
**SOCIAL FUNDS AND THE CHALLENGE OF SOCIAL PROTECTION FOR
THE POOR IN LATIN AMERICA¹**

DRAFT VERSION

Juan Chacaltana
chacaltanaj@terra.com.pe

OCTOBER 2002

¹ Paper prepared for the Conference on Social Protection organized by the Asian Central Bank (ADB) and the Inter American Development Bank (IDFB) in Manila, 21-25 October 2002.

I. INTRODUCTION

The first generation of Social Funds in Latin America emerged in the late 80's and early 90's. The context was very particular. Poverty rates were above some 40% of the population and characteristics of chronic and ancient poverty predominated. On top of that, many governments in the region were facing macroeconomic problems, which seemed to aggravate the poverty problems. Most of them, sooner or later, started economic adjustment and structural reform processes.

In that context, it was recognized that reforms would cause temporary poverty and so, social instruments were needed to compensate those that would result affected by those policies. Line institutions were weak in most of the countries where reforms were implemented. Social Funds - independent institutions from the line Ministries - were then conceived as an innovative response to crisis, and soon proved successful in rapidly channeling external funding to poverty stricken areas (IDB 1998).

Sixteen years after the first Social Funds was created in the region – and in the world- a lot of experience has been accumulated by Social Funds, some of it positive and some not good. Even though they have not yet solved basic questions such as their role and relation with line ministries, they have become more permanent institutions in Latin America. One of the reasons is that, although income poverty has decreased some points, the picture is quite similar to that one a decade and a half ago². Another is the existence of weak social institutions in most of governments of the region and the existence of unattended social areas.

In this context, the late 90's period, has confronted the Latin American region with another challenge: the presence of more frequent and increased risk of both economic and natural shocks to the families. Social protection schemes in the region cover only a minor part of the population and most families manage their risks and shocks, informally. Poor people are less prepared or equipped to handle this new kind of situation.

² In a recent report, ECLAC (2001) has pointed out that poverty is concentrated in rural areas, although increasing in urban areas: most poor households live without water and with more than 3 persons per room; they exhibit high demographic dependence, low occupational density and bad educational “climate”; most of their children work at early ages and their young people did not work nor study.

In this context of increased risk and limited social protection possibilities, Social Funds seem to be one of the only instruments to protect or insure very poor and vulnerable people against risks. In this paper, I review this possibility based on the experience of Social Funds in Latin America and its evolution through the years.

II. SOCIAL FUNDS IN LATIN AMERICA

Social Funds constitutes perhaps the best known experience of working with poor populations in Latin America. In fact it was in Latin America where the first social fund was generated and today almost every country in the region has a Social Fund. In more than a decade and a half, a lot of experience has been accumulated and much debate has been generated around social funds. In this chapter, I try to shortly summarize some of the most important facts about Social Funds in Latin America.

2.1 General Characteristics

The basic characteristic of the Social Funds model, is that it is an intervention scheme in which interact not only the government, but also the organized population and the private sector. Communities identify, design and help implement projects. The government finances, monitors and supervises. The private sector competes for the projects and provides technical expertise, materials, and labor, to implement the projects. In fact, Stiglitz (1998) indicates that the most “attractive feature of social funds is that they use the comparative advantage of each of the government, the private sector and community organization and coalesce them in an integrated whole”.

The highly heterogeneous and diverse experience of Social Funds in Latin America – with various emphasis in each case- makes it difficult to come up with a common definition. Several studies (Cornia, 1995, ILO 1994) mention that their origin was related to the need of governments of providing temporary employment and compensating the effects of adjustment processes implemented in the Region, but they have evolved and now are seen as more permanent components of national social strategies. Today, most of the existing social funds have multiple objectives and it has become common to define them by their characteristics. Hence, Social Funds are defined as agencies or special programs that:

- They finance and supervise small projects targeted to the poor and vulnerable groups.

- Their operation is based on demand generated by local groups.
- They do not identify, implement, maintain or operate the projects.
- They Are part of public sector but have operational autonomy and exceptions to the public sector rules, civil service and disbursement rules.
- The basic goal of their interventions is to:
 - ✓ enhance income of the poor through better access to productive assets and better return of the assets they already have.
 - ✓ broaden non monetary capabilities of the poor and contribute to democratization processes through organization, participation of local groups and institutional development.

Although these are the general characteristics provide the most important elements of a Social Funds, not all Social Funds are the same, and in fact, we can say that there are “types” of social funds. Several studies have tried to establish a typology of social funds. Some of the initial studies distinguished between “transitory” and “permanent” social funds (ILO, 1994) while others between “social emergency funds” and “social investment funds” (Cornia, 1995). Since Social Funds have evolved and become more permanent bodies, recent typologies are more complex. For example, an interesting classification is that proposed by Jorgensen and Van Domelen (2000). They distinguish up to five types of social funds: a) infrastructure funds, b) employment funds, c) community development funds, d) social funds that help the delivery of social services, and e) those that support decentralization processes. Although very useful in concept, one limitation of this typology is that in Latin America, several funds fit in more than one of these categories.

A more practical approach is used by the IDB (2002) which distinguish social funds by their “generation”: ‘first generation’ funds are those that appeared until 1995, the ‘second generation’ are those funded between 1995-1998, and the ‘third generation’ are those funded from 1998 to the present. Although the diverse experience of some funds, this classification allows to see some trends in Social Funds evolutions. (chart 1). The first generation of social funds, created in emergency situations, did not place a great emphasis on community participation or inter-institutional arrangements and instead concentrated on social compensation projects.

The second generation of social funds lead to greater specialization, improvements in targeting, and a focus on social and economic infrastructure. However, infrastructure

built in these funds, still lacked adequate maintenance and beneficiaries and local governments were excluded from the operations.

Chart 1. Evolution of Social Funds in Latin America: The IDB experience

	<i>First Generation (1990-95/6)</i>	<i>Second Generation (1995/6 to 1998/9)</i>	<i>Third Generation (1998/9 to present)</i>
Community participation	<ul style="list-style-type: none"> • Demand of projects (induced by private sector promoters) • Excluded from project cycle 	<ul style="list-style-type: none"> • Beneficiary communities and municipalities excluded from the project cycle 	<ul style="list-style-type: none"> • Emphasis on community participation and community strengthening in project cycle
Targeting	<ul style="list-style-type: none"> • Ex-ante defined eligible investments for prioritizing social infrastructure 	<ul style="list-style-type: none"> • Development and use of poverty maps for targeting investments to the poorest communities 	<ul style="list-style-type: none"> • Attention to allocation with efficiency and equity criteria
Relation with line Ministries	<ul style="list-style-type: none"> • Inter-institutional agreements defining Operation and Maintenance (O&M) responsibilities 	<ul style="list-style-type: none"> • Use SIFs to help trigger reforms in the social welfare sector • Facilities often lacked staffing for adequate operation • O&M arrangements failed - projects financed under previous operations needed repair 	<ul style="list-style-type: none"> • Most SIFs transformed in permanent institutions. However definition of SIF role not sufficiently clarified • Intensive work on inter-institutional coordination with line ministries because central/inter-agency
Local Government participation	<ul style="list-style-type: none"> • Mostly excluded 	<ul style="list-style-type: none"> • Mostly excluded 	<ul style="list-style-type: none"> • Focus on decentralization and coordination with local governments : <ul style="list-style-type: none"> ✓ Sharing financial responsibilities ✓ Greater delegation of project cycle
Project Characteristics	<ul style="list-style-type: none"> • Focus on Employment programs and Social Compensation Programs 	<ul style="list-style-type: none"> • Focus on Social and economic Infrastructure 	<ul style="list-style-type: none"> • Emphasis on integrated investments at the community level in order to maximize the impact of investments. • New role in human capital strategies • Some productive projects

Source: IDB(2002)

Today, in the third generation of Social Funds, more emphasis on community participation is observed, and issues like decentralization and a closer relation with local governments have been improved. In addition, more emphasis has been given to integrated projects (instead of isolated ones) and those that allow for human capital and social capital formation.

