the WB team, with the Executive Director of the time, Gagik Khachatryan, and the AAA team, went to the field. It was the intention, spearheaded by the WB Task Manager, Alexander Marc, to design the ASIF as a community development fund. This meant engaging in active discussions with the local population in order to identify jointly which needs could be best addressed by small community public works micro-projects. It was difficult to orient the minds of the beneficiaries towards micro-projects. Arriving with a mandate from the central government, and in addition, coming from one of the most powerful international institutions was an indication that big investments were in view. We were shown grossly under-maintained water pumping stations for entire districts, irrigation pumping stations and canal systems for the same, highway bridges and tunnels in disrepair, major administrative buildings and massive district hospitals and boarding schools as well as new towns being built. It took a lot to convince the regional and local authorities and the beneficiaries that we primarily meant primary schools for villages, basic health centres, local water supply and small village or rural access roads, i.e., micro-projects averaging US$ 50,000, not US$ 500,000 or US$ 5 million.

The ASIF's start-up phase was launched before the first municipal elections. The old administrative structure was still running the local administrations. The WB team was keen on meeting with the beneficiaries themselves. This took time to achieve with the AAA local staff, as they were not used to such an approach. Because they were young, they accepted our proposals. Once the WB-loan phase of the project was underway, the older staff began relying more on the local authorities. This was more justifiable at the time, considering that local elections had already been held. From that point, a special procedure was developed. The ASIF and many subsequent SIFs in the CIS have instituted a practice of gathering the village population to brief them on the ASIF, its objectives and procedures, and have then choose the priorities for a micro-project. This was and continues to be successful in the villages. In the first phase, however, the local authorities were not always cooperative. The beneficiaries took time to make decisions, not out of lack of capability, but out of reluctance, as this was clearly against the rules of the former regime. In later stages, this system worked very well in Armenia. The municipal authorities
supported it, once they saw that it was to their advantage. It also works well in Georgia, in Tajikistan and in Moldova. In Armenia, the ASIF has even had an impact on the local elections to a certain extent. About a year after the start-up phase (40 to 50 micro-projects had been undertaken) roughly 40% of the chairpersons of the micro-project committees had been elected mayors of their communities.

When communities were asked to co-finance the micro-projects, it was a big surprise in several ways. This was definitely a departure from the previous system. But it was also very difficult to expect them to even find such funds. Somehow, it was imposed and received with a great deal of skepticism. In the beginning, the procedures for collecting the co-financing share were very flexible. The Fund manager had to agree to have part of the works delivered by the community in different ways, such as provision of equipment and materials or various cash installments. Fortunately for the project, communities have found alternative ways to co-finance micro-projects: stocks of left-over materials in communities where prior works had been left unfinished, or in stocks of municipal public works departments. In the next phases, there was a special aid fund in compensation for damage and hardship from the central government for the southern districts in connection with the Nagorno Kharabakh war. The local authorities were happy to allocate part of these funds to ASIF micro-projects, since it multiplied their funds' usage. There were proposals that the ASIF receive fruits, vegetables, wheat and other produce, but this was quickly dismissed, as it would divert too many human resources from its main activities. Subsequently, the communities themselves sold materials and other products to raise cash. In some cases, communities planted trees around the facilities, or performed some works and even collected cash from individuals. However, in most cases, as the project went on, the community investment share was raised increasingly from outside the communities. The ASIF introduced a rule whereby 3% of the 15% of the entire community contribution should come from the beneficiaries themselves.

The Armenian society being gender-biased, the ASIF designed special procedures to include women. On the one hand, every community meeting has to include at least 50% women to be valid for the ASIF. Further, the ASIF has established micro-project committees at the local level in which at least two key members (out of five) must be women. This has worked well, as there are many qualified women in the CIS. The first procedure works rather well, but there is no guarantee that women's issues are fully represented. Nonetheless, many projects address matters closely relating to women and children, such as water supply, sanitation and health. The appraisal criteria are gender oriented, which ultimately prioritizes micro-projects benefiting women and children more substantially in the long term. However, the infrastructure typology clearly disfavors short-term employment targeting of women.

The international concept of non-governmental organizations was not a familiar one in the CEE/CIS. In addition, the former regimes had installed numerous para-governmental organizations for different target groups and purposes, like youth and elderly people's movements, women's organizations, art and cultural groups, sports organizations, farmers' and factory workers' movements, etc. Indeed, these organizations, although theoretically of the same nature, were closely connected to the party organization, and even nowadays, are very formal in most places. Their representativeness is often very dubious. A large number of people can be
gathered on special request, but their attendance during regular events is often close to nil. They are centrally organized institutions, which do not reflect the grass roots initiatives that can be expected from local NGO’s.

Further, there was a traditional community organizational system in this part of the world called the “mahallas”. In Armenia, the mahallas do not play a very predominant role in society anymore. In most of the CEE/CIS, the Communist party had either diminished their role, or institutionalized it to make it part of the system.

On the whole, there were no local NGO in Armenia when the ASIF was set up. The AAA and other international NGOs and organizations had started to create the concept. In that sense, Armenia is ahead of many other countries in the CEE/CIS, because of the earthquake and the resulting presence of the international NGOs, and thanks to the NGO culture stimulated by the Diaspora Armenians. The WB attached a condition to its first ASIF loan, requiring the Armenian government to establish a law regulating NGOs. This would allow local NGOs to be registered quickly (in five days) and become legal entities, with minimum requirements. The Government promulgated the law, which was passed by parliament. Nonetheless, the local NGOs\(^\text{39}\) have not played a very important role in identifying micro-projects and mobilizing the beneficiary communities around it. However, the idea has been taken up in the Moldova SIF (MSIF), which is still in its infancy, but where the huge efforts undertaken in the preparation period to give high importance to sustainability seem to produce local institutional results. The micro-project committees have already started to take further initiatives, some assisted by the MSIF. In one case, the local committee landed a US$ 75,000 grant from the Eurasia Foundation, the headquarters of which are based in Moscow, for a new project proposal. In addition, the micro-project committees also take part in follow-up activities, particularly in operations and maintenance.

