

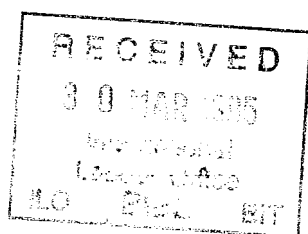
**ADJUSTMENT AND SOCIAL
FUNDS:
POLITICAL PANACEA OR
EFFECTIVE POVERTY REDUCTION?**

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Foreword

This paper by Francis Stewart and Willem van der Geest on Adjustment and Social Funds evaluates the experiences of a large number of Social Funds. It pays particular attention to issues of targeting and coverage. It especially emphasises the different nature of Social Funds designed in the wake of Structural Adjustment Programmes, such as the PAMSCAD programme in Ghana, and those set up to provide assistance to poor families which could not participate in the normal labour market such as the FODESAF in Costa Rica.

The paper draws upon various reports prepared by the Employment Department, the Interdepartmental Project on Structural Adjustment as well as from other sources.

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1. Introduction

In recent years a considerable number of developing countries have introduced schemes aimed at offsetting the rising poverty which characterized their development during the 1980s. These took a variety of forms and have variously been referred to as 'emergency social funds' or 'social investment funds', respectively in Bolivia and Honduras, as a 'social recovery fund' (in Zambia) and elsewhere as 'special employment schemes' (for example in Chile or South Asia). Most of these initiatives were taken in the context of structural adjustment programmes. A significant number were supported by donor agencies in response to the worsening poverty that often accompanied these programmes. These Social Funds (SFs) are often the only form of social safety net in the countries where they are introduced. This paper will review these initiatives in selected countries, referring to them generically as Social Funds.

The World Bank's *Poverty Reduction Handbook* characterizes Social Funds as wholesale financing mechanisms designed to accompany adjustment programmes; Bolivia's Emergency Social Fund was a pioneering attempt. Another early example was Ghana's PAMSCAD (Program of Action to Mitigate the Social Costs of Adjustment). Other Social Funds supported by the World Bank include Guinea's Socioeconomic Development Support Project, Sao Tome and Principe's Multisector Project, Tunisia's Employment and Training Fund, Haiti's as well as Honduras's Social Investment Fund Projects.¹ Social Funds typically consist of a specified sum of money to be devoted to activities which will ease the pains of adjustment, including financing small-scale projects, training, and infrastructural projects. They are intended to be quick disbursing and are often located outside the normal government machinery.

Some countries had designed their own schemes in the 1970s without reference to external agencies and without external finance. One example is Chile's emergency employment schemes initiated in the mid-1970s. Elsewhere schemes were introduced to protect people during periodic drought - for example in Botswana and Maharashtra State in India. In Costa Rica a variety of social programmes were developed designed to reduce poverty - not specifically related to adjustment. These 'own-designed' schemes differ in significant respects from the externally supported Social Funds. They are included here to see whether some lessons might be learnt for the operation of social support schemes during adjustment.

It is important to locate the Social Fund programmes in the context of the adjustment debate.² The adjustment programmes have been associated with increases in absolute and relative poverty incidence, most notably in Sub-Saharan Africa and Latin America.³ Since the 1990 *World Development Report* poverty reduction has returned as a strategic element of multilateral agencies' objectives and activities. In the words of the President of the World Bank 'Poverty reduction is the benchmark against which our performance as a development

¹ See World Bank, 1992a, Chapter Six.

² For a review of research on the impact of structural adjustment in Sub-Saharan Africa, see van der Geest, 1994b; for a more general review see Mosley *et al.*, 1991.

³ See evidence in Cornia *et al.*, 1987; Basu and Stewart, 1993 on Africa; and Psacharopoulos *et al.*, 1992, and Stewart, 1992b, for Latin America as well as Tabatabai and Fouad, 1993.

institution must be judged'.¹ One function of the Social Funds is to contribute to this benchmark especially in countries undergoing adjustment.

Social Funds have been discussed from a number of perspectives including: as a way of channelling externally-generated funds to local groups; a mechanism for compensating those who suffered particularly due to adjustment measures; a programme to protect the poor and vulnerable during adjustment; an instrument to 'buy' support for the adjustment programmes; and even as a Keynesian instrument to generate employment.

Mostly, these perspectives run counter to some of the basic assumptions which form the theoretical underpinning of the adjustment programmes.² This is clearest with respect to the use of the Funds as a Keynesian instrument, although only very few funds - e.g. Bolivia - were large enough to have a significant macro-impact. Aggregate demand expansion of a 'Keynesian' type assumes that the level of idle resources within the economy is significant and can be utilized through the expansion of publicly financed programmes, contradicting the basic adjustment model, which assumes that the level of aggregate demand within the economy exceeds the production possibilities. Moreover, most social funds focus primarily on the non-traded sector and are consequently at odds with the emphasis on switching resources towards the tradeable sector in the basic adjustment model. Only in the more recent SFs is there any explicit focus on 'tradeable' sector activity (such as Chile's and Honduras's Social Investment Funds with their emphasis on supporting micro-enterprises). In their compensatory role, the underlying assumption is that the adjustment policies have identifiable losers and that direct compensation is required which runs counter to the conventional adjustment orthodoxy which assumes that new opportunities should permit people to switch employment relatively painlessly. Moreover, the SFs often involve the development of new public institutions. There is some contradiction between this and the stress on rationalization and reduction of the public sector in most adjustment programmes. Using Social Funds to buy support for adjustment amounts to an admission of the political opposition these programmes tend to generate. The role given to SFs can thus be seen as an explicit acceptance that there are problems associated with the structural adjustment programmes, especially in relation to poverty and employment.

This paper does not provide a comprehensive review of SFs, but sets out to evaluate experience of SFs in selected countries, by comparing programmes across a range of countries, noting the different political and economic contexts in which they were designed and implemented. The conclusions provide some guidance for the design and implementation of such programmes.

The next section of the paper briefly discusses the context in which the schemes were initiated, the motives for their introduction, and major characteristics of the schemes to be reviewed. Sections III and IV describe and evaluate particular features of the schemes, including targeting aspects, output generated, institutional features and financial sustainability. Section V comes to some conclusions.

¹ Lewis Preston's letter to all staff of April 28, 1993 on the occasion of the release of the World Bank's report on *Implementing the World's Bank Strategy to Reduce Poverty - Progress and Challenges*, see World Bank, 1993b.

² The Salter-Swan open economy model provides the basic framework. See Dornbusch (1982); for an analysis of income distribution aspects see Knight (1978) and Demery and Addison (1987). Ferreira (1992) provides a comprehensive overview of the evolution of ideas generated by or within the World Bank on the macroeconomic analysis of adjustment as well as the microeconomic issues of allocative efficiency and equity.

2. Objectives, context and motivation for social funds

2.1 The economic context of social funds

In general SFs were adopted in a context of extraordinary economic crisis and increasing incidence of poverty. Table 1 summarizes the data for the selected case-study countries regarding the changing incidence of urban and rural poverty during adjustment, while Table 2 reveals the decline in average per capita income that occurred in many of these countries.

Bolivia's Emergency Social Fund (ESF) was initiated in 1987 after the country's economic performance had declined dramatically from 1980. Net foreign transfers had become strongly negative, GDP was falling, capital flight accelerating, economic policies were erratic, hyperinflation measured 24,000 percent over the year up to September 1985 and public sector deficits had spiralled (Jorgensen *et al.*, 1991, p.13). In August 1985, a new government launched a programme of orthodox economic reform to control inflation and reestablish internal and external equilibria. Inflation levels were curtailed, the exchange rate unified and the public deficit brought under control. The immediate social costs of the stabilization programme were obvious and included laying off 23,000 of the 30,000 public sector miners. The programme did not succeed in restoring economic growth. Per capita incomes fell by 0.7% per annum 1986 to 1990, and the extremely high level of rural poverty recorded at the beginning of the decade showed a further increase to 97 per cent of the rural population by 1988.

Chile's employment schemes were also introduced during a period of economic stagnation and rising unemployment and poverty. Macro developments in Chile after the Pinochet coup included steep declines of GDP (-13% in 1975), followed by a five year period of growth. A second crisis in 1982-85 was precipitated by appreciation of the real effective exchange rate. Investment declined partly due to capital outflows. Inflation was controlled at the cost of soaring unemployment: the average rate of unemployment between 1974-82 stood at 18.1% (Ffrench-Davis and D. Raczynski, 1990). It took up to 1989 to recover the 1981 per capita GDP level. Poverty increased sharply to 48% in 1983 and was still 40% in 1990, double the 1970 rate (Infante and Klein, 1992). The *Minimum Employment Programme (PEM)*, introduced in 1975, and the *Occupational Programme for Heads of Households (POJH)*, initiated in 1982, became major instruments for preventing destitution for a great number of households, including many which previously had considered themselves better-off.

The Honduran economy is a traditional primary-product exporter (bananas and coffee), with agriculture providing 70 per cent of exports throughout the 1970s. The 1980s witnessed a decrease in GDP per capita of 1.6 per cent annually and a real wage decrease of 30 per cent between 1980-89. The fiscal deficit increased to more than 10% of GDP, inflation was high and external debt doubled to US \$3.3 billion during the decade (Moreno, 1993a, pp.2-3). The poverty incidence in Honduras remained at a high level throughout the 1980s for both rural as well as urban households. The Callejas government inherited a fiscal deficit of 10.5 per cent of GDP in 1990, but nevertheless felt compelled to adopt the *Sistema de Compensacion Social (SCS)* and within it, the *Fondo Hondureno de Inversion Social (Honduran Investment Social Fund FHIS)*. By that time more than three quarters of the households had fallen below the poverty line.

Costa Rica's social programmes were mostly introduced in the 1970s before the onset of the economic crisis. At the beginning of the 1980s, Costa Rica suffered from a sharp worsening in the terms of trade which, together with a heavy debt servicing burden, led to

recession. Devaluation and a sharp increase of consumer prices pushed down real earnings. Formal sector wages took six years to regain their 1980 level; un- and underemployment levels jumped by nearly 9 points to a peak of 31.2 per cent of the labour force in 1982 (Gindling and Berry, 1992, pp. 1601-02). Poverty rose over these years, but fell again later in the decade. In contrast to most other countries reviewed here, by 1990 the incidence of poverty in Costa Rica had fallen back to the level of the early 1980s. One out of eight urban residents fell below the poverty line in 1990 compared with more than one out of six in 1981, but the incidence of rural poverty was above the level recorded in 1981. The social programmes in Costa Rica included the *Fund for Social Development and Family Allowances* (*Fondo de Desarrollo Social Y Asignaciones Familiares* or FODESAF) introduced in 1975.

The macroeconomic predicament of Latin American countries had clear parallels in Sub-Saharan Africa: here too real per capita income fell in the first half of the 1980 and growth remained very weak or absent in the second half of the decade.

Ghana's Economic Recovery Programme, initiated in 1983, came after over a decade of economic mismanagement and stagnation. Per capita growth turned from negative during the first half of the 1980s to positive during the second half; budget deficits were brought under control, inflation was checked and the cocoa sector started to recover. Ghana received exceptionally favourable external financing over the adjustment period, partly accounting for its positive economic achievements (Toye, 1991).

Ghana's poverty incidence appears to have increased in the early phase of adjustment, and may have declined during the latter half of the 1980s, though rural poverty incidence appeared to remain above that of the early 1980s. A relative measure of poverty for 1987-88 showed incidence of 36 per cent, based on a poverty line of two-thirds of mean per capita household expenditure. 'Hard-core' poverty, defined as below one-third of average income, stood at 7 per cent of the total population. Ghana's poverty is overwhelmingly rural and the poverty incidence in the North of Ghana is much greater than the South (Boateng *et al.*, 1990). It was in this context that the government, with donor funding, initiated the PAMSCAD initiative - a programme to mitigate the social costs of adjustment.

