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11

The Impact of Adjustment-Related Social Funds on Income Distribution and Poverty

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11.1. INTRODUCTION

Most poverty and inequality has deep-rooted causes that can be removed only by structural (and often slow) interventions such as land redistribution, educational expansion, the modernization of the tax system, and changes in the institutional structure of credit and property markets. However, apart from these deep-seated phenomena, it is now increasingly evident that structural adjustment, premature financial liberalization, and uncontrolled globalization can exacerbate poverty by inducing protracted recessions and macroeconomic instability. For example, the eruption of the Asian economic crisis in the late 1990s brought to the fore the large social impact of ill-designed macroeconomic policies.

One of the dominant responses to these policy-induced problems on the part of the institutions that have pressed for these policy changes has been the establishment of temporary social safety nets. The most popular type of such temporary social safety nets are known as 'social funds'. Social funds have become a prime policy choice for offsetting the social impact of policy reform. Indeed, the strengthening of adjustment-related social safety nets—as opposed to the development of permanent social protection systems or the introduction of policy measures with a milder distributive impact—has been one of the pillars of the dominant approach to policy reform.

It is accordingly paramount to assess the extent to which social funds constitute an effective antidote to policy reform-induced increases in poverty and inequality. It is difficult, however, to assess their record. This is not least because during their comparatively brief existence, their objectives, main activities, target population, funding patterns, and institutional structure have continuously evolved. Their impact also varies in relation to the strength of the social protection systems inherited from the prereform era, and to the impact of adjustment policies themselves, which in turn

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have enjoyed varying degrees of success in different country settings. Finally, systematic data on social funds performance is still relatively difficult to find.[1]

Despite these methodological difficulties, there is enough evidence today for an assessment of social fund performance to be made. This chapter argues that most of them played a minor role in containing the social costs arising from liberalization policies and in reducing the number of unemployed, 'adjustment poor' and 'chronic poor'. In addition, the emphasis placed on short-term social funds may have diverted resources and the attention of policy-makers from the extension and reform of standing social security arrangements that may more effectively address both chronic and adjustment-induced poverty.

11.2. THE HISTORICAL CONTEXT LEADING TO THE MASS INTRODUCTION OF SOCIAL FUNDS

As noted throughout this book, the 1980s and 1990s can be described as 'decades of policy reform'. The widespread balance of payments crises of 1981–4, the debt crisis of the mid-1980s, the simultaneous shift of the World Bank to structural adjustment lending, and the wave of restructuring and privatization programmes introduced in the formerly planned economies of Europe were the main factors leading to a rapid increase in stabilization and structural adjustment programmes. A rough idea of the intensity of this effort can be grasped from the number of adjustment programmes carried out with the assistance of the Bretton Woods Institutions during this period; while in the 1970s the number of countries initiating programmes with the support of the International Monetary Fund (IMF) averaged about ten per year, it increased from nineteen to thirty-three between 1980 and 1985 (Cornia *et al.* 1987: 49). As a result, in the 1980s, the Latin American countries undertook an average of six adjustment programmes with the assistance of the World Bank and IMF, while Jamaica, Mexico, and Costa Rica undertook between nine and fourteen each. Likewise, in the 1980s, the African nations initiated an average of seven adjustment programmes, with Senegal, Kenya, Mauritius, and Cote d'Ivoire undertaking between twelve and fifteen (Jespersen 1992: Table 1.2). The effort at policy reform accelerated in the 1990s with the onset of the transition and the explosion of the 'Asian crisis'.

The poverty, distributive, and growth impact of these reform programmes remains controversial. During the first half of the 1980s, adjustment focused mainly on restoring macroeconomic balance, as the Bretton Woods Institutions expected that this would lead to a rapid resumption of growth and poverty alleviation. It soon became apparent, however, that resumption of growth would take longer than initially expected, that adjustment caused at least a temporary increase in poverty and inequality and that, in the interim, measures were needed to offset these social costs (World Bank 1986). In 1990, the World Bank (1990: 23) formally acknowledged the need to develop special

[1] This gap is being belatedly and gradually being remedied through studies such as the 'Social Funds 2000 Impact Evaluation'; see World Bank (1998*a*).

measures for social protection to accompany an unaltered approach to adjustment. The 'social funds' were the most prominent measure of this kind.

