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29. Russia attempted radical reform, but the reformers were ousted from the government before the reforms took hold. See Anders Aslund, Peter Boone, and Simon Johnson, "Why Stabilize: Lessons from Post-Communist Countries," *Brookings Papers on Economic Activity*, no. 1 (1996).

30. Ibid. Radical reformers have lost elections primarily in situations where pro-reform forces were less united than the former Communists. And even where this has been the case, as in Poland and Estonia, reforms have not been reversed.

31. Some of the decline may reflect the extent to which pretransition statistics were not reliable. I am grateful to Dr. George Graham of Johns Hopkins University for raising this point.

32. These figures are for 1992. See "Old and Unaffordable," *The Economist*, 30 April 1994. The implicit debt of Ukraine's pension system, for example, is 214 percent of GDP. Among OECD countries, only Italy's debt, at 242 percent, is higher. Hungary's is 172 percent, Japan's is 144 percent, and the United States' is 89 percent. See Kane, "Notes on the Ukrainian Pensions System."

33. See Brian Pinto, Marek Belka, and Stefan Krajewski, "The Microeconomics of Transformation in Poland: A Survey of State Enterprise Responses" (Washington, D.C.: World Bank, June 1992, mimeograph).

34. Social-welfare reform (health and pension) was a major issue in the parliamentary elections in June of 1996. While Klaus's party received a higher percentage of the vote than it did in 1992 (44 percent versus 42 percent), it received fewer parliamentary seats, which went to the Christian Democrats in three industrialized regions. See "Czech Republic: Surprise," *The Economist*, 8 June 1996.

35. Private-sector saving in Chile increased from nearly zero in 1979–81 to an average of 17.1 percent of GDP in 1990–92. See Giancarlo Corsetti and Klaus Schmidt-Hebbel, "Pension Reform and Growth," *Policy Research Working Paper*, no. 1471 (Washington, D.C.: World Bank, June 1995).

36. Author's interviews with Jose Pinera, Minister of Labor and Social Security at the time the reform was implemented; Washington, D.C. and Santiago, June–July 1996.

37. For examples, see Graham, *Safety Nets*.

38. For a detailed description of this dynamic in one transition economy, see Carol Graham, "Strategies for Enhancing the Political Sustainability of Reform in Ukraine," *PSP Discussion Papers*, no. 50 (Washington, D.C.: World Bank, January 1995).

5

Safety Nets and Service Delivery: What Are Social Funds Really Telling Us?[1]

Judith Tendler

Social Funds (SFs) have drawn widespread enthusiasm and support from the international development community in recent years. They are said to reduce poverty and unemployment and to bring services and small works projects to myriad poor communities in a way that is decentralized, demand-driven, participatory, low in cost, and fast-disbursing. In Latin America alone, the World Bank, the Inter-American Development Bank (IDB), and the European Community have expended more than US$2 billion on eighteen social funds since the late 1980s—the IDB leading with US$1.3 billion. There is no sign of slackening, and proposals for SFs have even figured prominently in recent donor reform packages for the crisis-afflicted Asian economies. Strangely enough, however, the numerous studies of SFs carried out or funded by the donors themselves provide more grounds for skepticism than for enthusiasm. This chapter explores this conundrum and suggests a way out.

Donors view the SFs as a breakthrough in providing poor communities in developing countries, mainly in rural areas, with works projects and some services. Roughly one-third of the funds goes to economic infrastructure; another third to education and health, nutrition, and population activities; and another third to miscellaneous activities like microfinance, training, and environmental interventions.[2] The SFs, with their more independent project agencies or units and their "demand-driven" features,[3] are described as "an imaginative effort to make government actions and resources more beneficial to the poor." They are said to show "considerable potential as instruments of collaborative partnership between public-private community sectors for sustainable service delivery. . . . " They are reported to succeed, often, "in targeting the poor and in providing basic services more cheaply and speedily than public sector agencies that have traditionally been charged with these functions."[4]

This chapter, drawing mainly on evidence about SFs provided by donor evaluations, raises questions about the presumed greater desirability of SFs as an alternative to traditional government supply, or reformed versions of it. My fieldwork on four SFs in northeast Brazil, as reported elsewhere, reinforced this interpretation of the evidence.[5] Through the lens of the SF projects, this chapter also seeks to contribute to the broader debates around issues of decentralization, partial privatization, and other attempts to improve the quality of public service delivery in developing countries. The acclaimed strengths of SFs, after all, are variations on a more general set of arguments about the problems of overcentralized and "supply-driven" public service provision, and about the superiority of more decentralized and demand-driven approaches.

With some exceptions, the donor community has interpreted the SF experience through a rather ill-fitting template, which categorizes it as demand-driven, decentralized, partially privatized, and therefore "good." In certain ways, for example, SFs represent the *opposite* of real decentralization. They are run by central-government agencies, either newly created or newly empowered by their association with international donors and with strong support from the country's president. In the majority of cases, moreover, they do not devolve power and responsibilities to local governments. When they do, this is usually not part of a larger reform of intergovernmental transfers and other decentralizing measures, and sometimes even works at cross-purposes to such reforms. To the extent that SFs do try to reduce the size (though not power) of the "central" part of their operation, they may be more accurately described as "deconcentrated" rather than as "decentralized."

Without the template through which SFs are usually viewed, the experience could yield some interesting evidence on which to build a less limiting view of opportunities for reform. This chapter encourages the development community to expand its thinking beyond SF-type models to ways of improving government performance that may not be as new and different but that have shown no more defects than the SFs.

What follows is not meant to be a thorough review of the SF experience or of the arguments for and against SFs. For this, the reader can turn to several comprehensive donor-funded reviews of the evidence and a handful of other excellent studies of SFs by social scientists, all referred to in the endnotes. The arguments that follow also do *not* constitute a brief against SFs or demand-driven approaches in general, or in favor of supply-driven approaches. I will argue not that SFs are performing poorly, but that the donors' own evidence does not demonstrate that they are clearly superior to other approaches to improving government services in a sustained way. I therefore question the large amounts of funding dedicated to them and the importance attributed to them as a new approach to delivering services and reducing poverty.

Social Funds and Their Strengths

Since the late 1980s, the two largest donors have spent roughly US$2.6 billion on SFs—US$1.3 billion by the IDB on eighteen social funds in sixteen countries of Latin America, US$1.3 billion by the World Bank in thirty-four countries (mainly in Latin America and Africa), and roughly that same amount by the European donors combined.[6] Social Funds started in Latin America, according to the lore, as a temporary antidote to the adverse impact of structural-adjustment programs on the poor in various countries.[7] The Latin American experience came to be the reference point for SF promotion elsewhere. Originally, SFs were meant to provide quick employment through public-works projects and emergency social services in rural areas, partly in lieu of the increasingly faltering presence of fiscally strapped line ministries. Some were designed explicitly to compensate for layoffs caused by downsizing of the public sector and its parastatals.

After three or four years, donors judged the SFs to be so effective at temporary relief, and so appealing as an alternative model of public-sector service delivery, that they provided follow-on funding to several SFs and elevated some to more permanent status. They also came to see the SFs not just as a temporary measure for hard times, but also as an attractive model—decentralized, partially privatized, and demand-driven—for the delivery of some services and small works projects, particularly to the poor and in rural areas.

Though SFs vary widely across countries, they tend to have the following common components: (1) grant funds are made available to communities or municipal councils who choose among a menu of possible projects (a well, health center, school, grain mill, road repair, etc.); (2) project design and construction are decentralized and partially privatized, involving local actors—private firms, NGOs, or local governments; (3) community groups make contact with and contract the design or construction firm or equipment supplier, monitor project execution, and/or take responsibility subsequently for operations and maintenance; and (4) a local contribution is often required, roughly 10 to 15 percent of project costs.