In sum, we can say that there is a wide range of experience and variety in social funds operation in Latin America. The operational characteristics of each one, depend on national circumstances regarding institutional capacities and experience.

2.2 What do we know so far?

Several performance studies have been developed in recent years in the region. In these studies, important outcomes of social funds have been identified regarding the operational characteristics and the type of projects developed by social funds

a. Operational Model

The “operational model” of the Social Funds deserve favorable arguments but also critical ones. I summarize most of these arguments in chart 2.

The most favorable arguments indicate that Social Funds in Latin America are agencies that have proved to be effective for infrastructure provision to the poor. This effectiveness seem to be related to several characteristics of the design. For example, they are seen as agencies with a great ability to attract financial support from a wide range of sources and then channel this assistance to the poor (IDB 2002). The way in which they deliver this assistance is perceived as efficient, because they exhibit low unit costs, which is related to the fact that private sector participates in this model in a competitive basis. Also, since their intervention is demand generated by the beneficiaries, they tend to be more participatory than similar development projects. At a more political level, SFs are seen as agencies that have reinforced the social acceptability of the adjustment processes and have created a new culture in social service delivery (ILO, 1995).

However, this operational model has also received some criticism. Perhaps the most important critique is that, because of their effectiveness in providing infrastructure, they have in practice become a parallel and competing institution to other public sector agencies. They are usually seen as agencies not well integrated to the rest of the public sector, that do not transfer the positive aspects of their experience to line ministries. Some even argue that they have taken away attention from the longer-term institutional reforms necessary in the permanent public agencies. They are also seen as institutions, although run by nationals, heavily dependent on external financing to the

point that sometimes they are perceived as belonging to the IDB and the World Bank. (IDB 2002).

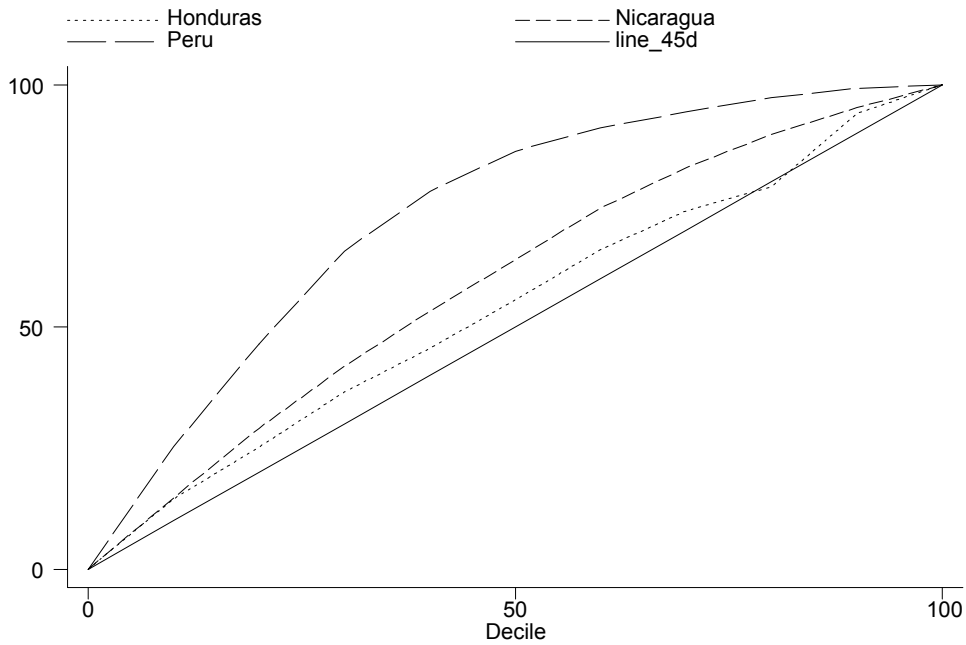
Chart 2. Performance of the Social Funds Model

<i>Positive Aspects</i>
<ul style="list-style-type: none"> • Effectiveness for infrastructure provision, • Ability to attract financial support from a wide range of sources and to channel assistance to the poor • Flexibility and ability to adjust in changing circumstances • More participatory than other development projects • Efficient management and reporting on the use of financial resources achieved • They have reinforced the social acceptability of the adjustment processes • They have created a new culture in social service delivery. • Low overhead and administrative costs: most of the time, lower unit costs
<i>Unsolved Issues</i>
<ul style="list-style-type: none"> • Social Funds are seen as competing with other public sector agencies. <ul style="list-style-type: none"> ○ Even today, they are still mainly the only mechanism to provide small local infrastructure for the poor in a more decentralized fashion ○ Not clear definition of SF role in poverty strategy and infrastructure provision: their success may have distracted attention from institutional reforms necessary in the permanent public agencies ○ Not well integrated to the rest of the public sector: Little success in training and transferring the positive aspects of social funds experience to line ministries • Heavily dependent on external financing.

b. Social Fund's Projects

There is also recent evidence on the results of the Social Funds. On the one hand, maybe the best known outcome is that Social Funds projects, seem to be well targeted to the poor. In general, there is consensus in that Social Funds are capable of identifying poor areas (see figure 1), an expected result given that most of the SFs currently use “poverty maps” and similar instruments, that have been improved through time and help them allocate their resources with a geographical poverty approach. However, there is less consensus regarding household targeting, i.e. targeting within poor areas. The most important critique here is that since Social Funds rely on the demand generated by beneficiaries –which in turn assumes community initiative, capacity and voice - this participative approach tends to exclude the poorest communities and some vulnerable segments within the poor. For this reason, some evidence on leakage has also been found.

