

Community-Based Social Funds

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Social funds are specially created quasi-governmental agencies that provide finance for small-scale projects, normally infrastructure schemes, proposed by local government or community organizations. They were initiated in Latin America in the mid-1980's, mainly in response to economic and post-conflict dislocations. The principal reason for the rapid growth of social funds has been their perceived "ability to deliver" in terms of making a relatively visible, quick, and efficient impact on living standards in poorer communities.

The terms "social fund" and "social investment fund" are normally applied to the 108 loan projects that the World Bank has approved since 1987, mainly in Latin America and Africa.¹ However, many projects assisted by other aid providers have the same or similar characteristics as the World Bank social fund concept, in that they establish funds that canvass proposals for small-scale schemes from local government and/or community organizations, usually in defined target areas; appraise the proposals in terms of the particular objectives of the fund; and provide finance for the proposers to implement the projects themselves, or through contractors, normally with some degree of local financial contribution.

In terms of their locus within social protection interventions, social funds can be seen as a recent variant of the public works approach to providing employment for the chronic poor or communities hit by economic or other disasters. However, while short-term employment creation is typically seen as the principal contribution of social funds to social protection strategies, social funds commonly embrace five other objectives: upgrading social and economic infrastructure, developing civil society and social capital, promoting private sector contracting, developing noninfrastructure income generation, and supporting national programs of decentralization. How well social funds select priorities from among these competing objectives, how well they manage the diverse expectations people have of them, and the efficiency and effectiveness of fund management in maximizing performance toward its priority objectives are the principal determinants of the role of social funds within social protection and the wider field of social risk management. In the wider development context, the key issue for social funds is the extent to which they tend to support or undermine the central tasks of creating sound governance and an efficient, effective, and accountable state sector.

¹ All social funds have been established with support from aid providers, and most continue to be heavily reliant on such finance. They therefore tend to have strong "project" characteristics. In Chile, Colombia, and Guatemala, the perceived success of the methodology has led to substantial domestic financing, but these are the exceptions.

1. Public works, Infrastructure Development, and Social funds

The use of loan-financed public works as a policy instrument for tackling chronic or acute unemployment and poverty has a long history. In 1886, Liberal and Conservative members of the British House of Commons advocated publicly funded prison, road, harbor, and house building programs to supplement the perceived inadequacies of Poor Law relief in tackling unemployment and avoiding the threat of civil disturbance. In 1924, John Maynard Keynes proposed tackling post-World War I unemployment through public works, financed by borrowing and delaying debt repayment—a decade before either his theoretical synthesis or the adoption of public works as a mainstream response to the interwar depression in Scandinavia and the United States. All states in India have made extensive use of public works, normally targeted to the very poor, of which the Maharashtra Employment Guarantee scheme is perhaps the best known. In Bangladesh, food-for-work schemes are now a regular public policy intervention, and provide essential income support over the summer months before the *amon* (summer) rice crop is harvested.

The distinction between public works programs and normal infrastructure investment is that the prime objective of public works schemes is the creation of short-term wage-labor opportunities; the quality, longevity and benefits of the infrastructure created are a secondary consideration.² Within mainstream infrastructure provision, the International Labour Organisation (ILO) has done important work to demonstrate how the labor content of road construction and similar schemes can be increased and the import content reduced without loss of quality, but the prime objective remains the social and economic benefit of the road or embankment created, rather than the immediate social protection benefit accruing from the labor content of the scheme.

The social fund concept differs from the public works tradition in three ways. First, the social fund is a financier, not an implementer. It is responsible for canvassing, short-listing and selecting schemes proposed by local agencies, in line with the fund's specific conditions. The finance for the scheme is transferred to the proposing agency, which is then responsible for implementation. The fund is responsible for ensuring that works are properly completed, but it does this through specifying procedures, monitoring, and supervising, rather than through direct implementation. The effectiveness of principal-agent arrangements is therefore much more significant in determining the performance of social funds, rather than the issues of public administration efficiency that dominate in public works programs.

Second, short-term labor creation is commonly not the priority objective in social funds. The expected linkage between the fund's activities and poverty reduction may be through upgrading social and economic infrastructure or local capacity building, for example, rather than through the creation of labor opportunities alone.

Third, the role of participation, local choice, and control, and the benefits these are expected to induce, is fundamental: a social fund that identified schemes from its head office and implemented them itself would not be a social fund. The social fund approach is thus the obverse of typical line ministry operations: rather than sector-specific inter-

² In extremis, the impact of the infrastructure formed may even be negative: over-building of earth roads, which disrupt water flow and increase monsoon flood damage, have been a common criticism of some food-for-work schemes in South Asia, for example.

ventions centrally selected, social funds finance priority schemes from a variety of sectors that are locally selected.