In addition to their emphasis on the virtues of these demand-driven and decentralized features, donor evaluations portray the SF success in terms of characteristics that are just the opposite of the typical government agency—namely, rapid rates of disbursement,[8] flexibility, low overhead due to "lean" administration, and low unit costs for projects like schools, health posts, road repairs, and other standardizable works.[9] As depicted in the numerous documents on social funds, the organizational features considered key to these achievements are: (1) they are run by semi-autonomous units or agencies operating outside line agencies, sometimes newly created and often close to the office of the country's president; (2) they work outside civil service regulations, particularly with respect to the setting of salaries and hiring and firing; (3) their managers are often recruited from the outside and have experience with management in the private sector, while many of their staff members represent the best of the public sector, lured to the SFs by the higher salaries; (4) they have succeeded in operating *outside* government procurement regulations and simplifying procurement in a way that has sped up the execution of small works projects; and, as a result, (5) they use design standards that are not overdimensioned and hence are more appropriate for rural areas. Other contributing factors are said to be the use of private contractors and the competition they must face; the involvement of beneficiary communities in project execution through contributions of management time, labor, and cash; and the high dedication of project staff "in comparison to their inefficient counterparts in government public works departments."[10]

The Problem and How to Solve It

Underlying these acclaimed features of SF design is a broader set of arguments about the problematic nature of the traditional organization of government programs—namely, that they are overly centralized, inflexible, and supply-driven; their costs are high, mostly for personnel; and their pace of work is encumbered and slow. These arguments, based mainly on recent literature in economics and political science, suggest that more decentralized, demand-driven, and partially privatized provision reduces many of the undesirable aspects of traditional government provisioning. Because the arguments about decentralization are by now quite familiar and have attained the status of self-evident truths, they are summarized only briefly here.

The problematic nature of much of government service provision is said to arise from its position not just as a monopoly, but one that is unregulated. In this sense, government's problem is similar to that of any other monopoly, private as well as public: It is over-centralized and inflexible and suffers from low responsiveness to consumer preferences and other inefficiencies that go unpunished by competitive pressures. Decentralization is thought to reduce these problems, partly by introducing competitive pressures or surrogates for them. It locates service provision more locally and also brings in new providers from outside government—most importantly, firms and nonprofit organizations. Operating at more local levels, firms and NGOs are expected to be more flexible than government and more capable of creating locally tailored solutions; NGOs in particular will be more committed to working with the poor than government. For these pressures and incentives to bear fruit, it should be noted, decentralizing programs need not necessarily be *formally* demand-driven.

For decades, donor monitoring and evaluation reports have bemoaned the problems associated with overly centralized government—excessive standardization, overdimensioning of projects, and unnecessarily high unit costs. The sorry results of these failings include, particularly, faulty operations and maintenance (O&M) and the shortage of financing for recurrent costs and other operational support. It is exactly these kinds of problems that led to the current preoccupation of the development community with "sustainability" and "ownership." In that decentralization transfers the process of project choice and design closer to where users live, this is expected to lead to lower costs and more customized results. Providers will be more vulnerable to pressures from users, and a good part of the responsibility for O&M can be handed over to the users themselves.

Today, these linked arguments for decentralized and demand-driven service delivery seem to make obvious sense. At the same time, they also represent a refreshing departure from previous thinking about planning and government organization. They deny, often only implicitly, the importance of economies of scale and of standardization and specialization, particularly in the provision of small-scale and local-level infrastructure and services to the poor. The arguments suggest that planning, design, and execution by agencies with functional expertise and responsibilities simply do not work under a wide variety of circumstances. This is because something gets in the way that prevents the traditional economies of scale and standardization from materializing.

The demand-driven approach, in contrast, starts the process of project design and implementation not with decisions by planners but with choice by the user—namely, "the community." Government's role is not to be the sole designer and provider of the well or power hookup or other project, but to lead a *process* by which it offers an array of options from which people can choose. The community's choice, in turn, does not simply trigger provision of the project by a specialized agency or the SF itself. Rather, the tasks of design, construction, and equipment purchase can now be carried out as well, and at the community's behest, by private firms, nongovernment organizations, or municipal governments.[11]

For the logic of decentralization to work properly, user choice is key. Users must have good information about their rights and options; they must be informed of the procedures for gaining access to service providers, for registering their preferences or dissatisfactions, and, in the case of SFs, must know how to design projects and present them for funding. For this reason, many SFs include public information campaigns. It is not only the donors who have drawn attention to the importance of providing information to users. The last decade's literature on transactions costs has devoted much greater attention to the issue. This includes, in particular, the concern about the "information asymmetries" that are so common in the transactions between intended project beneficiaries and their providers.

Acclaim and Evidence

The numerous studies of SFs carried out or funded by development institutions usually start and end on an enthusiastic note.[12] But certain findings reported in the middle—sometimes in sections related to "problems" or "issues"—provide serious grounds for skepticism. Even two quite critical papers on social funds have drawn for their supporting evidence on these very same donor documents, or on research funded by the donors.[13]

Social Funds started with the purpose of creating temporary employment for the poor and thereby reducing poverty through small, decentralized works projects in rural areas. With the seeming success early on in Latin America, the donors came to see Social Funds more broadly as a good model for permanently serving poor rural communities—not only with works projects, including the building of schools and health clinics, but also with a variety of other services like day care centers and microfinance programs. Through the years, the donors have tended to place more emphasis on the claim about service delivery than that about employment creation and poverty reduction; nevertheless, SFs still appear as important instruments in the donor arsenal of "safety net" policies for the poor. The findings of my own fieldwork, as reported elsewhere, also relate more to the claims

about SFs as an alternative way of organizing service delivery than to their strength as safety nets.[14] Unfortunately, there has been more systematic and quantitative empirical research into the claims about employment creation and poverty reduction than into the alleged superior performance of SFs as a model of public administration.

In what follows, the evidence for each of the two claims is discussed separately—poverty reduction and employment creation, as distinct from the new model of organizing services and works projects. The evidence is drawn mainly from four recent multicountry reviews of the SF experience by the Inter-American Development Bank, the World Bank, and UNICEF, in addition to some studies by outside researchers.[15]

Reducing Unemployment and Poverty

With respect to the claims about employment creation, the SF reviews reveal that these programs have "created relatively few jobs" and reached only a small fraction of the labor force (in the Latin American case, less than 1 percent at best).[16] They devoted only 30 percent of their expenditures to labor costs, a rather low share for programs dedicated to employment creation.[17] Jobs provided by the SFs were temporary, of low quality, and provided no training. Most of the better jobs went to skilled laborers brought in from elsewhere by outside contractors; 42 percent of labor expenditures in the Nicaraguan SF, for example, were for skilled labor.[18] Several employment creation programs that antedated the SFs created significantly more jobs, employed a more significant share of the labor force,[19] and elicited significantly greater budgetary resources from their respective governments. In comparison to the demand-driven SFs, these programs were supply-driven and mainly not funded by donors (at least initially).

Wages paid by Social Funds, although often set at the legal minimum, were nevertheless typically lower than subsistence, and sometimes significantly so.[20] The wage in the Nicaraguan SF, for example, represented 57 percent of a basic family food basket. Granted, wages are often set this low in employment-creating programs so as not to draw labor away from private-sector employers and to keep the nonpoor from applying for these jobs. At the same time, however, the lower-than-subsistence level plus the temporariness of the jobs adds up to a weak instrument for a more sustained reduction of poverty and unemployment. In the same vein, the voluntary labor often required of communities for SF projects, although meant to serve the goal of reducing costs and eliciting "ownership" of the project, represents a regressive tax on the poor.[21]

With respect to poverty reduction, the donor evaluations do not bear out the claim that Social Funds do well in reaching the poor. Either the available data do not permit such judgments, the studies report,[22] or the data show, at best, quite mixed results. Higher per capita SF expenditures often go to better-off communities or provinces than to the poorer or the poorest.[23] Even in the "star" Bolivian SF, the richest of five income areas received two-and-a-half times as much SF funding per capita as the poorest five ($25 versus $10).[24] This mistargeting happens partly because the better-off communities are better organized, better educated, and have greater access to local decision-makers, and are therefore more capable of taking advantage of the demand-driven structure.[25] Other kinds of programs, different from SFs and typically more supply-driven, seem to have had more identifiable impacts in reducing poverty—programs like food stamps, food commodity programs, or school feeding programs.[26] The message is clear, the IDB evaluators conclude: if these funds have had an impact on poverty, this impact has not resulted from employment creation and income generation for the poor.[27]

In conclusion, Social Funds have "created relatively few jobs and generated little additional income for the poor,"[28] even though many of them included income and employment generation among their stated objectives. They were not "effective safety nets in any significant scale," and many countries therefore did not have "an effective mechanism to protect the poor from output, employment, and price risks."[29] This was true despite the fact that all Latin American countries with SFs gave them a "high profile and a central role in the campaign to reduce poverty."[30] Clearly, these findings are disappointing.

To the credit of the donors, their published evaluations have owned up to some of these results, albeit without at the same time losing enthusiasm for the SFs as a model. First, they say that "fundamental fiscal and institutional reforms" at the macro level are so much more determining of changes in poverty and unemployment that one cannot really expect that much from such a limited programmatic intervention.[31] (It is not clear why that conclusion was not foreseen when donors were promoting SFs from temporary to permanent status, on the grounds of their desirability as a model for reaching poor communities.)