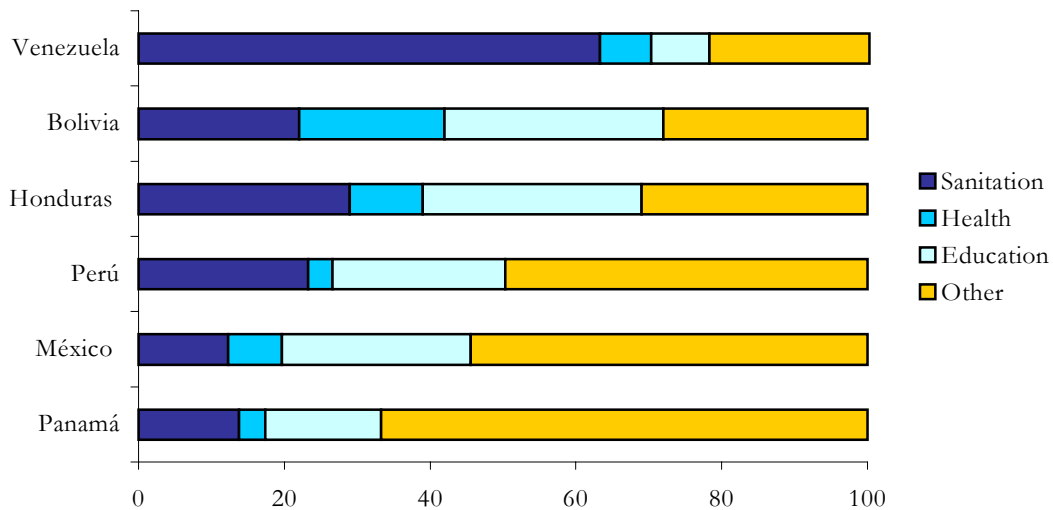
Figure 1. Latin America: Performance of geographical targeting in selected countries



Source: World Bank (2001)

On the other hand, even though less studied, there is some evidence on the portfolio of the funds and its impacts. First, with regard to the portfolio, the first thing to say is that initially Social Funds concentrated their efforts in the construction of infrastructure in water/sanitation, education and health. However, through the years, the portfolio has been broadening to the point that in several funds, the item “other” is more than 50% of the total budget.

Figure 2. Latin America SFs Investment Lines



Source: IDB (1997)

Second, the World Bank (2000) has recently produced comparable evidence on the impact of precisely the infrastructure projects. In general, Social Funds show a large number of generally well-designed and adequately completed projects (IDB 2002). There is also evidence of a positive impact of SF investments on utilization of social services (for example school enrollment in Nicaragua and Peru) and positive results in infant mortality decline in Bolivia and Peru (Figure 3).

Figure 3. Latin America: Impact of SFs in Selected countries and selected projects

	Nicaragua	Perú	Bolivia	Honduras
1. Water				
Conection rates	√			√
Availability		φ	√	√
Distance to water	—	√	√	√
Impact on health	√	√	√	
2. Sanitation				
Redes de desagüe				
Use	φ	φ		φ
Access	√		√	√
Impact on health	φ	φ		φ
Letrines				
Use		√	√	
Access	√			√
Impact on health	φ	φ		√
3. Education				
Enrollment rates	√	√	φ	√
Years of schooling	√	√	√	√
Test Scores	√	√	φ	√
4. Health				
Use of health centers	√	√	√	√
Infant mortality	√			
Diarrea	√	φ	φ	φ

Fuente: World Bank (2001)

(-) Negative impact (φ) No significative impact (√) Positive Impact

Third, although very scarce, there is some evidence about positive “side effects” produce by Social Funds. For example, because of their participative approach, SFs seem to help generate trust in the public sector and build social capital (Jorgensen and Van Domelen, 2000). Social capital, just like other types of assets, help poor people in their possibilities of escaping poverty and also seem to protect them, at least informally.

The projects developed by Social Funds also deserve some criticism. They frequently do not show good results with regard to sustainability, since a substantial number of projects lack adequate schemes for preventative maintenance (IDB 2002). This seems to be related

to the fact that SFs are not well integrated to the line ministries or public sectors, in charge of maintaining Social Funds interventions.

Besides that, Social Funds have not had good (at least clear) experiences in some types of projects. This is true in temporary employment generation, productive projects and micro credit activities. In employment generation projects, several studies have shown that they did not reach the temporary unemployed. In productive projects, there is mixed evidence and the problem seems to be that of additionally: are the gains of some producers equivalent to the losses of other?. Finally, in the case of micro credit – oriented to give the poor more access to the market - the evidence in Chile shows that this type of investment, generates employment, income and even benefit increases for the entrepreneurs. However, most of the credits were directed to non poor SMEs: 72% were above the poverty line. (Tomei, 1997).

III. LATIN AMERICA IN A NEW CONTEXT OF INCREASED RISKS

At the beginning of the new century, even when Social Funds have not solved several important issues - such as their role in national anti poverty strategies – a new context confronts Latin American governments with new challenges. Indeed, during the 90's, after an initial period of growth, Latin America became a region of high socio economic volatility³. Several shocks have hit the region and affected the lives of its people. In this chapter I comment on some recent evidence about these shocks and their probable effects.

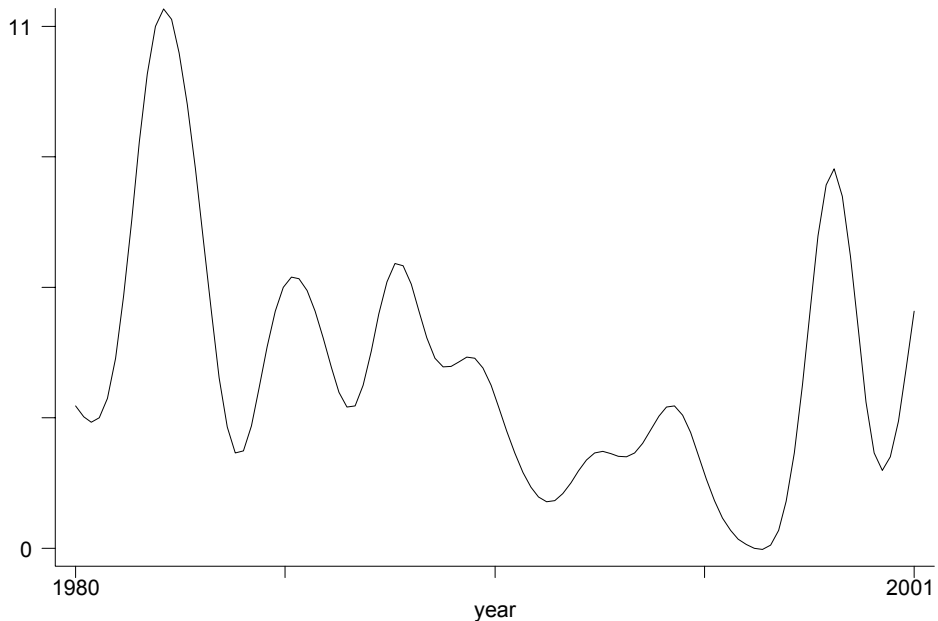
a. Economic Crisis

The last decade has been complicated for the Latin American countries. They started the decade with a clear interest in economic reform and most of them actually reformed their economies. The economy, thus grew very rapidly, at a annual rate of 1.4% between 1990-1997. However, in the last part of the decade the international crises hit the region in such a way that in the period 1998-2000, the region's output almost did not grow.

³ The recurrence of crisis and shocks are coming back after a period of stability.

Even though we are not still in a situation equivalent to that in the early 80's, there is evidence that the number of countries with economic difficulties is increasing again and this is a process that has not finished yet.

