EMPLOYMENT AND SOCIAL INVESTMENT FUNDS IN LATIN AMERICA

Gabriel Siri

Employment-Intensive Investment Branch
International Labour Office, Geneva
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PREFACE

Since the first Social Fund was launched in Bolivia in 1986 such institutions have become powerful tools in channeling 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 constituted 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 channeled to Social funds or similar institutions when one adds in financial contributions of other institutions involved, i.e., the European Union, Inter-American Development Bank and the Arab Fund.

This working paper reviews the fifteen-year experience of Employment and Social Investment Funds in Latin America. It is one of a series of documents in the Employment-Intensive Investment Branch research programme on Social Funds. Other similar documents are being prepared for Africa and for Eastern Europe and Central Asia, 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 work was prepared by Gabriel Siri, a former UN and World Bank economist, with vast experience in Latin America, particularly in the design and implementation of Social Funds. The author argues that "Social Investment Funds represent a new social technology for addressing social welfare issues." In his opinion, Latin American Social Funds have been able to set up, under a single autonomous entity, an operational capacity to deliver a large number of small-scale social and economic projects rapidly and deal directly with international financial institutions, at the same time. However, different assessments have expressed doubts about the Funds' success in reaching the very poor. Furthermore, their response to gender issues has often been questioned. In this document, it is recommended to direct Social Funds such as to target more benefits to women. It is also suggested to favor directly productive projects, capable of expanding permanent employment. Finally, it is also argued that if Social Funds are to remain autonomous institutions, they should then focus squarely on combatting poverty in areas that line ministries cannot address.

Jean Majeres,
Head, Employment-Intensive Investment Branch.
1. Introduction: Social investment funds in Latin America

The original social investment fund model was conceived in Bolivia in 1986 with the establishment of the Emergency Social Fund. The initiative was replicated throughout Latin America in the early 1990s, with the financial assistance of the Inter-American Development Bank, the World Bank, and a number of country donors. The region now has about 20 major funds, with investments that total nearly US$ 4 billion (see Table 1), and the large amounts of external resources channeled through the funds continue to grow.

Social investment funds represent a new social technology for addressing social welfare issues. Best practice in fund programs has produced significant accomplishments:

-- Funds have set up under one roof operational capacity to rapidly deliver large numbers of small-scale social and economic projects and, at the same time, to deal directly with international financial institutions and donor-country agencies. The funds have been able to obtain significant amounts of "new money" from the international community (largely in the form of soft loans) and, by bypassing traditional government channels, disburse resources rapidly to projects targeted to the poor.

-- They have built teams of results-oriented professionals, put sophisticated management information and project control systems in place, and developed poverty maps to target projects on the basis of technical criteria. In practice, they are perhaps the most operationally developed instruments of social action in the region.

-- They have developed working relationships with local governments and community and civil-society organizations, and involved them in the identification, execution, and maintenance of projects. In the process, they have contributed to the introduction of the "demand-driven" concept in public-works programs in Latin America.

Social investment funds are very visible in the countries' development programs, with governments and international financial institutions assigning them first rank as instruments to combat poverty. By rapidly mounting large operations that yield tangible results, governments have been able to show their concern for the deplorable and some times deteriorating poverty conditions in the countries. Highly significant is the fact that the poverty issue has been once and for all linked -- by both the governments and the international financial institutions -- to the countries' stabilization and sustainable economic growth policies.

Although most studies have viewed the overall performance of the social investment funds in a positive light, the fund model has also been highly criticized, especially in recent years. Different assessments have expressed doubt about the funds' success in creating employment and combating poverty and, in particular, about their ability to reach the very poor. A number of reviews have criticized the funds' response to gender issues. Questions have also been raised about how much the selection of projects is actually demand-driven, and even about the

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1 This total excludes the giant "fund-like" programs that have been established in some countries (e.g., Mexico and Colombia) and the myriad funds with specialized functions that have proliferated throughout the region. For example, Guatemala has 11 specialized funds in fields such as indigenous development, science and technology, culture, etc. Not included is also an innovation that the World Bank classifies as "demand-driven rural investment funds" (DRIFs).
advantages of the demand-driven model for reaching the poor over state-run employment-creation operations.\(^2\)

The funds are now at a critical juncture as their status shifts from that of temporary entities focused on short-term goals to permanent institutions with long-term objectives. The transformation will require significant changes in both their operational orientation and their institutional structure. Above all, the funds now need to find their proper niche within the countries' long-term strategy for poverty reduction and government reform.

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## TABLE 1
FINANCING OF SOCIAL INVESTMENT FUNDS (Millions US$)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BELIZE SIF (1997- )</td>
<td>11.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOLIVIA ESF (1987-1991)</td>
<td>198.0</td>
<td>87%</td>
<td></td>
</tr>
<tr>
<td>FIS (1991-1995)</td>
<td>219.5</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>CHILE FOSIS (1991-1995)</td>
<td>316.0</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>DOMINICAN REP PROCOMUNIDAD (1995-1996)</td>
<td>44.3</td>
<td>93%</td>
<td></td>
</tr>
<tr>
<td>ECUADOR FISE (1991-1995)</td>
<td>109.1</td>
<td>95%</td>
<td></td>
</tr>
<tr>
<td>EL SALVADOR FIS (1990-1995)</td>
<td>212.6</td>
<td>91%</td>
<td></td>
</tr>
<tr>
<td>GUATEMALA FIS (1992-1995)</td>
<td>122.6</td>
<td>89%</td>
<td>154.0</td>
</tr>
<tr>
<td>FONAPAZ (1991-1996)</td>
<td>67.5</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>GUYANA SIMPAP (1990-1996)</td>
<td>48.4</td>
<td>93%</td>
<td></td>
</tr>
<tr>
<td>HAITI FAES (1995-1996)</td>
<td>54.0</td>
<td>94%</td>
<td></td>
</tr>
<tr>
<td>HONDURAS FHIS (1991-1996)</td>
<td>257.8</td>
<td>81%</td>
<td>136.5</td>
</tr>
<tr>
<td>JAMAICA SIF (1997- )</td>
<td>48.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NICARAGUA FISE (1991-1996)</td>
<td>279.0</td>
<td>91%</td>
<td>165.7</td>
</tr>
<tr>
<td>PANAMA FES (1991-1995)</td>
<td>112.0</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>PARAGUAY PROPAIS (1996)</td>
<td>28.0</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>PERU FONCODES (1991-1996)</td>
<td>890.0</td>
<td>58%</td>
<td>430.0</td>
</tr>
<tr>
<td>URUGUAY PRIS/FAS (1991-1995)</td>
<td>90.5</td>
<td>76%</td>
<td></td>
</tr>
</tbody>
</table>

Note: The table is based largely on data from Inter-American Development Bank (1997), *Social Investment Funds in Latin America: Past Performance and Future Role*, by Goodman M., Morley S., Siri G., Zuckerman E., Washington, D.C. (Table 2.1). In some cases local financing data are incomplete. Therefore shares of external financing estimates are only rough approximations. The financing totals have been complemented with recent World Bank project data.
2. The SIF model