Adjustment measures were initiated in Madagascar in 1983, after a prolonged economic crisis involving worsening macro-balances and economic stagnation with falling incomes throughout the 1970s. Output and consumption per capita fell sharply during the first half of the 1980s, and despite some recovery in later years per capita income had not recovered to its 1980 level by the end of the decade. In 1986, per capita incomes were just 68% of their 1972 level. Although there are no reliable measures of changing poverty, a World Bank study concludes that 'Most indicators point to a significant increase in the incidence of poverty in Madagascar since the mid-1970s' (World Bank, 1989b). The evidence for a rise in poverty includes falling levels of real wages, per capita consumption and social expenditure and worsening social indicators. Food availability per capita declined. During the first half of the 1980s there was a rise in malnutrition among children and infant and maternal mortality rates appear to have risen. The incidence of malaria spiralled, while the shortage of drugs contributed to a major epidemic in 1988 in which an estimated 100,000 persons died, nearly 1% of the population (Dorosh *et al.*, 1990). The increase in poverty in the 1980s hit the urban population hardest - real urban expenditures are estimated to have declined by 14% from 1982 to 1986, while real rural expenditures increased, but, despite this, rural incomes remained below urban incomes (World Bank, 1989b, p60). The groups were worst affected were: the urban poor, unemployed and destitute; children experiencing increasing malnutrition and homelessness; individuals in food deficit rural and urban areas; and those especially hit by the lack of medical supplies (World Bank, 1989b). The government

introduced an *Economic Management and Social Action Programme (PASAGE)* in 1989 to 'address some poverty issues and aid several vulnerable groups' (World Bank, 1989b, p.iv).

Senegal had among the worst growth performances in Africa although it received substantial foreign aid per capita, at four times the African average. Economic decline began in the late 1960s: per capita incomes fell quite sharply from 1969 to 1979, when the structural adjustment programmes were initiated. Sharp cuts in government expenditure led to an improvement in the budget, while inflation was brought under control. There was some recovery in the first half of the 1980s but per capita incomes again fell in the latter part of the decade. Urban workers in the formal sector were worst affected, suffering both a fall in real wages and a cutback in employment. Unemployment rate rose from 17% in 1985 to 20% in 1990 (30% according to some estimates). The rural sector was more protected as its terms of trade improved and production expanded, but it is estimated that 70% of the rural population had fallen below the poverty line in 1988. There are no estimates of changes in poverty incidence, but it is clear that urban poverty increased over these years, while rural poverty remained at very high levels (Lee *et al.*, 1992). The *Delegacion a l'Insertion, a la Reinsertion et a l'Emploi (DIRE)* and the *Agence d'Execution des Travaux d'Interet Public contre le sous-Emploi (AGETIP)* were created to reduce un- and underemployment among urban groups.

Zambia's macroeconomic fate led it from being one of the richer African countries at Independence in the early sixties, to become one of the poorest, in large part due to a catastrophic fall in the price of copper which accounted for nearly 90% of its exports. GNP fell by 50 per cent in the 1980s. Efforts at diversification failed. Formal sector employment fell sharply: during the period 1975 to 1979 - some 22 per cent of jobs were lost. In the crisis of the 1980s growth in informal markets became the only recourse for skilled and unskilled workers. The nation-wide poverty incidence for 1980 was estimated to be 60 per cent, with urban poverty relatively low at 25 per cent and a very high level of rural poverty affecting 80 per cent of the population.¹ After repeated breakdowns in negotiations on account of the food subsidy issue², Zambia's structural adjustment programme was sustained in the early 1990s. It included programmes to address the social cost of adjustment, in particular the *Microproject Unit (MPU)*; the *Social Recovery Project (SRP)*; and the *Programme for Urban Self-help (PUSH)*. The Priority Survey of 1991 recorded that more than 90 per cent of the rural population and nearly half of the urban population had insufficient cash income to purchase the nutritionally minimal food basket and other essentials, indicating that during adjustment there had been a further increase in the incidence of poverty.

In Zimbabwe low-income groups suffered as a result of the initial effects of the adjustment programmes introduced in 1991, although precise magnitudes cannot be established as the adjustment programme coincided with the severe 1992 drought.³ The *Economic and Social Action Plan (ESAP)* involved a sharp decline in real wages and a retrenchment of 1.5 per cent of formal sector employment, in addition to job losses by workers on short term contracts. Reduced subsidies on commodities (e.g. on milk and maize) as well as a reduction of public expenditure for health and education adversely affected the conditions of much of the population. Key measures affecting low income groups directly included (i) a 10 per cent fall in the number of nurses employed in the public sector (ii) a substantial decline in public funding of drugs (iii) cost recovery measures in health attempting

¹ Tabatabai and Fouad, 1993; Lyngstad, 1993; Siegel and Alwang, 1993.

² See Jones and Pearce, both in van der Geest, 1994a.

³ Zimbabwe's 1992 maize production declined by 67% among commercial farmers and by over 90% in the communal and resettlement areas, compared with its 1990 level.

to raise revenue from charges from 2 to 8 per cent of the Ministry of Health's expenditure by 1995 (iv) fewer teachers in primary and secondary schools raising the primary schools pupil-teacher ratio in 1991 by 5 per cent and (v) the introduction of fees for urban primary schools and secondary schools country-wide.

A few surveys, with limited coverage, indicate adverse effects on human wellbeing, including a decline of real household income from both regular and irregular sources in a low-income urban area, with a rise in the incidence of poverty from 23 to 43 per cent. Other adverse effects include a 40% increase in numbers qualifying for public assistance; an increased number of births before admission at Harare Central Hospital and an increase in the proportion who subsequently died; declines in the use of clinics and hospitals; rising school drop-out rates and falling school attendance in 1992, especially in low density rural areas.¹ Zimbabwe's *Programme of Action to Mitigate the Social Costs of Adjustment* was launched in 1991 in conjunction with the ESAP.

In contrast to the schemes noted above, the employment schemes in Botswana and Maharashtra - both areas subject to severe drought - were a response to the need to sustain incomes and employment during drought rather than problems arising during adjustment. Maharashtra State introduced the Maharashtra Employment Guarantee Scheme (MEGS) in 1972 at a time of severe drought. Botswana developed compensatory programmes to provide food and employment during drought after Independence, altogether encompassing six different programmes.²

¹ Chismo, 1993; Illif, 1992; Kanji and Jazdowska, 1993; Lowenson, 1993; Ministry of Labour; UNICEF and Sentinel SDA Monitoring Survey, second round, 1993; all quoted in Stewart, 1993a.

² Quinn *et al.*, 1987, Table 1.6.

Table 1. Incidence of poverty and change during adjustment (selected case-study countries)

Country and year(s) of Estimated Incidence		Nationwide		Rural Urban		Change during Adjustment	Definition of Poverty Line
<i>Sub-saharan Africa</i>							
Botswana	1985/6	55	hh	64	30	small increase ? ^a	
	1991	57	p	60	46		
Ghana	1981	44	p	59	44	undetermined	change of definition of poverty line
	1985	60/42	p				
	1986			54			
	1987/8	36	p	44	27		
Madagascar	1980	34	hh	37	21		2200 cal ^b
Senegal	1988		p	70			
Zambia	1980	60	p	80	25	sharp increase urban and rural	\$ 79.6 hh ^c
	1991	71	p	92	47		
Zimbabwe	1988		p	60			
<i>Central and South America</i>							
Bolivia	1980		p	86		sharp increase (rural data only)	
	1988		p	97			
Chile	1970	17	hh	25	12	sharp increase nationwide	\$168 ^a
	1980			56			
	1990	40	p				
Costa Rica	1981	22.2	hh	28.42	16.1	increase followed by decrease for rural, steady decrease for urban	separate rural and urban poverty lines ^f
	1988	24.5	hh	7.6	20.6		
	1981	23.6	p	28.4	18.2		
	1988	27.2	p	35.8	14.5		
	1990	23.4	p	32.7	11.6		
Honduras	1980	na	hh	80	na	small increase	
	1990	77.5	hh	80.2	73.9		

Sources: Tabatabai and Fouad, 1993; ILO, 1993; UNDP, 1993; UNCTAD, 1993.
hh = households; p = people

Notes:

- The 1991 estimate is approximate and hence the noted small increase needs to be regarded as a preliminary estimate. The estimate, based on the Human Development Report 1993, Tables 3 and 10, reports the people living in 'absolute poverty' of Botswana's total population, which was 1,238 million in 1991 of which 72 per cent live in the rural areas.
- The poverty line estimate assumes rural expenditures at approximately 88 per cent of urban expenditures, reflecting price differences.
- Below an expenditure level of \$ 79.6 per month for a 6 member household.
- The poverty line used for the 1991 Priority Survey is a money-equivalent income of less than Kw. 1370 (\$ 13.2) per adult-equivalent per month.
- Budget of \$ 168 per capita per annum in 1970 prices.
- The data are from ILO/PREALC and ECLAC; estimates by the Economic Research Institute, University of Costa Rica record a similar pattern, though a higher incidence of poverty (sources quoted from Tabatabai and Fouad, 1993).

Table 2. Changes in GNP per capita during adjustment (Current and constant prices)

Country	GNP levels	Annual Growth of GNP constant 1987		
	current dollars per capita		dollars per capita	
	1991	1980	1981-85	1985-90
Bolivia	650	490	-7.2	-2.0 ^{a/}
Costa Rica	1850	1960	-0.4	1.8
Chile	2160	2100	-5.4	5.5
Honduras	580	640	-11.0	2.6 ^{b/}
Botswana	2530	780	3.3	18.2 ^{a/}
Ghana	400	410	-3.2	1.8 ^{a/}
Madagascar	210	430	-2.0	-1.1 ^{a/}
Senegal	720	510	0.4	0.6
Zambia	412	600	-4.9	-2.3
Zimbabwe	710	650	-2.5	0.0

a/ 1985-89 b/ 1985-88

Sources: World Tables 1991 and World Development Report 1993

2.2 The motivation and characteristics of social funds programmes

Any evaluation depends in part on the objectives of the initiatives being considered. In the case of SFs there are a variety of objectives, not always clearly differentiated, which complicates evaluation. The objectives of the SFs include:

- (i) poverty reduction;
- (ii) compensation of those directly adversely affected by adjustment programmes;
- (iii) gaining political support for adjustment programmes;
- (iv) raising additional external finance.

These objectives may conflict and often there is a mixture of motives. Whichever the main objective, there is the additional objective of achieving it (or them) in a least cost manner and/or using the funds in a way that maximizes their contribution to the growth of domestic production (described below as 'output efficiency').

Our own view is that poverty reduction should be the overriding objective, and this is the way that social funds are normally presented by outside observers. But examination of the statements of those introducing the Funds and their operations suggest this was often not the overriding objective. This may explain why in many cases they were not effective in meeting the poverty reduction objective as shown below.

All the adjustment-related schemes were introduced to ease the costs of adjustment while leaving the macro characteristics of the adjustment programmes unchanged. In part the intention was to secure political support for the adjustment programmes, in part to provide direct compensation to those who lost their jobs through retrenchment, and in part to reach the poor more generally both by creating employment and by contributing to the development of social and economic infrastructure. In most cases, it would appear there was a mixture of motives, with the weight of motivation being a combination of securing political support and providing direct compensation to those directly hurt by the adjustment programmes. Reaching the poor in general, as against the 'new poor' whose poverty was created by the programmes, usually played a lesser role. But some schemes were more poverty-oriented - e.g. Chile and Honduras - and others more oriented towards political sustainability and direct compensation of those hurt by adjustment (e.g. Senegal and Zimbabwe). This conclusion is derived from examining the stated objectives of the schemes and reviewing their main characteristics.

Bolivia's ESF was a multisectoral programme which financed projects in four areas: economic infrastructure, social infrastructure, social assistance, and credit schemes. It was designed as a grant giving institution to provide funding for locally-generated labour-intensive projects. Initially it focused mainly on low-cost activities with high employment spin-offs, but it then shifted towards social assistance and the creation of infrastructure. The funds were obtained from a wide range of international organizations, including the World Bank, CARITAS, Save the Children and others; some 96 per cent was funded externally.