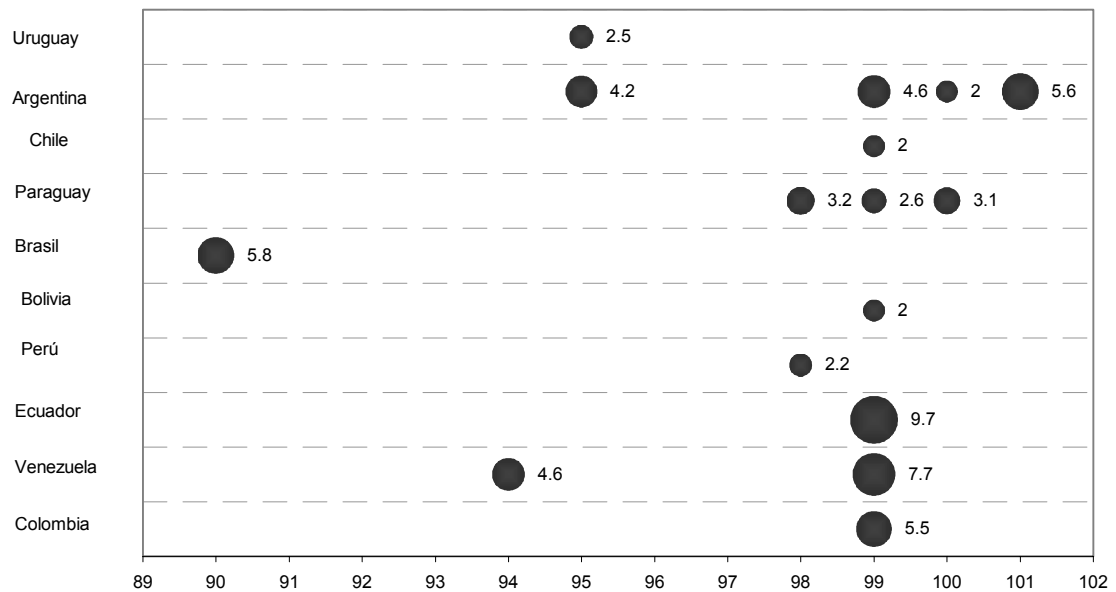
Figure 4. Latin America: Number of countries with Economic Crisis



The international crisis has not had the same effects in all sub regions in Latin America. The Caribbean and Central America have been less affected than South America, in which the international crisis has been prolonged through the years and some countries, such as Argentina and Brazil, are still feeling the effects.

Figure 5, shows the magnitude of the crisis on each individual country, measured by the fall (in absolute value) of the per capita GDP. A small dot means small fall in per capita GDP and a big dot means a large fall in per capita GDP. It is clear then that the economic situation for most of the South American countries is worsening.

Figure 5. South America: % variation in per capita DGP by country



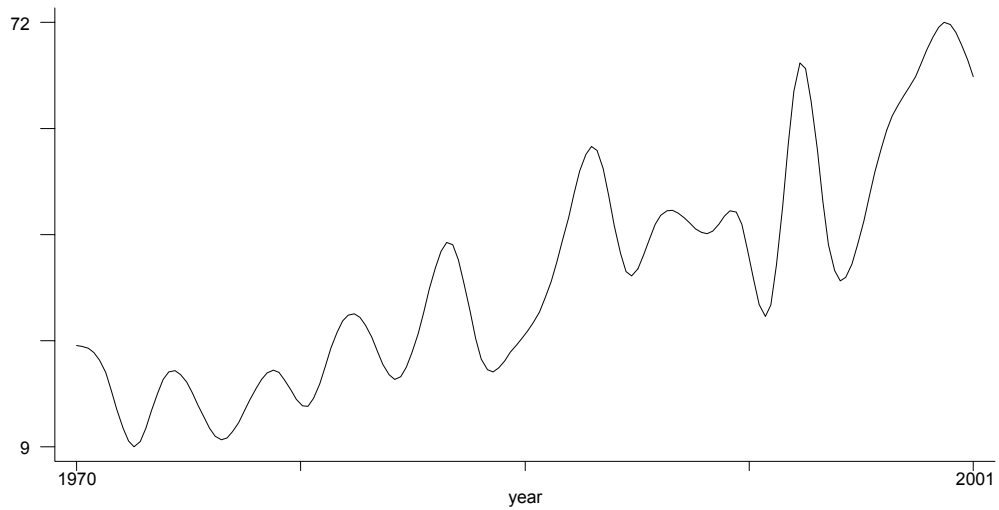
As expected, output reductions mean consumption reductions as well. In addition, poor people might be more exposed and more affected by these exogenous shocks than others. For this reason, some authors indicate that macroeconomic crises are the single most important cause of increases in income poverty (Lustig, 2000).

b. Natural Disasters

Not only economic crises hit the Latin American region once in a while and sometimes they have a combined effect⁴. Natural disasters are frequently and repeatedly affecting our economies. (Figure 6)⁵ In the last 30 years the number of natural disasters in Latin America has grown four times.

⁴ For example, in most countries of the region, El Niño affected in the same year the international crisis also started: 1998

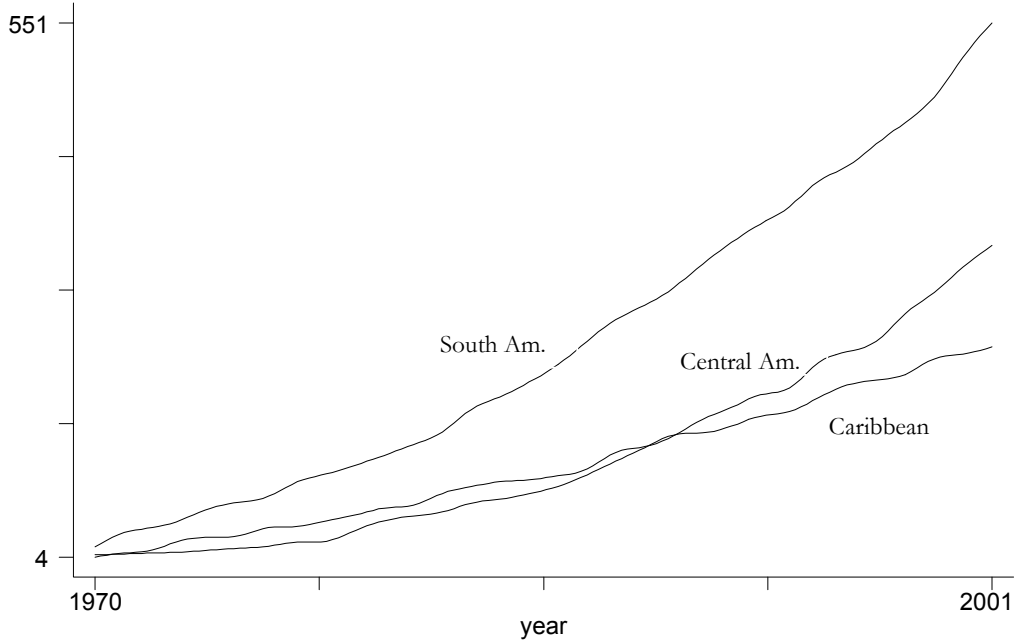
Figure 6. Latin America: Number of Natural Disasters 1970-2001



Source: CRED (2002)

If we look to the sub regions, it is South America that is most affected by these kind of events. This can be seen in figure 5. Here I have accumulated the number of disaster events by subregion since 1970. In the last 30 years, South America has accumulated 551 disaster events, Central America 323 and the Caribbean region 219.