Second, the donors argue that even if Social Funds have not made the inroads on poverty and unemployment that were originally hoped for, they have turned out to be on firmer ground as a model for service delivery.[32] Social Funds "help to improve the living conditions of the poor," the IDB reports, by being "efficient providers of social and economic infrastructure" (p. 72). In this sense they "are a response to a permanent problem"—namely, that "Latin American governments, as presently constituted, have few agencies through which to channel resources and services to the poor," and that, as a result, the benefits of most government programs "go to better-off communities" (p. 64). The SFs, in contrast, "have shown an impressive ability to deliver social infrastructure to the poor in a relatively efficient and transparent manner" (p. 4). The World Bank, similarly, concludes that SFs are an "effective instrument" for emergency assistance and have proven to have "significant potential for community development for the *sustainable* delivery of services to the poor" (italics mine).[33] In this way, they have contributed to important "asset building" in rural areas—schools, health clinics, power hookups, road repairs or construction, the sinking of wells for drinking water. Even some of the more-critical outside commentators on SF weaknesses in alleviating unemployment and poverty have taken this position. Social Funds "appear to have been successful in building water and sanitation systems, schools and health posts in underserved areas with relatively high concentrations of the poor;"[34] they are "better at creating assets" than at targeting;[35] and they have "resulted in an invaluable increase in the level of services to many previously marginalised poor. . . . "[36] Is this depiction accurate?

Social Funds as an Alternative

Upon closer examination, the evidence of the donor evaluations for the claim about SFs as a desirable model of service delivery seems weak. More seriously, the SF problems flagged in the donor evaluations appear to represent the flip side of their acclaimed strengths. This suggests an inherent difficulty in remedying the problems, which take the following forms.

Social Funds versus the comparators. Except for various eyewitness reports from the evaluators and repeated assertions about the superiority of SFs in creating much activity in the countryside, there have been almost no attempts to systematically select comparator programs in traditional ministries against which to judge SF performance as a model. (This, of course, is partly a methodological problem of comparing apples and oranges.) One interesting exception is an attempt by the World Bank to measure the performance of its SF projects in relation to the more traditional supply-driven programs it funds. Surprisingly, however, no clear superiority emerges for SFs from this comparison, even though the evaluation still concludes on a positive note about the SF as a model.[37] The IDB evaluators, also concluding positively, reported that the evidence they reviewed was not sufficient to form a judgment as to whether SFs have actually made a difference in the availability of basic economic and social services in the various communities where they operate.[38] In addition, they found that the most successful and innovative of the SFs were those conceived *without* donor input and financing (Chile, Costa Rica, and Guatemala) and were different from the typical SF in important ways.[39] (This is discussed in more detail below.)

Relations with line ministries. The donor evaluations express considerable concern about the wisdom of investing so much energy and resources in creating new structures outside government instead of more directly supporting reform of existing government institutions. The World Bank review warned that SFs "should not take attention away from—or work counter to— . . . fundamental fiscal or institutional reforms . . . that address poverty systemically."[40] Cautionary examples were that of Egypt, where the central government explicitly cut back allocations to local governments because of the expected "inflows from the Social Fund"; and Honduras, where allocations for the ministries of education and health declined at the same time that local governments began receiving more funds as a result of the SF there.[41]

A variation on this problem, related to the grant-funded nature of the SFs, was the "unfair" competition SFs presented to other government agencies. While these latter agencies were providing *loan* financing to municipalities or communities for similar projects, SFs were offering more attractive grant funding; this sometimes happened, moreover, at the same time that the non-SF agencies, urged by donors themselves, were trying to make the difficult transition from providing grant to loan financing to communities for appropriate projects. When able to choose between grant and loan financing, of course, the communities or municipalities understandably preferred the free funding of the SFs; sometimes, SFs even funded applications that existing agencies had rejected for loan funding on technical or other grounds. The World Bank gives examples of two such cases, one in Senegal and the other in Bolivia.[42] I also heard complaints of this nature in Brazil from modernizing mayors who had introduced new loan-funded programs and received only complaints from their constituents, who pointed to the "free" funds from the SF.

The IDB evaluators dubbed the tendency to create Social Funds, rather than attack problems directly, as "funditis."[43] For example, the IDB reported that if the ministries of health and education in various countries had not been subject to the budget constraints of fiscal austerity programs, a good part of the replacement and upgrading of schools and health posts would normally have been undertaken by these ministries, rather than by SFs.[44] The evaluators worried that the SFs would become "shadow governments." They warned that SFs "should not replace the public sector in tasks that are the government's inherent responsibility . . . , " and that this could "undermine ongoing public-sector reforms and institution building programs." Noting that most SFs were not subject to ordinary government legislation with respect to salaries and procurement—one of the acclaimed *strengths* of SFs emphasized in the donor studies—the evaluators cautioned that the goal should be "to improve the laws and regulations under which the line ministries work," rather than to get around them. Similar concerns were expressed by outside researchers.[45]

Donors and outside critics seem to agree, then, that Social Funds can jeopardize the larger task of reform of the public sector, or at least distract attention from it. The particular problems they point to, ironically, are grounded in the same mode of operations that is said to account for the SFs' acclaimed strengths. None of the evaluations face this particular conundrum, expressing confidence that the problems can be fixed.

Sustainability. Both major donors gave distinctly low marks to the Social Funds for "sustainability" and "ownership."[46] There were frequent reports of health clinics without refrigerators for vaccines, school buildings without textbooks, wells that were not maintained. More generally, the evaluators admitted to finding little evidence regarding sustainability and ownership, and in this sense were not able to back up the claim that SFs are a better alternative that merits permanent funding. Where they did find evidence, it was mixed.

The World Bank evaluators could find no data on the extent to which SF projects were being operated and maintained.[47] An approach that aims for user "ownership" of operations and maintenance (O&M) or pressuring of local entities into providing it, the evaluators noted, often requires different technical design, at least for economic infrastructure. But a large number of the SFs were found to have been designed without issues of sustainability in mind.[48] It was "not clear" if communities even knew what the O&M costs and responsibilities would be, according to the evaluators, before they chose their project. And only a small percentage of the SFs turned out to have actually required community contributions, even though the SF projects presented for approval to the World Bank board of directors (the "appraisal reports") always included an estimate for upfront contributions from communities. Little follow-up information on such contributions was available.[49]

Social Funds financed many activities—such as schools, clinics, water—that would need sustained support from line ministries or other agencies of government, once completed. However, either no formal arrangements were made, or arrangements that *were* made were not respected.[50] In many cases, no operating funds came through for staff and maintenance, particularly for schools and health.[51] In theory, and at least for some types of projects, this should not be a serious problem. The decentralized and demand-driven features of the SF are believed to lead inexorably to ownership by communities of the new projects, and they will therefore take responsibility for operations and maintenance themselves, or they will pressure local governments successfully to do so. As noted above, however, little of this has happened in practice, or, at the least, little evidence has been gathered to support this claim.

If, as the evaluators report, neither the donors nor the recipients created these programs with sustainability in mind, then it is not fair to judge the programs by that criterion. But the donors themselves have made strong claims for these programs as successful, on the grounds of community involvement. Indeed, they have hailed the SFs as models of sustainable service delivery, as attested to by the quotes cited above.

Another observation about sustainability relates to the effectiveness of Social Funds in reaching wide swaths of the rural poor. Much has been made of the low unit costs involved in SF construction of buildings and other works in comparison to those of existing government agencies. Presumably, this would make it possible to reach larger numbers of communities more cost-effectively with the same amount of funding as existing government agencies. The donor evaluators reported various cases, however, in which new schools and health centers were constructed when rehabilitation of existing structures was more appropriate.[52] This is not unusual for various types of government programs, so it is certainly not peculiar to SFs. But the focus on low unit costs begs this question because it assumes that new construction—as opposed to less costly rehabilitation in this example—was needed in the first place.

With respect to sustainability and ownership at a more macro level, finally, both the IDB and the World Bank lament the fact that most SF programs, ten years after they were started, continue to be

dependent for most of their financing on outside donors.[53] After noting that most Latin American governments with SFs have financed less than 20 percent of their SF operations, the IDB evaluators warn that "[d]onors cannot claim that the funds are successful and sustainable" until countries make a greater contribution. "[D]onors cannot be expected to provide 80–90 percent of the cost of fund operations indefinitely."[54]

At least with respect to the findings on sustainability and ownership, in sum, the Social Funds do not seem to do much better than the older programs on which they were supposed to improve.