Observers note that a prime objective of the Bolivian Scheme was to contribute to the political sustainability of the adjustment process (Graham, 1992a; A.D.B. *et al.*, 1991, p.43). Some ambiguity appears from a World Bank study which notes that Bolivia's ESF 'marked the Bank's first intervention aimed directly at *easing the social costs of adjustment*' (our italics), while the same study quotes the Supreme Decree referring to the ESF as a mechanism intended to '*create employment conditions that will help alleviate the current social crisis*' (our italics). (Jorgensen *et al.*, 1991, p.6 and p.16). While the former focuses on compensation for hardship due to the adjustment programme, the latter suggests a more comprehensive attempt to increase employment.

The emergency employment programmes introduced in Chile during the military regime of General Pinochet were intended to provide 'temporary compensation for laid off workers' (Graham, 1991, p.13). The public works of the Minimum Employment Programme (PEM) included creating public parks, street cleaning, painting public buildings, and building sanitation facilities in poor areas. Employment was provided at very low wages, the equivalent of one-fourth of the minimum wage in a context of a sharply declining real wages.¹ The occupational programme of heads of household (POJH) was created in 1982 to provide additional employment relief during the second crisis: it was intended specifically for heads of households who had had a stable job before. POJH workers were paid about 40 per cent of the minimum wage.² The labour-intensive programme (PIMO), initiated at the end of 1983, was intended to encourage private sector involvement in labour-intensive projects, by providing subsidies for jobs created in selected projects.

The main objective of the Honduras SCS/FHIS was to help those in poverty by financing social and economic development projects which would increase their productivity and employment opportunities and satisfy basic needs. It included finance of micro-enterprises, cooperatives, etc.; labour-intensive projects; projects which generated temporary and seasonal employment for poor groups; and projects in poor areas. Project activities focused on the creation of social infrastructure (for example schools, health centres, roads, sewers, irrigation, markets in small towns), as well as feeding, nutrition, basic health and educational activities targeting undernourished children under 5 years old, pregnant and nursing mothers, and ethnic minorities. Training of people working in FHIS projects contributed to longer term development.

Costa Rica's FODESAF aimed to develop schemes 'to benefit exclusively the poorer segments of the population' to complement existing social programmes (ILO, 1992b, p.27). Its funding was through a regular 5 per cent charge on the wage bill of both the public and the private sector as well as a sales tax on consumer goods, excluding most basic goods. The expenditures under FODESAF ranged between 5.0 to 7.8 per cent of total government expenditure during the 1980s, with a peak in 1988. This level of expenditure, if well targeted,

¹ Real wages in 1975-1976 fell below two-thirds of their value of 1970; the extent of this reduction was not repeated subsequently even during the high unemployment period of 1982-86.

² In contrast other schemes (eg. Maharashtra's EGS) have paid official minimum wages as part of a strategy to ensure subsistence wages.

would have permitted an annual income supplement of \$ 80 for each individual below the poverty line per year. The FODESAF was designed as a progressive and redistributive system of taxes and subsidies.

Some key features of Schemes reviewed in Latin America are presented in Table 3.

Table 2. Key features of social funds in Sub-saharan Africa and Maharashtra

Country	Bolivia	Costa Rica	Chile	Chile	Honduras
Overall objective:	Employment creation	Additional programmes for poorest	Employment safety net (up to 1990)	As of 1990: Financing programmes for poorest	Financing programmes for poorest
Design	Mainly foreign	Local	Local	Combination	Mainly foreign
Operation planned	3-4 years	Permanent since 1975	Permanent 1975-1989	Permanent as of 1990	Temporary
External funding	96 per cent	0 per cent Wage and sales taxes	0 per cent	49 per cent (1991-1992)	88 per cent (1990-1992)
Demand/supply driven	DD	SD	SD	DD	DD

The African schemes were also the outcome of a mixture of motives.

In Ghana's PAMSCAD this was reflected in the criteria used to select projects for inclusion in the program, which included targeting and output efficiency, and also overt political objectives such as 'visibility'. The programme covered a variety of activities including urban public works, rural income generating projects, school feeding and nutrition education. A major element (22% of the funds) was allocated to the "new poor" for compensation and training. Two-thirds of the planned projects were urban (Jolly, 1988).

Madagascar's programme for social action and support for economic management started in 1989, largely funded by the World Bank.¹ The objectives of PASAGE were to activate programmes for groups adversely affected during adjustment; reinforce government capacity to deliver social programmes; and facilitate the implementation of the adjustment programme. Activities included labour-intensive rehabilitation, construction and maintenance of rural roads in the southern drought-prone parts of Madagascar, and also support for the development of micro, small and medium enterprises through training and grants for the creation of economic and social infrastructure.

Senegal's DIRE explicitly targeted funds to laid off public sector workers, usually civil servants, as well as university graduates who previously would have found jobs in the civil service.² The AGETIP programme was designed after the disturbances of February 1988 to fund labour-intensive public works executed by the private sector. It aimed to generate a substantial number of temporary jobs, to improve skills and to improve the competitiveness of the firms involved, and to generate economically and socially useful projects. Its political function was primarily to employ a potentially destabilizing group, unemployed youth, and to restore civic pride in poor urban areas through rapid and visible activities. Given these

¹ Madagascar has since May 1986 obtained IDA credits, co-financed by various bilateral donors and since August 1987 SAF and ESAF funds from the IMF.

² The Senegal government made loans to those who volunteered to start a business. According to one report the loans averaged \$ 7,500 and the repayment rate was only 10 per cent (Egger *et al.*, 1993). But Kinsbury reports that the 1987 Civil Servant Redeployment Programme provided much higher interest free loans of between \$10,000 and \$50,000 for the creation of small enterprises in Senegal. In Mali volunteers for retrenchment received \$ 4,000 on average, in Guinea it was \$900, and in Ghana \$350 to \$750 (Kingsbury, 1992b).

political objectives targeting the poorest was not considered AGETIP's mandate (Graham, 1992c).

Zambia's Social Recovery Programme was intended both to make the adjustment programme politically acceptable and to reduce poverty. The social recovery programme was used comprehensively for purposes of political proselyzation during the 1992 election (Graham, 1992c, p.17). The three components of the programme had different characteristics: the Social Recovery Programme financed labour-intensive projects in urban areas, designed to reach the poor. The MPU, financed by the European Community, aimed to stimulate community participation in improving and maintaining social welfare infrastructure; it responded to requests from the community, and was not aimed at the poor exclusively; it required a 25 per cent community contribution. PUSH began before SAP and was administered by the World Food Programme and a local NGO. The programme provided food for work and gave technological assistance for labour intensive projects to improve sanitation in poor urban areas; the community provided labour free during the weekends.

In Zimbabwe, the 'Programme of Actions to Mitigate the Social Costs of Adjustment' consisted of a two-pronged strategy: to assist in the provision of training and employment' so as to ensure that the population can adjust and take full advantage of a changed economic environment'; and 'to cushion the effect of increases in prices and the effects of cost recovery on vulnerable groups over the reform period' (GOZ 1991, p.2). The Social Development Fund (SDF) was launched to achieve both objectives. Redeployment of the retrenched was viewed as 'an immediate and urgent social imperative', but the government also recognised that 'there still remains the larger unemployment problem' (GOZ 1991, p.3). 'An overriding objective ... is to fine tune the intervention to make sure that it is only the disadvantaged groups who are targeted' (GOZ 1991, p.4).

The SDF included an employment and training programme; provision of funds for projects initiated by ex civil servants; targeted food subsidies; and refunds of cost-recovery measures for vulnerable groups.

Drought-related schemes:

The schemes in Botswana and Maharashtra were intended to help avoid extreme hardship during drought. In the case of Botswana, this was achieved by a variety of mechanisms including both employment schemes and food rations. The Maharashtra scheme provided employment at low wages.

Botswana's employment schemes aimed to address the problems of limited employment opportunities in the rural areas and to ensure 'entitlement sustenance during periods of severe drought' (Andrews, 1993, p.16). The main schemes for poor and vulnerable groups in Botswana were direct feeding programmes; agricultural assistance programmes for arable land development and rainfed agriculture¹; public works programmes; and job creation schemes. The feeding programmes were targeted to nursing mothers and children, school feeding programmes and 'destitutes'. The various public works schemes focused on employment creation, while the agricultural programmes extended subsidies to farming activities and land development. The programmes were largely internally financed, though with some support from donors. Execution was primarily by government with the assistance of NGOs.

The Maharashtra Employment Guarantee Scheme (MEGS) in India is perhaps 'the first programme which guarantees the right to work as a basic right in a developing country' (Acharya, 1990, p.i). The MEGS originated during the crop failure of 1972-73. In 1979 it

¹ Botswana's percentage of arable land and land under permanent crops stands at 2.4 and compares to Sahelian countries like Chad (2.5) or Niger (2.8), see UNCTAD, 1993, Table A-77.

was made a statutory programme, through a State Assembly Act, providing work on demand. Any rural resident applying for work who has not been granted employment within 15 days gains an entitlement to unemployment compensation (at about a quarter of the MEGS wage). Employment generated under the scheme was of the order of 80 to 120 million days during 1988-1993.

The motivation of the MEGS was thus both to prevent entitlement collapse and to help reduce structural rural poverty; it preceded India's adjustment programmes, which only gained momentum in the early 1990s. Echeverri-Gent notes the political context in which the MEGS gained acceptance, notwithstanding its demands on financial, administrative and technical resources from the government as well as the possibility that it would raise agricultural wages and reduce dependence of labourers on cultivators. From an urban perspective, politicians hoped that the scheme would stem the flow of rural migrants into Bombay; within the rural economy, the MEGS helped affluent cultivators, freeing them from traditional obligations to maintain workers in the slack season as well as providing improved agricultural infrastructure and land development. While the rural poor got jobs, the 'politicians benefit from a progressive image not to mention an abundant source of patronage' (Echeverri-Gent, 1988, p.1300).

The significance of the MEGS goes beyond the State of Maharashtra alone, as it served as a model for India's Rural Landless Employment Guarantee Programme initiated in 1983, later merged with the National Rural Employment Programme into a programme called *Jawahar Rozgar Yojana*. This is probably the largest wage employment programme of its kind implemented anywhere in the world (Papola, 1993, pp. 40-42).

3. Targeting and output efficiency of social funds

In the evaluation that follows, we do not attempt to estimate and add together all costs and benefits for each scheme, but rather assess their particular features and impacts separately for different dimensions. We adopt this approach not only because data are typically inadequate to do a full blown cost-benefit analysis, but also because any such exercise would be bound to be arbitrary in the way the costs and benefits were added up and partial in the coverage of indirect benefits.

We focus on the following dimensions: targeting efficiency in reaching the poor and in reaching particular subgroups of the poor; institutional features of the schemes including whether they are supply or demand-driven in their approach; output efficiency of the schemes and the distribution of the benefits of the output; and their financial sustainability and the implications of the sources of finance (domestic or foreign) for their effectiveness.

As 'targeting' is a key criterion for an evaluation of social funds some issues involved in evaluating targeting are outlined here. These relate to the distinction between direct and indirect beneficiaries; the extent and implication of 'errors' of targeting and the selection of which group(s) to target.

Direct and indirect beneficiaries: Direct beneficiaries enhance their income (in cash or kind) as a result of employment on the schemes or on projects they finance. Indirect beneficiaries are those who gain from the schemes but not through direct enhancement of

their own incomes. For example, a construction worker in a project funded by a SF is evidently a direct beneficiary, whereas members of his household may be considered indirect beneficiaries as are consumers of the services created by the construction. In general, the SFs yield a variety of benefits indirectly:

- (i) to other members of the prime earners' household;
- (ii) from the services provided (eg. education or health services);
- (iii) from the infrastructure created (eg. from the use of the roads or the irrigation facilities);
- (iv) from any general rise in wage rates which may result from the scheme;
- (iv) from multiplier or linked activities that result.

The indirect benefits are typically difficult to measure.¹ They often appear to be given exaggerated emphasis by politicians defending the schemes. Both distributional and targeting implications of the schemes may be quite different as between direct and indirect benefits.