In 1994, at the start of the ASIF, there were few private sector contractors in Armenia. Some small businesses were undertaking small works, as private initiatives. The economy was so poor that public investment was practically non-existent, and was still being carried out by state companies. Very soon thereafter, a large part of the public sector became privatized, and contractors started to emerge. Only one other larger than average public infrastructure investment programme was being implemented, through the All Armenia Fund, another American Armenian NGO, which had come for the earthquake and then moved into rehabilitation and construction in connection with Nagorno Kharabakh. It was the only agency which had adequate information on private sector construction in Armenia, and was of substantial help in identifying the bottlenecks.

The other source of information was the Ministry of Construction. This was the state agency which designed, budgeted, implemented and supervised the entire construction

\(^{39}\) All micro-project committees are required to register as NGOs which is the only way the ASIF can transfer funds to them (according to WB regulation, only legal entities can manage WB funds). Nonetheless, the ASIF does not transfer funds to them, but prefers to manage the payment of consultants and contractors themselves, because the banking system in Armenia was not reliable and fully re-developed according to international standards. This is the same in most SIF around the CEE/CIS.
programme, including most of urban housing. Except for the more prestigious facilities, the quality of construction was on the whole poor, particularly in relation to urban housing. The costing of construction was based on former Soviet central unit price calculations and had nothing to do with availability of materials, labour, quantities or management skills. Further, independence had brought a new currency to Armenia and the old unit prices expressed in rubles were translated in local currency and US dollar equivalents with several factors, of which at least one was very questionable: the ruble was set at 1 Rb to the US$ in 1984. At that time the black market rate was already nearer to Rb 10 for US$ 1.

The situation had also changed: supplies used to be readily available, including building materials such as timber and cement. Even though there were previously seven cement factories in Armenia, most of them had been closed due to energy restrictions.

Contractors were willing to sign contracts at any cost, although they were totally lacking in the required technical, management and financial skills for bidding. They thought that price revisions could be renegotiated, as all of them had well placed friends somewhere. Quality was even difficult to achieve with the available quality of the paint, cement, wood, etc. Building management was difficult due to lack of supplies at all times. Implementation schedules did not have much meaning.

Nonetheless, the ASIF steered itself through this period. It was instructed to be very strict with contractors, not paying them unless quality progress was made. It was hard to find more than one contractor for each job. Several times local contractors were disqualified because they were still subsidized by the state. In some occasions, local communities used threats against the competition because they wanted their village contractor to undertake the job at whatever cost. Local contractors reportedly entered into deals with the communities, offering them the community investment share in return for the contract.

But the situation has improved over the years and now there are on average 10 to 15 contractors to bid for each job and even very remote micro-projects attract attention. Competition has driven prices so low that under-estimation is a serious risk. Timely and quality delivery is becoming increasingly the rule.

Although the state of the economy has improved, the State's budget for infrastructure development investment is inadequate. Although the ASIF does not generate enough micro-projects to keep numerous contractors alive, more of them are now in business, which is particularly surprising in remote areas. The modest improvement of the economy, together with the ASIF, has rekindled the construction sector. There are no surveys which attribute which share to what, but certainly, the ASIF, as the only institutional investor in remote areas for the past five years, has had a strong part to play in this upsurge. At least, it succeeded in achieved to giving the sector a boost and to gear it into better construction, cost and management practices. Moreover, it injected cash into the local economies. This cash has not only contributed to the creation of a number of small contracting companies and to the employment of local workers, but also made use of other local resources like stone, gravel and sand. It also gave birth to other companies such as suppliers, transport companies and quarry operators, which in turn probably has a downward multiplier effect on the local economy as well.
In addition to their overall satisfaction, the beneficiaries also show a great deal of respect for a job well done. As stated previously, 40% of the micro-project committee chairmen were elected mayor in their villages in Armenia. During the Albania debacle, none of the ADF micro-projects were damaged, whereas a lot of state infrastructures were destroyed. In Moldova, the mayors are so satisfied with procurement procedures that they apply them to their other investments.

Much is being done in the ASIF to ensure good sustainability, operations and maintenance of micro-projects. There have been innovative ideas, which may or may not have been followed through. A school canteen, a typical feature of every school in the previous regime, but which can no longer be sustained, was proposed to be turned over to the private sector, with the rent feeding the maintenance fund. In other circumstances, fruit bearing trees have been planted, the objective being to sell the fruit and thus generate funding for operation and maintenance activities.

However, there have been serious setback as well. For instance, the Pitigni dispensary had still not started to be used by the health authorities, as they could not put in staff, one year or more after the works had been delivered. This is the most extreme example, but the ASIF has also rehabilitated boarding schools, which ultimately were struck from the map. Many social institutions, such as nursing homes, orphanages, and homes for the blind or mentally handicapped are no longer financed by the state and have little or no means to be managed. Despite the great need, it is not clear how an SIF should invest in rehabilitation works when the facilities cannot be maintained adequately.

It takes about four or five years to gauge real operation and maintenance results. Obviously, fully defective conditions can appear earlier, but on the whole, deterioration is a slow process. In general, the quality of the works performed by the ASIF has been above average. ASIF engineers are generally very demanding in regard to finishing works.

Water projects usually enjoy strong support from the beneficiaries. Further, rural water connections based on gravity feeding have a low maintenance requirement. However, the relevance of deepwell pumping stations, which are widespread in the CEE/CIS, needs to be reviewed. First, the power generation is often defective, and the quality of the pumping equipment monitoring devices is very poor. On the other hand, many (non-deepwell) pumping stations in the CIS stem from conventional, primitive and standardized technologies, which has the advantage of being easily repairable or replaceable and at low cost. However, they still run on electrical power.

In other SIFs, e.g., in Georgia, the first micro-projects cannot boast good quality of construction and require quicker responses from the communities. In the first place, the quality of the works should be improved, but further down the line, there is also little concern about operation and maintenance and sustainability in the GSIF, which is being addressed presently.

On the whole, there is not enough evidence that sustainability is being achieved. In most cases, technical durability is being sought, but not always. Unpaved rural roads are frequently very fragile owing to poor design. On the whole, all the other concerns regarding sustainability,
such as recurrent costs of operations and maintenance, staffing, availability of supplies for health facilities, or the power supply for water treatment and the cost of water, electricity and gas consumption are not paid sufficient attention.

From the outset, one of the ASIF’s objectives was to create a reasonably high labour content in the micro-projects. A variety of examples from other parts of the world have been given to the ASIF team on how to achieve this. As such, it appears that water projects can reach a good labour content by de-mechanizing the digging and closing of trenches. This has not been successful for a number of reasons.