Nongovernmental organizations in the new space. At various points, the donor evaluations noted, sometimes with puzzlement, that NGOs were either not present in the program area or were associated with disappointing results when they were.[55] NGOs turned out to account for no more than 15 percent of expenditures by most Latin American SFs.[56] Reddy's review for UNICEF noted that "[f]avouritism in the disbursal of contracts to NGOs" was a "serious issue" in various countries, as was the "proliferation" of NGOs "of dubious grassroots credentials" as a result of the new availability of SF funding.[57] The IDB review reported that the "recurrent-cost problem" was most acute in the case of NGOs; a study of the Bolivian SF, for example, showed NGOs to be disproportionately represented among the projects that were *least* likely to be sustained.[58] The World Bank found that nongovernmental, religious, and other grassroots organizations were found *not* to operate in the poorest regions because of their location in cities and towns, in and close to which they seemed to concentrate their work.[59] With respect to the microfinance components now gaining popularity in the SFs, moreover, the World Bank evaluators found that NGOs had not shown an ability to incorporate best-practice lessons learned from the microfinance experience around the world.[60]

These scattered reports, though perhaps not conclusive, do raise questions as to whether NGOs are present enough, or well enough suited, to play the role required of them for the decentralized and demand-driven model to work. It may be, moreover, that the time, funding, and attention needed to get them up to speed would be substantial.

Community choice and rapid disbursement. In the donor portrayals, the SF approach combines flexible and unencumbered disbursement with a demand-driven style. These features, however, are often at loggerheads with each other. For example, some SF managers expressed a distaste for, and therefore sometimes discouraged, genuine processes of community decisionmaking. These processes, they said, "slowed down" the rates of disbursement so prized by these managers and their donors.[61] Other managers actually liked the eligibility criteria which, even though slowing down disbursement, gave them some kind of protection against political interference.[62] The researchers comparing SFs with earlier supply-driven programs, moreover, found that the latter actually disbursed *more* rapidly than the SFs. Their explanation for the SFs' slower disbursement also pointed to the demand-driven design: if taken seriously and at its best, it resulted in a time-consuming process of organizing and decisionmaking by communities or municipal councils. Although these reports reveal the somewhat contradictory nature of the evidence on fast versus slow disbursement, they are consistent in pointing to the problematic tradeoff—inherent in the demand-driven model—between quick disbursement and the expression of user voice.

The requirement that communities organize for purposes of "ownership" seemed to take a particular toll on poorer communities. They are more isolated from the promotional visits of government agents, NGOs, and firms, and they are handicapped by the requirement that they prepare and present an acceptable project.[63] Even when the project agency painstakingly mapped poverty and deficiencies of social services in the region served by SFs—considered one of their important achievements—this could not counteract the comparative advantage of better-off communities *within* the "poor-designated" municipalities or sub-regions in the competition for funds.[64] In the education projects of the Mexican SF, for example, the program's requirement that a community have an effectively functioning solidarity school committee before seeking funding was said to explain why fewer per capita funds went to poor indigenous communities as compared to others.[65]

In itself, the evidence presented above does not necessarily add up to an indictment of SFs. It does, however, reveal some disappointing results and serious contradictions within the model. These kinds of problems, after all, are not the teething problems of a new approach. They have cropped up for some time in donor evaluations of programs other than SFs, and prior to them. Indeed, they have for some time gained the status of boilerplate in the narratives written by project supervision missions and evaluation consultants returning from the field. For as long as large donors have been financing roads and other infrastructure in developing countries, for example, supervision reports have lamented the lack of maintenance and the failure to generate or allocate funds for operations and maintenance. But

these kinds of problems are exactly what the incentives and pressures of the SF approach were supposed to reduce—at least for programs serving poor communities in rural areas with a variety of works projects and services.

Given this evidence and the unsettling questions it raises, the Social Funds seem to have emerged remarkably unscathed. The World Bank evaluation concludes that the SFs "*probably* surpass other sector portfolios in the cost and speed of service delivery, success in reaching the poor, and extent to which they respond to community initiatives" (italics mine).[66] It is surely difficult to draw any such conclusion, however, given the evidence laid out above. The most one can say is that SFs and SF-like programs have not proven to be consistently and sustainedly better than the more traditional supply-driven programs or the reformed versions of them. This does not amount to an indictment of SFs, but it certainly is a far cry from the enthusiastic support they have been accorded by donors.

The Fixes

Why do the owners of these negative findings continue to be so enthusiastic? Is this simply a question of choosing to view the glass as half full rather than half empty? I suggest that the difference between the two views lies elsewhere. The donors see the SFs' shortcomings as eminently fixable, as requiring the fine-tuning of an otherwise preferable model of public service delivery. I see the problems, however, as inherent in the SF model itself—particularly when operating in rural areas and serving poorer populations—exactly the situations to which the model is thought to be eminently suited. In addition, the proposed fixes would have the SFs improve their operation in ways that would make them more like the traditional agencies from which they are supposed to differ so markedly.

Although the fixes prescribed by the donors seem perfectly reasonable, that is, they also require just what the SF model is trying to get away from—additional presence, effort, and resources from an agency of central government. A representative sampling of the most common fixes appearing in the donor reports includes more monitoring and supervision, more transparent and objective selection criteria for projects, more training, more public information campaigns about project choices available to communities, more tolerance by project managers for "participation," more poor-targeted selection criteria, more "demand orientation" and community participation in helping communities to choose their projects, and, that old chestnut, more coordination with line agencies and their sectoral programs.[67]

These remedies, if taken seriously, would require substantially more time, personnel, resources (for travel, vehicles, and per diems), and more presence in the countryside by the program agency—an agency of the central government. The remedies would surely increase the SFs' low overheads and reduce their strong disbursement rates—the model's pride and joy. They would move these programs back in a supply-driven direction, rather than closer to the demand-driven model's vision of citizen demand-making, partially privatized provision, and more active government at the local level. The strength of the demand-driven model, after all, is supposed to be its reliance on *local* forces to solve such problems. It is these forces that, in substituting for the presence and planning of more centralized agencies, are supposed to bring down costs, improve quality, please users, and elicit ownership arrangements for upkeep and financing. Even if one assumes that the fixes could be carried out effectively, moreover, this could well require as much effort as reforming a traditional supply-driven agency, or improving the capacity of a set of local governments, or even reducing the problem of lack of ownership by rewarding local tax-collecting efforts.

Putting together the findings with the fixes, in sum, seems to get the donors into something of a bind. A striking example is donor concerns about the difficulty SFs have in working with line ministries or following their sectoral priorities. The IDB evaluators warn that SFs should not operate "outside the planning process" but instead should "teach line ministries to be more responsive to local needs and build more efficiently."[68] To build schools and health clinics outside a "functional allocation" of the line ministries for this purpose, the evaluators say, leads to outcomes like the construction of new schools and clinics, as noted above, where rehabilitation of old ones would have been sufficient. They condemn such outcomes as "a failure of the planning process."[69]

This is a surprising conclusion about a model whose strength is said to lie in having communities rather than bureaucrats decide what they are to receive. Sector planning and execution by central-government agencies, after all, has been defined as the *problem*, not the solution. Without perhaps meaning to, then, the critiques and the suggestions of these donor evaluators seem to undermine the very model of which they approve: they identify shortcomings above which demand-driven programs were supposed to rise, and they recommend fixes that smack of supply-driven sectoral planning.

What's wrong here? The model itself? Or the fixes? This bind may be actually of the donors' own making. A close reading of the evaluations themselves provides some clues for getting out of the bind.