2. Social Funds in Asia

Social funds are much newer and less common in Asia than in Latin America or Africa. Table 1 sets out the approved and planned World Bank social funds in Asia as at September 1999.³

Table 1. World Bank Social Funds in Asia

Social Funds in Asia (as of September 1999)			Planned Investment (In US\$ millions)				
Country	FY	Project Name	WB	Other IFI	Bilateral ODA	Domestic	TOTAL
Armenia	1996	Social Investment Fund	12.0	0	3.4	5.50	20.90
Armenia	2000	Social Investment Fund II	10.0	0	5.0	3.00	18.00
Bangladesh	2000	Social Investment Program					
Cambodia	1995	Social Fund	20.0	0	0	2.20	22.20
Cambodia	1999	Social Fund II	25.0	0		2.77	27.77
Philippines	1998	Szopad Social Fund	10.0	0		5.33	15.33
Sri Lanka	1991	Poverty Alleviation	41.2	0	3.5	12.50	57.20
Tajikistan	1997	Poverty Alleviation	12.0				12.00
Tajikistan	1999	Poverty Alleviation II	15.0				15.00
Thailand	1999	Social Investment Project	298.0	0.4	121.5	38.1	458.00
Uzbekistan	2000	Social Fund	15.0				15.00
TOTAL			458.2	0.4	133.4	69.4	661.40

Note: blank cells = not available; FY = fiscal year (of fund start); IFI = international financial institutions; ODA = overseas development assistance; WB = World Bank.

Source: World Bank project information documents.

Four points about Table 1 are significant. First, the total World Bank commitment to social funds in Asia to date is just 11.7 percent of its global total, and more than two thirds of that is accounted for by the large post-crisis project in Thailand. Second, other than Thailand, the rate of aid-provider cofinancing is very low. In Latin America, bilateral financing of social funds is about the same size as the World Bank's, and Inter-American Development Bank (IADB) funding is twice as large. Third, and again excluding Thailand, the average fund size of US\$18 million is an order of magnitude smaller than the average US\$240 million in Latin America. Fourth, most of the funds are very recent, and there is little evaluation evidence from Asia to date.

3. Alternative Problem Contexts

Social funds and projects that include elements of social fund methodology have proven to be an effective public response to a variety of problems, including

- Chronic and/or acute poverty,
- Post-economic crisis,

³ The International Development Agency Vulnerable Group credit for Mongolia mentioned in this paper is not officially classified as a social fund by the World Bank.

- Transition to a market economy,
- Post-natural disaster rehabilitation,
- Post civil conflict rehabilitation,
- Refugee reintegration, and
- Isolated and ethnic minority community integration.

Social funds are thus potential interventions in a wide variety of situations in countries in all four “subregions”—South Asia, Southeast Asia, transition economies, and the Pacific island economies.⁴ For many countries, the central issue is less whether a social fund would deliver benefits, than whether committing resources to a new institution outside government ministries and local government would divert resources and political attention from necessary reforms to existing state institutions, notably the financing, accountability, and operations of local government structures.

In many countries, establishing a separate fund with a more flexible and accountable management, outside the line agencies, has proven to be beneficial, both for target communities and for politicians anxious to see their good intentions translated into real benefit on the ground. The extent to which social funds become a model for administrative reform, or a diversion from it, is unresolved, and depends on the country context. For governments committed to decentralization of services, or those seeking to introduce more open and participatory methods, incorporating elements of social fund methodology into local government is becoming an important means of fostering good local governance.

4. One Methodology, Multiple objectives

Unlike many public interventions, social funds are defined by a methodology rather than an objective. All social funds and social fund-type projects share three basic characteristics :

- They finance small-scale schemes, typically social and economic infrastructure, but often including microcredit, business start-up funds, agricultural development, etc.;
- The schemes are proposed by local government or local organizations, which are also responsible for organizing the implementation, and commonly contribute to the financing and future operation and maintenance (O&M); and
- Social funds are usually managed by specially created institutions, outside the government’s established administrative structure.

Although the method of operation of different social funds is broadly common, the perceived linkage between the activities of different funds and the goal of poverty reduction over the short or long term varies substantially. In other words, different social funds have different objectives. The social funds created to date have different combinations of the following six objectives: short-term labor opportunities, infrastructure creation and rehabilitation, noninfrastructure income generation, private sector promotion, civil society strengthening, and decentralization. These are discussed further below.