Indeed, CEE/CIS countries have been favorable to mechanization and equipment-intensive technologies. Heavy equipment was and is readily available even in the most remote locations, although often in deplorable condition. This engendered the psychological effect that manual work is inferior and was, therefore, not at all appreciated. One should also remember that this was a society which was economically backwards and that comparison from that point of view is far more painful. The abundance of equipment made it also very cheap to operate them. During the privatization process, a great deal of equipment was transferred to contractors at barely their repair cost. The new contractors did not have investment write-off considerations and charged very little for the equipment. An example typifies this very clearly. When a community had promised to close the trenches for the water works as community investment share, they actually sold one sheep and hired the contractor to undertake the works. The argument given by the ASIF staff over the years has been very consistent: the beneficiaries do not like the manual work, but over and above, they consider it economically more sound to pay for mechanized implementation.

2.2 Conclusions on the case study

The history of the CEE/CIS has a strong impact on the way SIFs evolve within the region and contrasts with previous experiences. Based on this case study, a number of interesting conclusions can be made:

- the proud perception that the CEE/CIS was a powerful region during most of the last part of the 20th century, with a stable and reasonably comfortable economic environment, which has developed its own ways of operating and which differ considerably from the way efficiency is being perceived in a liberal economic setting, creates serious misunderstandings and frictions when designing an SIF. This is the case in most places, but the differences in viewpoints are greater, and the high level of education makes advice trickier than in SIFs designed in other parts of the world;

- the fact that the CEE/CIS economies have been in sharp decline, undergoing severe hardship, makes the exercise more complicated since it is not perceived as progress but as a palliative, at best;

- the CEE/CIS have invested more intensely and with some extravagance in their socio-economic infrastructure. It cannot be maintained and operated under the present economic
decline, and most likely afterwards under a healthier economy either. It is not easy to make large groups of populations and their representatives think "small", when the habits have been exactly opposite. This is a constraint, but it is also probably one of the major reasons why poor, small communities are as satisfied as they are with SIFs;

- SIFs can play a very important role in the CEE/CIS in bringing the population back into the activities and decision-making in its own community development. This is obviously the case elsewhere, but this ran against the standard procedures in the CEE/CIS and was conceptually difficult to grasp, for instance, by the beneficiaries themselves. The concept of NGOs did not exist in the same sense as in the western societies. And although the creation of NGOs is not the prime objective of SIFs, and has not evolved dramatically as of now, the concept of having a community organization in charge of the communities’ own needs has been received very positively by the SIF beneficiaries. Furthermore, the relation with the private contractors is healthy, since in the CEE/CIS the private sector is very much perceived to be “thieving” from others. The fact that contractors can deliver better, faster and at lower cost reconciles communities with the private sector. The entire procedural cycle of bringing the local authorities, the beneficiaries and their own local organizational skills and the private contractors together, for the benefit of all, seems to be perceived positively as well. The fact that communities share a part of the cost, that they are supposed to be involved in operations and maintenance and are effectively supervising both their own and the SIF’s investment, is also a positive factor;

- the provision of short-term employment is not as effective as it was expected and is lower than in other countries. Because of the high degree of mechanization and the history of the CEE/CIS, manual labour is perceived as degrading and not cost-effective, and therefore not the most important factor in SIFs. However, the development of small contractors has been very successful. It is not possible to attribute the entire development of this sector to SIFs, but clearly they have made a major contribution to it. This brings more jobs and economic activities, primarily in the construction sector (suppliers, transport companies, quarries), but also in other service sectors which develop on the side (groceries, food outlets);

- employment generation in the infrastructure components, which in the CEE/CIS represents more than 90% of the investments, is discriminatory against women, as is the construction sector in general. SIFs have made commendable efforts to involve women in the decision-making process, which is not in the nature of the societies there, but thanks to the legacy of the socialist regime, women often have an educational background which allows them to participate. It is not clear whether women’s priorities have always been properly respected in the choices of micro-projects, but the final investments are clearly adequately gender oriented: i.e., water and sanitation projects, health facilities and schools. Nonetheless, if SIFs are to focus on poverty more effectively and if gender is a good poverty indicator (which is often the case), it would be conceivable to create a special investment budget share for women’s needs in view of the highly male-oriented societies;
• sustainability remains an issue of concern. On the one hand, the short experience does not allow for hasty conclusions, either positive or negative. But there are indications that the investment, timewise and budgetwise, is too little to achieve a significant impact. On the other hand, ownership mechanisms, institutional development mechanisms and methodologies for addressing the issue more in-depth take time to be identified and to establish, and therefore are to be considered as costs;

• the beneficiaries are clearly satisfied. Even local authorities appreciate SIFs, and the national authorities may want at times to influence the orientation of the investments, but on the whole, they also support SIFs more or less adequately. Take, for instance, the mere fact of creating them in the first place under state funding. One of the main reasons why national authorities support SIFs is most likely due to beneficiary satisfaction, which makes them gain political clout and creates a feeling of lesser hardship or needs. In this sense, SIFs in the CEE/CIS have found their niche similarly to the rest of the world.

2.3 Socio-economic development factors

2.3.1 Employment Generation

In preparation for ASIF II, the WB has undertaken a cost-effectiveness analysis,\(^{31}\) which has concluded that employment generation was not the major strength of ASIF I, although it contributed significantly to short-term employment generation. This was, however, insufficient compared to the country's needs, particularly in the rural areas. ASIF I has been successful in mobilizing community development, and ASIF II will focus more intensely on this component.

SIFs should not be measured by their employment generation component only. First of all, they mainly create short-term jobs in the construction sector (for public works-oriented SIFs). Secondly, SIFs that create an impact do so through a variety of inputs: delivering an improved social or economic infrastructure to poorer communities; mobilizing the communities and becoming acquainted with local administration and development; and learning procedures along the way (i.e., procurement, the democratic process and stimulation/generation of initiative).