Conclusion: Getting Out of the Fix

As portrayed in the donor evaluations, some of the stories about better Social Funds or better-performing aspects of them appear to contain possible lessons about how to reform existing government agencies, in contrast to the SF agency or unit itself. This material, however, has not been sufficiently mined to draw any firm conclusions, although it raises intriguing questions that merit further exploration. One example is the Chilean FOSIS noted above, which worked more closely with line agencies than the typical SF. Another is the Peruvian fund FONCODES, which has started evolving toward more coordination with the line agencies on works projects. FONCODES will finance only those works-project proposals that are in accordance with sectoral policies and norms and for which operating revenues are guaranteed.[70]

The Chilean FOSIS is not only among the more successful of the Social Funds. It is also notable for, among other things, the ways it differs from the typical SF model or experience: (1) created by the Chilean government in 1990, it started with only 20 percent donor funding, in contrast to the 80–95 percent range of most other SFs, and by 1997 it had no more than 11 percent donor funding; (2) it now raises 40 percent of its funding not from a guaranteed allocation of the national budget but by competing for service agreements offered to it by regional governments with newly acquired federal-revenue transfers; (3) national procurement laws are observed rather than waived; (4) staff are paid the same salaries as in the line ministries, rather than the higher salaries that characterize most SFs; and (5) much of its founding management and staff were professionals who came from the NGO sector that emerged during the Pinochet period, who share a strong commitment to poverty concerns and a long history of experience in this area. (This last trait contrasts, by the way, to the emphasis of the SF studies on private-sector, or private-sector-like management.)

Finally, the Chilean FOSIS is more integrated into the line ministries than almost all the SFs. It is directly dependent on the Ministry of Planning and Coordination rather than standing outside the line agencies. Ministry support has been key in setting up of a network of regional FOSIS offices, and FOSIS works through collaborative agreements with various other line agencies.[71] An outside research study comparing FOSIS with the Venezuelan SF, by Angell and Graham (1995), cited this unusual integration of the Chilean SF with the line ministries as an explanation for why it was more successful.[72]

The unusual success of the Chilean Social Funds raises questions about the model's assumed key features—the waiving of procurement regulations, the paying of higher salaries, the importance of private-sector-like management, the "disentanglement" of the standalone SF unit from traditional bureaucracy, and the resulting rapid rates of disbursement. With respect to rapid disbursement, for example, the IDB evaluators report that the pressures for rapid disbursement tend to conflict with the very interaction with line ministries that was so important to the performance of cases like Chile's FOSIS.[73] The Chilean case, in short, begs for an explanation as to why and how procurement regulations, civil service salaries and regulations, and close involvement with line ministries were *not* a problem. Though many would respond that Chile is a special case or that Chile is doing everything right, this is to dismiss the opportunity to learn the more generic lessons that such a case, when combined with others, has to offer.

Another intriguing item of interest requiring further exploration is that both the IDB and World Bank evaluators note a certain pattern of performance with respect to some types of projects as against others. They found that sustainability was more likely in education and health than in two other important project types—economic infrastructure (roads and road repairs, irrigation, water, etc.), and microfinance.[74] In contrast to these other sectors, they said in explanation, the education and health components tended to have line ministry involvement in the approval of projects and to be more compatible with broader policy in these sectors.[75] Indeed, because many of the task managers for the SF projects at the donor agencies actually came from education and health ministries, this made them "more sensitive to and knowledgeable about" issues of sustainability when project proposals came up in these particular sectors.[76]

Both the World Bank and IDB evaluators attributed the greater likelihood of sustainability in education and health types to the greater standardizability of design in these sectors. Standardization made it possible to create project prototypes that, with computer-generated designs, have been helpful in establishing costs and designs.[77] One wonders if the greater possibility of creating a standardized language and procedures for dealing with project design and approval might have laid the groundwork for an easier relationship between the SFs and the line ministries in the education and health sectors as opposed to the others. Whether or not this interpretation is accurate, it is not clear how to reconcile the positive role of standardizability alleged here with the *negative* traits of standardization as portrayed by the same donors in their critique of the supply-driven model.

Exploring these kinds of findings further might reveal more about how to improve traditional line ministries and other agencies than about the desirability of a demand-driven model run by a semi-autonomous government unit. At this point, however, the donor evaluations themselves do not provide us with enough information to understand lessons of this nature. Focusing on the SF experience itself and trying to fit the findings within the confines of the current claims about SFs, the donor evaluations do not seem to scan the experience broadly enough for clues about improving government performance in general. One of the more important lessons to be learned from the SF experience may be that it contains lessons about possible pathways to reform in line ministries and other agencies, and about providing succor to reform advocates within their ranks.

The donors, in sum, do not seem to have made a convincing case for the superiority of Social Funds as a model of service delivery and asset creation, let alone for reducing unemployment or poverty, notwithstanding their assertions to the contrary. The focus on the demand-driven logic and on other traits of the SF model, moreover, has distracted attention from the lessons to be learned about reform of traditional government agencies, as well as other matters like strengthening local government. In addition, the conceptual dichotomy between demand-driven and decentralized as "good," versus supply-driven and centralized as "bad," probably obscures more than it illuminates. Trimming our expectations of SFs down to size is not to say that traditional supply-driven agencies are necessarily better. Rather, if SF experiences *and* those of the traditional line agencies could be looked at with a more open and curious mind, it is quite possible that more constructive lessons could be drawn from both.

Notes

1. This chapter is based on a longer monograph prepared for the Division of Management Governance and Development of the United Nations Development Programme. See Judith Tendler (with the assistance of Rodrigo Serrano), *The Rise of Social Funds: What Are They a Model Of?*, Department of Urban Studies and Planning, Massachusetts Institute of Technology, monograph for the United Nations Development Programme

(UNDP), draft January 1999. I thank the following institutions for supporting the research and/or writing: the United Nations Development Programme, the Massachusetts Institute of Technology, the Latin American Program of the Woodrow Wilson Center, and the state governments of Ceará and Maranhão. None of these institutions is responsible for or necessarily agrees with the analysis and opinions reported here.

I am particularly grateful to Mick Moore for discussing these ideas with me at length, and for providing me with excellent feedback on an earlier draft. Anu Joshi provided valuable editing and substantive comments.

2. "Portfolio Improvement Program Review of the Social Funds Portfolio," The Working Group for the Social Funds Portfolio Review, headed by Ishrat Husain (PREM) (forthcoming as World Bank Technical Paper) (Washington, D.C.: World Bank, May 1997), p. 5.

3. Not all SFs are explicitly demand-driven. A recent World Bank review reported that between 10 percent and 40 percent of the SFs use demand-driven mechanisms. ("Portfolio Improvement Program, p. 24). The narratives about SFs and their strengths nevertheless often describe them as "participatory," if not demand-driven.

4. The first quote is from Margaret Goodman et al., *Social Investment Funds in Latin America: Past Performance and Future Role*, Evaluation Office, Social Programs and Sustainable Development Department (Washington, D.C.: IDB, March 1997), p. 71, and the second from World Bank, "Portfolio Improvement Program," p. vi.

5. Tendler, *Rise of Social Funds*. This monograph goes beyond this chapter to explore certain dynamics of SFs at the field level: how communities decide on one project option over another; how partial privatization actually works—namely, how the newly included private-sector suppliers operate in complementarity with public bodies; how the political opportunities opened up by highly distributive programs like SFs influence, together with corresponding political costs, the shape of these programs and their outcomes; and how the bureaucratic challenge of rationing the "excess" demand coming from myriad communities clamoring for projects influences program outcomes.

6. World Bank data for end-fiscal-year 1996 (World Bank, "Portfolio Improvement Program," p. vi); IDB data reported in March 1997 in IDB, *Social Investment Funds*, p. 10, table 2.1.

7. Nora Lustig, in *Coping with Austerity: Poverty and Inequality in Latin America* (Washington, D.C.: Brookings Institution, 1995) and "The Safety Nets Which Are Not Safety Nets: Social Investment Funds in Latin America," draft (Washington, D.C.: 31 October 1997), quite persuasively contests this statement, which has been frequently repeated in donor documents. With respect to the Latin American SFs, at least, she shows that donor-funded SF projects were actually under way before the structural-adjustment programs began to show any hint of adverse effects on the poor.

8. The evidence on quick disbursement is actually somewhat mixed, as reported by Frances Stewart and Willem van der Geest, "Adjustment and Social Funds: Political Panacea or Effective Poverty Reduction?," in Frances Stewart, *Adjustment and Poverty* (London: Routledge, 1995), chap. 5, pp. 108–137); the World Bank study of three social funds in Latin America—Thomas Wiens and Maurizio Guadagni, *Designing Rules for Demand-Driven Rural Investment Funds: The Latin American Experience*, World Bank Technical Paper no. 407 (Washington, D.C.: May 1998), p. xvii; and in the complaints of project-agency managers about the way community decisionmaking "slows down" the rate of disbursement. The World Bank report attributes the slow disbursement to delays by the central government in providing counterpart funding to the projects. Stewart and van der Geest ("Adjustment and Social Funds") attribute the problem to the demand-driven structure itself, which results in a time-consuming process of community- and municipal-level organizing and decisionmaking. They also point to the concern of project agencies about "clientelism" and political meddling in project selection and location, which causes agency managers to impose criteria and requirements that slow things down. Their concern about reducing delay is at odds with the World Bank study, "Portfolio Improvement Program," which suggests that *more* time and attention be paid to imposing project criteria that assure better participation and inclusion of the poor.