Types of targeting error: Cornia and Stewart (1993) emphasize the importance of distinguishing two types of targeting errors in evaluating public expenditures for poverty reduction. First, targeting errors arise where benefits reach beneficiaries who are not in need and hence not part of the 'target' group: benefits received by those who are not in need give rise to E-errors (excess benefits). The second type of error occurs where needs remain unmet among the target group, because only some of the target population has been reached; this type of error is termed F-error (failing beneficiaries). A precise definition of E and F-errors is provided in Table 5 below. If poverty reduction is the overriding objective, F-errors are generally of much the greater significance, while E-errors are important to the extent that by 'wasting' some resources on people outside the target group the amount received by the target population is diminished if the total expenditure is fixed.

Targeting efficiency with respect to F-errors can be measured as the proportion of the target population covered. A 'strongly' targeted programme from this perspective is defined here as one where more than 50 per cent of the 'target' population receives the benefit, while a 'weakly' targeted programme is one where less than 10 per cent of the poor are covered. Schemes which have low E-errors are sometimes described as 'well-targeted' (eg. by Grosh). But it is possible to have low E-errors while reaching very few of the poor (ie. while having very high F-errors).² Hence a low E-error alone need not be an indicator of a well-targeted scheme.

¹ Whereas direct benefits may be measured through an analysis of the project expenditure, the measurement of indirect benefits requires partial, multisectoral and/or general equilibrium analysis.

² The effectiveness of the expenditures on schemes in reducing poverty cannot be evaluated with these measures alone. Any evaluation of the extent of poverty reduction would require further information regarding (i) the administrative costs of the schemes (ii) the distribution of income of the poor and the size of the gap between their income and the poverty line before and after participating in the scheme(s) (iii) the opportunity costs of participating in the scheme to the beneficiaries and (iv) the net value of income accruing to them from any assets created by the scheme(s).

Table 5. Two errors of targeting

Basic variables and information required:

B number of beneficiaries of a scheme;
P subset of persons within a society regarded as poor (eg headcount of persons below poverty line);
 β proportion of total beneficiaries of a scheme who are poor;

Definitions of errors of targeting:

E - error $(1-\beta)$ share of non-deserving beneficiaries included in the scheme. This is often measured in terms of values rather than numbers, the error being defined as the proportion of the total expenditure going to the non-target group.

F - error $(P-\beta B) / P$ share of non-receiving poor excluded from the scheme)

Note : The E-error equals zero if the value of β equals 1, ie all the beneficiaries are poor. The E-error is low if the number of beneficiaries B is small. The F-error equals zero if the entire subset of the population regarded as poor are beneficiaries of the scheme (B equals P).

Source: Adapted from Cornia and Stewart, 1993.

For E-errors targeting efficiency depends in part on how the distribution of benefits compares with the distribution of poverty across the population. If, for example, 75 per cent of the rural population of a country is reported to live in 'absolute' poverty, while 75% of rural beneficiaries of a social fund are in absolute poverty, it would be tendentious to regard that as 'targeting the poorest' since a purely random selection of rural beneficiaries would have produced that outcome and the programme might perhaps best be classified as non-targeted. To arrive at a pragmatic definition, we classify programmes/projects as 'weakly' targeted at the poorest from this perspective if the percentage of the poorest who are reported beneficiaries exceeds that of the percentage of poor in the general population. A 'strongly' targeted programme is defined as one which significantly over-represents low income households/persons amongst its beneficiaries. The working definition used below is those cases in which more than half of the beneficiaries is drawn from the lowest income quarter of the society. But this refers to E-errors only. A scheme could be strongly targeted in this sense and yet only reach a fraction of the poor population (ie have high F-errors).

The target group: Targeting efficiency of any scheme, with respect to either error, will depend on who the target group is. As noted above, the target group for SFs may be defined as the poor, or as the direct losers from the adjustment programme. In some contexts, schemes are targeted at particular subgroups - eg. poor women or the rural poor. Even where the aim is poverty reduction in general, gender and location targeting may be useful proxy indicators when there is a high correlation between these characteristics and the incidence of poverty. In looking at targeting efficiencies of the various SFs below, we have to use rather rough and ready proxy indicators because of lack of data.

3.1 The targeting efficiency of social funds

Bolivia: Most of Bolivia's ESF employment was generated in the construction sector (an average of approximately 11,000 person years during the programme) and, given the depressed state of the economy, this had only a small impact on overall wages in the sector. ESF workers were prime-age (20-65 years), married (71 per cent), male and mostly (62 per cent) they were the only income earners. Ninety three per cent of a sample of project workers

reported themselves as the head of the household and ninety per cent of their income came from the ESF wage. Only 1 per cent of the ESF workers were female, often among the poorest women. The wages of ESF project employees were somewhat below the average for the sector, and the hours worked greater.¹ The estimated earning enhancement differs markedly according to the assumed counterfactual. The most positive assessment of earnings enhancement among direct beneficiaries is approximately 45 per cent above their earnings in the absence of the programme. The ESF workers were not among the poorest two deciles of the population, but one evaluation 'would place almost half of them in the lowest 3 deciles'² - 'weak' E-targeting, as defined above. A subsequent study concludes that 77 per cent of ESF workers would have been in the poorest 40 per cent of the income distribution.³ Further analysis shows 32 per cent would have been in the lowest two income deciles in the absence of the programme, confirming the observation of 'weak' targeting.⁴ But analysis of total family income, rather than wage earnings of the main earner alone, shows that only 13.5 per cent of the ESF families was drawn from the lowest two family income deciles, which indicates non-targeting from an E-perspective. The F-error was high as only a small percentage of the unemployed - estimated at one tenth - gained employment through the ESF, indicating a 90% F-error if we take the unemployed as the target group. Moreover, given the estimate that 97 per cent of the rural inhabitants were below the poverty line in 1988⁵, and considering that only some 20 per cent of the ESF projects were rural, one may conclude that the F-error for exclusion of the rural poor may have been as high as 95 per cent.⁶ However, these estimates do not include indirect beneficiaries.

Chile: The number of people in the Chilean employment schemes was exceptionally large. The programmes for head of households (POJH) enrolled 102,800 workers in 1982 which rose to 222,900 at the height of the second economic crisis in 1983; in the same year the enrolment through the PEM stood at 280,000 and together the schemes accounted for some 12.6 per cent of the labour force.⁷ Enrolment decreased sharply later and by 1988 it stood at only 5,300. It was negligible thereafter as employment opportunities in the economy generally expanded. Over its life-time 1982-1988, nearly three quarters of the direct beneficiaries of the POJH were male, most of them with a family and nearly half in the prime age range of 26 to 44 years. Slightly more than half (56 per cent) had previously been blue-collar workers. Workers in the PIMO programme tended to be more skilled than those in PEM and POJH and hence were less likely to belong to poor groups. Less than a quarter of the direct beneficiaries were female.⁸ The very large size of the schemes indicates that F-errors may have been comparatively low (particularly if indirect beneficiaries are included) - this was partly because anyone who wanted could get a job in the schemes. At their peak in 1983 the schemes covered approximately half a million persons. The estimated percentage of households who failed to achieve an 'indigence' income was 30 per cent (ie. over twice the

¹ Newman *et al.*, 1991, p.29.

² World Bank, 1989, p.80.

³ Jorgensen *et al.*, 1991, p.48 and Chapter 6.

⁴ Newman *et al.*, 1991, p.32.

⁵ Based on Tabatabai and Fouad, 1993, p. 42 and UNDP, 1993, p.141.

⁶ The estimate assumes that the total number of direct and indirect rural beneficiaries did not exceed 150,000 persons. This is based on a very high ratio of indirect to direct beneficiaries ie that for every person year of employment in rural projects some 75 persons had indirect benefits. If this assumption is not valid, the F-error would be even higher.

⁷ French-Davis and Raczynski, 1990, p.27; see also Graham, 1991, pp. 12-22 for a critical account of Chile's special employment schemes.

⁸ Graham, 1991, p.18.

proportion of the workforce covered by the schemes).¹ If there were three indirect beneficiaries for every direct beneficiary and all the benefits went to families below the indigence level, approximately 57 per cent of the country's 3.5 million poor persons benefited from the employment schemes, while 43% were not included. Chile had a number of other interventions (eg. nutrition support), also targeted to poor people and if included this would suggest more comprehensive coverage (see Raczynski, 1987; Raczynski and Romaguera, 1992). In 1983 the E-errors may be assumed to have been relatively low: to qualify for the scheme people had to work for very low wages - approximately one quarter of the minimum wage in the PEM and forty per cent for the POJH.

Costa Rica: Costa Rica's FODESAF is executed by 18 different institutions, supporting a range of approximately 40 programmes. The beneficiaries programmes are diverse and the value of the benefits differs across the programmes. Some programmes report many beneficiaries with low expenditure on each, whereas others have few beneficiaries receiving high expenditures. For example, in 1992 some 473,000 primary school pupils benefited from small food rations, while 59,000 households had received mortgage subsidies over the five year period up to 1992, with an annual expenditure of more than three times that of the food rations.² The evidence on targeting is incomplete, but it has been noted that the programmes which have expanded most since the late 1980s 'have been less clearly targeting the poorest groups'.³ E-errors for the mortgage subsidy, which by law comprises one third of all FODESAF expenditure, exceeded 40 per cent.⁴ Though the F-errors of various programme components seem to be low in comparison with other countries, nevertheless failures to reach poor households have been reported for particular FODESAF activities. For example, the construction of water supply systems in rural areas has insufficiently covered isolated areas with a higher poverty incidence and the same has been observed for the school feeding scheme. This is important in view of the higher incidence of rural poverty at 32.7 per cent of the rural population in 1990, compared to an urban poverty incidence of 11.6 per cent (see Table 1 above).

Honduras: The FHIS has allocated the major share of funds to economic and social infrastructure. The evidence of targeting by the FHIS, though incomplete, suggests a bias in favour of municipalities with a lower incidence of poverty, reflecting the fact that such municipalities were better able to formulate projects to take advantage of the opportunities offered by the FHIS. Municipalities with a higher incidence of poverty obtained on average \$5.4 per inhabitant during the first two years of the Fund, while the municipalities with the lowest poverty incidence obtained \$6.5 per inhabitant.⁵ Estimates of targeting errors could not be undertaken because of lack of data.

¹ In 1983 the estimated monthly subsidy per person through PEM was \$ 25 while for POJH it stood at \$ 51. The 'indigence' line of family income was \$17 per month for 1985. Families with one member in any of the programmes would cross the 'indigence' line, but one person in PEM was not enough to cross the poverty line of \$33 which was required to meet minimal housing and clothing expenses as well. For a further discussion see Meller, 1991, pp. 21-25 and 66.

² Moreno, 1993, pp. 30-39.

³ ILO, 1992, p.31.

⁴ Families in the fifth or higher income decile received 40 per cent of the subsidy, worth approximately \$ 4000 per beneficiary; the national poverty line estimated that about one quarter of the households was below the poverty line and hence the E-error certainly exceeds 40 per cent (ILO, 1993, p.30 and Moreno, 1993, pp. 30-38).

⁵ Moreno, 1993, see also Gaude, 1993, p.30.

A major feature differentiating the targeting efficiency of the **African** schemes was the extent to which they reached the rural areas, where the majority of the poor are located (Table 1).