However, the factor which does not seem to be recognized the impact assessments is the generation of a small business environment, particularly related to the construction sector. Indeed, it appears that SIFs in rural areas of Armenia, Moldova, Ethiopia and Yemen (PWP) have stimulated small local contractors and made them viable. This viability needed an initial stimulus, but it is not the SIF cash input which keeps them alive. With the small contractors come a series of other small businesses: suppliers, transport companies, equipment rental, exploitation of quarries and sub-contracting. These businesses come to life and generate employment and income that circulates inside the communities with fairly little leakage. This circulation creates

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other businesses, most likely in the service sector, like small food shops and restaurants. All this happens in an informal development, and is therefore difficult to measure, as it is infinitesimal.

When one reads the above-mentioned ASIF cost-analysis, the report does not draw this conclusion, although the data clearly reflects this situation: 271 micro-projects were analyzed, mobilizing 231 small contractors, but also generating 2,350 offers for tenders. Approximately eight contractors on average submitted bids (roughly 11 contractors on average purchased the bid documents). The ASIF cannot sustain the survival of all those contractors. When it started however, it had difficulties in finding even one small contractor, and there have not been other major investment programmes aiming at small contractors along with the ASIF.

Because this happens in the informal sector, mainly on a very small scale, it seems very important that two more instruments should be added to the infrastructure component: small business development and small credits and micro-finance. ASIF II, for instance, is expanding its mandate into community development but not into small business development. This can be explained in part, as there are two contradictory tendencies: (i) based on the above, it is logical that the small business development components should be built in a system in which they can support one another; (ii) from the mechanics and the professional expertise point of view, linking them up with the infrastructure component is not recommendable. Indeed, setting up the infrastructure component as a stand-alone activity is already a quite complex undertaking, as mentioned before. Further, the small business development component with small credit lines is not an easy undertaking, and micro-finance is another complex institutional development exercise.

From the point of view of creating employment, small business development, small credits and micro-finance go hand in hand. From the managerial point of view, these are three independent activities. Still, this complexity cannot be avoided completely. After all, the concept of poverty is a complex one, and cannot be addressed with simplistic projects. According to Pomfret, the transition into a market economy in Poland and China was based primarily on the emergence of the small and medium enterprise sector, which has contributed to the alleviation of poverty.

### 2.3.2 Poverty alleviation

Various reports and observations lead to the conclusion that SIFs in the CEE/CIS are successful in alleviating poverty to a large extent, in line with their mandates.

Satisfying the direct beneficiaries is clearly an important factor. Whether this has substantially contributed to poverty alleviation in economic and financial terms is not fully verifiable as of yet. However, access to better services and psychological satisfaction have been fully achieved on a local scale.

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31 Ibid., 31.
33 Ibid., 25).
Local authorities, though initially skeptical because they left SIFs would undermine their authority, are very happy with them now that they have seen the benefits of a system which delivers.

This satisfaction is also reflected at the higher authorities level. It can be seen from different points of view. In some places, the authorities like to intervene massively as in Georgia, which is an expression of interest, though perhaps one of a lesser constructive nature. In other situations, the authorities debate the matter very seriously in Parliament, e.g., in Moldova. In other countries, like Armenia, for example, the Government has requested a follow-up loan. And on the whole, the success of the first SIF has spread throughout the region. The national authorities’ expression of satisfaction has crossed borders.

One of the myths that needs clarification is that SIFs can eradicate poverty and that they target the poorest of the poor. Unfortunately, this is not the case. SIFs are no substitute for social welfare. They are complementary tools. They can alleviate poverty and should alleviate the burden of social welfare system. SIFs, by their own design, do not exclusively target the poorest of the poor. They target the poor in general and include the very poor by assimilation, rather than targeting them exclusively. This is another reason why investments in SIFs have to be increased. They should reach a critical mass.

The purpose of SIFs in the long term is to draw people out of the social welfare sphere into the economy. Unfortunately, there is a fairly large risk that some of the poorest may not manage that transition, and will therefore remain in the social welfare sphere. This transition cannot be done selectively, meaning only targeting the poorest, but should be done inclusively, including different parts of the communities which may not be the purest targets of poverty. It could also be considered unfair to only target such extensive assistance to the poorest and not allow some of the less poor, but still economically dissatisfied, to participate, unless they have access to an alternative scheme.

2.3.3 Gender orientation of the benefits generated by SIFs

In terms of the immediate benefits derived from SIFs, gender orientation in the CEE/CIS is unsatisfactory, and only satisfactory with regard to long term benefits such as services provided by rehabilitated social infrastructures, and only to the extent that sustainability is satisfactory. The fact that SIFs have initiated and assisted the development of the business construction sector only benefits women to a limited extent. Of course, some women can be employed but the construction sector predominately recruits men and is managed by men in much larger proportions.

The design of infrastructure-oriented SIFs can obviously be improved, but SIFs are unlikely to meet gender needs much more satisfactorily than they do today. This constraint sounds very similar to that of SIFs targeting deeper poverty. Although the ILO analysis holds that the construction sector is one of the best employment generators in terms of investment per job, micro-business support in terms of micro-finance and micro-business advisory services
development are also equally appropriate methodologies for achieving these objectives. These activities will ultimately benefit the development of the construction sector, as well.

2.3.4 SME development and capacity building in the private entrepreneurial sector

There is very little effective experience in the CEE/CIS concerning these types of activities in SIFs. The Uzbekistan Small Investment and Micro-finance Fund (SIM Fund) intended to cover three types of activities: the infrastructure component, the micro-finance component and SME development, including small business loans. The idea was to create a variety of opportunities for the beneficiaries, rather than to use one type of activity. The three types of activities aimed to stimulate employment and thereby alleviate poverty by targeting the poor and the very small informal and formal businesses. It has not materialized until now owing to a difficult political and economic environment in Uzbekistan.

The objective of an SIF is to invest its funds wisely in order to achieve objectives. It is not a matter of managing these funds, but of monitoring them, once the investment decision has been made on the basis of a successful appraisal. In the infrastructure component, which is a grant activity, there is a beginning and an end to each micro-project even if after the hand-over the SIF monitors impact and sustainability.

When SIFs provide funding for the development of a micro-finance activity, the implementing party must be identified and the activity’s performance monitored. It is known in advance that there are no experienced institutions of that nature in the environments where one wants to install these types of mechanisms. Therefore, SIFs will be involved in the institutional development of the implementing party to become a financial management institution with specific objectives, e.g., to provide micro-loans to the poor and to become a self-sustainable financial institution in the process. The granting of loans to beneficiaries are cyclical activities: loans return from the beneficiaries to the implementing party, so that another loan can be granted. This is a rotating mechanism.