Figure 7. Latin America: Cumulated number natural disasters by Subregion, 1970-2001



Source: CRED (2002)

⁵ Charveriat, 2000, indicates that natural disasters are so important for the region that they may have played a key role in the history of development in the region

The effects of these kinds of shocks are enormous. They have affected 145 million people, left homeless some 7.8 million, injured about half of a million and killed 247 thousand persons (chart 3). Disasters not only hurt people and their households, but they also affect their assets and their communities. There are no consistent figures about this kind of impact, but it is clear that natural disaster can cause loss of production, productive assets and employment. ECLAC estimates that in the period 1972-1999, the cumulative damages from disaster amount to \$50 billion, \$29 billion in direct and \$21 billion in indirect damage (cited in Charveriat 2000).

Chart 3. Latin America: Effects of natural disasters by Subregion, 1970-2001

	Caribbean	Central America	South America	Total
Affected (000's)	19,774	20,146	104,980	144,900
killed	5	85	156	247
injured	8	202	276	486
homeless	971	2,664	4,240	7,875
DamageUS(000's)	10,187,949	23,121,364	35,192,517	68,501,830
Annual Damage	318,373	722,543	1,099,766	2,140,682

Source: CRED (2002)

IV. THE CHALLENGE OF SOCIAL PROTECTION FOR THE POOR

The new context of increased risk mentioned above poses a new challenge for the Latin American countries and the social protection schemes they have. What is the role of Social Funds in this regard? In this section I try to comment on this

4.1 Low coverage of formal security systems

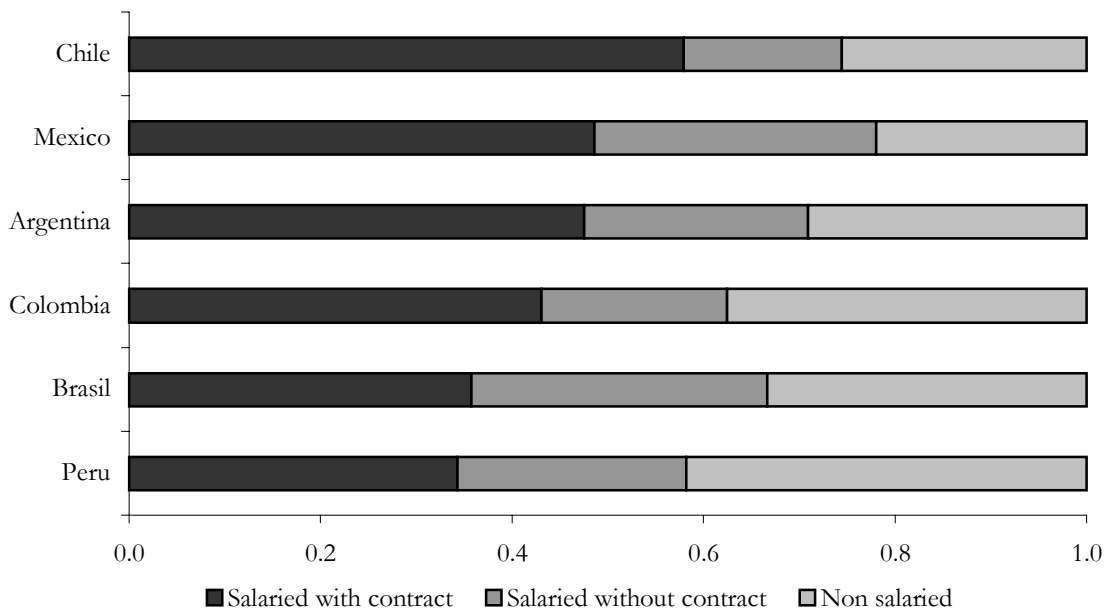
The fact that everybody is exposed to the risk of shocks of diverse types is not news. For this reason, throughout history, there have been several institutional efforts to manage these kinds of situations. In general, besides the self protection mechanisms used by families and individuals, there are four possibilities for formal social protection (Beattie,

2000)⁶: a) mandatory contributive regimes, mainly for the workforce; b) voluntary contributive regimes, supported for example through public subventions; c) universal services financed by the State budget; and d) targeted services to the poor, with State Budget.

Unfortunately, the most common and widespread social protection mechanisms in the region are those in the first category –mandatory contributive regimes- which exist only for that part of the population that works, and within that group, those that have formal jobs. This means that only a small part of the population is protected, and most rely only on low quality universal services.

One way of showing the low coverage of formal social protection schemes is to show the distribution of workers in broad categories: salaried with written contracts; salaried without contracts; and non-salaried. Figure 8, indicates that in Latin America, formal social protection schemes have limited coverage: in the best case (Chile) it covers some 50% of the work force and in the worst case (Peru) less than 40%. The problem of low coverage of formal protection schemes is not new either (Beattie, 2000), especially in countries with high informal sectors and a large share of the population in rural areas. However, the concern is that in the last years the prospects of solutions have worsened.

Figure 8. Latin America: Potential coverage of social protection schemes in selected countries



Source: ILO (2001)

⁶ Social Protection for all, but How?. International Labor Review Vol. 119 (2000) Num. 2, pp 141-163

In this situation, most households have created their own risk management mechanisms. There is not much evidence about the kind of individual households' responses to exogenous shocks in the Latin American Region. However recent surveys are providing amazing situations.

In Guatemala, for instance, a recent survey has found that in 2000, some 80% of the households reported that they had experienced at least one shock during the previous year: 7 percent reported experiencing natural shocks, 38 percent experienced man-made shocks and another 35 percent were hit by both natural and man-made shocks. (Tesliuc, and Lindert, 2002) As a result, 36 percent of urban Guatemalans reported a loss of income and a 26 percent a fall in consumption.

In Peru (chart 4) another survey found that 30% of the Peruvian households were affected by some exogenous shock in 2001. Most of them were idiosyncratic shocks, but if we analyze by urban/rural region, we observe that in the rural areas natural disasters are more frequent and in urban areas economic crisis are more frequent.

Chart 4. Peru: Exogenous shocks and household responses, 2001

	Urban	Rural	Total
<u>Total</u>	64.78	35.22	100.00
<u>Household affected by a crisis? (last 12 months)</u>			
Yes	30.10	29.58	29.92
Economic Crisis	13.78	2.75	9.9
Individual Crisis	14.58	10.2	13.03
Natural Disasters	4.53	17.27	9.02
Other	2.10	1.25	1.80
No	69.90	70.42	70.08
<u>Solutions to the crisis? (only those effected)</u>			
Did something	87.47	71.02	81.68
Informal arrangements	76.10	65.25	72.27
Market-based arrangements	0.49	0.08	0.34
Public sector help	1.00	4.31	2.16
Social Network	28.56	12.99	23.09
Other	8.76	5.70	7.68
Did nothing	12.53	28.98	18.32

Source: ENAHO 2001-IV.

Asked about their responses to these shocks, 81% of Peruvian households declared that they did something in response while 18% did nothing. The most frequent reaction was individual crisis management (such as consumption reduction, reduction of savings, asset or jewelry selling, or they simply worked more). The second most frequent response was based on the social/cultural network surrounding the family (loans from family or friends, work of other members of the family, NGO/community help). Market based responses and public sector help were the least mentioned.