Botswana: Botswana's job creation schemes had various components with different targeting efficiencies. Those directed at developing skills and trade opportunities for school leavers and providing financial assistance to reduce enterprise risks are likely to have had high E and F-errors. In contrast, the labour-intensive programmes and the labour-based relief public works programmes, which were targeted at rural households, probably had low errors of both types. Although no detailed data is available to support these suppositions, Botswana's success in containing the rise in malnutrition during severe drought suggests low F-errors.¹ The rural population participated on a large scale in the labour-based relief program, with an average of 70,000 participants in the second half of the 1980s, engaged for an average of 76 days per annum, though participation varied among districts.² Given a rural poverty incidence of 64 per cent in 1985-86, more than one out of every six poor rural persons may have benefitted from the schemes in that year, permitting a preliminary estimate of the F-error of the order of 50 per cent.³

Ghana: The activities proposed for PAMSCAD were wide ranging and ambitious. The manifold projects identified attempted to target the poor through a multi-sector approach (listed in declining order of expenditure):

1. **employment generating projects** (allocated approximately 41 per cent of planned expenditure) included food-for-work geographically targeted at the North; priority public works focused on urban slums and low income housing; labour intensive feeder roads; credit for small-scale farmers and enterprises; schoolbuilding rehabilitation; business training for women; as well as support for small-scale gold mining;
2. **redundancy compensation projects** for public service employees made redundant under adjustment including training and technical advice with the objective of encouraging them to enter into small scale business (21 per cent of planned expenditure);
3. **basic needs projects** focused on low cost water and sanitation, primary health care services, nutrition education programmes, curative health care (deworming) for primary school children and rural shelter rehabilitation; altogether this category of expenditure was to absorb about 18 per cent of planned PAMSCAD expenditure;
4. **strengthening education** through commodity aid for schoolbooks and food stocks for secondary boarding schools, allocated 12.5 percent;

¹ Andrews, 1993. The number of persons involved in the Labour Based Relief Programme ranged between 70 to 90,000 (approximately 10 per cent of the total rural population) during the five year drought period 1984/85 to 1988/89, on average for 76 days of employment; the Labour Intensive Road Improvement and Maintenance Programme created much less employment involving up to 3,277 persons during its peak in 1988/89.

² Valentine, 1993, p.120.

³ The reported number of participants was 84,000 in 1985-86 (Valentine, 1993, 120) when approximately 484,000 persons faced rural poverty in Botswana. The average disbursement in cash per participant stood at 97.28 pula, while the median household cash income per month stood at 53 pula (Valentine, 1993, p.113). The preliminary F-error estimate assumes that there were two indirect beneficiaries for every participant and zero E-error.

5. **community initiative projects** to rehabilitate socio-economic infrastructure were allocated 7.5 per cent of planned expenditure.

The effectiveness of the targeting of PAMSCAD, notwithstanding the emphasis on this at the design stage, has been low. A UNICEF review observed that the redeployed and retrenched public sector employees benefitted most from the PAMSCAD (UNICEF, 1990). However, at the design stage it had been noted that the groups most in need were the low income households in the Northern and Upper regions as well as poor urban households, with low income retrenched public employees in third position (Klugman, 1990, p.22). Kingsbury notes that, notwithstanding the stated objectives of targeting the poorer regions and vulnerable groups, 'priority was to blanket the entire country with projects'. The community initiative projects were to operate in all 110 districts of Ghana. Finally, 48 per cent of the funds disbursed as of mid-1990 'had gone to logistical support to ministries (euphemistically referred to as "institution building")' (quoted from Kingsbury, 1992a, p.28). One may thus point to considerable E-errors with too many resources directed to the redeployees, as well as considerable F-errors, with a programme small relative to the extent and incidence of poverty especially in the Northern and Upper regions.

The number of participants in the food-for-work schemes in the North was nearly 11,000 by the end of 1992. Using PAMSCAD's own estimate of four indirect beneficiaries for each participant, this would indicate some 55,000 direct and indirect beneficiaries (PAMSCAD Secretariat, 1992, p.13). Even if one were to include only those facing hard-core poverty, which stood at 9.5 per cent of the rural population, or just below one million persons, the resulting F-error would exceed 94 percent. Considering only the two predominantly rural provinces in the North with the highest incidence of poverty (Upper Forest and Savannah), the F-error would be 97 per cent if one takes the standard poverty line and nearly 90 per cent if one considers only hard core poverty in these provinces.¹ Moreover, these estimates assume that all participants and indirect beneficiaries are drawn from the target groups, ie E-errors were zero.

By December 1992 nearly 61,000 civil servants had been redeployed. The PAMSCAD targeted this group through compensation via severance and redundancy payments², placement and counselling services, training for self-employment and food-supplements for redeployees taking up small scale farming. An assessment of the impact on a small sample of public employees who lost their job or took voluntary retirement found that that nearly all the redeployed had found some work, though typically of a lesser status and quality, eg. on a part-time or temporary basis or as a very small underemployed farmer.³ After 14 months of redeployment only half had recovered the same employment status, ie 'fully' employed with comparable earnings. Those with larger amounts of severance pay were more likely to have found full-time work, including self-employment. Overall earnings of the redeployed workers appeared to have fallen sharply (by approximately half); however, difficulties in measuring income from self-employment and informal activities may have led to

¹ Boateng *et al.*, 1990, p.14-15 provide the provincial and rural poverty incidence data.

² Severance pay was four months base salary plus two months base pay for each year of service. The fiscal savings were negative in the first year but the discounted savings exceeded the severance paid out in 1991, ie after four years of the program. The fiscal net savings on account of the redeployment programme were two per cent of government expenditure by 1992 (Younger *et al.*, 1994, p.4-5).

³ Younger *et al.*, 1994.

underestimation. The study concluded that poverty among the redeployee households increased significantly - before redeployment some 4 per cent was below the poverty line, whereas after it had increased to 22 per cent.¹ From the point of view of targeting the poor, the compensation schemes were not efficient - public employees even in low grades were typically better-off than various other social groups, especially those in the rural North.

Madagascar: The direct beneficiaries of Madagascar's labour-intensive projects included the unskilled un- or underemployed who gained temporary employment and qualified workers who obtained regular employment through the micro-projects. Indirect benefits were intended to accrue to the inhabitants of the disadvantaged areas where micro-projects were started (Egger *et al.*, 1993). However, as the implementation of the various activities of PASAGE proved slow, evaluations of the targeting efficiency are not possible.

Senegal: Senegal's DIRE and AGETIP are primarily urban oriented, with nearly two thirds of the investment of AGETIP concentrated in the capital city and the highly urbanised district Ziguinchor. This urban focus offers a striking example of poor targeting as the incidence of urban poverty is estimated at 24.5 per cent of the labour force, whereas the rural poverty incidence was estimated at 70 per cent in 1988.² The Senegalese experience presents high E as well as high F-errors of targeting, reflecting the predominance of political objectives over those of poverty reduction.³

Zambia: By 1991 Zambia's Urban Self-Help Project (Push) had financed 150,000 work days and given food to 1,500 persons over two years. It succeeded in reaching poor urban women and through them delivered food to their children. In 1992 some three thousand Lusaka-based families were engaged of which 95 per cent were female headed.⁴ Hence, PUSH was well-targeted in terms of negligible E-errors, but F-errors were very large. As the overall urban poverty incidence stands at 47 per cent (or 1.6 million persons) the F-error for PUSH may well be as high as 98 per cent just for the urban poor for whom the scheme was intended.⁵ The Social Recovery Fund, with a more rural orientation, had a more comprehensive coverage, with 131 projects initiated, and an estimated 400,000 beneficiaries (or nearly 5 per cent of the population). This estimate includes both direct and indirect beneficiaries - the latter being very widely defined to cover whole communities - an example of the possible exaggeration of numbers of indirect beneficiaries noted above. Even so, 90% of the rural poor were not covered. Almost half the beneficiaries were female.

Zimbabwe: There were two major components to Zimbabwe's Social Development Fund (SDF) - a social welfare component providing financial assistance to some of those adversely affected by reduced subsidies/rising charges for food, health and education subsidies; and an employment and training component, designed to assist those retrenched as a result of the adjustment programme.

Both components covered only a small fraction of those adversely affected by the adjustment programme. By February 1993, around 8,000 people had received assistance with

¹ Younger *et al.*, 1994, p.18.

² Egger, 1992, pp. 20 and 35; and Table 1 above.

³ See Graham, 1992c.

⁴ Seshamani *et al.*, 1993, p.7.

⁵ The F-error estimate assumes 10 indirect beneficiaries per family directly involved in the programme.

meeting the additional costs of food - compares with an estimated population in poverty of one million. The Ministry of Labour had expected 300,000 beneficiaries. School fee refunds covered approximately 3% of the secondary school population or one-eighth to one-tenth of the probable total size of the 'target' population. The employment/retraining component of the scheme was also minuscule in relation to need, in part because it was confined to those directly 'retrenched' as a result of the programme, and in part because of very partial coverage of this group. At the end of February 1993 (after 18 months of the program), 1,055 had gone through the business training courses (6% of the retrenched) and by end March 1993 577 projects had been submitted, of which 23 had been approved for 'possible funding'. In mid-January only 14 projects had received actual approval - i.e. just 0.13% of the retrenched (or 0.001% of the unemployed). All successful applicants were male.

The Zimbabwean programme to date has shown very high F-errors. Careful means testing in the administration of refunds for school fees and food payments probably led to quite low E-errors. If we take those below the poverty line as the target group, the E-errors were high. In a subsample of 30 applicants for funding from the SDF which had passed preliminary weeding-out and were at near-funding stage, just over half came from people who had completed secondary school and achieved GCE, and one applicant had a master's degree. Thus this group by no means represented the poorest in the community and within this group better off people were more successful in securing projects (partly because some 'own' financing was required).

In marked contrast, Zimbabwe's drought relief operations during 1992/3 were very comprehensive in coverage, including all children under five in areas with a high incidence of malnutrition, school meals in selected schools and adult feeding through rural food for work and/or free ration distribution. At the worst point requests for assistance were made by up to 5.6 million adults and 5.1 million requests were granted, amounting to over 75% of the rural population (November 1992). The number of persons receiving assistance in the drought relief operation was more than 600 times higher than the number of beneficiaries of the food subsidy component of the SDF. Compared to the SDF performance, the drought relief's F-error seems to have been very low as it covered most of the rural population and specific vulnerable groups. There are no estimates of E-errors; screening occurred but most people could get access to the food being distributed; however, the near universality of need set a limit to the number of 'undeserving' recipients.

Maharashtra: Estimates of E and F-errors of the MEGS suggest a relatively low error of excess targeting, with one survey showing that 90 per cent of workers were living below the poverty line, and another 62 per cent.¹ But as with any employment scheme, errors of exclusion are unavoidable for some of the poorest, especially people with disabilities and those who are too old to work. As a result of paying minimum wages, the scheme is self-targeting while work is provided as a statutory right leading to wide coverage.² Although the E-error is low, the F-error may remain sizeable.³

¹ Dandekar and Seth, 1980; Acharya, 1990.

² Ravallion, 1991.

³ The coverage of the MEGS in 1991 was approximately 91 million person days of employment generated; estimates of the number of days worked vary, but a study for 1987-88 puts this at 102 days for male and 104 for female. This would suggest that nearly 0.9 million persons derived direct income benefits.

In the absence of reliable and comprehensive personal and household income statistics in some countries, targeting criteria have often included the rural or urban focus of project activities and the gender of the beneficiaries, since in general, poverty incidence tends to be greater among rural and female headed households.¹ While some of the schemes are explicitly rural such as the Maharashtra EGS and Botswana's employment programmes, many exhibit an urban and male bias. For example, Bolivia's ESF allocated less than one fifth of its expenditures to rural projects², while both Honduras' SF and that of Senegal showed a strong urban bias, as did PAMSCAD in Ghana.

The 'revealed' bias with respect to gender, as evidenced by the small involvement of women or females headed households, appears strong in many of the schemes. In Bolivia's ESF less than one per cent of project expenditure was directly paid to female workers. For Zimbabwe's SDF the first batch of successful applicants (January 1993) were all male.³ In contrast, in Maharashtra's EGS the percentage of female workers varied around 40 per cent⁴, and for Chile's PEM it was approximately one quarter. These contrasting observations seem to confirm that 'open-ended' employment schemes tend to have lower access barriers for groups which have been traditionally disadvantaged.

Conclusions on targeting errors: The evidence from these schemes is that the SFs introduced in the context of adjustment only reached a small fraction of the poor (Table 6). This arose in part from the limited total coverage of the schemes, so that even if they had only benefited the poor there would still have been high F-errors, and partly from their failure to target most of their benefits to the poorest. This double failure was even true of the 'star' performer, Bolivia, which had substantially more resources devoted to it than later schemes such as those of Honduras or Senegal.