The objective of an SIF is not to create one such micro-financial institution. Experience shows also that the growing effect of such micro-financial institutions can be achieved in different ways, but often by consolidation of smaller nuclei (i.e., credit union development). In order to ensure adequate institutional strength, it is important that the new micro-financial institution does not expand its loan portfolio too fast, but gradually. Therefore, in order to address the poor in different areas of the country, the SIF would attempt to set up several such micro-financial institutions, which may or may not lead to sustainable institutions of this type in the future. Micro-financial institutions for different types of beneficiaries, such as rural agricultural oriented versus more urban market oriented, may well differ in loan mechanisms and schedules and may not achieve sustainability. At the outset, they may even require different advice. SIFs may seek to recover parts of their investments, in consideration that over a period of time, the micro-financial institution becomes self-sustainable. The example can be extended to small loans for more formal small businesses (micro-businesses) through commercial banks.
The situation is different when trying to establish business support service providers. These often start as parastatal organizations, but cooperative or non-profit business associations, and again have other development cycles. The SIF does not intend to become a business service deliverer, but an institution that assists in setting up services, preferably in the private sector. This should be achieved on a non-profit, but financially self-sustainable basis, meaning that the beneficiaries of the services will gradually finance the services themselves.

As outlined above, the complementarity of the three aforementioned activities aimed at achieving the objectives seems obvious, but in terms of management of a single SIF, it appears contradictory. Somehow, this complexity will need to be addressed, as SIFs are becoming mature and growing steadily. As such, they are becoming more and more exposed to analysis, evaluation and criticism. There are serious questions as to whether the same results could not be achieved through traditional government structures and whether they can alleviate poverty at all.

2.3.5 Impact: towards the generation of productive assets

The WB portfolio evaluation of Social Funds34 concludes that emergency SIF have on the whole been more successful in achieving their objectives. The key to success for emergency operations is simplicity of design and rapid delivery. With such a set-up, the expectations are limited. The objective of such an operation justifies this type of design. Food distribution in times of famine or in a refugee crisis is a far more limited objective than the provision of food production and supplies in development circumstances.

The success of an SIF lies to a great extent in how fast it can produce an impression of efficiency and impact. In that sense, the startup of an SIF is often sped up to create the positive momentum. Obviously, in environments such as Bosnia and Kosovo, SIFs begin as nearly emergency operations.

However, it does not seem justifiable to address poverty alleviation and employment generation solely on an emergency basis. A good start of operations can generate the necessary political and financial support in the long term, and, therefore, some emergency features have to be integrated in SIFs. However, the other way around is not always given sufficient consideration: SIFs must always include the long-term features, even if at the outset they operate under more or less emergency features. Emergency features have the distinctive disadvantage of creating poor managerial habits in terms of accountability, transparency and quality of delivery. Abuse and corruption are higher risks, and contractors, suppliers, and later, local authorities, wish to keep the simplified procedures. Even the overall efficiency can in many instance be seriously questioned, since emergency decisions are generally far more costly than those achieved through standard procedure.

In a liberal economic context, poverty and employment are more complex issues than in centrally controlled environments. This is probably even true in successful liberal economic

34 Ibid., 16).
environments. It is entirely justifiable to pursue short-term and long-term objectives at the same time, just as it is justifiable to use fast-track procedures at the beginning to achieve recognition, obtain support and elaborate the procedures on a long-term agenda. However, it is inevitable that SIFs be conceived as long-term mechanisms if they intend to address the key objectives of poverty alleviation and employment generation amongst the poorest strata of the population.

The experience in the CIS shows that infrastructure SIFs have fared quite well, although their delivery volume is insufficient to achieve a structural impact. They have developed reasonably fast and have led to the creation of short-term employment -- although less than could have been hoped. In addition, they have discriminated against women. However, they have achieved fast recognition and broad support and satisfaction. They seem to also produce a number of long-term side effects, which again are incomplete, but are more productive than the short-term benefits: the small contractor and related business development and the improved services delivery if sustainability can be achieved.

It is precisely the provision of more productive assets such as improved self-sustainable social services and a locally based business development which distinguishes SIFs from poverty safety nets per se. The latter mainly consist of recurrent costs for basic social maintenance. At the same time, the provision of more productive assets amongst the poor in communities takes those who benefit from SIFs out of the social assistance sphere. It thus reduces the cost of social assistance or at least transfers the cost to SIF-type activities.

This orientation needs to be strengthened to in order to better achieve the objectives and create some macro-economic impact. The strengthening of that aspect is also what distinguishes the institutional set-up of SIFs from traditional government services. SIFs should limit the growth of their bureaucracies, and delegate more to the private and non-governmental sectors.

By strengthening the development of productive assets amongst the poor a multiplication effect can be produced whereby the cost of SIFs engenders an economic productivity which can be measured and is larger than its “initiative” cost. In most CEE/CIS societies the numbers speak in favour of this approach. There is a large well-educated group of people waiting for the opportunity to join the SIF “movement”.

2.3.6 Macro-economic impact

SIFs do seem to find approval, and the criticism that has been voiced is a reaction to the approval ratings. This is justified to a certain extent. But it certainly appears that if SIFs are a justifiable tool, they would need to achieve a macro-economic impact. Otherwise, what is their purpose? Certainly, they alleviate tensions, since beneficiaries and local authorities find them satisfactory, but is this enough of an achievement? As has been pointed out earlier by many observers, one cannot expect impact with the current level of investments. On the other hand, the investments have become measurable in certain countries (Mexico, Bolivia, Honduras) and the results have proven satisfactory as well. The first consequence is that more should be invested in SIF-type activities.
Yet, how much more can be achieved by increasing the investment in an socio-economic type SIF, if it is proven that the impact is incomplete? The SIF infrastructure component is a successful mechanism, but it has serious limitations. It seems inevitable that SIFs will exist in the long term, and justifiably so. But SIFs will then need to expand their fields of activities, more precisely in expanding the ways of creating productive assets. This means that the micro-finance and micro-business development options will have to be given more emphasis.