⁴ Some accumulated lottery funds (the surplus after prize money distribution) in developed and developing countries are an example of how generalizable social fund methodology is: eligibility criteria are established and groups are invited to apply to finance. They are responsible for implementation, with a greater or lesser degree of supervision by the fund.

a. Short-term Labor Opportunities

This objective, probably shared by all social funds, places them within the scope of social protection interventions. In many funds, wages are set at or below the national or local minimum wage, to promote self-targeting and increase the likelihood of reaching the poorer sections of the poor. However, because a significant proportion of scheme investment (up to 80 percent in several studied funds) is for materials (cement, bricks, roofing, piping, etc.), skilled labor, design costs etc., the share of investment reaching the poor as short-term labor opportunities is much less than in a well-targeted food-for-work or social assistance scheme. Where a social fund has been created in response to economic crisis or natural disaster, rapid disbursement to create work for people is a priority, and this inevitably tends to be at the expense of other objectives.

b. Infrastructure Creation and Rehabilitation

In many funds, the dominant objective is poverty reduction through improving economic and social infrastructure: drinking water supplies, irrigation, the condition of schools and clinics, access roads, etc. While the local poor are engaged to provide unskilled manual labor, the emphasis is on the selection of essential social and economic infrastructure, the quality and efficiency of works, and future O&M responsibilities and financing.

c. Noninfrastructure Income Generation

Some social funds have moved beyond infrastructure formation into direct income generation activities, including microfinance, small business start-ups, agricultural extension and investment, food banks, etc. Such activities are commonly in high demand within local communities, but they pose much more difficult implementation and public-private interface questions, including ownership, skills, risk, and sustainability.

d. Private Sector Promotion

Where there is a long tradition of force account (direct labor) construction, and where the private sector is new or weak, increasing opportunities for construction firms to become involved in public sector contracting is often an important objective. This requires interventions to strengthen, organize, and train the private construction sector, and establish procedures within government and the social fund to regulate design standards, skill levels, competitive tendering, supervision, and enforcement.

e. Civil Society Strengthening

For some funds, strengthening social capital and the ability of communities to organize, plan, implement, and manage is central. The investment funds provided are seen as a means to catalyze more organized, self-determining, and vocal communities. This objective requires significant investment in the software aspects of community outreach, participatory methods, and building social trust and cohesion.

f. Decentralization

In countries that have a strong commitment to decentralizing government administration and strengthening local governance, incorporating the methodologies of social funds into

local government has become a significant means of piloting the ways in which decentralized scheme selection, planning, financing, and implementation might operate. The emphasis here is on developing new governmental systems for planning and managing resources, building institutional capacity, training staff, testing manuals and procedures, and promoting community involvement. The prime objective is systems development in the direction of building good local governance, rather than social protection.

5. Trade-offs Among Objectives

All social funds incorporate more than one of these objectives—and the most ambitious decentralization initiatives include all six. While there is no right or wrong approach, two points stand out in the literature reviewing the experience of funds to date. First, the different objectives and the relationships and priorities among them are not always clearly distinguished at the design stage. Second, there are unavoidable trade-offs among these objectives. If these are not explicitly examined and recognized in the initial design, the fund is doomed to be seen as having underperformed in one respect or another. The following illustrate some of the trade-offs between objectives that have been an issue for different funds and that social fund designers have to confront at the outset.

a. Trade-off 1: Quick Disbursement vs. All Other Objectives

A short-term social protection objective, normally in the wake of an economic or natural crisis or conflict, always entails pressure to disburse quickly. The priority is to provide work, hence income, for people without delay. Such time pressure makes it very difficult to launch in advance a major program of community discussion and organization, of contractor training, or of local government systems reform. The input to prepare communities for scheme selection or future O&M responsibility will inevitably be limited; existing contractors rather than nascent firms will have the advantage; poverty mapping and outreach to women, vulnerable groups, and the poorest, least accessible, and least vocal communities will be patchy; appraisal of schemes for maximum social or economic benefit will be rough and ready. The design can attempt to address these issues at the margin, but if the priority is the maximum number of “hands on hoes” as rapidly as possible, there is an inevitable trade-off against all other objectives. Even in nonemergency situations, social funds are constrained by prescribed project financing periods, and pressure to disburse will always tend to constrain the extent to which other objectives can be achieved.

b. Trade-off 2: Incomes From Labor vs. Other Benefits

A fund that is determined to maximize social protection through the creation of labor opportunities would restrict scheme eligibility to different kinds of manual earthworks (as in public works schemes). All other objectives progressively reduce the local labor content of a given quantum of investment and the number of person-days of social protection available. Water points, schools, clinics, bridges, and culverts require cement, iron rods, rock, bricks, roofing, equipment, and design and supervision expenditure. Even labor-intensive road construction requires hiring manual compactors, providing and transporting laterite or culvert pipes; community motivation and organization require staff, training, and logistics; decentralization objectives impose heavy investments in systems development, training, and supervision. How the use of available finance is balanced between short-term labor creation and other objectives is a key design-stage issue for social funds. It also raises significant conceptual issues about the role of a fund in providing social protection as a short-term coping mechanism as against investments that reduce risk and vulnerability over the longer term.

c. Trade-off 3: Parallel Structures vs. Public Sector Reform

Social funds are quasi-governmental agencies, normally located under the president's or prime minister's office, and operating parallel to existing line ministry and local government structures. An key motivation in the creation of many social fund structures has been the wish by different parties to bypass existing institutions that are variously seen to be incompetent, corrupt, or otherwise ineffective. Batch evaluations have found that all successful funds have managements with autonomy; flexibility (exemptions from existing government purchasing, contracting, and employment regulations); high-caliber staff, usually paid at private-sector rates; good management systems (an effective management information system, and simple, rigorous, and transparent operational protocols); and a significant degree of political support. The growth of social funds with these characteristics thus tends to be at the expense of government and aid provider focus on reforming existing public sector institutions.