Classification of the funds by their overall objectives

The social investment fund model has core characteristics that are more or less common to all countries. However, the specific operational routes that the funds have followed vary considerably:

i) Most social investment funds are centered on increasing the scope, rationality, and effectiveness of public social investment and are essentially autonomous government institutions that maximize the delivery of projects. The bulk of their portfolio is oriented to small infrastructure projects -- in particular to small schools and health posts. Although this type of fund generally stresses municipal development and, in the best of cases, the promotion of participatory democracy (e.g., project selection aired in "cabildos abiertos" under the aegis of the local authorities), the promotion of self-sustaining community groups and autonomous civic action is not a key concern.

ii) A small number of funds concentrate their activities on improving the problem-solving capacity of the communities and on furthering their autonomous development. These programs generally represent a new form of government activity: the support of civic action and the strengthening of civic organizations. Typically, this type of fund focuses directly on developing social capital, on small grassroots projects -- including community-based projects that foster women's participation and increase their benefits -- and on productive projects in the hands of the poor.

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4 Chile's FOSIS and Guatemala's FONAPAZ followed this model, and to some extent Bolivia's Emergency Social Fund.

5 The characteristic orientation of this type of fund is best exemplified by Chile's FOSIS, which "strives to develop and make use of the aptitudes and skills of the poorer sectors. FOSIS works with them, building on their efforts and creating opportunities for social inclusion in the context of the community in which they live and work. The fund strengthens the personal, organizational, and managerial skills of poor individuals, families, and communities, encouraging the public and private sectors and NGOs (civil society) to provide opportunities for the poorer sectors to increase their social integration and participate in the market and society as producers, workers, consumers, and citizens. ... FOSIS programs are divided into four areas: support to urban microenterprises, to poor campesinos and indigenous communities, to poor localities, and to youth. The first two areas include a high percentage of productive projects, while the other two are geared toward social and community development." (Raczynski D. (1996) "Chile's Fondo de Solidaridad de Inversión Social (FOSIS)," Consultant's report to IDB 1997, op. cit.).
iii) Several large programs in Latin America are referred to as social investment funds but fall far outside the standard mold -- and outside the scope of this study. These funds are put charge of overseeing a whole segment of the governments' social budget in areas such as education, health, nutrition, economic and social infrastructure, and support of directly productive activities. Two such "funds" exist in Latin America: Colombia's Red de Solidaridad Social and Mexico's Programa Nacional de Solidaridad (PRONASOL). Indeed, these programs manage very large portfolios and have a direct role in the implementation of diverse programs and projects. PRONASOL, the larger of the two, distributed more than US$ 8 billion during 1989-94, financing more than 200,000 projects.

Another type of initiative that follows a model quite similar to that of the social investment funds has developed in Africa: the Agences d'Exécution de Travaux d'Intérêt Public (AGETIPs). These agencies concentrate squarely on the implementation of employment-generating infrastructure public works, while the SIFs -- usually much larger ventures -- look at the broader social picture and the issue of poverty alleviation. The AGETIPs actually take responsibility for the execution of projects, usually at the request of the municipalities; social investment funds do not execute projects and place more reliance on NGOs and community organizations. The more direct implementation modality adopted by the AGETIPs (which are themselves nonprofit non-governmental organizations) responds to the conditions found in countries where government agencies and the private sector have limited operational capacity for project execution. Thus, the explicit objective of these agencies is to exploit fully whatever potential the communities have to formulate projects and to take advantage of the project-execution capacity of private-sector firms. The existence of small private-sector contractors -- or the potential for rapidly developing them -- largely determines the geographical distribution of projects. In the case of the social investment funds, in contrast, poverty maps play a determining role in establishing priorities for the regional allocation of fund operations. AGETIPs have not developed in Latin America because the governments and private sector generally have a greater capacity for project execution than do most African countries.

**Main characteristics of the model**

Social investment funds in Latin America are highly diverse and are at different stages of development. However, the funds generally have the following characteristics in common:

-- Social investment funds have enjoyed strong political backing, but at the same time have been granted considerable independence from government controls. Funds operate outside the normal line ministries' executing channels, are generally exempt from personnel salary ceilings, and are, in principle, free to put together professional teams and select or reject projects without political constraints. In order to foster financial probity, funds are subject to regular internal and external audits.

-- Most funds were set up as temporary institutions (with a three- to four-year horizon) with the explicit objective of aiding the poor in a time of economic crisis and demonstrating the governments' concern about rising poverty. Nevertheless, the general

trend has been to prolong the life of the funds, and de facto, most have become permanent institutions.

-- The raison d’être of the funds is their reportedly greater operational efficiency than that of government executing agencies: lower overhead and shorter delivery time. Conceptually, at least, the funds are institutions within the public sector that are managed as private enterprises. They are not set up to build individual, well-tailored public works but aim to establish an "assembly line" to generate hundreds, or even thousands, of small, technically unsophisticated projects.

-- Social investment funds normally do not execute projects directly and thus can be managed by a relatively small staff. Their role is generally confined to project appraisal and supervision. The construction -- and often the design -- of the projects are left to private-sector contractors and NGOs, and sometimes to government agencies. The relationship with the private sector has been extensive, in terms not only of construction contracts, but also as a source of staff, consultants, and even fund managers.

-- Funds are primarily "asset builders," not service providers; 75 to 90 per cent of the resources of almost all funds are channeled to financing small-scale social and economic infrastructure projects (World Bank 1994, p. 10). Responsibilities that require recurrent costs, such as project maintenance and the delivery of social services corresponding to the works built (e.g. education and health), are generally passed on to central and local government agencies or rely on cooperation from NGOs and community organizations.

-- The social investment fund model advocates a bottom-up approach in the selection and conception of projects. All funds claim to be demand-driven -- that is, their project portfolios are to be determined not by central directives but at the local level by future beneficiaries. Community participation and project ownership is sought in order to bring projects in line with the needs of the communities and increase the possibilities that they will be sustained. The introduction of the demand-driven approach to government operations is one of the salient developments associated with the funds. However, doubts have been raised about the extent and the manner in which this approach has been pursued in practice (see section on participation of beneficiaries, p. 22).

-- The funds have followed the countries’ efforts to decentralize the government apparatus and transfer assignments and responsibilities to municipalities. Moreover, most funds


"There is some evidence to show that Social Funds are able to construct infrastructure at lower cost than public agencies... (and) within a lesser time." (World Bank 1998a, Social Fund Projects: How are they Performing?, The Working Group for the Social Funds Portfolio Review, headed by Ishrat Husain, p. 41).