It is clear then, that families find their way out of these external shocks. There is not much evidence on the effectiveness of these responses and probably an impact analysis must be performed to analyze this issue in more detail. However we can say that the high presence of individual responses to crisis, and the kind of reactions households are developing, might be related to their poverty condition and have the consequence of limiting their possibilities of getting out of that condition.

4.2 Social Funds as Social Protection Mechanisms

There is indeed a great distance between the informal mechanisms utilized by poor households and the formal social protection mechanisms, used by other segments of the population. There are not many options for securing the poor from increasing risks. For this reason, some authors have suggested that Social Funds could get involved in Social Protection activities for the poor. In particular, a recent paper by Jorgensen and Van Domelen (2000) suggest that beneficiaries see Social Funds as “fully responsive to communities and household priorities”, and for that reason, as “an agent of public support for their own risk management”.

The Latin American experience is useful in this regard because, some Social Funds in the region have already been involved, in one way or another, in activities related to the social management of some risks although not using the full potential of the Social Risk Management Framework⁷. In chart 5, I present some examples of Social Fund interventions in the region, by risk type and level of management. Following Heitzmann, Canagarajah and Siegel (2002) and Heitzmann and Jorgensen (2000) six types of risks are presented - natural, health related, life cycle related, social, economic, political and environmental risks – and three levels of intervention- prevention, mitigation and coping.

⁷ The Social Risk Management framework, is presented in Holzmann, R and S. Jørgensen. (2000)

Chart 5. Latin America: Role of Social in a SRM framework

<i>Categories of Risks</i>	<i>Risk Reduction</i>	<i>Risk Mitigation</i>	<i>Risk Coping</i>
Economic Risks	Job training programs: Eg. Fosis-Chile, RSS (Colombia); FONVIS (Venezuela); SIF (Belize)	Some productive projects (Ej. Redes Rurales –Peru, Microcredit – Chile)	Workfare Programs: Bolivian First Fund; "A Trabajar Rural Program" (FONCODES - Perú)
Natural Risks		Program of reforestation Eg: FISE (Nicaragua); FOPAR (Argentina) Program of collection and use of ground: Eg: FHIS (Honduras); SEDESOL (México); FONCODES (Peru); FOPAR (Argentina)	Floods (El Niño): Several countries Mitch Hurricane: FIS (Nicaragua); FHIS (Honduras); FIS (Guatemala) Earthquakes: FONCODES (Perú)
Social Risk		Helping program to victims of Human Rights Violations Eg: FIS (Guatemala) Protection of poor women rights Eg: FODESAF (Costa Rica); FONVIS (Venezuela)	Displacements programs for victims of social violence: Eg: RSS (Colombia) Community homes for abandoned children Eg: FODESAF (Costa Rica); FONVIS (Venezuela)
Health Risks	Nutrition Programs: Eg: FONCODES First Fund (Perú); FIS (Panamá); FONVIS (Venezuela)		Helping program to disabled people: Eg: FODESAF (Costa Rica); FONVIS (Venezuela); JSIF (Jamaica); RSS (Colombia)
Life Cycle Risk	Programs that give attention to mothers and their children: Eg: "PAMI" Program (RSS - Colombia); FONCODES First Fund (Perú)		Program to elder people Eg: FOSIS (Chile); JISF (Jamaica); FODESAF (Costa Rica); RSS (Colombia)
Political Risks		Protection of poor women's rights: Eg: FODESAF (Costa Rica); FONVIS (Venezuela) Protection of indigenous rights: Eg: FONVIS (Venezuela); FIS (Guatemala); RSS (Colombia)	
Environment al Risks	Investment program in Environment Sanitation: Eg: FIS (Guatemala); SIF (Belize); FONVIS (Venezuela)	Financial Market Solutions for Environment problems: Eg: "Ecomercados" Program (FODESAF - Costa Rica)	Program of trash collection : Eg: FISE (Nicaragua); FOPAR (Argentina)

Source: Author's

Several interesting points arise from the analysis of this chart. First, with regard to economic risks and natural disasters, it is clear that Social Funds have concentrated mainly on risk coping strategies, through temporary employment programs or reconstruction activities. In the employment programs, it has already been mentioned that the problems were related to the fact that Social Funds could not reach workers affected by the crisis (Lustig, 1999) and also to the limited scope of the interventions: even large funds

generated temporary employment equivalent to 1% of the labor force (ILO 1994). In contrast, reconstruction activities seem to have worked well in some countries. In some regions such as Central America and South America, reconstruction works after disasters (Hurricane in Central America, Earthquake in Peru, El Niño, etc) have been channeled successfully through social funds. It is worth mentioning that not in all countries were natural disasters hit, Social Funds have participated. In most countries with natural disasters, reconstruction activities are in charge of specialized agencies or ad hoc bodies created according to the circumstances.

There has been less experience in risk prevention and mitigation of economic and natural risks. While some economic prevention activities – such as job training programs – have been implemented in some cases (Chile for example), questions about the comparative advantages of Social Funds on this matter (compared to Labor Ministries for example) have not been fully assessed. There have also been some little experiences of economic risk mitigation, such as the so called “productive projects” in some funds, but the evidence here is not conclusive. As for natural risks prevention, in most countries of Latin America this is an issue covered by other government agencies, such as Civil Defense in Peru, and DIPES in Argentina. The same applies to social risks, in which several experiences of mitigation and specially, coping strategies have been implemented.

Second, in the other types of risks, several Social Funds of the region have implemented several strategies that we could classify under the prevention and mitigation categories. For example, with regard to health related risk, several funds in the region have implemented food transfer or nutrition programs, that, in theory, should so prevent hunger among poor people. Although this type of investments, are in theory preventive the main problem they face is that they do not seem to produce desired impacts impacts. They are just special programs executed by Social Funds, sometimes with no relation with the Health Ministry or the nutrition agencies. Should social funds be in charge of these services?.

In other cases, such as some education or health infrastructure produced by social funds (where the comparative advantage is much clear), the problem seem to be that the investments are so low that is reasonable not to expect much impact. Actually, Jorgensen and Van Domelen mention that the value of the goods and services transferred by a SF to the poor typically averages below 5% of the per capita income of the poor. Should we expect something from that?

Third, and related to the previous statement, Social Funds have played a minor role in life cycle related risks and political risks. Some SFs that have some programs in these categories – such as programs for old age and children – but they are very little in magnitude. Some other funds have started interesting experiences with indigenous populations but no evidence has been produced yet on the impact of these activities.

In sum, in many activities developed by social funds, the question arises: what are the social protection effects of these activities?. In fact, some promising activities fall under the “new” activities that social funds are developing (the category “other” in figure 2) and are very little experiences. Today, either there is a discussion whether Social Funds should be in charge of them or there is no conclusive evidence on their impact. So a collection of good practice on these experiences would be highly recommended.

4.3 Trends

The evolution of social funds seem to indicate that there is a trend towards more integrated efforts in social risk management. In chart 6, I have classified the IDB experience on Social Funds according to the SRM framework. In the first generation funds, several employment and infrastructure programs were implemented. Most of the problems in this generation of funds were related to the little experience they had and for that reason, little impact was observed. For instance, the emergency infrastructure was built with so little concern for maintenance that, after a while, most projects had to return eventually to the same funds for repair.