9. For example, the World Bank—K. Subbarao, et al., *Safety Net Programs and Poverty Reduction: Lessons from Cross-Country Experience* (Washington, D.C.: World Bank, 1997), p. 104—reports savings of 30–40 percent in school construction in Mexico's SF, PRONASOL; and savings of up to 35 percent in Mexico's Mendoza Provincial Program for Basic Social Infrastructure (MENPROSF). (PRONASOL is one of the SFs initiated without donor assistance, and to which the Mexican government has committed more funds than all of the Latin American SFs combined.) Some SFs, it should be pointed out, do not include their own overheads in reporting unit costs; for Peru, see Norbert R. Schady, "Seeking Votes: The Political Economy of Expenditures by the Peruvian Social Fund (FONCODES), 1991–1995" (Princeton University and the World Bank, 1998) p. 5.

The World Bank itself also spends less on SFs for project preparation and supervision than on other projects run through existing ministries or agencies in education and health, economic infrastructure, and targeted or participatory poverty projects. The cost of World Bank input into the SF projects varied from 39 percent to 85 percent of equivalent costs for comparator projects. (World Bank, Portfolio Improvement Program, p. 42, and calculated from data in Table 6, p. 43). These lower costs, however, do not seem to be related to the SF model in itself, but to the fact that the World Bank does not make disbursements on SF loans contingent on "policy conditionality," which can slow down disbursements on these other projects substantially. World Bank, "Portfolio Improvement Program," p. 42, and note 55.

10. Subbarao et al., *Safety Net Programs*, pp. 105–106.

11. The bad rap acquired by standardization in the hands of government actually goes well beyond the mainstream development community. It is the centerpiece of a recent historical analysis of the ills of government by the political scientist James Scott. Scott points to the inevitable "need" to standardize as *the* central root of government's mistreatment of citizens throughout history. In so doing, of course, he goes substantially beyond the donors' critiques of developing-country governments. Indeed, Scott and others writing in this vein would probably even treat donor proposals about improving government through decentralization with equal skepticism. (Other studies that take a negative stance similar to Scott's with respect to government interventions in developing countries, including donor-assisted ones, have appeared in development anthropology, particularly but not exclusively among the post-modern anthropologists.)

12. The study written for UNICEF—Sanjay Reddy, *Social Funds in Developing Countries: Recent Experiences and Lessons,* UNICEF Staff Working Papers, Evaluation, Policy, and Planning Series no. EPP-EVL-98-002 (New York: June 1998)—is the least sanguine in this sense.

13. Lustig, *Coping with Austerity* and "The Safety Nets"; Stewart and van der Geest, "Adjustment and Social Funds."

14. Tendler, *The Rise of Social Funds.*

15. (1) World Bank, "Portfolio Improvement Program"; (2) Goodman, *Social Investment Funds,* and Dagmar Raczynski, "Chile: Fondos de Solidaridad de Inversión Social (FOSIS), Informe de la Consultora, Evaluation Office, EVO (June 1996)," in *Social Investment Funds in Latin America: Past Performance and Future Role,* A Joint Project Between the Evaluation Office and the Social Programs and Sustainable Development Department (Washington, D.C.: June 1997), chap. 2; (3) a chapter on SFs in Subbarao et al., *Safety Net Programs;* and (4) a review by Sanjay Reddy for UNICEF, *Social Funds.* All four studies, together with a more recent one on three SFs in Latin America (Wiens and Guadagni, *Designing Rules*) are thoughtful and candid attempts to review the SF experience. To the extent that half of the Latin American SFs are funded by both the World Bank and the IDB (9 out of 18), there is a significant overlap in the experiences on which they both report.

16. Goodman, *Social Investment Funds,* p. 71. Lustig reports that even the best known, oldest, and most highly praised Latin American SF, the Bolivian Social Emergency Fund (started in 1986), employed roughly only 6–8 percent of workers in the two lowest income deciles. The Honduran Fund employed only 7 percent of the unemployed (1990–1995), the Peruvian fund, 2.7 percent (1991–1995), and the El Salvador fund, 2.5 percent (starting in 1990). (For the Guatemalan fund, no data on employment generation were even gathered.) Data are from Lustig ("The Safety Nets," pp. 4–5), citing as sources the World Bank ("Portfolio Improvement Program") for Bolivia; and IDB-funded studies by Cisneros (1996) for El Salvador and Guatemala, and Moncada (1996) for Honduras.

17. Goodman, *Social Investment Funds,* p. 71. In a study of the employment-creating works programs in various developing countries funded out of U.S. agricultural surpluses, John W. Thomas in "Food for Work: An Analysis of Current Experience and Recommendations for Future Performance," Development Discussion Paper no. 213 (Cambridge: Harvard Institute for International Development, Harvard University, 1986), p. 26, reports an average 52 percent of total expenditures on labor, with a maximum of 77 percent. Joachim von Braun, Tesfaye Teken, and Patrick Webb in "Labor-Intensive Public Works for Food Security in Africa: Past Experience and Future Potential," *International Labour Review* 131, no. 1 (1992):19–34, stipulate at least 60 percent for labor expenditures as desirable for African programs. Studies of the Maharashtra Employment Guarantee Scheme in India—E. Costa, "An Assessment of the Flows and Benefits Generated by Public Investment in the Employment Guarantee Scheme of Maharashtra," Working Paper no. 12 (Geneva: International Labour Organisation/World Employment Programme, 1978); E. H. D'Silva, "Effectiveness of Rural Public Works in Labour-Surplus Economies: Case of the Maharashtra Employment Guarantee Scheme," Cornell International Agricultural Monograph no. 97 (Ithaca: Cornell University, 1983)—considered to be among the best in the world—show how labor intensity varies with the kind of project, water projects

using the largest percentage (80 percent) and road projects the lowest (55 percent). More recently, the Maharashtra Scheme has required that at least 60 percent of total costs be spent on unskilled labor. Anil B. Deolalikar and Raghav Gaiha, "What Determines Female Participation in Rural Public Works? The Case of India's Employment Guarantee Scheme" (University of Washington and the University of Delhi, April 1996).

18. Goodman, *Social Investment Funds,* pp. 22, 71. The evaluators also note that estimates of SF job creation are often overestimated, because of the large amount of temporary employment that usually lasts only a few months (p. 22).

19. In reporting these findings, Stewart and van den Geest ("Adjustment and Social Funds") note that these unimpressive outcomes for benefits are partly a result of the fact that governments in SF countries committed more resources to these non-donor-funded programs than they did to the SFs. But even if SF countries had committed more resources, they say their calculations show that the SFs would still have reached only a smaller share of the unemployed in the lower deciles because of their greater difficulty in targeting (p. 126).

20. Goodman, *Social Investment Funds,* pp. 22–23.

21. Ibid.

22. For example, the IDB review of SFs found that, for all but one of the countries (Peru), it was not possible to determine the extent to which those employed by SFs were poor. (In Peru, an unrelated survey from the ongoing World Bank Living Standards Measurement Project had included a question about employment in the SF; 36 percent of the SF jobs went to the extremely poor, and 57 percent to the poor. Ibid., p. 32.)

In most cases, the evaluators found it impossible to determine whether poverty had been reduced or income increased in the regions served by SFs; or, even when such changes were detected, it was not possible to determine whether they were attributable to the program. Ibid., p. 15. The IDB study noted that baseline data are not available for employment and income in the regions served by SFs, making the estimate of changes in poverty and income not possible. (Data have been collected in several cases, however, on the employment and income generated by the projects themselves, their benefits, and surveys of project beneficiaries.)

"[W]e have no way of comparing," a World Bank study concludes, "how well DRIFs target poverty compared with other programs." Wiens and Guadagni, *Designing Rules,* p. xvi. (DRIFs are a subspecies of SFs called Demand-Driven Investment Funds that, according to this classification, support mainly productive infrastructure and natural resource management.) The study reports on three DRIFs in Latin America—in Mexico, Colombia, and Brazil—the latter being the same programs looked at in Tendler, *The Rise of Social Funds.*)

23. As reported by the World Bank, "Portfolio Improvement Program," p. 18; Wiens and Guadagni, *Designing Rules,* p. xv; Goodman, *Social Investment Funds;* Lustig, *Coping with Austerity* and "The Safety Nets"; and Stewart and van der Geest, "Adjustment and Social Funds." In its study of four countries with SFs (Bolivia, Egypt, Sri Lanka, and Zambia), the World Bank study found that, "the higher the poverty headcount index of the province, the lower was the actual per capita Social Fund expenditure it received; or the actual expenditures lagged behind allocations in the areas with the highest

poverty index while they far exceeded allocations in areas with low poverty indices." Subbarao et al., *Safety Net Programs,* as cited in World Bank, "Portfolio Improvement Program," p. 18.