8 “At its peak Bolivia’s ESF reportedly approved 30 projects a week, worth about US$2 million, and was executing as many as 1,000 contracts simultaneously. It achieved this scale of operations using 130 staff, of whom about 80 were professionals” (World Bank 1994, op. cit., p. 26).
have been instrumental in promoting municipal development programs that elicit the cooperation of local constituencies. In a number of cases, the funds have involved local governments in the project cycle, both in the selection and evaluation stage of proposals and in the monitoring of projects (good examples are Bolivia’s FIS, Chile’s FOSIS, and Honduras’ FHIS after 1994). Executing fund projects has given the municipalities experience in implementing works of interest to the communities and has expanded their capacity to contract private-sector firms for the construction of public works.\footnote{Funds have, however, encountered difficulties in enlisting poor municipalities as counterparts, given their characteristically weak operational capacity for executing and supervising investment projects and their lack of competence in designing local development strategies. Very poor municipalities have no professional staff and, by definition, lack resources.}

-- Almost all financial operations of social investment funds are grants. Funds act as financial intermediaries whose function is to mobilize resources (largely from foreign donors) and channel them directly to projects. In the case of microfinance activities, the SIFs normally establish rotating funds operated by non-governmental organizations as intermediaries.

3. Accomplishments and shortcomings of the funds in areas of particular relevance to the ILO

There are two very different perspectives from which to judge the worth of social investment funds:

First, one can question whether the individual funds are achieving their objectives, within the constraints of the endowments they have been given. In assessing the merits of the various social investment funds, it is well to keep these constraints in mind, because criticisms have often been directed at the failure to achieve objectives beyond the purview of the funds or the limited faculties and means assigned to them. It is relevant to note that the original architects of the funds did not look to grand optimal solutions for the countries' social ills; they had short-term, tangible results in mind and set up results-oriented operations with significant but limited resources. Fund operations were not given the instruments or the means to solve major longstanding social problem of the countries -- such as poverty and unemployment -- and it is unreasonable to hold them accountable for failing to do so.

A very different issue is whether the fund model itself constitutes a good paradigm for social development and combating poverty in Latin America. Social investment funds have given rise to large operations in the social sector, and they can be considered to constitute a new social technology. However, they are clearly not \textit{the} solution to the enormous poverty problem facing most of the countries. An inherent shortcoming of the SIF model is that it is not centered squarely on getting people out of poverty in the short and medium term -- that is, on permanently increasing the income and wealth of the poor. Although the benefits eventually generated by the funds, in terms of the provision of social and economic services, are targeted toward the poor, most fund expenditures flow directly or indirectly to the non-poor (salaries, purchases of goods and services, etc.); the wage bill for unskilled labor tends to be very small.

By showing that a significant operation can be mounted rapidly when the political will exists to do so, the fund model has contributed to bringing the poverty issue to the policy arena. However, the funds do not have the tools (or the political weight) to bring about the transformation required for
the countries to move into a trajectory of sustainable growth with equity. On the contrary, their success hinges to a large extent on forming part of an economy-wide development program.

In gauging the merits of the SIF model, it should be borne in mind that, notwithstanding their shortcomings, the funds represent a positive initiative. They are certainly better than the alternative of ignoring the critical issue of poverty, as too often has been the case. For a number of countries -- and in the corresponding country portfolios of external financial institutions -- the funds constitute the only large program to alleviate poverty. Thus, the question should be posed in terms of what the funds have accomplished in comparison with other programs that the governments are in a position to mount -- that is, other programs that will produce comparable results in terms of improving the living conditions of the poor, encouraging community involvement, and attracting large amounts of concessional financing from the international community (Siri 1992).

Employment generation

Employment generation has been an objective of most funds, especially those that were created as part of a government response to an economic crisis. An avowed goal has been to rapidly generate significant amounts of temporary employment through the construction of a large number of small public works. There has been some tendency to move away from this objective, but employment creation remains an important endeavor for most funds.

In some countries, the volume of the employment created has been substantial. Bolivia's ESF and Honduras' FHIS pursued the employment objective deliberately, and significant numbers of short-term jobs were created. It is relevant to note that in some specific circumstances, social fund investments have represented a significant share of total government investments in the construction sector, and even in total public sector investments (for example, Bolivia's Emergency Social Fund carried out 20 per cent of the country's public investment in 1990). Nicaragua's FHIS reportedly generated 80 per cent of formal construction sector employment in the year 1995.

However, overall, the employment generated by the funds has been marginal in relation to the countries' total labor force, or to the numbers of unemployed or underemployed. As summarized in Table 2, the average level of employment created by social investment funds has been less than 1 per cent of the total labor force. This is not surprising, given the small size of the funds' total expenditures in relation to the countries' GDP -- less than 1 per cent in almost all cases (IDB 1997).

In line with their strong orientation towards small social and economic infrastructure construction projects, social investment funds have primarily generated temporary employment (of less than 6 months' duration) consisting of unskilled, low-paying occupations. Moreover, skilled workers are often brought in by contractors, while the unskilled jobs go to the local population. Once construction projects are finished, unskilled workers tend to return to their prior occupations -- or to unemployment. The prevalence of

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10 See consultants’ reports to IDB (1997) op. cit., in particular those for Haiti’s FAES (p. 131) and El Salvador’s FIS (p. 83).
Table 2

Temporary Employment Creation of the Social Investment Funds

<table>
<thead>
<tr>
<th>Country</th>
<th>Period under Consideration</th>
<th>Average Level of Direct Employment Created by the SIFs</th>
<th>SIF Employment as a Percentage of Total Labor Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia FSE</td>
<td>1988-89</td>
<td>21,000</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1991-96</td>
<td>2,400</td>
</tr>
<tr>
<td>Chile FOSIS</td>
<td>N/A.</td>
<td>N/A.</td>
<td>Negligible</td>
</tr>
<tr>
<td>Ecuador FISE</td>
<td>1993-95</td>
<td>5,600</td>
<td>0.2</td>
</tr>
<tr>
<td>El Salvador FIS</td>
<td>1991-95</td>
<td>5,500</td>
<td>0.2</td>
</tr>
<tr>
<td>Guatemala FIS</td>
<td>1995</td>
<td>7,500</td>
<td>0.3</td>
</tr>
<tr>
<td>Haiti FAES</td>
<td>1995</td>
<td>8,000</td>
<td>0.3</td>
</tr>
<tr>
<td>Honduras FHIS</td>
<td>1990-94</td>
<td>14,000</td>
<td>0.8</td>
</tr>
<tr>
<td>Nicaragua FISE</td>
<td>1991-95</td>
<td>3,300</td>
<td>0.3</td>
</tr>
<tr>
<td>Panamá FES</td>
<td>1994-96</td>
<td>1,500</td>
<td>0.2</td>
</tr>
<tr>
<td>Peru FONCODES</td>
<td>1991-95</td>
<td>19,000</td>
<td>0.2</td>
</tr>
</tbody>
</table>

* The table is based largely on data from IDB 1997, op. cit. (Table 3.3). Sources for Table 3.3 are the Consultants' Reports of the study (published in October 1998), internal documents of the countries' social investment funds, and estimates presented by the World Bank. The average level of employment created was estimated by dividing the total person-years of employment generated by each fund by the number of years in the period under consideration. The labor force figure used to calculate the last column is the average value for the years 1990 and 1995 (ECLAC Statistical Yearbook, 1995, Table 372).