In the second-generation funds, remarkable improvements in the capacity of funds for providing infrastructure and targeting instruments were observed. This means that Social Funds were reaching the poor better and given them better infrastructure. However, concerns about the quality of this infrastructure remained. In any case, this can be interpreted as a slight move towards mitigation strategies and prevention. Finally, it is in the third generation of social funds in Latin America that we begin to see a clear risk reduction emphasis: interest in long term impact (a clear intention of developing information systems for impact analysis), emphasis in community and local government participation and involvement (key for maintenance and sustainability) and a new emphasis in human capital investments

Chart 6. Evolution of Social Funds and SRM strategies

	<i>Coping</i>	<i>Mitigation</i>	<i>Prevention</i>
First Generation (1990-95)	<ul style="list-style-type: none"> • Employment programs • Compensation programs • Reconstruction after natural disasters 	<ul style="list-style-type: none"> • Social (health centers, primary schools, latrines, and potable water) and economic (roads and markets, improved stoves, reforestation, and micro-irrigation) infrastructure but with low maintenance and need for repair 	
Second Generation (1995 to 1998)	<ul style="list-style-type: none"> • Reconstruction after natural disasters 	<ul style="list-style-type: none"> • Improved capacity to execute infrastructure components. • Concerns about quality of infrastructure and lack of staff for facilities 	<ul style="list-style-type: none"> • Improved targeting (use of poverty maps) but beneficiaries largely excluded
Third Generation (1998 to present)	<ul style="list-style-type: none"> • Employment programs • Reconstruction after natural disasters 	<ul style="list-style-type: none"> • Improved inter-institutional coordination with line ministries (generally education, health, public works) • Definition of SIF role still not sufficiently clarified 	<ul style="list-style-type: none"> • Emphasis on community participation at all stages of execution • Greater emphasis on integrated investments • New role in human capital strategies • Focus on decentralization and coordination with local governments • Information systems for monitoring implementation and impact evaluation

Source: Authors' based on IDB (2002)

In sum, as we can see in Chart 5, there is a clear path going from coping strategies in the first generation social funds towards mitigation and prevention strategies in the third generation funds. These trends seem to indicate that social funds, besides becoming more permanent and more integrated in a country, are paying more attention to popular participation, giving more support to decentralization, and seem to be heading towards risk reduction strategies.

V. CONCLUSIONS

Social Funds in Latin America were initially conceived to respond to an emergency situation after the economic reforms implemented in the region in the late 80's and early 90's. Although, there was widespread and chronic poverty and inequality, Social Funds supposedly were meant to reach not all the poor, but only those affected by the economic

reforms. Through time it has become clear that there has been little success in reaching that “new poor” population, and programs aimed at them, such as employment programs and compensatory transfers, have had limited impact. Instead they proved useful in reaching poor areas.

Regardless of some unsolved problems about their role in broader poverty strategies, Social Funds have evolved and become more permanent institutional mechanisms and today most countries in Latin America have their own Social Fund, although they remain highly dependent on external resources. They have been successful in delivering small social and economic infrastructure (basically in education, health, water and sanitation) and more recently – second and third generation funds - have embarked in new horizons with a clear emphasis on impact. For this reason, several operational improvements in operation and portfolio management have been implemented.

In this context, more than ten years after the first Social Fund creation, a new context has appeared in Latin America: a context of increased risk, specially in terms of economic and natural disaster risks. Only a small fraction of the Latin American population is properly insured against shocks and most of them use informal arrangements in the event of a shock.

Understanding that social protection systems evidently, cannot replace an optimal macroeconomic policy and environment, there is great consensus that new social instruments are needed, especially for insuring the poor and more vulnerable groups. The question is how to design and implement such instruments. There are only limited options. Contributive regimes are costly and have limited coverage. Universal schemes are almost impossible in times of economic downturn. In this context, targeted mechanisms are maybe one of the only options for protecting the poor.

Then, the question is whether Social Funds, can help in this matter. Understanding social protection in a broad sense, we can say that Social Funds have initially worked in coping strategies in the event of some economic or natural shock, specially the economic ones. More recent Social Funds, have also implemented activities that fall under the category of mitigation and even prevention. The underlying problem with most of these activities is that they are so limited in coverage and so little impact-oriented, that most of them do not show the enormous potential they have. Another problem is that it is not clear yet whether social funds should be the agencies for that task, for example, if social funds

should deliver job training for reducing the risk of unemployment, or if social funds should be the agencies in charge of preventing natural disasters.

In any event, it would be desirable for Social Funds to move towards more risk reduction activities. This would imply changes at different levels. At the operational level – as some third generation funds – more emphasis on community and local government participation and long term impact is needed. The targeting process would have to move towards the identification of vulnerability instead of only poverty, which implies great changes in social funds traditional work.

Changes would also be needed at the portfolio level of social funds. More assets to communities and individuals, more longer term impact in current education and health investments, transportation and more economic risk reduction projects (risk reduction or at least awareness in rural production) could all contribute. In general, more priority to interventions with large effects on reducing risks faced by the most vulnerable groups

Finally, changes would have to be made in the way social funds work. Internally, staff requirements would have to move from output oriented people to impact oriented people. In this sense, a lot of training and maybe partial staff replacement would be needed. Externally, social funds would also have to change the way they relate to other agencies. For example, the management of disaster prevention in most countries in the region has usually been addressed by specialized agencies because the tasks they have to deal with require the specialization. However, Social funds have not usually worked in such a specialized way. Hence, the coordination problems exhibited by social funds in the past would not only have to be solved but enhanced coordination with other agencies would be needed. It is good a sign though, that third generation Social Funds are paying more attention to the integration with local government, a key actor in this strategy. In sum, for Social Funds to move towards more risk reduction activities, a “cultural change” is needed in the way most social funds of the region work and perceive their work.

So I think that in this case, as in other situations, Social funds should not be considered a prescription for social protection for the poor. In some cases, there might be efficient institutions for risk reduction, and in those cases, more attention should be paid to reforming institutions than creating or reforming new social funds. We have to remember that Social funds have proved useful when line institutions do not work well.

VI. REFERENCES

Arcia, Gustavo. (1997) "Rol Futuro de Los Fondos de Inversión Social. AL y el Caribe". Red social / Fondo de Inversión Social de Emergencia de Nicaragua. / Research Triangle Institute, Carolina del Norte.

Banco Interamericano de Desarrollo. (2000) "Protección Social para la Equidad y el Crecimiento". Washington D.C.

Banco Mundial. (2000) "Informe Sobre El Desarrollo Mundial 2000/2001: Lucha Contra La Pobreza". Banco Mundial. Washington D.C.

Beattie, Roger. (2000) "Social protection for all: but how?". International Labor Review, vol. 119 num. 2.

Bigio, Anthony G. (1998) "Social Funds and Reaching the Poor: Experiences and Future Directions". Proceedings from an international workshop organized by The World Bank And AFRICATIP; La Red Social de América Latina y el Caribe; NGO-WB Committee. The World Bank - Washington, D.C.