Beginning in 1986, a few developing countries started introducing semi-autonomous and fast-disbursing social funds aimed at compensating the adjustment poor by means of short-term income maintenance and social expenditure programmes. With persistent stagnation, some of these programmes became semi-permanent. This is the phase that saw the development of the first sizeable emergency social funds of Ghana and Bolivia. At a later stage, the distinction between adjustment poor and chronic poor started to be blurred and the scope of social funds was enlarged so as to address also the problems of the 'chronic poor' who, despite the adjustment reforms, were still being bypassed by growth.

In a third phase, the social funds increasingly shifted from compensatory to promotive measures, so as to incorporate the poor into the production process by increasing their human and physical assets. During this period emergency social funds began to evolve into social investment funds which effected, by and large, a programmatic shift from the objective of income generation as a means of compensating for macroeconomic shocks to that of the providing social services in a more efficient and responsive manner.

Since the early- to mid-1980s a growing part of the literature on inequality focused on the distributive consequences of policy reforms bringing about the liberalization of the domestic and international markets. The theoretical literature in this field comes to ambiguous conclusions. The distributive impact of policy reform is indeterminate, as it varies with the quality of existing institutions, human capabilities, and physical infrastructure, the degree of diversification of the economy, the size, degree of export orientation and labour intensity of the tradable sector, the elasticity of supply responses, and the policy mix. However, the empirical literature reviewed in UNCTAD (1997), Kanbur (1998), Kanbur and Lustig (1999), Chapter 2, and several other chapters of this volume suggests that inequality rose over the last 20 years in about two-thirds of the countries with adequate time-series data. To what extent have social funds offset the distributive and poverty impact of the increases in inequality associated with policy reforms? And how do they compare with the standard transfer programmes (e.g. those analysed in Chapter 10 by Chu *et al.*)? To answer these questions we review the evidence on the scale and structure of social funds.

11.3. ADJUSTMENT-RELATED SOCIAL FUNDS: SCALE, SCOPE, AND STRUCTURE

Since the first adjustment-related social fund was launched in Bolivia in 1986, their number has burgeoned dramatically, as has their geographical reach. There now exist at least seventy social funds throughout the less-developed and transition countries.[2] Social funds can be found in every major region, with some regions (notably Latin

[2] Authors' calculations and personal communication from Soniya Carvalho, World Bank.

America) having become effectively saturated. Social funds are financial intermediaries that channel public funds to subprojects administered by diverse actors. They do so, as will be described below, in a manner that is 'multisectoral' and 'demand-driven', serving in effect like public sector grant-giving foundations that disburse funds for a variety of purposes.

In many contexts, social funds appear to have become the social protection instrument of choice and to have replaced some of the usual social transfers (see Chapter 10). At the end of 1998, social funds accounted for roughly 3 per cent of active World Bank projects, 1 per cent of total financial commitments, and 10 per cent of annual commitments to the social sectors.[3] By May 2001, the World Bank commitments to social funds had risen to over US$3.5 billion covering ninety-eight projects in a total of fifty-eight countries (World Bank 2002). Other external donors have also provided a sizeable amount. The Inter-American Development Bank, for instance, had by 1997 lent over $1.3 billion for social funds in the Americas, ultimately accounting for almost 15 per cent of its annual lending to the social sectors (Bigio 1998). Other donors accounted for 18.4 per cent of total financing, amounting to a total of $801 million through 1996.[4] An illustration of the breadth of donor interest in such a policy tool is provided by Egypt's social fund, which has a total cost of $775 million of which 15.5 per cent is financed by the World Bank with the remainder provided by a patchwork of sixteen donors and the government of Egypt. Social funds have in general been heavily reliant on external funding, averaging 88 per cent in Africa and 72 per cent in Latin America (UNCTAD, 1994; Table 11.1 below).

Social funds first became widespread in Latin America, and subsequently became common in Africa. More recently, however, they have been implemented in a number of Asian countries—notably Cambodia, Jordan, Mongolia, Pakistan, and Thailand—and are being implemented in a number of low-income countries in transition including Albania, Armenia, Georgia, Moldova, Romania, Tajikistan, and Uzbekistan. Their multiplication around the world is an extraordinary example of a genuine institutional innovation that has been rapidly disseminated across countries. Although this is partly due to the supposed applicability of this model to the circumstances of developing countries, it is also due to having become a favourite instrument of officials in multilateral institutions.