SIFs seem to be the kind of tool that reaches out to large masses of the poor. As shown in South America, although the proportion of poor people has been declining gradually, they have been rising steadily in absolute numbers. This means two things: (i) the problem is not going away, but (ii) proportionally society seems to develop more means with which to address the issue. To put it the other way around, a larger proportion of human and financial resources become available for a smaller proportion of people, although this smaller proportion is larger in numbers than before.

2.4 Community participation and co-investment share

2.4.1 Community participation

Community participation is organized through a consultation meeting with the communities (in a rural setting) or through a referendum (in an urban setting). These mechanisms identify micro-project committees which act as representatives of their community and are designed to “manage” their project. This involves identification, preparation, procurement, supervision, progress payment, hand-over and participation in operations and maintenance. The design incorporates roles for local authorities and for the SIF itself, as well as for relevant central authorities. This is the case for schools, health facilities and roads, but not necessarily for rural water or rural access roads.

The design of community participation is subject to a number of constraints which limit its role:

- the WB only allows the delegation of authority to legal entities. In Armenia the government has amended the law to allow small community committees to set up an NGO rapidly. This is not the case in most other countries. Even in Armenia, this has not led to full delegation;

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35 However, major efforts must be deployed to achieve maximum sustainability in the socio-economic infrastructure-type SIF, so that they truly deliver improved social and/or economic services.

36 See Gabriel Sirin and Azita Berar-Awad.
• the capacity of these committees to undertake all these functions is considered insufficient, probably rightfully so in most cases;

• the banking system in most of the countries of the CEE/CIS is not sufficiently developed or flexible to allow small payments to be transferred efficiently from SIFs to community committees and on to contractors;

• the appraisal, project design and preparation, the procurement exercise, the supervision of the works and the hand-over procedure require close monitoring. This is often difficult to achieve.

Unfortunately, these constraints have led most SIFs to take over more or less the entire process. The ASIF and the MSIF are still working more with the communities than most other funds. However, the delegation of tasks is not pushed far enough. In many cases, the local authorities are the ones in control of the local situation. This is not necessarily entirely wrong, but in some cases the community is not involved.

During a workshop with the GSIF team in Tbilisi (1997), it became clear that the approach to communities was still supply driven. The suggestion was made to adopt a new terminology when approaching the community, i.e., to speak in terms of "the communities' initiative and the communities' own investment plans". It is the Fund which participates and contributes (as a strong institution which provides the bulk of the investment). When addressing the community, the approach by the promotion team, and subsequently by all Fund staff, should be as follows:

What is the priority project on which you can agree and in which you are willing to invest a substantial amount of your own moneys? ... the Fund can then consider co-financing your project, under certain conditions ...

Another suggestion was to call the community contribution "the communities' investment share" (CISH). Though this may seem like just another way of saying the same thing, the basic intention is to put the communities in the driver's seat. If they wish to invest, but need support they can come and ask for support. The conditions remain the same as before poverty targeting, appraisal criteria and community participation during the entire process. The best proof of this last condition would already be provided if the process would have developed as per the above scenario.

This is not only a matter of terminology. SIFs tend to regard the communities as a partner of the fund rather than the other way around. It is true that SIFs in the CEE/CIS have a tendency to take on too many activities upon themselves rather than to delegate. The constraint there is local institutional capacity, which can be addressed by incorporating a larger institutional capacity building component in the Funds, rather than taking on tasks.

The capacity building component is one of the most important productive assets which can be developed. Investing time and finances in this cannot be counter-productive. Of all the funds in the CEE/CIS, the Moldova SIF is the one which has invested the most time and money.
As it is very new, time will tell the value of this investment. At this stage, however, there are healthy signs of institutional capacity being generated.

2.4.2 Objectives and purposes of the community co-investments share

The CISH and the management role of communities in a priority project carry out important functions in the selection, implementation and the post-implementation of the project. In general, the objectives and purposes of the community co-investment share can be described as follows:

- the CISH serves to establish the level of determination with which communities are interested in the project of their choice;
- it limits the beneficiaries' ambitions, i.e., the size of the investment so that they select a project which they can afford;
- the CISH creates a real sense of ownership amongst the beneficiaries. To obtain this, the CISH needs to generate a real effort among them. In many situations, beneficiaries only make a marginal contribution, as they find other sources of funding. In these cases, the sense of ownership is obviously much weaker;
- the sense of ownership increases the beneficiaries' awareness and concern about the sustainability of the facility. This in turn makes it easier to motivate them to be involved in operation and maintenance;
- the CISH also helps community members to work together, invest together and create a sense of community. This is a matter of pride and strengthening of their institutional capacity. The community comes out of the project experience with the feeling that together its members can achieve something;
- local authorities which join in the community effort in a constructive way gain respect and authority from their communities. It creates long term cooperation between the communities and their legitimate representatives;
- the CISH generally improves supervision over the works, as each individual beneficiary is concerned about his/her investment. This, in turn, leads to enhanced quality of works and technical sustainability, often speeds up the works and ensures that full delivery is made by the contractor;
- the CISH creates an understanding amongst beneficiaries about the accountability of public investment, as they realize that their own investment receives the same treatment as that of the Fund. Vice-versa, the Fund’s investment is treated with equal care as their own investment share;
the CISH strives to achieve transparency by keeping the beneficiaries informed about their own investment in particular, as well as those of the Fund in general;

- the entire methodology creates an awareness amongst beneficiaries of the use of private contractors and private business in the delivery of services to the community. This should be compared to cheaper direct labour contracts, which take longer, are poorer in quality and are often not completed;

- when put under the scrutiny of their peers, small contractors generally react by wanting to carry out an outstanding project, often with a minimal profit margin, through which they gain respect and recognition, a key to future work. The improved quality improves the technical sustainability of the project;

- putting project management in the hands of the beneficiaries creates awareness of the concept that competitive bidding leads to economy and transparency. Social Funds have provided training for thousands of individuals, enabled communities and municipalities to engage in competitive bidding and have led to accountability and transparency.