The values in the table vary substantially among countries because of the large differences in the size of the funds, because of the considerable variations in the values of yearly expenditures during the periods considered, and because of the different types of projects that the funds specialize in.
short-term employment is also the result of a deliberate policy of subcontracting the execution of projects so that the fund will not become a direct employer and constitute a new bureaucracy within the government.

The wages paid to workers in social investment fund projects are generally at or below the market-wage level. Nevertheless, various studies indicate that workers' earnings increased significantly in comparison to their prior earnings elsewhere, especially if they had been underemployed or unemployed.11

With few exceptions, labor costs represented less than one-quarter of the funds' total expenditures -- and much less in terms of wages for unskilled workers. A wage bill on the order of 20-30 percent is clearly extremely low for programs that specialize in the construction of small-scale infrastructure. In a number of countries, labor-intensive state-run programs regularly achieve more than twice that labor share. The situation clearly calls for a deliberate policy -- with the right set of incentives -- to stimulate the adoption of labor-using techniques by the private construction firms that execute fund projects.

With respect to the permanent employment created by the funds, information is scarce, but most estimates indicate that it has been quite limited.12 Permanent employment creation in fund operations derives from three sources: i) fund expenditures in directly productive projects, in particular microcredit programs that create or expand small businesses and thus generate permanent jobs and boost incomes; ii) contracts to small construction firms and suppliers of goods and services that in some cases became permanent businesses; and iii) the impact of fund expenditures on subsequent rounds of the population’s income and spending -- which in turn generates additional employment.

Employment creation by microcredit programs has been minimal. This is not surprising, since, with very few exceptions, funds allocate less than 5 per cent of their portfolio to microcredit operations. Moreover, credit programs have resulted more in higher income for the owners of the microbusinesses than in new employment (IDB 1997, p. 54).

Few appraisals have been made of the indirect employment eventually generated by the induced economic growth generated by the funds. However, some estimates indicate that it may be equal to or larger than the direct employment. For example, in the case of Bolivia's Emergency Social Fund, an additional 22,000 jobs were created as a result of the economic expansion

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11 For example, for Bolivia's FSE, "the average ESF worker experienced a 22 percent increase in wages, an increase of 10.1 hours of work a week, and a 45 percent increase in weekly earnings over what he would have earned if he had been working in the absence of the ESF. Taking into account the probability that the individual may not have worked ... the average ESF worker received an increase of 16.1 hours of work a week, and a 67 percent increase in earnings," (Newman J., Jorgensen S., and Pradham M. (1992), “How did Workers Benefit,” in Jorgensen S., Grosh M., Schacter M., eds., Bolivia's Answer to Poverty, Economic Crisis, and Adjustment: The Emergency Social Fund, The World Bank, p. 60).

12 In the case of Peru's FONCODES, the proportion of construction workers who secured a job for more than 12 months was reportedly only 2.8 per cent. (Moncada Vigo G. 1996, "Peru: Fondo Nacional de Compensacion y Desarrollo Social, FONCODES," p. 212. Consultant's report to IDB 1997, op. cit.).
generated by fund expenditures.\(^\text{13}\) Clearly, however, the indirect employment generated was not targeted towards the poor.

The limited capacity of the funds to create permanent employment is a serious shortcoming, for although temporary employment can help mitigate poverty in periods of economic downturn, only stable employment reduces poverty.

**Poverty alleviation and reduction**

Few rigorous evaluations have been made of the effectiveness of individual funds in terms of poverty reduction. Little information is systematically recorded on the amount and type of benefits created and who the beneficiaries are. There is almost no disaggregation of data by different categories of poor or by gender. Usually, benchmarks with *ex ante* data are not developed when formulating the projects, and impact assessment procedures are not built in. One reason for this is that impact studies are a difficult undertaking (even from the methodological standpoint), and they are costly.\(^\text{14}\)

While social investment funds do not directly address the problem of structural poverty and reducing the number of poor, they *have* contributed to alleviating poverty. Most fund benefits have directly or indirectly reached a substantial share of the poor population. "In the small countries with large operations (e.g., Bolivia, El Salvador, Honduras, and Nicaragua), the funds have provided some benefits -- albeit rather small on average -- to more than one-fifth of the population" (IDB 1997).

As mentioned above, very large amounts of resources have been channeled to social investment funds in Latin America, and they have been given an important place in government strategies to combat poverty. However, in terms of the vast problem at hand, the funds are relatively small. Some of the larger funds invest US$ 20-30 million per year, which at best represents about US$10-15 per year per poor person\(^\text{15}\) (see IDB 1997). These sums are not trivial, but they are certainly not sufficient to solve the problem of poverty.

In the charters of most social investment funds, the rationale for creating the funds is explicitly to compensate the poor for the temporary burden placed on them by structural adjustment and stabilization policies. Practically all studies of social funds repeat this mantra. Although in all countries the funds did benefit some of the poor, the effects of macro policies on specific poor populations in terms of a reduction in income were generally not even quantified. Compensation was not specific to the people affected or to the need, such as employment, basic

\(^{13}\) The estimate is based on the results of a general equilibrium model of the Bolivian economy calculated by UPADE (Unidad de Análisis de Política Económica, *Modelo para Medir el Impacto Macro-económico de los Proyectos del Fondo Social de Emergencia*, mimeo, La Paz, Bolivia, 1989).

\(^{14}\) However, in most countries, *ex post* beneficiary assessments of fund projects have been carried out. The effects of Bolivia's social investment funds have been extensively analyzed.

\(^{15}\) Except for countries like Chile and Uruguay, where poverty is much less widespread. Yearly investments averaged US$ 44 million (4.5 years of operation) for Bolivia's ESF and about US$ 130 million for Peru's FONCODES -- that is, US$ 9 per year per poor person for Bolivia and US$ 11 for Peru.
needs, etc. For example, small entrepreneurs who were hurt by the recession or the stabilization policies were largely left out of the compensation programs. Moreover, total fund investments were generally not large enough to offset the cutbacks in per capita expenditure in the social sectors that occurred in many countries or to compensate the working classes for the drop in real wages (Siri 1992).

Wages paid by the funds have been kept at or below the prevailing or minimum wage for unskilled workers. This practice has been a deliberate policy for promoting the self-targeting of employment in favor of poor workers (ensuring that only the neediest will accept work) and preventing distortions in the labor market. This policy may be justifiable as a survival tactic to provide employment for the very poor in a time of crisis, but it does not lift workers out of the subsistence level -- that is, above the threshold of poverty. Creating temporary employment at less than minimum wages is clearly not a strategy to reduce poverty (Siri 1992).