For the 1990–1992 period with respect to Mexico's PRONASOL, Cornelius et al. reports that middle-income states received more funds per capita than poor states (as measured in terms of indices of poverty and underdevelopment). Wayne A. Cornelius, Ann L. Craig, and Jonathan Fox, *Transforming State-Society Relations in Mexico: The National Solidarity Strategy* (San Diego: Center for U.S.-Mexican Studies, University of California, 1994), pp. 22–23. Carol Graham, in "Mexico's Solidarity Program in Comparative Context: Demand-Based Poverty Alleviation Programs in Latin America, Africa, and Eastern Europe," in Cornelius et al., *Transforming State-Society* (1994), chap. 15, pp. 309–328, reports that, more generally, none of the poverty alleviation programs in Latin America, Africa, or Europe have been particularly successful in targeting the poorest members of the population. The IDB study points out that even using its own calculations, it is very difficult to determine targeting from the data, which does not distinguish between rich and poor within municipalities or between some administrative units and higher-level ones from which the data were drawn.

Some of the studies show that whereas the SFs did not reach the poorest communities, they often reached communities that, though poor, were not among the poorest. The IDB study found that the poorest-decile municipalities received less than the others, but that the non-poorest poor received more than the best-off. A study of the Peruvian SF FONCODES (Schady, "Seeking Votes"), found that poorer communities actually get *more* SF funding per capita.

These somewhat conflicting results have to do in part with inadequacies of the data, commented on by most authors of these studies; they also relate to the different politics at particular moments in different countries. President Fujimori of Peru clearly relied on a strategy of reform that alienated urban and middle-class sectors, and he vigorously and explicitly courted the rural poor through FONCODES to compensate. Kenneth M. Roberts, "Neoliberalism and the Transformation of Populism in Latin America: The Peruvian Case," *World Politics* 48, no. 1 (1996): 82–116.

Complicating these outcomes even further, the intensity of political courtship through SFs varies from one period to the next, depending not just on the electoral cycle, but on many variables like the strength of each opposition party at a particular moment and how much of a challenge it represents, on whether the elections are midterm or not, on the balance struck between rewarding loyalists, punishing the opposition, or courting fence-sitters. Schady, "Seeking Votes"; Cornelius et al., *Transforming State-Society;* Theda Skocpol and Kenneth Finegold, "State Capacity and Economic Intervention in the Early New Deal," *Political Science Quarterly* 97, no. 2 (1982): 255–327; and Carol Graham and Cheikh Kane, "Opportunistic Government or Sustaining Reform? Electoral Trends and Public-Expenditure Patterns in Peru, 1990–1995," *Latin American Research Review* 33, no. 1 (1998): 67–104.

24. Lustig, "The Safety Nets," p. 5, citing K. Subbarao et al., *Safety Net Programs.*

25. K. Subbarao et al., *Safety Net Programs;* Goodman, *Social Investment Funds.* Based on studies of the Bolivian and Honduran SFs, Stewart and van der Geest ("Adjustment and Social Funds") reported that poorer communities present fewer proposals for funding than richer communities (p. 128). Similar results were found for India by Raghav Gaiha, "Do Anti-Poverty Programmes Reach the Rural Poor in India?" (New Delhi: Faculty of Management Studies, University of Delhi, May 1998).

26. In a review of the Latin American SFs, Lustig (*Coping With Austerity,* p. 31) noted that they "compare unfavorably" with these programs (she is considering only the direct-transfer aspects of SFs in the comparison). Lustig, a researcher at the Brookings Institution at the time of her study, drew on various SF evaluation studies by the donors.

27. Goodman, *Social Investment Funds,* pp. 22.

28. Ibid., p. 71.

29. Lustig ("The Safety Nets," pp. 2–4 and *Coping With Austerity*) and Stewart and van der Geest ("Adjustment and Social Funds") arrive at similar conclusions, in a study including African as well as Latin American countries.

30. Goodman, *Social Investment Funds.* The citation (p. 16) comes from a December 1996 version of this report, as cited in World Bank, "Portfolio Improvement Program," p. 47, note 58.

31. World Bank, "Portfolio Improvement Program," p. 47.

32. These arguments can be found in various donor documents. See, in particular, Subbarao et al., *Safety Net Programs,* pp. 93–116; World Bank, "Portfolio Improvement Program."

33. World Bank, "Portfolio Improvement Program," p. 47.

34. Lustig, "The Safety Nets," p. 6, and *Coping With Austerity.*

35. Stewart and van der Geest, "Adjustment and Social Funds."

36. Alan Angell and Carol Graham, "Can Social Sector Reform Make Adjustment Sustainable and Equitable? Lessons from Chile and Venezuela," *Journal of Latin American Studies* 27, no. 1 (February 1995): 202–203.

37. World Bank, "Portfolio Improvement Program." The evaluators also pointed to the inability to truly compare the demand-driven SFs to other programs, due to the lack of or poor quality of the data, the classic apples-and-oranges problem of such a comparison, and the limitations of their data and methodology. The sample size was small (ranging from eight to sixty-nine); they did not compare SFs to non-Bank-funded programs (as Stewart and van der Geest did); and they were not able to separate out, on the SF side, the sectoral piece of the SF program that corresponded to the comparator project in a functional ministry—health, education, water, roads, etc. (They also did not rank the kinds of impacts of unemployment and poverty reported above.)

38. Goodman, *Social Investment Funds,* p. 68. The study notes that this is because of the reliance on follow-up beneficiary questionnaires for these evaluations, and the lack of baseline data prior to funding. The report does mention, however, that the impact evaluations are a valuable source of information on whether projects are operating, and whether selection and construction were satisfactory.

39. Ibid., pp. 6, 46, 73. The evaluators attributed this finding to the "inflexibility" of the donors and their "rules and limitations," which inhibited the ability of local officials to experiment with innovative solutions. One interesting example of this donor "inflexibility" related to the use of private contractors for works projects. In trying to serve the poverty-reducing goals of the SFs, donors typically emphasized works projects that trained and employed local people, even when private contractors preferred bringing in

their own workers from outside, particularly for skilled work, and complained that hiring unskilled laborers locally would compromise their efficiency. In focus group meetings convened by the IDB, however, mayors and community representatives expressed more concern for project quality than for local employment, and therefore preferred that contractors use their own skilled labor. With respect to "inflexibility," then, the IDB evaluators were making the same critique of the donors that the latter had been making of line ministries.

40. World Bank, "Portfolio Improvement Program," p. 47.

41. Ibid., p. 47, note 59.

42. In Bolivia, a municipal development bank (FNDR) financed water and sanitation systems through lending, while the SF financed these same investments on a grant basis. In Senegal, a Municipal and Housing Development project provided credit through a municipal credit fund for financing income-generating projects; at the same time, these municipalities could receive free funding from the SF (an AGETIP) for roadbuilding. Ibid., p. 32, note 34.

43. Goodman, *Social Investment Funds*, pp. 44–45.

44. Ibid., p. 72. The following three quotations in this paragraph are from the same source (pp. 44–45, 72, and 72, respectively).

45. Social Funds and other social safety-net programs really "leave untouched the problems of the mainline services . . . [and] . . . evade the more difficult challenges of institutional reform," because they operate outside mainline ministries, use "flexible" procedures avoiding existing problematic regulations for civil servants and for procurement, and resort to nongovernment organizations at the local level. Joan Nelson, "Reforming Social Sector Governance: A Political Perspective," paper prepared for a conference on Governance, Poverty Eradication, and Social Policy, Harvard University, 12–14 November 1997 (Washington, D.C.: Overseas Development Council, 7 November 1997), p. 5. These modes of operation, of course, are also supposed to be the source of SF strength. Nelson also mentions the explicitly temporary nature of the funds (albeit now no longer the case); and the fact that some of the programs are "used as the direct instruments of particular political leaders or parties." (She cites Peru's FONCODES and Mexico's PRONASOL as examples—though Mexico, "less clearly" so.)