2.5 **Sustainability of SIFs**

Sustainability is almost exclusively a consequence of the degree with which community participation has been achieved. To compare this with examples from of the western world is probably the least common. Still, when municipalities in Belgium invest in social or economic infrastructures for their constituency, there is a lengthy process of beneficiary consultation (election) and fundraising (tax collection) prior to the investment. Further, municipalities have access to subsidies from regional and central governments for special types of infrastructures conditional to a certain number of criteria, and sometimes from special funds created by central or regional governments. The appraisal criteria for approval of sub-projects are as follows: receiving the mandate from the electorate, obtaining a majority in the local council, collecting enough local taxes, obtaining enough subsidies, having sufficient tax income projections to maintain and operate new and previous infrastructures for the future. In some cases municipalities or groups of municipalities (called "inter-communales" in Belgium) go to private banks to obtain loans, and have to submit the appraisal for the project and meet certain prerequisites from these banks to obtain the loans.

Sustainability covers various aspects: technical (stability, durability, quality), financial (does the municipality have the necessary resources to build and to maintain and operate?), scheduling (i.e., will the state finance the teaching staff if the municipality enlarges the school?), economic (can a cultural center or municipal swimming pool operate using its own income and reimburse the loans?), and eligibility (is this the elected government and do they have the mandate?). There is no substantial difference between the requirements in the West and those of SIFs, only in terms of "process" because of the difference in environment. The CEE/CIS countries do not have fully established democratic systems in place. The local authorities are still evaluating their initial experiences. Therefore, SIFs do not have the same nature as equivalent institutions in western countries. SIFs aim at strengthening the local institutions, and because of
the weaknesses SIFs are more directly involved in the processes and in ensuring sustainability. Clearly, more effort should be put into achieving sustainability than is presently the case.

2.6 Transformation of SIFs into municipal and community development funds

SIF infrastructure components are well suited to gradual conversion to municipal development funds.

Some see SIFs competing with local authorities and administrations. In the same way that national governments have been accepting the concept of an alternative mechanism to better achieve their objectives, local authorities and administrations can benefit by working closely with SIFs to achieve common goals in poverty alleviation. There should be separate mechanisms because of the complementarity of their roles: on the one hand, there are the local civil administrations and, on the other hand, there are the institutions which provide additional support to those local administrations.

SIFs suffer one handicap at the start: they attempt to address issues of local concern in a centralized system. Therefore, many SIFs in the larger countries decentralize their operational capacity, but nonetheless remain centralized institutions in order to achieve efficiency and to delegate tasks. When municipal authorities become more democratic, stronger institutions, SIFs can develop into municipal development funds aimed at generating local employment and alleviating poverty. Their role will change into providing the financial assistance to the local municipalities under a set of conditions to meet the Fund’s objectives. They will also focus on building institutional capacity in poverty alleviation management and in turn, in municipal management. In this context, SIFs will continue to improve and develop productive assets, but in a collaborative effort with more experienced municipal institutions.

III. LESSONS LEARNED AND RECOMMENDATIONS

3.1 Key players in SIFs

Many institutions are involved in SIFs in the CEE/CIS. The key players in terms of results are the beneficiaries and their local authorities. They co-finance approximately 10% of the funding of micro-projects, which often matches direct government counterpart funding.

The biggest financial investor in SIFs in the CEE/CIS is without a doubt the World Bank. It has provided loans or credits to many countries (Albania, Armenia, Tajikistan, Georgia, Bosnia-Herzegovina, Moldova, Roumania, Bulgaria, Kirghisztan) and a grant to the Kosovo fund (KCDF since the end of 1999). In support of the WB’s efforts to develop SIFs in this part of the world, there are several bilateral donors (grants especially), including the Japanese government through a Japanese trust fund in the WB, USAID, and the Dutch government. Other bilateral donors have made more modest contributions, the Belgian government who assisted in financing the SIF conference in Yerevan/Armenia, for example. The United Nations Development Programme (UNDP) actively supports several funds within their poverty eradication programme.
This is the case of the Uzbekistan fund preparation (SIM Fund), the Bulgarian precursor of the BSIF (Bulgarian Regional Initiatives Fund: BRIF) with more modest funding of technical assistance.

The ILO is very interested in the development of SIFs in the CEE/CIS in line with their mandate of employment generation and poverty alleviation, mainly in the form of technical expertise. The ILO has been actively involved in the Uzbekistan SIM Fund and the Bulgarian RIF (through UNDP technical assistance funding mainly), in addition to its participation in various SIFs in Africa and South America.

3.2 Lessons learned relevant to the ILO’s mandate

In terms of ILO’s main concerns, which focus on employment generation and poverty alleviation, the experience in the CEE/CIS is an extension of the experience gathered in other regions of the world, namely South America and Africa. The main lessons learned in the CEE/CIS countries can be summarized as follows:

- the impact of SIFs is not measured accurately and not very measurable at present. Impact monitoring should be improved and expanded;

- simplified SIF designs can reach simplified objectives reasonably well, but for complex objectives such as employment generation for the poor and subsequent poverty alleviation, SIFs should be conceived as long-term institutions;

- in order to achieve more impact with regard to complex issues such as employment generation for the poor and poverty alleviation, SIFs should expand their investment volume and diversify their fields of activities. They should concentrate on the development of productive assets such as micro-finance and micro-business development projects. This orientation would also help to cut the costs of social safety net assistance;

- SIFs cannot be conceived as centralized institutions tackling different types of activities under one management. It would be more appropriate to keep social assistance programming out of SIFs. Further, infrastructure development, micro-finance and micro-business development components should not be put under a single management;

- SIFs should focus more on the institutional capacity building component. Often, the results achieved in terms of delivery of the infrastructure, or of micro-finance beneficiaries divert the dynamics of SIFs from the institution building element;

- regarding the infrastructure component, SIFs should improve the community participatory aspect and the appraisal of projects to pave the way for long-term sustainability.
3.2.1 Improvement of SIF impact monitoring

As explained illustrated in this report, improvement of SIF impact monitoring is a must. There are three main reasons why present efforts have not been more successful:

- the volume of investments in SIFs is so low, that even in the case of more common investments, the macro-economic impact would be marginal at best;

- the thinly spread investment strategy of SIFs has diluted the impact, which makes it even more difficult to identify and therefore to measure; and

- because of the above and because SIFs are new instruments in the CEE/CIS countries, it has not always been easy to make precise projections at the design stage as to the measurable impacts. Therefore, the indicators have not always been accurately defined; further, it is not easy to identify the real impacts and relevant indicators.

A baseline survey would, therefore, be useful. This survey would evidently differ from the standard approach, which is conducted at a given time in order to isolate all influences. Nonetheless, SIF data are collected before the implementation of the micro-project in each community.