In view of the demand-driven nature of social fund investments, there are clear problems in making a single line ministry responsible, since sectoral ministries do not have the remit to canvass and finance multisectoral schemes. On the other hand, social infrastructure has recurrent cost implications (teachers, nurses, drugs, equipment, etc.) and liaison with line ministries and the budget process is essential. Local governments and governors do have multisectoral responsibilities, but, except in projects with a strong decentralization objective, they tend to be bypassed in decision making in many social funds. Creating new structures for social funds, largely outside the rules and traditions of the public sector, has been positive in terms of fund performance, but the trade-off tends to be that less attention goes to poorly performing line ministries, parastatals, and local government.

d. Trade-off 4: Public, Private and Civil Sector Involvement

One attraction of social funds is that there are opportunities to involve the public, private, and civil sectors. But there are unavoidable trade-offs in how this should occur. For example, some fund designers see communities (civil society) as taking prime responsibility for construction management and future O&M, as well as for scheme identification. Other fund designs have communities responsible for identification, but construction work is undertaken by contractors following tendering managed by the fund, and ownership of the new facilities rests with the local department of education or health, for example. There are many combinations and alternatives, depending on local circumstances and the fund's chosen objectives. The important point in terms of fund design is to achieve clarity at the outset about objectives and therefore about institutional responsibilities and implementation alternatives.

Although social fund evaluations to date have been mainly positive in terms of their impact on poverty reduction, the evidence is that few have been sufficiently clear about the inevitable trade-offs among objectives; explicit ex-ante choices about which of the various objectives are to be maximized are rare. There is no right or wrong prioritization, but the evidence is that funds would have been more successful—in their own terms—if the hierarchy of objectives had been defined with more precision at the outset. Unless social fund designs make explicit choices among alternative objectives, the perceived success of a fund comes to depend on which objective the evaluators believe ought to have been maximized in the initial design.

6. Poverty Reduction

The alternative objectives for social funds entail different linkages between the activities financed by the fund and the goal of poverty reduction. There is now considerable evidence about the impact of the various objectives of social fund methodology on poverty.

a. Short-term Wage Creation

Although short-term wage creation is a greater or lesser objective of all schemes, and is appreciated within the community, social funds are a less efficient means of maximizing short-term employment than well-managed public works schemes, because of the hardware investment required for community-selected infrastructure and the software costs of community participation. In terms of the degree of benefit, the trade-offs with which public works projects have long wrestled—between the level of wages offered, the duration of employment, and the number of potential beneficiaries—all apply to social funds. However the more significant issue for social funds is that because communities select their own priority schemes, high-labor-intensity earthwork-type schemes are much less common than in public works projects that have the sole objective of short-term job-creation. The only way of increasing the labor efficiency of social fund schemes would be to make the scheme eligibility conditions much more restrictive (e.g., a menu of dikes, desilting, embankments, or manual road improvement). If the priority objective is large-scale job creation, well-managed public works schemes are the preferable option.

Most social funds, and evaluations of funds, emphasize the poverty impact of the social and economic infrastructure created, rather than the benefits of short-term employment. In view of the relatively small volume of employment created, and the visibility and local commitment to the infrastructure scheme that the community selects, this emphasis is not surprising. The poverty impact of improving schools, clinics, water supplies, access roads, etc. are well established. The evaluation evidence is that rehabilitations of schools, clinics and water points in poorer communities are highly appreciated, are well used, and have a marked impact on poverty. The ability to target investments to poorer areas, and to poorer communities within poorer areas, is a noted strength of the methodology. Despite the apparent beneficial impact identified in postproject evaluations, the effectiveness of arrangements for management, maintenance, and financing over the longer term is less certain. Some projects devote considerable attention to achieving community commitments to future maintenance, including motivating communities to create maintenance committees and funds. All commentators agree that the local choice element of social fund methodology is critically important. Where there is real community participation in the selection process—rather than domination by local elites or bureaucratic selection by local governments or official agencies⁵—the prospects for future O&M appear to be much better. Although the great majority of social infrastructure schemes are refurbishments rather than new facilities requiring additional staff and running costs, arrangements for coordination with line agencies are very variable, and appear to be ad hoc rather than planned in many projects.