In contrast, the schemes in Chile, Costa Rica, Botswana and Maharashtra had much more extensive coverage of the poor, although even in these some of the poor were not covered. Costa Rica had quite high E-errors, but the others had relatively low excess coverage, mainly because they were self-targeted, through offering work at low wages. Costa Rica's programmes are not strictly comparable with the other schemes since they include a large number of social programmes which extend well beyond the normal concerns of social funds. Other countries also have some such programmes which we have not reviewed. The Botswana and Maharashtra schemes were drought, rather than adjustment, related, which may explain their political support - it is noteworthy that in Zimbabwe drought relief was comprehensive, while the adjustment scheme was paltry in effects. However, Chile's employment schemes, which were adjustment-related, reached 13% of the workforce at one point, a very significant contribution, although still less than half the estimated households in poverty but roughly as many as the additional poverty associated with the prolonged adjustment process. Moreover, one should not expect any single scheme to reach everyone, since different poor households have different needs. An employment-based scheme for

¹ In Zambia a high correlation between the gender of the household head and low paid occupations was observed, implying that 'it is likely that a substantial proportion of those in abject poverty consist of female headed households'. (Pearce in van der Geest, 1994a).

² The estimate of rural projects is based on the sample of projects for the 1988 technical audit (Jorgensen et al., 1991, p.47); the percentage of rural people in absolute poverty was estimated for the period 1977-89, see the UNDP's *Human Development Report 1993*.

³ Stewart, 1993a.

⁴ Acharya, 1990, p.63.

example can only reach the able-bodied. The targeting performance of the various schemes is summarised in Table 6.

Table 6. Indicators of errors of targeting

COUNTRY and name of scheme a/	E-error (Benefits to persons above poverty line)	F-error (Failing to reach persons below poverty line)
BOLIVIA Emergency Social Fund	High with two-thirds of direct beneficiaries above 2 lowest income deciles	95 % of rural population 99 % of female poor 90 % of unemployed
COSTA RICA FODESAF	High for some programme components eg. mortgages	High for eg. rural water supply scheme and school feeding programmes
CHILE PEM and POJH	Low because of effective self-targeting	57 % of poor
HONDURAS FHIS	High with higher allocations to better resourced municipalities	not available
BOTSWANA LBRP	Low	50 % of rural poor
GHANA PAMSCAD	78 % of redeployed above poverty line	94 % of hard-core rural poor excluded
MADAGASCAR PASAGE	not available	not available
SENEGAL DIRE and AGETIP	High	High (100 % for rural poor)
ZAMBIA PUSH only	Low with targeting of female headed households FHH	98 per cent of FHH
ZIMBABWE SDF	High	High
MAHARASHTRA EGS	10 % only	Moderate to high

a/ for full name see text.
Sources: see text

3.2. Supply and demand-driven approaches and targeting

The different impact on target groups between schemes appears to be related to whether they are 'demand-driven' or 'supply-driven'. 'Demand-driven' describes a scheme where project activities are proposed by the potential beneficiaries, sometimes through intermediate organizations such as municipalities or non-governmental organizations. The demand-driven approach was adopted in Bolivia's ESF; this model was also followed in Sénégal's DIRE and AGETIP, Madagascar's PASAGE, Zambia's SRF and Zimbabwe's SDF in Africa as well as Honduras's FHIS and Chile's FOSIS (which replaced the Pinochet employment schemes in 1991). All these schemes, apart from FOSIS, are largely externally funded and the World Bank was actively involved in their design. In supply-driven schemes, the government (or its agencies) determines the projects together with general criteria for participation. Examples of supply-driven schemes include Chile's PEM and POJH, the Maharashtra MEGS and Costa Rica's FODESAF. Botswana's programmes have supply as

well as demand-driven components; the former include the large labour intensive public works schemes, whereas the road improvement and maintenance scheme falls in the latter category and Zambia's PUSH is a supply-driven component within a largely demand-driven scheme; similarly Ghana's PAMSCAD combined both demand and supply driven elements eg. community initiative projects were demand driven but the food-for-work and the redeployees scheme were primarily supply driven.

Demand-driven schemes: Bolivia's ESF responded to proposals for projects from local and municipal governments, NGOs and grassroots groups. Since poor communities are less organized, fewer project proposals were forthcoming from this sector, contradicting the stated objective of the ESF. ESF staff assessed the impact of each project on the poor, working to expenditure targets for each geographic department based on the population of the department, its income per capita, unemployment level, school attendance, etc.¹ Project selection then depended mainly on geographic location of expenditure, rather than the characteristics of the beneficiaries. The same limitations have already been noted for Honduras, where expenditure allocations were made among those who put in requests and beneficiaries could only be identified indirectly.² In Madagascar, selection was made among those small and medium size enterprises putting forward proposals, while in Senegal and Zimbabwe project selection was confined to proposals put forward by civil servants who had been made redundant.

Inevitably, the demand-driven approach made it difficult to ensure that particular groups (e.g. those falling below the poverty line) received most of the benefits. However, some schemes imposed prior restrictions on the category of eligible applicants which improved targeting. For example, Zambia's PUSH was restricted to poor households. The Grameen Bank in Bangladesh achieves very good targeting (low E-errors) using a demand-driven approach but restricting applicants to the landless or near-landless.

Supply-driven schemes: Botswana's labour-intensive employment schemes, Chile's PEM, Costa Rica's DESAF, Maharashtra's EGS and major parts of Ghana's PAMSCAD were supply-driven schemes in which the government determined the projects to be financed, and potential beneficiaries applied for jobs in the programmes. As indicated above, the targeting performance of this group of schemes was generally better in terms of both types of errors of targeting. The supply-driven schemes were either targeted via employment (generally at low wages and for unskilled work, and therefore well self-targeted') or through some screening system which tended to reduce E-errors. Lower F-errors among supply-driven schemes arose from two features; first, the uptake was generally higher because the coverage of demand-driven schemes was limited by the number of satisfactory applicants - for example, in Zimbabwe after 18 months only a fraction of the available resources had been allocated; and secondly, the supply-driven schemes were also mostly relatively open-ended, providing help (food or work) to almost anyone who came along. This open-ended characteristic, which is very important in reducing F-errors, need not be associated with the demand/supply driven nature of the scheme. It also depends on the availability of finance. The Social Funds typically were allocated a certain amount of finance which limited the size of their operations and therefore prevented them being open-ended. In contrast, the employment schemes were not financially restrained in this way.

¹ Jorgensen *et al.*, 1991, p.26.

² Some of the smaller sub-programmes in Honduras are supply-driven and targeted at pre-specified social groups, such as mothers of infants and female headed households; these accounted for 25 per cent of the total expenditures.

Higher E-errors among demand-driven schemes arose because they require initiative, well-defined plans etc. which are more likely to occur among better-off and better-educated groups, or emanate from better resourced municipalities (Honduras). In some cases, for example Ghana, Zambia and Zimbabwe, the schemes also required some financial contributions from the individual or community. The demand-driven approach of some schemes is more participatory and less state-oriented than the supply-driven schemes, but these characteristics are achieved at the cost of less effective targeting towards the poor. Further targeting improvements in supply-driven schemes are feasible with more information, better design and administration, whereas this seems less likely with the demand-driven approach as these activities are more decentralized. But improvements in targeting of the demand-driven schemes could be achieved by imposing restrictions on the category of beneficiaries that would be eligible, as suggested above.

There appears to be a difference between the supply-driven and the demand-driven schemes in the nature of the outputs realized. The supply-driven schemes mainly concentrated on economic infrastructure (eg. rural roads and infrastructure in Maharashtra and Botswana), while the more recent demand-driven SFs have financed a combination of small-scale projects (Zimbabwe) and economic and social infrastructure (Bolivia's ESF and Honduras's FHIS), while some have focused almost exclusively on social infrastructure (eg. Zambia's SRF). These choices affect the distribution of indirect benefits. For Maharashtra's employment schemes, it appears that the economic infrastructure primarily benefitted the non-poor. Indeed, the assets that were created that benefitted the non-poor appear to have been an important part of the political equation which sustained the implementation of the schemes (Echeverri-Gent, 1988 and Ravallion, 1991 on Maharashtra). Works executed under Chile's PEM and POJH included creating public parks, street cleaning, painting public buildings and building sanitation facilities in poor areas. However, building projects for the military (an Air Force aerodrome) and for the wealthy in the northern suburbs of Santiago (an access road to the airport) were also included (Graham, 1991, p.16).

Recent SFs have created economic and social infrastructure with positive indirect benefits to poorer households in the society, as shown for Bolivia, Honduras and Ghana in Table 7. Data for expenditure by Senegal's AGETIP showed 34% devoted to sports grounds, 33 per cent to road construction, 15 per cent to administrative buildings and 11 per cent to schools and bath houses.¹

Notwithstanding the emphasis on the tradable goods and service sectors in the macroeconomic analysis underpinning the adjustment model, the sectoral focus of the programmes has been squarely on the non-traded goods and services sector. Only programmes with a focus on enterprise development, such as FOSIS in Chile and the SDF in Zimbabwe, make some direct contribution to the tradable capacity of the adjusting country.

¹ The programme size of AGETIP is approximately \$ 35 million for two years; the size of this level of expenditure is approximately 10 per cent of the country's GDP in the construction sector.

Table 7. Social and economic infrastructural accomplishments: Bolivia, Honduras, Ghana

Country:	Social:	Economic:
Bolivia 1/	181 km water/sewerage systems 7,084 low income houses 259 health centres 224 schools	2760 blocks of urban street paved 6,368 km road improvement 30.7 km of irrigation works
Honduras 2/	1,6 km water reservoirs 4,5 km of sewers 83 km of gutters 30,000 latrines 68 health centres 1,270 class rooms	800 km of urban road repair 890 bridges reinforced 34,2 ha of urban pavements 4,850 micro-farms 20 km of breast-walls (confining a bank of earth)
Ghana 3/	Community Initiative Projects: 606 schools/health centres improved Wells and Sanitation Program: 612 hand dug wells 462 latrines Rehabilitation low-income houses: 1227 houses completed (27% of target) Food-for-Work (North): 52 schools improved 10 clinics built Formal and non-formal education and training 4/ Essential drugs supply 5/	Priority Works Programme: 71.71 km road improvement 499 culverts constructed Food-for-Work (North): 2358 acres of agroforestry limited other infrastructure

Notes:

- 1/ Bolivia: For three-year period 1987-1990; expenditure of \$100.5 million for completed projects and \$ 69.8 million under implementation.
- 2/ Honduras: For two years 1990 to June 1992; expenditure approximately \$ 31 million, which is 60 per cent of total FHIS fund of \$ 50.8 received up to June 1992.
- 3/ Ghana: For a two-and-half year period 1989-1992; expenditure approximately \$ 50 million.
- 4/ Four sub-programmes:
(i) Non-formal education with 270,000 learners in 11,000 literacy classes of which only two pilot projects were funded under PAMSCAD; (ii) Institutional Capacity Building, training of 40 officers for 10 mobile teams to support Community Initiative Projects (iii) Training of 366 trainees for rural building and (iv) 90 nutrition education centres attended by 12,842 pre-school children.
- 5/ \$ 3.0 million which was 50 per cent of the planned expenditure.

Sources: Jorgensen *et al.*, 1991; Gaude, 1993; Egger *et al.*, 1993; PAMSCAD Secretariat, 1990 and 1992.

Indicators of the financial magnitude of the various SFs are shown in Table 8. It should be noted that estimates of the finances of SFs are sometimes problematic: in many cases, notwithstanding firm commitments, disbursement was delayed and the real value of resources reduced. For example, the IDA credit for Madagascar's PASAGE amounted to \$22 million and was approved in 1989; but by July 1992 only 17 per cent had been spent. Ghana's PAMSCAD was scheduled to spend \$ 84 million in two years starting from 1988, but eventually spent just half the amount in more than double the scheduled time (1989-1992). The real value of commitments in local currency as well as commodity aid may be eroded in the context of devaluation and inflation.