Similarly with respect to the Latin American SFs, Angell and Graham ("Can Social Sector Reform," pp. 202–203) reported that they "diverted resources (both human and physical) and shifted public attention away from problems in the line ministries," thus making more difficult the process of reforming these ministries.

46. The World Bank review of African and Latin American projects reported concerns about sustainability, particularly with respect to the economic infrastructure and microfinance components of such projects, noting that such concerns had "been raised in other reviews as well." World Bank, "Portfolio Improvement Programs," p. vii. Another World Bank study (Wiens and Guadagni, *Designing Rules*, pp. xvii–xviii, 46) found that none of the three Latin American projects (DRIFs) it reviewed "performed particularly well in achieving" sustainability, and that "information from local or partial surveys suggests that a high proportion of subprojects may not be sustainable." A World Bank appraisal report for a Senegal SF/AGETIP, noted that the "sustainability of many AGETIP investments is uncertain," due to a lack

of ownership and participation in the project identification and preparation phase and in the post-project operations and maintenance phase. World Bank Senegal PAR Public Works and Employment Project, 1996 draft, page 2 notes, as cited in World Bank "Portfolio Improvement Program," p. 15, note 9.

The IDB came to similar conclusions in Goodman, "Social Investment Funds," pp. 35–41, and an earlier 1994 IDB study cautioned that, "sustainability remains a potentially serious problem." Glaessner, Lee, Sant'Anna, de St. Antoine, "Poverty Alleviation and Social Investment Funds: The Latin American Experience," p. 22, as cited in World Bank "Portfolio Improvement Program," p. 15.

One exception came from a 1990 survey of the Bolivian SF, which showed 95 percent of the social infrastructure projects still operating, and 80 percent of the social assistance projects. The survey was conducted, however, only one to two years after project completion (Goodman, *Social Investment Funds*, p. 41). The survey also concluded that the projects most likely to be sustained were those where users participated most actively, where the requesting agency had had previous experience operating this type of project, and where the requesting agency had a stable source of financing for recurrent costs.

47. World Bank, "Portfolio Improvement Review," 1997, p. 31.

48. Eighty percent of the project descriptions did not mention sustainability or concern themselves with its three key components: (1) evidence of demand (range of options offered, information made available, evidence of commitment through contribution in cash or kind); (2) appropriateness of technical standards; and (3) soundness of arrangements for operations and maintenance. World Bank, "Portfolio Improvement Program," p. 30.

49. Ibid., pp. 30–31.

50. World Bank, "Portfolio Improvement Program," 1997, pp. 15–16, note 9. The World Bank evaluators reinforce their concerns about sustainability with citations from their sister SF-financing institution, the IDB, and from other reviewers within the World Bank itself. They also question whether SF designers and managers even thought about project designs and technical standards that would be more likely to elicit user maintenance and financing for recurrent costs. They point out, it should be noted, that their findings relate more to "likely," as opposed to actual, sustainability, because only a limited number of the individual country evaluations it drew on involved SF projects with long-term objectives (p. 4).

51. World Bank, "Portfolio Improvement Program."

52. See, for example, World Bank Honduras PAR Report No. 13839-HO, 1994, para. 4.15, as cited in World Bank, "Portfolio Improvement Program," 1997, pp. 15–16, note 9.

53. Goodman, *Social Investment Funds*, p. 74. In Latin America, out of sixteen countries and seventeen SFs (Guatemala has two), Chile's FOSIS has the lowest level of external financing—11 percent. The next lowest are Guatemala's FONAPAZ (12 percent), and Colombia's RED SOLIDARIDAD (20 percent). (The IDB evaluators, as noted above, ranked these three as the most successful in terms of innovative practices.) For the rest, external financing ranges from 58 percent to 94 percent, with only three countries being between 60 percent and 80 percent (Peru, Uruguay, and Venezuela) (ibid., p. 10, table 2.1). The Mexican SF, PRONASOL, is also one of the SFs

most "owned" by its government. It was initiated by the Mexican government without donor funding and is one of the largest in terms of absolute resources, share of the budget, and coverage (Cornelius et al., *Transforming State-Society*, p. 14). It does not appear in this particular table of the IDB because it is currently not receiving donor funding; it has received funding from the World Bank in the past.

54. Goodman, *Social Investment Funds*, pp. 64, 74.

55. The studies report little of this problematic nature with respect to the new role of private firms, though this may have been due to a simple lack of analytical interest in this matter. See Tendler, *Rise of Social Funds*, sections 3 and 4 for case evidence and discussion of the private firms.

56. Ibid., p. 39. In many communities, the report said, NGOs are not very active. In addition, NGOs tended to specialize more in training and community development programs than in managing the construction projects that constitute an important activity of many SFs. In the SFs where NGOs played a greater role, then, it was because the program did not focus on building infrastructure (like Chile's FOSIS). Other exceptions were cases in which the government was "institutionally extremely weak" to the point that NGOs had more capacity to generate projects than government (Haiti) and, in general, because the SF was formally required to use them. The usual tension that exists between NGOs and government also seemed to get in the way. The NGOs disliked being the "mere executors" of a "paternalistic" government program, and wanted to participate more in early phases of the project cycle. SF managers and staff, presumably, were not anxious to do this.

57. Reddy, *Social Funds*, p. 58.

58. According to a Project Completion Report cited in Subbarao et al., *Safety Net Programs*, p. 107, the projects were in health and education, and the study was conducted one to two years after completion. This same finding was cited in Goodman, *Social Investment Funds*, p. 41. Lower performers on the "sustainability" measure also included projects requested by regional government institutions as opposed to central-government institutions.

59. Subbarao et al., *Safety Net Programs*, pp. 101, 109.

60. World Bank, "Portfolio Improvement Review," 1997, pp. 38–39. The report suggested that microfinance components are "best administered by an existing agency as an apex institution . . . " because "[e]xperience shows that NGOs, generally, are not capable of providing the range of financial services required by the poor on a sustainable basis (particularly deposit services)." (p. 39)

61. World Bank, "Portfolio Improvement Program"; Goodman, *Social Investment Funds*.

62. Stewart and van der Geest, "Adjustment and Social Funds."

63. Goodman, *Social Investment Funds*, pp. 15, 43. There may also be an inherent tendency for exacerbation of this problem in that the better-off communities that are successful in getting one project will come back for subsequent ones and prepare them better, while communities that are turned down or have a difficult time will become discouraged and desist, a point made by Schady, "Seeking Votes."

64. Goodman, *Social Investment Funds*, p. 15.

65. Alec Ian Gershberg, "Distributing Resources in the Education Sector: Solidarity's Escuela Digna Program," in Cornelius et al., *Transforming State-Society* (1994), pp. 249–251.

66. World Bank, "Portfolio Improvement Program," p. 47.

67. For example, ibid., pp. vii, ix, 15.

68. Goodman, *Social Investment Funds*.

69. World Bank Honduras PAR Report No. 13839–HO, 1994, para. 4.15, as cited in World Bank, "Portfolio Improvement Review," 1997, pp. 15–16, note 9.

70. Goodman, *Social Investment Funds*, pp. 35–36.

71. Ibid., p. 34, and Raczynski, *Chile: Fondos* (pp. 38–76, particularly pp. 46, 48, 73, and 74). Also different, the Chilean government viewed FOSIS as a *permanent* program from the start (it was created during a time of high economic growth of 7 percent a year); this contrasts with the temporary status of the majority of Latin American SFs and the origins of most SFs in "temporary" periods of low growth, high unemployment, and structural-adjustment or other crises.

72. Angell and Graham, "Can Social Sector Reform," p. 203. They attribute this greater integration in Chile to the fact that a whole series of new safety net programs undertaken during the Pinochet government—particularly public employment programs—were integrated into the line ministries and hence "did not create a separate and competing bureaucratic layer." Also, these sectors had been "historically relatively efficient and had provided widespread coverage" (p. 203).

73. Goodman, *Social Investment Funds*, pp. 35–36.

74. World Bank, "Portfolio Improvement Program," pp. 28, 34–35, and executive summary; Goodman, *Social Investment Funds*, p. 43. A similar finding was reported by Angell and Graham ("Can Social Sector Reform"), namely that SF project units were strongest in the area of health and education.

75. World Bank, "Portfolio Improvement Program," p. 35.

76. Ibid., p. 28.

77. Goodman, *Social Investment Funds*, p. 43; World Bank, "Portfolio Improvement Program," p. 28.