⁵ The involvement of local elites is complex. Instances of poor communities consciously arranging for a well-connected and influential individual to act for them and lead the negotiations are common. Because a proposal is fronted by a well-connected individual does not necessarily mean the poor will not be the main beneficiaries.

b. Direct Income-generating Activities

Because of the time-limited benefit of wage labor, all funds face pressure to make a more sustainable impact on poverty through financing directly productive income generation activities. The record of such schemes is much more mixed than the generally positive poverty impact of investment in small-scale infrastructure. There are two general lessons.

First, the sustainability and effectiveness of noninfrastructure schemes (credit, agricultural extension, small-enterprise support, training, etc) depends on the availability of qualified and experienced intermediaries. This is particularly true for microcredit supply schemes, the commonest noninfrastructure activity financed by social funds. Success depends on the existence of professional agencies that know how to run a sustainable credit operation.⁶ Where social funds have financed well-intentioned but inexperienced credit organizations or “beneficiary-driven” credit schemes (large loans, long terms, low interest rates, etc.), the cumulative impact on poverty is much weaker.

Second, directly productive schemes that have a strong public-good character—irrigation, community stores, common agricultural equipment and input supply schemes, and agricultural training—are relatively successful. These also depend, however, on the existence of agencies with experience in managing such schemes, and with the institutional strength to avoid takeover by local elites or the management of the common resource pool created.

c. Private Sector Development

Development of the private sector, principally in the construction industry, is essentially a variant of the directly productive income generation objective, achieved through the design of scheme procurement procedures rather than through direct financing. In countries where private building firms are new, very small, or disorganized, some social funds have programs for organizing building firms and providing training in technical skills and pricing and tendering procedures, complemented by system development and staff training in open tendering and effective procurement for staff and communities responsible for contracting. Some projects specify that scheme contractors must be from the locality, to avoid dominance by larger firms based in regional cities or the capital.

d. Civil Society and Social Capital

Quantifying the poverty impact of social fund methodology through the mechanism of civil society strengthening and social capital formation is methodologically difficult, and no one appears to have attempted it to date. However, there is plenty of qualitative and anecdotal evidence about the benefits the methodology can bring about in promoting social cohesion and building community commitment to schemes, at least in the short term. This is evidenced, for example, by the high level of local contribution for schemes where there is an authentic sense of local ownership and the continuing commitment of staff, users, and the community to maintaining social infrastructure in the longer term. Whether the increased degree of local organization and cooperation prompted by social fund methodology is sufficient to make a sustainable impact on the nature of social trust relations that have developed over centuries must be open to doubt. Funds are therefore

⁶ The success of a microcredit scheme is better measured by the institutional and financial sustainability of the provider than by whether borrowers make good use of the credits received in the early lending rounds—which they normally do.

probably right to view civil society strengthening as a secondary benefit rather than a central objective, and to plan the use of resources accordingly.

e. Decentralization

The linkage between decentralized local government and poverty reduction depends on a range of factors, including the quality of local democracy, supportive institutional arrangements (judiciary, press freedoms, etc.), and the quality of the legal and procedural framework within which local government operates. A decentralization objective is only appropriate for a social fund where the government is already committed to such a course, or where it is interested in piloting decentralized approaches. The experience of projects from Africa and Asia clearly indicates that a social fund methodology based within local government can be a valuable incentive to developing new procedures for planning and allocating local budgets and for participatory scheme selection and implementation.

7. Financing

Social funds are heavily dependant on financing by aid providers. In 16 countries in Latin America, the average fund size is US\$240 million, with a range from \$31 million in Paraguay and \$44 million in the Dominican Republic up to \$890 million in Peru and \$1.25 billion in Colombia. For 12 of the 18 IADB-assisted social funds in Latin America, aid provider assistance accounts for over 80 percent of the total value of the fund. In Asia, the average size of World Bank-assisted funds is just \$23 million (excluding the post-crisis Thailand fund, which is more than twice the size of all the others put together). The average national contribution to the Asia funds is just 10 percent. This includes both national budget resources and contributions from scheme beneficiaries, local government, community organizations, elites, churches, etc. There are no reliable comparative data on the average size of beneficiary contributions. These are strongly influenced by the particular design of each scheme, while cash and kind commitments are notoriously difficult to valorize.⁷ However, there is one clear lesson to be drawn from the community element of scheme financing: where there is real local choice in scheme selection, local contributions in cash and kind can be remarkably high.

Social fund financing is off-budget. This poses a variety of issues, including linkages to recurrent-cost financing and sustainability of the level of capital investment applied through the fund. Further, it is difficult for social funds to address key issues of national and local budgeting, allocation, execution and control, and linkages to local revenue raising (as opposed to scheme-specific local contributions).