With respect to the targeting of poverty, there is general consensus among the different studies that the funds have benefited the poor but have had less success in reaching the poorest. Efforts have been made by all funds to concentrate the allocation of resources in the poorer areas by developing poverty maps designed to orient the regional distribution of their financing. The targeting mechanisms have improved over time; poverty maps based on poverty indices and basic needs deficits have become more precise and sophisticated. Furthermore, there are indications that in some countries a greater share of fund expenditures is now flowing to the poorer areas (World Bank, 1994, *op. cit.*). However, even in one of the most poverty-oriented funds, such as Chile's FOSIS, the benefits generated go largely to the not-so-poor among the poor. Moreover, the targeting mechanism has not focused on disadvantaged minorities such as poor female heads of household, children, indigenous communities, etc. The demand-driven approach, which by definition relies on the requests of potential beneficiaries, tends to bypass those who have little capacity to formulate projects or articulate demands.

To correct this deficiency in the demand-driven system, most funds have tried to elicit the participation of the very poor, especially in isolated regions, through outreach programs. Such programs include public information campaigns to make potential beneficiaries aware of what the funds have to offer and programs to help the very poor prepare viable project proposals and articulate demands. The objective of outreach mechanisms is to build the capacity of the poor to participate effectively in fund operations.

It is relevant to note that determining who should receive the benefits that a fund generates is a complex issue, both conceptually and in terms of quantitative measurement. Funds can legitimately adopt different desirable goals that give rise to alternative and sometimes conflicting measurement frameworks:

i) Funds can pursue short- or long-term benefits, temporary poverty alleviation or poverty reduction, employment and income creation or the satisfaction of basic needs (e.g., increasing the availability and quality of social services) -- all legitimate goals that result in very different operational frameworks.

ii) To a certain degree, the bottom-up, demand-driven schemes (where the beneficiary is "king") conflict with the distribution of resources regionally on the basis of detailed

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poverty maps -- essentially, a top-down approach. In practice, targeting mechanisms are about the geographical distribution of resources, while demand-driven arrangements are about project selection.

iii) A difficult choice must be made between allocating funds to districts that have a larger number of poor (often the capital cities), or to less-populated districts with a much higher incidence of poverty (often underserved rural areas).

iv) A parallel issue is whether funds should strive to reach the greatest number of poor at a low per-capita cost (by working in large urban areas), or the poorer inhabitants of remote villages, at much higher cost.

v) Similarly, funds must decide whether to give priority to benefiting those newly impoverished by stabilization and adjustment policies, or those who have been poor for generations -- a far greater number in far deeper poverty (Siri 1992).

These are all difficult issues that have no clear-cut answers. Any assessment of the effectiveness of a social investment fund must keep in mind the particular objectives and goals that the fund has set for itself, within the government’s overall socioeconomic development policy.

**Gender focus**

Of major concern is the fact that the new social technology that the funds represent -- a technology that has become central in many countries’ strategies to combat poverty and is absorbing so much financing from the international community -- is not focused on the gender most affected by poverty. Most of the 200 million poor in Latin America are women and children. The GDP per capita of women is nearly one-third that of men (UNDP, 1999, *Human Development Report 1999*, New York, p. 141). Women are also more vulnerable to downturns in economic activity and were more affected by the economic recession of the 1980s and the budget cuts in the social sectors. In recent years they have been pressed to find more employment outside their homes, rapidly increasing their participation in the labor force but largely in low-paying occupations.

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18 IDB data quoted by Pollack M. (1993), *La participación de la mujer en los fondos de inversión/emergencia social* (p. 8), Banco Interamericano de Desarrollo, Washington, D.C.

19 Women’s employment has been rising by 4.5 per cent per year, but largely in low-productivity sectors (ECLAC 1998, p. 45 *op. cit.*).
Women's economic role in Latin America has traditionally been limited because of deep-rooted cultural patterns. For poor women, the situation is more acute because of the few options available for improving their economic status and an almost total absence of gender focus in government policy. The situation has worsened, as more poor women have become their family's primary breadwinner and assumed more burdens and responsibilities. The percentage of households headed by women is now about 20 per cent and has risen significantly in recent decades.

The issue is not only one of women's rights but of squandering women's potential for advancing national economic and social development. Women are at the heart of the intergenerational transmission of basic education and health, and they have great capacity to organize small community groups into profitable ventures. Targeting projects to women is clearly justified in terms of poverty reduction and will tend to increase the economic and social returns of social investment fund projects.

Although most social investment funds include the targeting of benefits to poor women among their objectives, in practice they do not have an effective gender policy. Women's views are given little weight in the selection and formulation of projects, even in those related to health facilities and water supply, with which they eventually will be closely associated. In the execution phase, women generally obtain less than 15 percent of the jobs -- as a rule in the less-skilled occupations with lower wages (see IDB 1997). To a large extent, this reflects the priorities of the majority of funds, highly oriented towards public-works infrastructure projects that mainly employ construction workers and hire few women.

It is relevant to note that working for wages opens up options for women in terms of the possibility of participating in decisions such as whether to save or invest, and of expanding their role in proactive community development activities. The social status of women improves when their earnings are contributing to the support of the family. Moreover, increases in women's earnings as a share of household income have been shown to improve the allocation of family resources, redirecting them toward real needs.

Women participate more than men in the maintenance operations of social service projects, but largely as unpaid volunteers. In this civic role, women perform a critical function that should be recognized. However, equity considerations are equally important, and these are generally ignored. The average wages paid to women are significantly lower than those paid to men, and this practice, which is followed by most private construction firms that execute the public works financed by the funds, is difficult and costly to change.

With respect to the distribution of the benefits generated by social investment funds, women do tend to take considerable advantage of the expansion of the social services that follow the infrastructure works (IDB 1997). Women and children make more visits to the health clinics established by the funds, and girls often benefit more than boys do from the basic education facilities. Projects that provide easy access to drinking water are especially useful to women in that they further improvements in the health of families and save women time and transportation costs.

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Women also receive a larger share of the financing granted by the funds' microcredit projects and participate more in business training programs. For example, in Chile's FOSIS and Honduras' FHIS, women make up more than 60 per cent of the beneficiaries (IDB 1997). Preference is given to women not because of equity considerations but because they tend to organize themselves well in business ventures and are more responsible about repaying loan obligations.

4. Other salient issues

Participation of beneficiaries and community development

Broadening community participation in project operations is an avowed objective of all funds. Community participation in the project cycle can involve project identification, as well as such tasks as negotiations with intermediaries and construction firms, supervision of the execution process, and project maintenance. The most valuable contribution that communities can provide is their knowledge and insight into local conditions and problems. Beneficiaries generally share costs as well, through contributions in the form of cash or, more often, labor and materials. In most fund operations, communities are supposed to contribute at least 10 per cent of project costs.