Bouillón, César Patricio and Gustavo Yamada. (2000) "Lineamientos de Protección Social: El Caso Peruano". Banco Interamericano de Desarrollo. Washington D.C.

Carvalho, Soniya. (1997) "Social Fund Projects: What has Been Learned?". Human Development Week. The World Bank.

Chacaltana, Juan. (2002) "El Rol de los Fondos de Inversión Social en el Combate a la Pobreza y la Promoción de la Equidad: Una Revisión en América Latina". (Mimeo).

Charvériat, Céline. (2000). "Natural Disasters in Latin America and the Caribbean: An Overview of Risk". Inter-American Development Bank - Research Department. Working Paper #434.

Cornia, Giovanni Andrea. (1999) "Social Funds in Stabilization and Adjustment Programmes". World Institute for Development Economic Research. Technical. Working Group Meeting.

Comision Economica para America Latina (ECLAC) (2001) "Panorama social de América Latina 2000-2001". CEPAL, Santiago de Chile.

Graham, Carol. (2002) "Crafting Sustainable Social Contracts in Latin America: Political Economy, Public Attitudes, and Social Policy". Center on Social and Economic Dynamics Working Paper Series # 29.

Heitzmann, Karin; R. Sudharshan Canagarajah and Paul B. Siegel. (2002) "Guidelines for Assessing the Sources of Risk and Vulnerability". Social Protection Unit Human Development Network. The World Bank.

Holzmann, Robert and Steen Jørgensen. (2000) "Social Risk Management: A new conceptual framework for Social Protection, and beyond". Social Protection Discussion Paper No. 0006. The World Bank, Washington D.C.

Interamerican Development Bank. (2002) "Note on Social Investment Funds. The IDB Experience and Proposed Guidelines for Future Support". Interamerican Development Bank. Washington D.C.

Jack, William. (2000) "Social Investment Funds: An Organizational Approach to Improved Development Assistance".

Jørgensen, Steen. (2001) "Social Funds". Social Protection Team The World Bank. Washington D.C.

Jørgensen, Steen Lau; Julie Van Domelen. (1999) "Helping the Poor Manage Risk Better: The Role of Social Funds". Inter-American Development Bank Conference On Social Protection And Poverty. Washington D.C.

Lustig, Nora. "The Safety Nets which are not Safety Nets: Social Investment Funds in Latin America". This note was prepared for the Conference on "Governance, Poverty Eradication, and Social Policy," organized by HIID and UNDP, Harvard University, November 12-13, 1997.

_____. (2000) "Crises and the Poor: Socially Responsible Macroeconomics". Sustainable Development Department. Technical Papers Series. Inter-American Development Bank. Washington, D. C.

_____. (2001) "Shielding the Poor: Social Protection in the Developing World". Inter- American Development Bank. Washington, D.C.

Osberg, Lars. (1998) "Economic Insecurity". The Social Policy Research Centre.

Paxson, Christina; Norbert R. Schady. (1999) "Do school facilities matter? The case of the Peruvian Social Fund (FONCODES)". World Bank. Washington D.C.

Pradhan, Menno; Laura Rawlings; Geert Rider. (1998) "The Bolivian Social Investment Fund: An Análisis of Baseline Data for Impact Evaluation". The World Bank Economic Review, VOL. 12, NO. 3: 457–82. Washington D.C.

Rawlings, Laura; Lynne Sherburne-Benz; Julie Van Domelen. (2001) "Letting Communities Take the Lead. A Cross-Country Evaluation of Social Fund Performance". World Bank. (some chapters)

- Regalia, Ferdinando. (2000) "An Assessment of Poverty and Safety Nets in Nicaragua".
- Renshaw, Jonathan. (2001) "Social Investment Funds and Indigenous Peoples". Inter-American Development Bank. Washington, D. C.
- Sanjay Reddy. (1998) "Social Funds in Developing Countries: Recent Experiences and Lessons". UNICEF Staff Working Papers Number: EPP-EVL-98-002. New York.
- Sen, Amartya. (2000) "Work and Rights". International Labor Review, vol. 119, num. 2.
- Tanzi, Vito. (2000) "Globalization and the Future of Social Protection". IMF Working Paper. International Monetary Fund
- Tesliuc, Emil D and Kathy Lindert. (2002) "Vulnerability: A Quantitative and Qualitative Assessment". Guatemala Poverty Assessment Program World Bank
- Tomei, Manuela. (1998) "Fondos de Inversión Social: el Caso de Chile". Oficina Internacional Del Trabajo. Documento de discusión. Ginebra.
- World Bank. (2000) "Evaluating social fund performance: across countries". En: Social Funds, Accomplishments and Aspirations. En: The Second International Conference on Social Funds.
- World Bank and International Monetary Fund. (2000) "Social Protection programs in Poor countries costs, trade-offs and implications for a Poverty Reduction Strategy". WB-IMF Forum on Supporting Comprehensive and Country-led Poverty Reduction Strategies Washington, D.C. April 24-25, 2000.
- World Bank. (2000) "Nicaragua Ex-Post Impact Evaluation of the Emergency Social Investment Fund (FISE)". Human Development Sector Management Unit Latin America and the Caribbean Region The World Bank Report No. 20400 NI.
- World Bank. (2001) "Social funds: A Review of World Bank Experience". Document of the World Bank. Washington D.C.
- World Bank. (2002) "World Development Report 2000/2001". World Bank. Washington D.C.
- Yamada, Gustavo. (2001) "Reducción de la pobreza y fortalecimiento del capital social y la participación: La acción reciente del Banco Interamericano de Desarrollo". En: Conferencia Regional "Capital Social y Pobreza", CEPAL, Santiago de Chile.

Web Sites

Fondo de Desarrollo Indígena Guatemalteco (FODIGUA)
<http://www.segeplan.gob.gt/publications/FODIGUA.html>

Fondo de Desarrollo Social y Asignaciones Familiares de Costa Rica (FODESAF)

<http://www.portalsocialcr.com/fodesaf/default.aspx>

Fondo de Inversión Social de Emergencia (FISE) – Ecuador

<http://www.iadb.org/exr/doc98/apr/lcecuq.htm>

Fondo de Inversión Social de Venezuela (FONVIS) – Venezuela

<http://www.fonvis.gov.ve/>

Fondo de Inversión Social para el Desarrollo Local (FISDL) – El Salvador

<http://www.fisdل.gob.sv/>

Fondo de Solidaridad e Inversión Social (FOSIS) – Chile

<http://163.247.49.59/Portal.asp>

Fondo Hondureño de Inversión Social (FHIS) – Honduras

<http://www.fhis.hn/>

Fondo Nacional de Compensación y Desarrollo Social (FONCODES) – Perú

<http://www.foncodes.gob.pe/>

Fondo Nacional para la Paz (FONAPAZ) – Guatemala

<http://www.fonapaz.gob.gt/>

Fondo Participativo de Inversión Social (FOPAR) - Argentina

http://www.siempro.gov.ar/programas%20sociales/sisfam/fopar/informe_1_fopar.htm

Jamaica Social Investment Fund (JSIF).

<http://www.jsif.org/>

Red de Solidaridad Social – Colombia

<http://www.red.gov.co/>

Red Social de América Latina y el Caribe.

<http://www.redsocial.org/>