8. Targeting

a. Geographical Targeting

Social funds can be geographically targeted relatively efficiently and can offer a means of providing social protection in situations where acute or chronic problems are geographi-

⁷ For example, a community agrees to build a second school building from its own resources, if the fund finances the first one. Is the local contribution 0 percent or 50 percent? And what if the community contribution is provided entirely by a wealthy benefactor?

cally localized. In the Philippines, for example, former conflict areas could be precisely targeted; in Mongolia, infrastructure was allocated to rural rather than urban areas, and in Viet Nam, to mountainous poorer communes where ethnic minorities are concentrated. Good data on returning asylum seekers in Viet Nam enabled available investment funds to be proportionately allocated down to the commune level. The potential for geographical targeting is constrained mainly by information requirements. Even where good needs information exists, however, the extent to which targeting is effective in concentrating resources on the most needy areas depends on the quality of the outreach achieved by the fund, and the objectivity and independence of decision making. The evaluations of Latin American funds clearly indicate that where the fund simply responds to local requests, and does not reach out to remoter places and poorer groups in a proactive way, the better-off and more vocal communities obtain a disproportionate share of the fund allocation.

b. Minimum Wage Rates

Minimum wage rates for short-term labor can be targeted quite precisely according to local circumstances. This both increases the efficient use of resources (although labor is normally only about one third of total scheme costs) and increases the precision with which unskilled and semiskilled labor on infrastructure works can be made self-targeting, through setting wage rates at, or even slightly below, the locally prevailing minimum wage.

c. Women and Children

The types of infrastructure most commonly created through social funds (clinics, schools, and water points) are of particular benefit to women and children. The share of benefits accruing to women and children can be increased through measures such as imposing minimum shares for women's employment, provision for equal wages, and the establishment of schemes with women-only access conditions. There are examples of "women labor only" in social fund design, although this appears to be a more common practice in public works schemes, notably in South Asia. There may, however, be trade-offs between the degree of benefit accruing to women and that accruing to the poor. For example, sewage schemes in urban areas may achieve a higher share of female beneficiaries because the incidence of female-headed households is higher in urban areas, whereas poverty is higher in rural areas.

d. Poorest of the Poor

It is difficult for social funds to target the poorest of the poor and the most vulnerable households, which do not have able-bodied laborers. Although social infrastructure (clinics, schools, water points, etc.) is of benefit to such families, social funds are a blunt instrument in dealing with idiosyncratic crises and assisting the very poorest.

9. Participation

Social funds are designed to achieve a higher degree of community participation than mainstream infrastructure programs implemented through line ministries or local government. However, the authenticity of real community participation—in the sense of local involvement in identifying, prioritizing, and selecting schemes and being involved in their construction and future O&M—is highly dependant on the detailed design of the fund procedures. Some evaluations have found that "participation" can be restricted

Table 2. Social funds : Participation Analysis

Who	Typical Role	Comments
President's/Prime minister's office	<ul style="list-style-type: none"> • Selection of fund management board and chair • Formal agreement with donors • Formal approval of schemes, accounts, and reporting to donors • Selection of senior MU personnel 	<ul style="list-style-type: none"> • SFs are normally established parallel to existing line agencies and local government.
Social Fund MU	<ul style="list-style-type: none"> • Fund management, procedures, and financial control • Reporting to government and aid providers • Scheme appraisal and selection 	<ul style="list-style-type: none"> • Establishment of SF MU as parallel structure poses sustainability questions. • Staff is commonly drawn from outside government with higher salaries and allowances. • Nongovernment planning, procurement, supervision, procedures are the norm. • Integration with government planning (e.g., recurrent cost of new infrastructure) tends to be ad hoc.
National Parliament/Local Councils	<ul style="list-style-type: none"> • Minimal—information only 	<ul style="list-style-type: none"> • Most SFs attempt to avoid "political interference."
Ministry of Finance	<ul style="list-style-type: none"> • Minimal—SF funds normally off-budget 	<ul style="list-style-type: none"> • The exception: the (very rare) cases of a significant national contribution.
Line Ministries	<ul style="list-style-type: none"> • Minimal—no role in scheme selection or approval • Technical standards (roads, schools, water supply, etc.) 	<ul style="list-style-type: none"> • Most SFs exclude line ministry involvement by design. • No linkage exists between SFs and sector strategy or planning. • Most SFs include explicit or implicit requirement that built infrastructure accord with national standards.
District/Provincial/Local Government administration	<ul style="list-style-type: none"> • Proposing larger schemes • Design, costing, and technical support to community schemes • Scheme appraisal (subcontracted by SF management) 	<ul style="list-style-type: none"> • Little linkage mechanism exists between local government planning systems and community-driven scheme selection.
Lower levels of local government administration	<ul style="list-style-type: none"> • Scheme identification, selection, and design • Force account contracting 	<ul style="list-style-type: none"> • Authentic community participation occurs only where procedures explicitly require it.
NGOs and CSOs	<ul style="list-style-type: none"> • Subcontractors to SF management • Community organization • Community sensitization about SF methodology • Local needs assessment, prioritization 	<ul style="list-style-type: none"> • Use of NGOs/CSOs depends on their coverage and capacity. Where NGO coverage is dense (especially in South Asia), they can play the main role. In transition economies, working through lower