More than providing financing, these contributions aim at expanding "project ownership" by communities, thus improving the effectiveness and sustainability of the projects. Beneficiaries' acceptance of a project as their own has been shown to be a major determinant of project success. Involving the community in project selection and execution is conducive to ensuring project maintenance and the delivery of follow-up services. The projects most likely to be sustained are those that communities consider more relevant and those they have helped to implement.

As is to be expected, participation entails some costs in terms of slowing down the implementation process. Consultations with beneficiaries take the time of the staff of the social investment funds, the municipalities, and the NGOs involved, as well as of the people in the communities. Interacting with community groups and building on the existing social capital is a difficult and time-consuming process. However, a number of studies have shown that the benefits of community participation far outweigh its costs. For example, the World Bank's analysis of its experience in 121 rural water supply projects indicates that the benefits that accrue through the participation of the beneficiaries are statistically significant.

There is little doubt that social investment funds have increased the degree of community participation. However, some concerns have been raised about who decides the priority assigned to the projects selected: the communities, responding to perceived needs, or project promoters, responding to their own interests, with an eye to what type of project the fund is likely to approve.

21 Participatory processes also increase the time commitments of the staff of donor agencies.

The selection of fund projects is often affected by pressures from local government officials, building contractors, influential local elites, or even suppliers -- with only formal approval from the communities (Tendler with Serrano 1999). Projects are frequently conceived and designed by those who know the ways of the bureaucracy, and these generally turn out to be the not-so-poor. The indigent have little capacity to formulate projects or plead their merits.

Moreover, the overall pattern of project mix, openly in favor of infrastructure, is largely a decision of the funds' management and is also influenced by donor preferences. It is no coincidence that across countries with very different socioeconomic conditions and problems, a large share of the financing is regularly targeted to infrastructure projects. This concentration of fund investments in a narrow menu of projects clearly responds more to considerations such as the possibility of rapid disbursement, low overhead requirements, the availability of project-execution expertise, or the visibility of outputs, than to preferences of beneficiaries (see Berar Awad 1997).

NGOs and other civil society organizations, such as cooperatives and religious organizations, have been employed by the funds in project execution because of their inherent focus on the poor and their capacity to generate and promote grassroots initiatives. In particular, Chile’s FOSIS, Haiti’s FAES, and Panama's FES have worked extensively with NGOs. However, overall, the utilization of non-governmental organizations as intermediaries in project implementation has been limited. In most social investment funds, fewer than 15 per cent of projects are sponsored by NGOs (IDB 1997).

It is relevant to note that NGOs often have their own agendas and are not a substitute for grassroots organizations headed by community leaders representing local interests. Moreover, NGOs typically have unstable budgets and operational capacity that is difficult to expand rapidly. Although some of them reach out to remote areas, they tend to concentrate their activities in urban and suburban areas of the larger cities. The best of them, however, have played a very useful role as intermediaries for fund operations.

As noted in Section 2, some funds have gone beyond pursuing community participation in their project operations and have made community development itself a central objective. This line of action involves supporting independent civil-society organizations that can generate and carry out community initiatives. By developing and applying solutions to their own problems, communities acquire managerial and operational capacity. Community development has been promoted by some funds (e.g., Chile’s FOSIS, Peru’s FONCODES, Guatemala’s FONAPAZ), not only through the project implementation process but also directly through training programs designed to strengthen the institutional and managerial capacity of local organizations.

Sustainability of projects

The sustainability of social investment fund operations has been a major concern in all countries. A number of case studies of fund operations report deficiencies in project maintenance and in the extent to which the infrastructure built by the funds is followed up with the corresponding social-services programs.

23 In the case of Bolivia’s ESF “the NGOs remained at the forefront of providing basic services to the poorer population in the most remote areas.” VanDomelen, J. (1992), “Working with Non-governmental Organizations” in Jorgensen, Grosh, and Schacter (1992), op. cit.
A recent World Bank social-fund portfolio review examined the sustainability of 51 social investment fund operations in 34 countries, with commitments to the Bank totaling over US$1.3 billion (World Bank 1998). The review classified the projects into three categories: economic infrastructure (including water and sanitation projects), education and health, and microfinance. Education and health components (largely schools and health clinics) were found to have a good record for sustainable service delivery. However, for economic infrastructure and microfinance projects, the results were mixed.

The reasons given for the more satisfactory outcome in the case of health and education projects include greater community participation in the project cycle and a larger sense of "project ownership", better economic analysis, appropriate physical standards, and the fact that the projects formed part of an overall development strategy within the line ministries' programs (hence, suitable arrangements were made to ensure that recurrent costs would be financed). In the case of economic infrastructure projects, sustainability considerations received less attention in project design and had less up-front commitment on the part of the communities and the line ministries. The report found that most of the microfinance components of the social investment funds have not been assigned clearly identifiable costs and objectives, which raises serious doubts about their long-term sustainability.

One important finding of the World Bank portfolio review is that over time, the social investment funds have moved toward closer monitoring of project sustainability and to better practice with respect to sustainable service delivery.

It is relevant to note that the financing operations of social investment funds are not open-ended; funds provide financing to carry out projects that have a beginning and an end. Nonetheless, fund operations form part of broader projects and sectoral programs. Maintenance of the public works built and follow-up service-delivery operations are passed on to government executing agencies, NGOs, and beneficiary groups. Project sustainability is therefore highly dependent on decisions that are made by other government agencies and civil-society organizations.

The problem arises because the agreements that the funds make with these organizations are not always effective, especially in the case of community groups with little operational-support experience and a lack of resources to absorb recurrent costs. Noncompliance occurs particularly with projects that make the beneficiaries responsible for the maintenance and operation of the facilities (e.g. water and basic sanitation infrastructure). Sustaining social services is also difficult for poor municipalities that do not have the sources of revenue or the technical capacity to manage the operations. Sustainability is better assured when maintenance and follow-up operations fall within the plans and programs of the line ministries, recurrent costs are fully covered (direct appropriations from central or local government budgets and planned recovery provisions from user fees), and responsibilities for future operation of the services created are explicitly laid out.

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24 However, ex-post evaluation of primary health projects in Bolivia's FIS (perhaps the most experienced social investment fund in Latin America), found flaws in maintenance due to a lack of the necessary allocation of resources by the central government and insufficient training of personnel. (Castillo C. (1996). "Bolivia: Fondo de Inversión Social (FIS)," Consultant's report to IDB 1997, op.cit.)