Data collection is already partially in place, reducing the need for a more elaborate baseline survey. What is questionable in this context is whether the data gathered provide adequate baseline data. SIFs conduct a hand-over procedure for each micro-project during which data can be collected. These data would add to the cost of the micro-project, which seems acceptable on two grounds, i.e., sustainability and service to the communities. This would, of course, require the SIF evaluation unit to hire a qualified professional for that purpose.

SIFs have also set up post-implementation impact assessments and beneficiary satisfaction surveys. They would have to be continued and fine-tuned. They may need to be scheduled 2 to 5 years after implementation.

In order for macro-economic impact to become measurable with whatever assessment and survey methodologies may be used, the investment volume allocated to SIFs must be increased and SIF activities need to be geared to long term and become more diversified.

3.2.2 SIFs as long-term institutions

Given that employment generation for the poor and poverty alleviation are complex issues, it is logical that if SIFs are considered to be valuable complements to conventional social maintenance programmes, they should shift from their “pilot emergency response phases” into long-term instruments. One of the main advantages of SIFs is their capacity to facilitate the transfer of a number of poor people into the economy. In this respect, they differ from conventional social maintenance programmes. They reduce the cost of social maintenance programmes and their own cost through increased economic productivity.
3.2.3 Increased investments and diversification of activities

Based on the Latin American experience, when SIFs are provided with adequate funding, their macro-economic impact becomes measurable. Governments and international institutions should continue to support complex institutions like SIFs for more than 10 years in order to reach conclusive results. To achieve their objectives and have a more significant impact, SIFs need to diversify their activities, i.e., micro-finance and micro-business development.

Expanding and diversifying SIF activities would put pressure on fragile institutions which have been set up with pains tacking by efforts. However, the long-term success of these institutions makes diversification an essential feature in the years to come.

In this regard, the main activities to be taken into consideration are:

- improved socio-economic infrastructure: SIF components. They are essential in SIFs because of their rapid potential impact and because many of the countries which require SIFs have a poor socio-economic infrastructure to start with. In addition, this component has the added feature of building proper business practices in the small construction sector, and with the community participatory approach introduces local democratic management principles. It also facilitates the introduction of competitive bidding at the lowest public level and creates the concept of good governance between the private sector and local administration. SIF socio-economic infrastructures can easily grow in a secondary phase into municipal development funds focusing on local employment generation, poverty alleviation and institutional capacity building;

- micro-finance schemes: the role of SIFs should be to initiate the creation of such institutions by providing the initial financial investment, expertise for financial management (at real interest terms) and institution building. The objective is to provide alternative financial access to the poor to give them an opportunity to bring their informal business activities out of the informal sphere into the formal business environment and thus increase their productive output. The ILO’s experience in micro-finance should be useful, provided that the SIFs are not designated as the micro-finance institution itself;

- micro-business development projects: they consist in developing institutional capacity in smaller private sector banks to issue small business loans ranging from US$ 2,000 to US$ 100,000, with softer collateral bases, but at real interest terms. They should also include the provision of start-up capital, most likely reimbursable to the SIF after a grace period. The aim would be to develop business support services with SIF specificities geared to micro-businesses, particularly in the private sector – credit unions, business associations or in the service sector with associations of accountants and/or financial and technical consultants. ILO models of business incubators and business support centres are good examples to start with but they should be re-oriented to fit. The objective would be to create the services and make them self-sustainable in the medium term.
Social services are not part of this list of activities, as they are provided by the conventional social maintenance programmes. Also, they cannot match performance-oriented business practices, which the three abovementioned activities are supposed to achieve.

These components are complementary in nature for a number of reasons:

- socio-economic infrastructures address the poorest beneficiaries, basically to offer everyone across the board better services, to offer employment to the unskilled and to provide grants to communities;

- micro-finance schemes offer new opportunities to petty traders, petty handicraft producers and the like and try to give them an opportunity to move into the formal business environment. This addresses the poor with slightly more initiative and savoir-faire;

- micro-business development projects aim at more or less established businesses, including contractors and construction-related businesses. They are strongly supported by the injection of grants into the SIF socio-economic infrastructure component, and are the engines of the local economy. If this category of the local poor can manage to create a stable economy, employment will surely grow, local financial means will increase and the entire community will benefit economically;

- these three types of activities contain institutional capacity building components, but micro-finance and micro-business development projects set up new institutions in economically disadvantaged environments.

There, the objective is to create a larger package of opportunities and to focus on the complexity of poverty and employment issues. A larger investment volume is necessary in order to set up such a mechanism. Also, the nature of the three activities makes it clear that they should not be managed as one project, or as one programme. They should be managed separately in different units within an SIF.

3.2.4 Institutional capacity building

Institutional capacity building is an essential objective of SIFs and it is not being adequately addressed by those already in place in the CEE/CIS countries. This is an outcome of the need to build their own institutional capacity, but it is also a focus which has not been given sufficient importance. This will require more effort, time and investment.

3.2.5 Improved sustainability through community participation

Improving presently operating SIFs is no doubt necessary. Objections being voiced are in part justified, but need to be proven wrong. Too often community participation is not considered essential. Hopefully, this report has provided enough arguments that sustainability can only be achieved through increasingly placing the initiative in the hands of the final beneficiaries; SIFs must learn to act as contributors rather than lead agencies.
3.3 Future ILO involvements in SIF’s

The ILO should increase its participation in SIF-related activities, as they are in line with its mandate and experience.

There is no doubt that the different conceptual approaches advocated by the ILO compared with those of the World Bank should be regarded as an enrichment to SIF-type institutions in the long-run. In addition, the unique social mandate of the ILO within the UN system gives it an ideal position to assume a role in these endeavours. In keeping with the recommendations in this report, the ILO could take a more prominent role in cases where SIFs in CEE/CIS countries could benefit from added impetus. Specifically, the ILO could work to:

- encourage the transformation of SIFs into long-lasting institutions by means of a diversification of activities and increased investments. This would enhance their macro-economic impact;

- provide technical assistance to existing SIFs such as, supporting institutional development and community participation, offering small business and micro-finance expertise, promoting use of labour-intensive technologies and ensuring impact evaluations.
BIBLIOGRAPHY


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