to the involvement of the community in providing semiskilled or unskilled labor and contributions in cash or kind. The fact that small-scale economic and social infrastructure is the end-product of social fund investments is a poor guide to the quality of community participation in different funds. If the fund procedures enable schemes to be proposed by local governments or local elites, without well-specified procedures for community consultation and involvement, the expected participation benefits, in increasing allocative efficiency and local ownership (and hence local contribution and commitment to future O&M), are not realized. Where there is a density of nongovernment

Table 2. Social funds : Participation Analysis (continued)

Who	Typical Role	Comments
NGOs and CSOs, continued	<ul style="list-style-type: none"> • Training in procedures, (e.g., local contracting, supervision, O&M, use-groups, etc.) 	levels of local government offers more even coverage.
Villagers/ Communities	<p>(Normally with local government or NGO/CSO facilitation)</p> <ul style="list-style-type: none"> • Needs assessment • Scheme identification • Scheme prioritization • Local contributions (in cash and/or kind) • Contracting (for amsll, simple schemes) • Labor supply (for collecting and transporting materials and construction work) • Contractor monitoring (in addition to, not instead of, monitoring by a contracted firm or SF unit) • O&M (water-user groups, school management committees, maintenance funds, etc.) 	<ul style="list-style-type: none"> • In less participatory SFs, scheme prioritization is done by local government or elites alone; community participation is restricted to manual labor and cash or kind contributions. • Where there is a tradition of local "voluntary labor," this can be indistinguishable from forced labor and cannot be viewed as "participation." • In countries where there is a tradition of local government exacting levies from the community for poorly specified purposes, local contribution may be a poor indicator of participation. If the community as a whole has not met to agree on the contribution they will make, what it is for, and how it will be made (labor or cash), local contribution alone cannot be assessed as participation.
Marginalized groups (PWDs, PWAs, FHHs, elderly, etc.)	<ul style="list-style-type: none"> • Normally involved only where the scheme identification, prioritization, and selection criteria require that the needs of marginalized groups be explicitly considered. 	<ul style="list-style-type: none"> • SFs are not good at directly reaching marginalized groups and the poorest of the poor.
Private companies	<ul style="list-style-type: none"> • Large established companies: contractors for larger schemes and implementation supervision • Small local companies: contractors for simple buildings, water points, etc. • "Community companies": nonformal village groups that undertake simple schemes 	<ul style="list-style-type: none"> • Good SFs prioritize developing small and medium-sized private contractors by preferred selection of local firms and by offering contractor training in technical skills, pricing, and bidding.
Aid providers	<ul style="list-style-type: none"> • SF financing • Audit • Technical assistance (to establish SF management, prepare manuals and procedures and accounting systems, assist in appraisal of proposed schemes, etc.) • External evaluation 	<ul style="list-style-type: none"> • The great majority of SFs remain highly dependent on aid providers.

Notes: CSO = civil society organization; FHH = Female-headed household; MU = management unit; NGO = nongovernment organization; O&M = operation and maintenance; PWA = People living with AIDS; PWD = People with disabilities; SF = social fund.

Source: Author.

organizations (NGOs) and civil society organizations with experience of participatory methods, social fund-type projects commonly subcontract the community organization and scheme identification and selection procedures to them. Where such organizations are absent or inexperienced, participation is increased through procedures that require

local government to identify, prioritize, select, and implement schemes as a result of a process of community consultation.

The tendency to see social funds principally as a means of introducing community participation into infrastructure provision risks diverting attention from the roles (and lack of roles) afforded to other stakeholders. Table 2 provides a more comprehensive participation analysis of standard social fund methodology. In terms of social funds' contribution to the development process overall, the virtual exclusion of some key actors may be as significant as the potentially increased role for civil society.

10. Sustainability

The sustainability of the schemes financed by social funds is variable. The creation of labor opportunities is intrinsically a short-term palliative measure, and sustainability is rarely a criterion. However, some public works schemes in Asia now include elements such as compulsory savings and/or skills training with a view to increasing the sustainability of benefits to laborers. There are no known examples of such requirements being applied in social funds, and the cost of introducing such an approach for a large number of small-scale and geographically dispersed schemes, where much of the labor is provided through contractors, would probably be prohibitive.