A comprehensive comparison of the overall impact of SFs across countries is beyond the scope of this review, although it is clear that the magnitude of the effects has varied considerably. This is indicated by the variations in total expenditure on the schemes, as a proportion of GDP, public expenditure or per head of the poor (Table 8). Bolivia's scheme amounted to 1.6% of GDP and 35% of public expenditure on health and education, compared with 0.05% and 0.3% respectively in Zimbabwe. There was a similar variation in employment. Chile's scheme created roughly as many jobs as the redundancy associated with adjustment; Bolivia's was approximately the same as the redundancy in the tin industry; Ghana's PAMSCAD created about 7,000 person years of employment, only a fraction of the 61,000 redundancies in the Civil Service and Education Service, but this does not include the jobs provided indirectly through provision of training and credit.

The magnitude of the expenditures devoted to the schemes limited their potential to reduce poverty. Even if there had been *no* targeting errors and *no* administrative costs, the maximum the poor could have received per head was very small in all cases shown in Table 8, with the exception of Bolivia and Costa Rica. Of course, targeting errors discussed earlier mean that the actual receipts by many of the poor were much smaller than the figures shown, and often zero.

Table 8. Comparative indicators of expenditures of social funds

Country (Name of scheme) a/	Average Annual Expenditure (Current \$ Mln)	Maximum Possible Average Expenditure per Poor (\$ per person below poverty line) b/	GNP per capita during scheme in 1989 unless other wise indicated (current dollar)	Public Expenditure on Health and Education (% of GNP 1988- 1990)	SF as percentage of GNP in 1989 unless otherwise indicated	SF as % of Public Expenditure on Health and Education
Bolivia ESF	\$ 68.4 c/	\$ 15	\$ 620	4.6	1.59	35
Costa Rica FODESAF	\$ 60.0 d/	\$ 80	\$ 1780	10.2	1.13	11
Chile FOSIS	\$ 7.5 e/	\$ 1.4	\$ 2160 f/	4.7 g/	0.03 f/	0.6
Honduras FHIS	\$ 21.5 g/	\$ 5.3	\$ 580 f/	4.6 h/	0.70 f/	15
Ghana PAMSCAD	\$ 19.5 i/	\$ 3.5	\$ 390	4.6 j/	0.35	7.6
Madagascar PASAGE	\$ 7.5 k/	\$ 1.8	\$ 230	2.8	0.30	10.7
Sénégal AGETIP	\$ 15.0 l/	\$ 3.5	\$ 650	3.2	0.32	10
Zambia PUSH, MPU and SRF	\$ 5.0 m/	less than \$ 1.0	\$ 412 f/	8.0	0.15 f/	1.8
Zimbabwe SDF	\$ 3.3 n/	less than \$ 1.0	\$ 650 f/	13.7	0.05 f/	0.3

a/ for full name see text

b/ average annual expenditure divided by the number of persons below the poverty line (see Table 1 above); it presupposes that E and F-errors of targeting would be zero and no administrative costs.

c/ see Jorgensen *et al.*, 1991.

d/ see ILO, 1992.

e/ see Wurgaft, 1993.

f/ 1991 data used because SF scheme started in the 1990s.

g/ excludes social security expenditures at 9.9 % of GNP.

h/ education expenditure only.

i/ see PAMSCAD Secretariat, 1990 and 1992.

j/ health and social security expenditure only.

k/ see Egger *et al* 1993.

l/ see Egger *et al* 1993.

m/ see Seshamani *et al*, 1993.

n/ see Stewart, 1993.

Sources: IMF, *Government Finance Statistics Yearbook 1992*, *International Finance Statistics Yearbook 1992* and *International Financial Statistics* various issues; UNDP, *Human Development Report*, various issues; World Bank, *World Development Report 1993*.

3.3. Efficiency of social funds

In general, one would expect that trade-offs exist between the SFs' efficiency in realizing political, economic and social objectives. For example, where political objectives dominate - e.g. for buying support for adjustment programmes - the objectives of maximizing economic or social efficiency may not be achieved.¹ Economic efficiency can be defined as the ratio of benefits, defined as extra output, to costs, appropriately discounted; 'social efficiency' is defined here as the ratio of benefits, defined as the extent of poverty reduction, to costs.² One aspect of social efficiency is targeting efficiency, as discussed above; another is administrative efficiency in dispensing the funds, which we will define here as 'transfer efficiency', being the ratio of administrative costs to funds transferred to recipients.

Transfer efficiency: Transfer efficiency can be compared across schemes by expressing non-wage costs of creating one day of employment as a multiple of the average daily salary paid through the scheme. For example, for Honduras the average cost of creating a day of employment was 1.8 times the actual daily wage payment (see Table 9). The lowest non-wage cost (or highest transfer efficiency) appears to have been for Maharashtra's EGS, where the share of wages in total project expenditure was stipulated to be 50 per cent, which implies a transfer-efficiency indicator of unity. This estimate may overstate the actual wage payments taking place in the field³ and understate the costs involved in the programme's administration.

Table 9. Estimates of transfer efficiency (Descending order)

COUNTRY		
India (Maharashtra)	1.0	wage bill
Bolivia	1.5	wage bill
Honduras	1.8	daily wage
Madagascar	3.0	daily wage
Senegal	3.5	daily wage

Source: Egger *et al.*; Jorgensen *et al.*

Economic efficiency: Economic evaluation of the SF's output efficiency, drawing on project appraisal techniques, is not straightforward, partly because of lack of data, especially about externalities. To date there has been only one attempt to carry out cost-benefit analysis, and that has defects. For Bolivia's ESF an analysis of a sample of 20 completed projects for street paving, sewers and water provision was made. The rate of increase of property values was

¹ 'Economic efficiency' is defined here as maximising present value of the use of resources, including externalities, but not weighting for income distribution.

² How poverty reduction is measured depends on how poverty is measured, e.g. whether the headcount, the poverty gap or the Foster, Greer, Thorbecke approach is taken. See e.g. Kanbur, 1987.

³ Echeverri-Gent refers to overstatement of wages paid out by corrupt officials (Echeverri-Gent, 1988, p.1299).

compared to project costs at shadow prices. Fifteen of the project had ratios exceeding unity, with ten of these ratios greater than four. However, no causal link between the project activities and the appreciation of the property prices was established. Indeed, the ratio might merely reflect the appreciation of land and property prices in a context of falling returns to alternative financial asset holdings (Jorgensen *et al.*, 1991, p.52).

Other assessments of efficiency are casual and informal. Although in Botswana's drought situation (1982 to 1988) greater emphasis was placed on 'programme and project delivery than on efficiency criteria'¹, the road improvement and maintenance schemes were widely perceived to have achieved a much better output efficiency than the labour-intensive public works programme which employed many more people. Factors contributing to this better performance include the much greater technical support, provision of training for employees, mid-course efficiency reviews, higher wage levels and the provision of incentives through real wage increases over time (Andrews, 1993, pp.20-28).

Output efficiency of the projects also takes the form of improved economic and social services to beneficiaries. Zambia's beneficiaries' assessment records that the perceived benefits included reduced distance to walk to social facilities (water, health centre, school), benefitting women proportionately more as they do most of the walking. The perceived benefits of health centres included reduced child mortality; provision of family planning, nutrition and health lessons. But health centres were still regarded as inadequate, with too few drugs. For educational centres the perceived benefits were improving the learning environment, teacher's morale and, hence, pupils' performance. Extending school building were seen to have increased pupil enrolment and reduced drop-out rates.² But these assessments are those of beneficiaries, not of a careful empirical study.

4. Institutional strategies of social funds

4.1. Institutional Set-up and Strategies of Social Funds

One key issue regarding institutional mechanisms for implementing Social Funds is whether these are best assigned as an expansion of functions of the existing government machinery or kept outside it as an addition to regular departments and institutions. Both approaches have been followed: Maharashtra's EGS is a typical example of the use of existing administrative structures, expanding their mandate, whereas, for example, Bolivia's ESF and Honduras's FHIS were agencies specially created outside the government. A further strategic issue is whether to execute the programmes through non-governmental community-based organizations. We will review examples of each of these approaches.

Utilizing existing public service delivery capacity: The 'organizational matrix' of India's MEGS consists of different levels of government involvement (state departments, administrative division, district councils and subdistrict *tehsils*) with different responsibilities at each level (technical, financial and political). The matrix approach helps to ensure that the

¹ Andrews, 1993, p 22.

² University of Zambia, 1993.

potentially conflicting objectives of the scheme - providing jobs as well as efficiently creating productive assets - are reconciled and neither is neglected¹. Projects originate in the state's 289 tehsils comprising 36,000 villages and are reviewed and consolidated in a blueprint of project plans and collated to a district level 'blueprint'. The district level revenue department allocates the funds and selects a technical department to implement the project. Two key administrative 'rules' to ensure the employment/income objective include the requirement that expenditure on wages forms at least 50 per cent of the total²; and that workers must be given employment within the district where they live.

The Maharashtra experience indicates that using existing public service delivery capacity, provided this is carefully embedded in the legal and political context, can produce well-targeted programmes. The experience of Costa Rica's DESAF seems to confirm this observation. Chile's special employment programmes were administered by municipalities, though this 'was merely a vertical extension of central government authority' without genuine local participation. The authoritarian nature of the programmes led to negative reactions³.

In contrast, 'PAMSCAD did not seek to create new or parallel institutions'⁴. But it experienced severe problems within the existing central government bureaucracy, which contributed to weak programme implementation. A review of Ghana's PAMSCAD was undertaken by its Secretariat after two years (in 1990), against a background of delayed implementation.⁵ Problems and delays were attributed to the wide ranging nature of the projects; lack of clarity of the institutional framework for its implementation;⁶ as well as devaluation and inflation during adjustment which had major financial implications for the programme.

The review found implementation problems (delays, lack of coordination etc.) in a number of the components. The community initiative projects were regarded as most successful and 'highly visible' as had been intended. The building of feeder roads using labour-intensive methods also appeared to work well. But supplementary feeding was not sustainable under PAMSCAD, because of the spiralling number of redeployees asking for food aid. The intended decentralization to District Assemblies had not been effective. It was proposed to retain only 12 of the 23 elements envisaged in the original program; the other activities were to be 'relocated' to other government institutions instead of executing them as an integral part of PAMSCAD. Reasons for recommending relocation (Table 10) included overlap with existing programmes and specialist expertise needed. PAMSCAD was to continue to be located inside the government machinery but with its own national oversight committee.⁷

¹ Echeverri-Gent, 1988, pp.1296-1297.

² This rule applies at the district level, but not for each individual project.

³ Graham, 191, p. 15-16.

⁴ PAMSCAD Secretariat, 1992, p.1.

⁵ The project was launched in 1987, but actually started in 1989. See PAMSCAD Secretariat, 'Proposed Review of PAMSCAD', (mimeo), Accra, December 1990, pp. 1-20 plus appendices. This review was carried out by the Ghana government, following a donor/World Bank review.

⁶ The implementation problems related to internal management, integration of activities within existing governmental institutions and provisions to ensure the sustainability of social sector activities.

⁷ PAMSCAD Secretariat, 1992, p 3.

Table 10. Reasons for relocation of pamscad activities (1990 secretariat review)

Project activity	Reason for relocation
Non-formal education	well funded as an independent programme
Repair of secondary schools	no funding under PAMSCAD, but ongoing under the Public Investment Programme
Priority public works	to be relocated to regular programmes in view of high capital intensity
Small scale mining	to be integrated with ongoing project at sectoral ministry
Redeployee programme	discontinued as redeployees are not applying for training or seeking information/counselling
Deworming of school children	to be refocused towards preventative care and to be relocated to sectoral ministry
Purchase of food for institutional feeding, commodity aid	revolving funds to be operated by sectoral ministry
Institutional support to social expenditure programmes	to be implemented by sectoral ministry
Source: 'Proposed Review of PAMSCAD (mimeo)', pamscad Secretariat, Accra, December 1990	

In 1993, after PAMSCAD finished, an 'expanded programme of social infrastructure, rehabilitation and development' was initiated by the Ministry of Local Government for a four year period 1993-96, targeting both semi-urban and rural poor. This programme drew on the PAMSCAD experience gained in community initiative project selection and targeting. Locating the PAMSCAD secretariat in the Ministry of Local Government appears to have contributed to sustaining activities with an explicit poverty reducing objective.