As noted in the introduction, social funds have not always been adopted wholesale, but rather have undergone considerable adaptation and innovation as they have been implemented in new settings. As a result, the current generation of social funds bears only a family resemblance to the very earliest ones. Current social funds fall into a number of distinct categories—emergency social funds, social investment funds, and AGETIPs[5]—a form of social fund focusing on infrastructure development, and common in francophone Africa—each representing innovations that have emerged over

[3] The latter figure is calculated by dividing the sum of fiscal year 1996 World Bank expenditure on education, health nutrition, and population, and the 'social sectors' as identified in the *World Bank Annual Report 1998*, by the value of social funds approved in fiscal year 1996 as identified in World Bank (1997).

[4] Calculated by the authors on the basis of table 2.1 in Goodman *et al.* (1997).

[5] Aagences d'exécution des travaux d'intérêt public contre le sous emploi.

Table 11.1. *Expenditure on SF as percentage of GDP and social expenditure (SE), SE/GDP ratio, real social expenditure per capita for selected countries*

Country (Name of SF, years)	Total amt of SF, in $mn (and % of external funds)	SF per prog. year, as % of GDP[a]	SF per prog. year, as % of SE[a]	SE as % of GDP before and during social funds[b]	Real SE before and during social funds[c]
Bolivia	191	0.72	11.0	Before 6.2[e]	Before 96
(SEF, 1986–91)	(85)[d]			during 6.6	during 98
Bolivia	96	0.38	4.5	6.3	92
(FIS, 1990–4)	(69)[d]			8.7	136
Chile	77			13.1	52,500
(FOSIS, 1990–4)	(43)[d]	0.04	0.3	13.1	62,300
Ecuador	180	0.20	3.8	5.9	12,300
(several, 1983–90)	(n.a.)			5.2	10,300
El Salvador	67	0.31	9.3	3.7	158
(FIS, 1990–3)	(67)[d]			3.4	156
Mexico	2500	0.17	2.7	5.1	126
(PRONASOL, 1989–93)	(0)[d]			6.5	171
Nicaragua	93			n.a.	—
(FISE, 1990–4)	(n.a.)	—	—	16.9	—
Panama	32	0.10	0.6	16.5	349
(FISE, 1990–3)	(62)[d]			16.1	396
Cameroon	49	0.11	1.8	6.0	18,100
(SDA, 1991–5)	(78)[d]			7.7	19,100
Egypt	613	0.36	2.7	12.8	144
(SFD, 1991–5)	(n.a.)[d]			13.7	159
Ghana	80	0.22	3.8	5.3	2,850
(PAMSCAD, 1987–92)	(94)[d]			6.4	3,650
Madagascar	41	0.28	7.5	3.5	8,930
(SIRP, 1989–93)	(88)[d]			3.8	9,310
Zambia	49	0.28	5.7	5.4	166
(SRP, 1989–93)	(94)[d]			4.9	140
Zambia	20	0.12	2.2	4.8	142
(MPI, 1991–5)	(n.a.)[d]			6.5	151

[a] Total value of SF (divided by the number of years of operations) and further divided by the average yearly GDP of the period considered.

[b] 'Before' = average social expenditure/GDP ratio over the 2 years preceding the onset of the SFs (social expenditure includes health, education, social security, housing, and other amenities), 'during' = unweighted average during the programme years.

[c] 'Before' = average real social expenditure per capita (in national currency in constant 1987 prices) over the 2 years preceding the onset of the SFs, 'during' = unweighted average during the programme years.

[d] Share of SFs funded with foreign, NGOs, and other resources.

[e] 1983–4.

Source: Cornia (1999) based on data in UNCTAD (1994), Glaessner *et al.* (1994), Marc *et al.* (1995), Reddy (1997), and IMF's *Government of Finance Statistics* 1998.

time so as to incorporate a number of new design features and modified objectives; see Reddy (1997) and Carvalho (1999) for some of the salient differences. Increasingly, the emergency social funds have been supplanted by social investment funds, which are seen as longer-term service delivery mechanisms whose ambit extends beyond the provision of infrastructure to that of general social programmes.[6] Despite this diversity, all social funds share two defining characteristics. They all are multisectoral and demand-driven financial intermediaries, which provide public funds to external actors as a means of furthering social objectives.

The first shared characteristic—that social funds are *meant* to be demand-driven—constitutes a genuine innovation with respect to previous anti-poverty and social service delivery instruments. A social fund is demand-driven if the projects financed by it are proposed by external entities such as Nongovernmental Organizations (NGOs), municipalities, and community organizations, acting on behalf of the potential beneficiaries. The social fund may apply evaluation criteria of its own choosing to sift among these proposals, and it may also assist these external organizations to prepare and submit proposals. Although a demand-driven social fund relies for project proposals on external entities, it may or may not rely upon these organizations to implement the projects. In a traditional supply-driven social programme, in contrast, the programme management identifies and designs projects.