25 In this respect, they are similar to the operations of international financial institutions and donor-country agencies.
Finally, the sustainability of a social investment fund model that is extremely dependent on external financing is an issue in itself. This financing imbalance is a reflection of the overall degree of external dependence that a number of countries have fallen into -- dependence that intensified during the long economic recession of the 1980s. External assistance has in some cases compensated for a lack of domestic effort, allowing governments to circumvent the need for allocating budget resources to investments in the social sector. It is relevant to note that social investment funds that focus on community-based solutions are precisely those that rely less on external funding. Only in the case of Chile’s FOSIS and Guatemala’s FONAPAZ is the share of external financing less than 15 per cent -- in the majority of cases, that share is more than 80 per cent (see Table 1). Thus, for most funds the decision to extend or cut short operations falls largely to external institutions, and it is out of the question for a country to duplicate the model on its own. The long-term viability of the social investment fund model is clearly contingent on funds becoming mechanisms with less reliance on concessional financing from international financial institutions and external donors (See Siri 1992).

**Politicization of funds**

A critical requirement for the effectiveness of the funds is their independence from political control. Although funds have generally remained free of corruption, and there is little evidence that partisan politics is having a widespread influence on project selection, it is apparent that a number of funds are becoming increasingly politicized. Telling indicators are the massive political propaganda associated with the projects and, in some cases, the increase in fund disbursements prior to presidential elections. The parceling out of resources to municipalities has sometimes been used as a means of gaining political control (“governance” considerations), particularly in small municipalities where fund contributions represent a significant part of their budget.

All social-welfare programs carried out effectively by a government engender political gains for the party in power. Fund operations are no exception, and they can be a legitimate asset to any government. However, the direct involvement of funds in partisan politics undermines their effectiveness in a number of ways. First, using political criteria for project selection leads to inferior projects. Second, an ambience of pork-barrel practices in project selection and execution can be a prelude to a lack of transparency in the use of resources as well as to corruption. Moreover, political propaganda has monetary costs -- and these expenditures are routinely billed to fund operations. Third, politicization leads to staff selection criteria centered not on professional qualifications but on cronyism, and to periodic and disruptive turnovers in personnel following the ups and downs of the political cycle. Fourth, if a fund becomes part of a political machine with partisan objectives, it becomes more difficult for it to develop working partnerships with NGOs, religious groups, and grassroots organizations, who tend to guard their independence zealously. Finally, politicized funds may lose the support of foreign donors, who do not appreciate having their contributions channeled to electoral campaigns. (See Siri 1992)

In sum, giving priority to political gains can be highly detrimental to the effectiveness of social investment funds. The politicization of their operations is perhaps the major hazard that funds face.
5. Some general recommendations relevant to the ILO

Targeting benefits to women

As indicated above, a large proportion of the poor in Latin America are women and children. Therefore, improving the targeting of social investment funds toward the poor will in practice contribute to targeting more benefits to women. All fund operations should strive to abolish discriminatory practices that bias employment and income-generation patterns and the distribution of benefits against women. However, pursuing formally targeted interventions, such as hiring quotas for contractors that build the infrastructure or "women's projects," may not be the most effective strategy in the short term. A more pragmatic, results-oriented approach could be to expand fund activities where women have a comparative advantage and tend to automatically receive a larger share of the benefits that the funds generate. For example:

i) Make sure that adequate health clinics are actually set up in the health posts constructed by the funds and that the poor have access to them (services in health posts are self-targeted toward women and children).

ii) Increase the number and effectiveness of microcredit operations. A change in the composition of fund portfolios towards more microcredit programs will be conducive to increasing women's involvement in fund projects and women's share of the benefits that they generate.

iii) Emphasize community-based projects. Mobilizing communities to solve their own problems usually entails activating women's potential for organizing effective social and economic initiatives. Women are the prime generators of social capital at the micro level. Although community-based projects do not guarantee that women will be given equal opportunities, they do open up channels for the realization of women's initiatives and the expansion of their capabilities. One specific avenue to explore in order to promote self-targeting is food-for-work programs, which are far more attractive to women than to men.

iv) Work more extensively with non-governmental organizations as intermediaries. NGOs tend to be more sensitive to gender issues and to employ more women in their projects.26 The best operated NGOs have shown implementation capacity in three areas: organizing the delivery of services in health-related projects, offering training courses, and managing microcredit financing facilities -- all activities whose benefits tend to favor women.

v) Expand training and information channels. Outreach programs that train the poor in project preparation, as well as training programs that increase their capacity to manage social-welfare projects and directly productive ventures, are good vehicles for reaching women.

Directly productive projects

Although it can be argued that social investment funds should concentrate on what they are doing well and not be weighted down with too many objectives, an increase in the funds' participation in economic infrastructure and directly productive projects appears to be warranted. These are precisely the kind of operations that the funds have had more difficulty in

26 In Chile's FOSIS, most projects oriented towards women are carried out by NGOs. Contreras M. (1997), Social Funds: Employment and Gender Dimensions, Bolivia, ILO.
implementing and in which sustainability is less assured. However, these type of projects are of special interest because of their potential for expanding permanent employment and production in the hands of the poor. Increases in the welfare of the poorer sectors of the population are achieved in the process of increasing their contribution to the overall production of the economy.

i) Economic infrastructure projects, such as tertiary roads, and small irrigation projects, which support productive activities in small agriculture, industry, and commerce.

These types of projects represent a very small fraction of the operations of most funds. Expanding their number would benefit small producers and business owners and foment the development of small construction firms. They have also the advantage of being labor-intensive (although, as indicated above, they generate little employment for women).

Social investment funds should consider targeting their project portfolios more squarely on rural areas. This is justified, since in most countries where funds have been established, the majority of the poor are small farmers or farm workers. Funds should consider including among their operations the financing of agricultural-extension projects that can raise "minifundio" production through increases in productivity or shifts to more profitable crops.

ii) Environmental-protection activities that increase the sustainable productive potential of land.

The extensive environmental degradation and the destruction of natural resources that have taken place in most Latin American countries justifies specific targeting of social investment funds to this field. Reforestation programs, erosion control, and sustainable forest management are productive projects that should be considered by the funds. It is relevant to underscore that community participation is a sine qua non to the success of these types of operations -- which should provide more opportunities for women than most economic-infrastructure projects.

iii) Directly productive projects that generate increases in permanent income and employment, such as the provision of microcredit to small entrepreneurs and to commercial activities in the informal sector.

Although there is no reason for fund operations to give rise to better microfinancing mechanisms than specialized programs in this field (see IDB 1997), in practice, funds are moving into this field with a view to increasing their impact on poverty. Using the operational structures they have developed in project implementation to get microcredit programs under way -- particularly in localities that have no access to banking services -- may in some cases be justified.

Expanding activities in this field will necessarily be slow because of the difficulties inherent in broadening the capacity of agencies that can carry out the credit operations. A major concern is that fund operations generally lack the competence to promote the expansion of intermediation capacity in microfinance, and do not have the specialized staff necessary to provide the required technical assistance. As a result, "the microfinance institutions and practices

27 See World Bank (1998) op. cit.

28 Some funds are already oriented to the rural sector. For example, in the case of Bolivia's FIS more than 80 per cent of the projects are in the rural area (Castillo 1996, op. cit., p. 33).
in place for the majority of the social funds have not evolved at the same pace as successful microfinance programs that use a financial systems approach to capacity-building. 29

For the execution of credit programs, social investment funds generally set up revolving funds through which credit can be channeled. To ensure the success of these operations, micro-credit projects are generally accompanied by parallel training and technical-assistance programs carried out by NGOs. Obviously, the funds themselves should not be in the business of lending money -- a task that requires permanent, specialized organizations with banking expertise. Credit programs should be channeled through intermediaries that have proven experience in the field, can assume the credit risk, and -- ideally -- can provide deposit services (such as savings and loan organizations and cooperatives). Thus, the selection of the intermediary organizations to execute the lending programs becomes a most critical task for the funds.