Adding new institutions: Bolivia's ESF, Honduras's FHIS, Senegal's DIRE and AGETIP are examples of 'new' institutions, adding to the existing institutional network to execute the SF activities. Bolivia's ESF, as a separate organization, was able to attract a high-level business person as its leader; recruit high calibre staff by paying private sector salaries; institute procedures for quick disbursement for projects or procurement, using private contractors; and as a temporary institution, be exempt from standard civil service rules including avoiding concern with how it fitted the planning, budgeting and coordination process of government¹. Honduras's FHIS is a temporary institution, to function for four years from 1990 to 1994, with a Board of Directors chaired by the country's President who also appoints the FHIS's executive director. Its administration appears efficient with, on average, only a three month period between a project request and a decision, followed by an average of only five weeks before the work commences. However, the FHIS administrative overheads, at 14 per cent of the total funds, are considerably higher than those of, for example, Bolivia's ESF which stood at only 3.5 per cent.²

Using community institutions: As noted earlier, Zambia's SRF and MPU aimed to stimulate community participation in improving and maintaining social welfare infrastructure. The

¹ Jorgensen *et al.*, 1993, p.4 and p 11.

² Moreno, 1993a, p.25 and Jorgensen *et al.*, 1991, p.42.

schemes respond to demands made by community-based organizations etc.¹ The projects are usually presented by a prominent person in the community, while the community contributes cash and labour. However, strong organizations from outside the community, such as church organizations, tend to reduce the community sense of ownership of the project. Nevertheless, Graham notes that 'by relying on community initiative and community contribution, the project strengthens the community's ability to address their own needs and fosters self-help'². But a beneficiaries assessment study of the SRF and MPU does not corroborate this perception.³ The study recommends removing the community contribution for urban areas, in view of the exceptional difficulties encountered in organizing the community. In the rural setting, despite assistance from village headmen in mobilizing community participation, a number of difficulties were noted: members of the project committees were often not elected and in some cases the community 'has no say whatsoever in the selection of the committee'⁴; more than half the projects lacked transparency, with misuse of project funds reported;⁵ in some cases fear of witchcraft coerced young people into participating; and there was low participation of women in decision-making. The most important problem, affecting more than two-thirds of the projects, was that contractors and workers from outside the project area received payments from project funds whereas intended beneficiaries from the communities were asked to provide labour free of charge.

Our review of the administrative and institutional strategies does not lead to a definite preference for any of the approaches. The best approach depends on the context - in particular, administrative capacity and the intertwining of political representation and financial and technical management.⁶ However, the suggestion made by some donors that a new institution would exhibit greater political autonomy and display less state patronage does not seem supported by the evidence. Most of the specially instituted 'autonomous' SFs have downplayed the demanding objective of targeting the poorest. Moreover, placing the administration outside the normal government machinery has obvious dangers - including downgrading the normal administration and permitting inconsistency of policy which can undermine the achievement of the objectives of either the existing departments or the new institution or both. Temporary SFs are less likely to achieve effective poverty reduction since normally the extent of resources which they can allocate is limited. Sustainability may be easier to achieve within the normal government machine.

¹ Some components of Zambia's social programmes are supply driven, including the Programme for Urban Self-Help (PUSH) with its focus on poor urban women.

² Graham, 1992b, p.2.

³ See University of Zambia, 1993. The assessment was conducted by the Rural Development Studies Bureau of the University of Zambia in collaboration with Siavonga Technical Academy, September 1993, Lusaka. It reviewed a total of 24 projects, 13 were in education and 9 in the health sector. Of these, 20 were financed by the World Bank, 2 by the European Community and for 2 donor funding was yet to be approved. Interviews, participatory observation and focused groups discussions were held involving a total of 1121 persons. The study focused primarily on project implementation and does not present any systematic information about the beneficiaries of the projects.

⁴ University of Zambia, 1993, p8.

⁵ More than two hundred respondents commented that project accountability was lacking, discouraging the community to make any further contributions in cash or kind or to supply free labour.

⁶ For example, in Zambia the administrative capacity for public service delivery has eroded so much that a sum of K500 million (approximately \$1.25 million) allocated for Labour Intensive Public Works in the 1992 budget was not used (Seshamani, 1993, p. 7).

4.2. Financial sustainability of social funds

A key question is whether the SFs are financially sustainable; this may be related to the balance of internal and external finance.

Financial sustainability implies that mechanisms have been put in place which ensure funding in the post pilot-project phase. These mechanisms need to assure a steady flow of internal finance. They may operate at three levels (or a combination of these):

- (i) private level, that is through capturing economic rents created by facilities or services provided under SFs, eg. through interest and/or repayment of credits by micro-enterprises or user charges for schools or health centres created;
- (ii) community level, by seeking to generate revenues locally from potential beneficiaries, which may be unrelated to actual use or benefit from the facilities and services;
- (iii) public level, through ensuring institutionalization of the funding/expenditure under a regular budget line of the national or local government.

Externally funded schemes: Two of the Latin American schemes (Bolivia's ESF and Honduras's FHIS), as well as all the African SFs (with the partial exception of Botswana), were largely externally financed. Bolivia's ESF was nearly entirely externally financed; domestic resources were only used for the initial set-up and some limited counterpart financing from grassroots organizations and cooperatives. Religious organizations raised 17.1 per cent of the value of projects executed by them as counterpart funds, greater than that of other NGOs (11.1 per cent) or government agencies (14.7 for municipalities, 8.9 for Regional Development Corporations and 4.8 per cent for other agencies). As three quarters of the projects were executed by government agencies, the overall size of counterpart contributions was small. The financial sustainability of Bolivia's ESF seems circumscribed and was not given importance in the design stage. The ESF was planned as a temporary institution and was wound up in 1991, though experience was retained in the follow-up social investment fund. The overriding purpose of the ESF was to raise external funds for quick-disbursing social expenditure; the same appears to be the case for the SFs of Honduras, Ghana, Madagascar, Senegal, Zambia and Zimbabwe.

Excessive reliance on external finance can lead to funding problems, as the experience of PAMSCAD illustrates. The scope of PAMSCAD was reduced to less than half of the planned expenditure.¹ By early 1993 PAMSCAD had finished, though it had not managed to use all the funds allocated to it. Yet quite a number of the projects remained incomplete as these had run out of funds because donors were unwilling to reallocate across components. One informal estimate puts the number of incomplete projects at approximately 400 out of 1100.² While expenditure on some of the components was reduced (community initiatives projects, non-formal education and women in development), it was considerably increased for labour-intensive feeder roads. By 1990 PAMSCAD's financing gap had risen sharply to over 7 billion Cedis, equivalent to \$ 20 million at the 1990 accounting exchange rate. Moreover,

¹ The original planned expenditure was \$ 89.8 million, of which \$ 5.8 million was to be met through local cost recovery and \$ 11.2 was to create a revolving fund. Hence, the revised planned project expenditure of \$ 42.6 million replaced the original planned project expenditure of \$ 72.8 million.

² Personal communication from donor official.

external funding also implied future liabilities with funds from the IDA, KFW and OPEC provided as loans.

Internally funded schemes: Costa Rica's DESAF is an example of the opposite strategy: the fund was institutionalized from the outset, through a parliamentary Act, and financed through a regular tax on formal sector wages as well as a sales tax - no outside funds were sought. The financing structure has proved eminently sustainable, indeed it was so robust that it has increasingly figured as a way of supporting the overall fiscal deficit.¹ Maharashtra's EGS is also financed from internal funds, part of which are raised through specially designated taxes and levies. Another internally funded scheme which has proved sustainable was the labour-intensive scheme of Botswana.

For Zambia's SRF and MPU, which are partly internally funded through community contributions or labour, the question of sustainability relates also to the availability of future internal resources for maintenance of the schools and health centres created. Who should take the responsibility for the maintenance of social infrastructure? Interestingly, the beneficiaries' assessment study found that most respondents believed that the community should be responsible, and/or the direct beneficiaries such as parents and pupils, with the government only in third place.

The financial and administrative sustainability of the older internally initiated schemes is evident through their resilience; an important contributing factor was the wide sourcing of their revenues. Additional wage and sales taxes were the main source of revenue for Costa Rica's DESAF as well as for Maharashtra's EGS; the latter also included special taxes on irrigated agricultural land, land revenues and non-residential urban lands. It is too early to determine to what extent the temporary 'new generation' SFs will succeed in consolidating themselves.

5. Conclusion

This paper has attempted to synthesize and contrast the experiences gained with a variety of Social Funds and special employment schemes across developing countries in Latin America, Sub-Saharan Africa and rural South Asia. The general context in which these SFs were developed was one of economic crisis followed by adjustment measures which have tended to increase the incidence of poverty generally, as well as create 'new' poverty. The key criterion for any evaluation of SFs relates to their ability to transfer incomes to the poor, thereby helping to offset the rising hardship. A secondary objective is that the schemes should contribute to the creation of economic and social assets which assist economic development in general and improve the human development and the productive capability of poor households in particular.

The evidence reviewed for this paper shows that the 'new' SF programmes have in general reached only a small fraction of the poor, partly because their total size is limited and partly because of poor targeting. Schemes designed, initiated and financed by the country itself in order to assist the poor during crisis have been more effective in achieving that objective, being much more extensive and better targeted.

¹ The share of funds raised for the DESAF but not spent for its programmes increased during the 1980s. In 1991 only 60 per cent of the funds were utilized and the remaining 40 per cent was returned to the central government budget (ILO, 1992).

Most of the 'new generation' SF schemes, following in the footsteps of Bolivia's ESF, are largely foreign designed and financed. Foreign design does appear to succeed in attracting external funding, ranging from 49 to 96 per cent for this sub-sample. Undoubtedly some part of this external funding is additional to finance which these countries would have been able to obtain without the SF programmes. Most of the schemes are intended to be temporary, with the expected lifetime ranging from 2 to 4 years, with options for renewal subject to evaluation. Some candidly focus on compensating the politically powerful losers of the first rounds of the adjustment programmes, but awareness has grown that wider coalitions are imperative for sustaining inherently unpopular adjustment programmes.

These 'new generation' SF programmes can be contrasted with the primarily internally funded, largely locally designed programmes, many of which were initiated during the 1970s: Maharashtra's EGS, Costa Rica's DESAF, Chile's PEM and Botswana's employment schemes were reviewed above. These programmes have become institutionalized and remained active, though discrete changes in the objectives of the programmes tend to take place over time.¹ They tend to be supply-driven and utilize self-targeting, in particular through low wage payments for unskilled work. These schemes appear to have been more effective in targeting the poor, primarily as a result of self-selection mechanisms. Adopting administrative rules restricting access may also facilitate coverage of deprived beneficiaries.

In summary, this review has shown that 'add-on' temporary institutions, depending heavily on external funds, have been poorly targeted and have not been able to provide for effective poverty reduction during adjustment - i.e. they represent very inadequate safety nets. They seem often to constitute political panacea during unpopular adjustment programmes. Their main strength appears to have been their ability to create useful economic and social infrastructure, on a small-scale, relatively rapidly. In this area they may offer some lessons for the 'older' generation of internally financed and administrated schemes. The latter employed more of the 'right' target groups to create assets, but these typically had fewer indirect benefits for the target groups, whereas the 'newer' generation of SFs were not well targeted in terms of direct beneficiaries but in some cases focused more on the creation of economic and social assets likely to benefit the poor.

¹ Maharashtra's EGS has in recent years focused on improving the efficiency of providing productive assets; Costa Rica's DESAF has lessened its targeting of only the ultra-poor, Botswana's drought relief employment programmes have sought continuity by improving their output efficiency, while Chile's PEM was replaced by a demand-driven social investment fund.

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