The sustainability of small-scale infrastructure schemes is enhanced in funds where there has been authentic local choice in scheme selection. In this respect, social fund methodology offers some advantages compared with centrally planned and implemented schemes undertaken by line ministries, where O&M arrangements are weak. The sustainability of credit schemes and other income-generating activities depends on the quality and institutional strength of the implementing agencies financed by the fund.

There is little evidence to date about the financial or institutional sustainability of social funds themselves. With the exception of three funds in Latin America, social funds continue to be heavily dependant on aid providers. Aid provider pressure and off-budget financing has been critical in maintaining social funds, despite sometimes fierce opposition from line ministries and local government. Whether, in the absence of supplementary donor finance, there would be a sufficient political constituency to maintain both the management freedoms enjoyed by social fund management units, and the level of hardware and software financing required to maintain social fund operations at an efficient scale, against the pressure from underresourced line ministries and local government, must be open to serious doubt.

11. Institutional and Governance Issues

Probably the key motivation for the growth of social funds has been the history of frustration among governments and aid providers in translating financial commitments into tangible benefits for the poor through the existing administrative machinery. Central to the success of the social fund model has been the relative autonomy, freedoms, and capacity of the quasi-independent management units, fostered by a close aid provider presence and external audit. Even if social fund management units used traditional methodologies, identifying and implementing schemes themselves, their greater managerial competence and freedoms would have achieved greater impact, at least in the short term,

than existing line agencies. Social funds can thus be seen principally as an attempt to increase efficiency by creating agencies that enjoy more of the freedoms associated with private sector and NGO methods of operation.

Some social funds claim to be modelling and piloting improved methodologies (participation, local choice, private and community contracting, etc.) for adoption by government services, but it is uncertain to what extent the models created and the levels of resourcing are appropriate for adoption by governments. Intensive participatory processes have to be streamlined very substantially before they are suitable for government implementation. Social funds are implementing agencies and organizational development of state provision—the promotion of more efficient pro-poor systems within line ministries, or of local government planning, participation, and financing systems—is not a social fund objective. On the contrary, the relative autonomy of social funds inevitably leads to management units seeking to protect their operational status and independence, thereby increasing the organizational disconnect with line ministries and local government.

In many countries, local officials say they have learned new and better ways of operating as a result of their work with social funds, and there may be some osmosis of these new skills and understandings into mainstream service provision. But a more likely outcome is that the social fund approach to planning and participation will be seen as a special, project-specific set of requirements, entirely separate from normal government activity. Institutional and organizational development within governments has to be internally led, and has to address the procedures, cultures and systems of the administration directly.

The greater independence of social fund management units is also not a panacea: despite the generally positive performance, many social fund management units have been problematic. Some funds have faced allegations of corruption, improper relations with sponsors and contractors, and political patronage. Management unit systems for collection of baseline data, monitoring of financial and physical inputs and outputs, and beneficiary assessments are a notable weakness in many funds. Although social funds appear to have good monitoring systems compared with normal line agency practice, the absence of full scheme-level data, comparable data on unit costs of construction works, and explanations for the approval or rejection of particular schemes makes cost-effectiveness studies and impact evaluations difficult.

It is important to recognize the extent to which social funds may tend to divert the attention of politicians, senior officials, and aid providers from the task of making mainstream public services more efficient, effective, and pro-poor. The opportunity cost of social funds has not been researched, but there are indications of two effects. First, a new organizational structure specially targeted toward poverty reduction inevitably tends to reduce the pressure on mainstream services to ensure that their policies, priorities, and financial allocations are pro-poor. Second, both governments and aid providers need “success stories,” and to the extent that social funds are perceived to deliver rather better than mainstream sectoral services and investment projects, increased resourcing of social funds inevitably diverts time, skills, and resources away from line ministry and local government reform.⁸ Decentralization projects are a significant, albeit ambitious, attempt to coopt the benefits of demand-driven local infrastructure planning as a means of local government reform and building good local governance.

⁸ In line with these two substantial concerns, the Asian Development Bank has not sought to promote social funds to date.

The underlying challenge for all developing countries is to strengthen institutions and improve the efficiency, effectiveness, accountability, and transparency of mainstream public agencies. The balance of evidence is that rather than creating traditional parallel social fund-style structures, an alternative approach would be to develop ways of locating social fund-style planning and financing methodologies within local government or line ministries, as a means of introducing new incentives to strengthen institutions of government.

The issues of budget planning, allocation, and execution; linking capital and recurrent expenditures, national and local revenue enhancement; efficiency and motivation within the administration; accountability and control; transparency and audit are central to upgrading the operations of central and local governments worldwide—and especially in less developed countries. Through establishing their own structures and procedures, social funds have no direct locus in these critical areas, and whatever benefits small-scale infrastructure and other social fund schemes bring to communities, sustainable development and poverty reduction will not progress in the absence of measures to make mainstream government services more efficient, participatory, accountable, pro-poor, and sustainable.