A central tenet of micro-credit operations is that they are not appropriate vehicles for transferring resources to the poor, and that the public should not perceive them as such. Patrimonial capital should be protected, and the cost of financial intermediation should be covered by the loan operations. Provision should be made to ensure that borrowers honor their loan obligations. Lax control of loan operations leads not only to the financial insolvency of the revolving funds but can be very prejudicial to communities, for it tends to corrupt their traditional moral values.

What the funds are or should not be

It has been argued that social investment funds should be designed on a country-by-country basis. Clearly, the circumstances are different in every country, and the utilization of the fund framework must respond to local needs and opportunities. Nevertheless, the fund model has certain potentialities and limitations that determine the parameters of how and where it can best be used. A wealth of worldwide experience in implementing different types of funds is now available, and best practice in the field can furnish guidelines to orient future operations. Within these guidelines, much latitude exists for adaptation to specific country conditions, as well as much room for experimentation (which funds are known for). However, the fund framework is not suited to all situations, and certain types of funds correspond better to certain policy objectives. Moreover, available fund resources cannot be seen as a sort of petty-cash box to be drawn upon when social budget constraints are binding.

A basic axiom of the social investment fund model is that it is not an income-redistribution strategy devised to funnel subsidies to the poor. Clearly, the need to sustain social cohesion in poor countries calls for well-targeted social-assistance programs -- particularly during periods of economic recession. However, notwithstanding their importance, social-assistance programs are best carried out separately from social investment funds. Funds should not be managing welfare programs that are open-ended and require ongoing attention and recurrent expenditures (such as the distribution of essential drugs and nutritional supplements or vaccination programs). These tasks are the purview and responsibility of permanent executing agencies of the central and local governments and should not be carried out by the funds -- except perhaps in emergency situations where the funds can help to get programs off the ground. Furthermore, the public image of the funds should be one of efficiency and productivity, not philanthropy. The personnel who administer the funds are financial managers, not social workers. Moreover, social assistance programs need to be targeted towards the poorest of the poor, and that is not the case with social investment funds.

For the same reasons, funds should not serve as providers of health and education services and usurp the traditional functions of line ministries. These critical activities in the development process require permanent staff specializing in these fields, which the funds obviously do not have, and a wholly different institutional structure.

Formulating social policy or regional development plans is another area that is definitely not a function of social investment funds. Funds do not have the technical capacity to weigh the tradeoffs between programs in different government sectors or the political vision to formulate social policy. By the same token, the conceptual phases of policy formulation are not the province of NGOs. These critical functions are clearly the competence of the line ministries and cannot be delegated to autonomous institutions, or to civil-society and private-sector organizations.

**Operational niche of the funds**

During the present decade, social investment funds have played an important role as key actors in the social arena in Latin America. They have gotten large operations off the ground, disbursing sums that in a number of countries are unprecedented in the field of social action. Moreover, some funds are beginning to have a meaningful impact on the effectiveness of other government institutions. "SIFs targeting techniques are being used by some line ministries, which are beginning to press for reforms in order to employ cost controls, management information systems, and simplified procurement and payments systems used by the SIFs" (World Bank 1994, p. vii).

However, as line ministries become efficient, the raison d'etre of the funds as autonomous institutions begins to fade. As government institutions transform and modernize, the logical trajectory for funds that are realizing traditional public works (and that is the vast majority) is to gravitate toward integrating with the line ministries that they have been supplanting. Funds can be viewed as start-up operations in the context of government reform, as instruments for improving the efficiency and effectiveness of the line ministries. This should be the logical long-term goal of most funds, and their operational guidelines should incorporate the necessary provisions for the gradual transfer of their functions and expertise, as well as the innovations that they have developed (including the systems for ensuring community participation in fund operations).

Unfortunately, in some cases the technology gap between the funds and the government bureaucracies is actually widening and, more significantly perhaps, the results-oriented operational mode characteristic of the best social investment funds continues to set them apart. This is clearly not a desirable outcome, for it tends to institutionalize the bypass mechanism that the funds represent and circumvent the process of government reform. If the funds are not exerting a positive influence on the line ministries' effectiveness and efficiency by transferring the social technology that they have acquired, they should be pressed to do so. Autonomous institutions should not become permanent executors of activities that are the intrinsic responsibility of the governments' operational agencies.

If, on the other hand, the social investment funds opt for remaining autonomous institutions, their natural niche within government policy should consist of focusing squarely on combating poverty in aspects and sectors that the line ministries cannot or will not attend to. In this course of action, community-based projects play a central role. Community groups have the capacity to carry out small grassroots projects in poor and isolated localities that governments programs do not reach, and their projects are typically more labor-intensive and involve greater
participation by women. However, although all communities have considerable potential for civic action, advances in this direction do not automatically take place; sometimes communities where fund projects are built remain disorganized and unable to sustain their own development effort. Deliberate action is needed to promote community organizations that will survive after fund projects are completed, and to transform communities from beneficiaries to generators of their own well being.

The direct involvement of communities should be pursued not only for its positive impact on project effectiveness and sustainability, but as a way of developing the people's capacity for independent civic action conducive to solving their own problems. This line of action would not be a mechanism to circumvent inefficient line ministries but a new dimension in government social policy and a permanent task for social investment funds. As indicated in Section 2, several funds have chosen this route and are giving priority in their operations to promoting the development of autonomous community organizations and self-sustaining, community-based programs (e.g., Chile's FOSIS, Guatemala's FONAPAZ).

For the traditional fund to move in this direction would imply a significant change in orientation, not simply a correction of the shortcomings that have been referred to in the preceding sections. It would also call for the incorporation of new types of human resources in their staff, more familiar with the potential of organized civil society, more attuned to the needs of the poor, and fully committed to combating poverty and reducing social injustice. Outreach programs, the training of community groups, and the promotion of profitable ventures in the hands of the poor would become central, permanent functions of this alternative fund model.

In sum, now that many social investment funds are becoming permanent institutions capable of focusing on long-term objectives, the time has come to consider their appropriate course of action. One alternative is to gradually but deliberately integrate with the government apparatus; another is to open up a new avenue to combat poverty by reaching out to support the development of organized civil society. In the first line of action, the funds could make a major contribution to government reform in the social field; in the second, they could play an important role in the countries’ strategies to combat poverty.
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