The second shared characteristic—that social funds are generally multisectoral in the sense that they finance activities, which would otherwise fall under the jurisdiction of a variety of ministries—is less innovative but nevertheless distinctive.[7] It is not wholly innovative because previous multisectoral development programmes, such as the so-called integrated rural development programmes, have had a lengthy prior history. The social funds have financed activities ranging from the provision of health, education, and water infrastructure and services, through to peace-building efforts, skills generation, and the provision of microcredit.[8] There is an intrinsic logical and practical link between their multisectoral character and the intent that they should be demand-driven. Relying upon counterparts to present project proposals of their own formulation necessitates openness to a range of possible formats and goals that may be difficult to accommodate within narrow sectoral boundaries. As a result, demand-driven social funds are usually administered by distinct decision-making bodies that are relatively independent of existing ministries.

There is little comparable or systematic evidence on the precise volume of funds spent on the various components of social fund projects. However, a review of World

[6] For example, Panama's FES supports programmes for street children, services for the elderly poor, and for abused women run by NGOs and community organizations, while Jamaica's SF funds drug rehabilitation and literacy programmes. Through such broader and more flexible initiatives, SFs are beginning to conform to a larger extent to the conceptual model of 'semi-autonomous public sector foundations'.

[7] UNCTAD (1994) found that of twenty-nine social funds surveyed, twenty-eight were multisectoral (six had four or more types of projects, twenty had three or more types of projects, two had two or more types, and only one had a single type).

[8] Social funds are gradually but continually expanding into new areas. For example, Jamaica's social investment project has a menu of options including the financing of conflict resolution programmes, the creation and rehabilitation of 'integrated community spaces', and drug abuse counseling, all directed at reducing the level of urban violence—see World Bank (1996).

Bank-financed projects reports that roughly one-third of total project cost is allocated to 'economic infrastructure' and a similar proportion to social infrastructure and provision (health, nutrition and population, and education sectors), with the remaining one-third covering activities such as training, environmental interventions, and microfinance (World Bank 1997). The figures for Latin American social funds contained in Grosh (1990) and in Goodman *et al.* (1997) in contrast suggest a rather higher average proportion allocated to social infrastructure and provision (68 and 62 per cent respectively).[9] This difference may reflect continuing regional variation as the African social funds in particular (the AGETIPs) have tended to focus heavily on public works of a general kind.[10]

The rationale of social funds was to recognize and counteract the deleterious impact of structural adjustment, initiated in diverse countries under the pressure of adverse economic circumstances and under the intellectual influence of the Washington Consensus. This was attempted through the financing of a combination of labour-intensive employment generation programmes, social expenditures aimed at counteracting direct fiscal retrenchment in the social sectors, and in certain cases programmes of retraining or direct compensation to those displaced by the adjustment process, especially from public employment.[11] As the social costs and adverse distributional impact of adjustment mounted and became less deniable, social funds—rather than the usual social transfers illustrated in Chapters 9 and 10—became the favoured answer to the question of how these costs were to be reduced.

[9] Authors' calculation based on the average value of the sum of 'service provision', and health, education, and water/sewerage infrastructure lines of Reddy (1997: table 6) (derived from Grosh, 1990), and by averaging the social infrastructure line for all funds for which complete data are available in Goodman *et al.* (1997). Note that this calculation generates a conservative estimate of expenditures on social infrastructure and provision as it does not include social assistance amounts, which may be included in the 'other' category in the original tables. There may be differences of definition between the three sources considered in this paragraph, which limit the possibilities for comparison. It is difficult to tell as the definition of categories has not been made explicit in all of the sources.

[10] For suggestive evidence see Marc *et al.* (1995: table A.3). In Senegal AGETIP I and Senegal AGETIP II, for instance, 'labor intensive works' take up between seventy and eighty-four of overall expenditures. It is not possible to distinguish the social from economic infrastructure components of 'labor intensive works' (e.g. schools versus roads). Descriptive evidence suggests, however, that the AGETIPs have placed no special priority on the former.

[11] A somewhat incoherent distinction made frequently in this period was between the so-called 'new poor' and the so-called 'old poor'. The 'new poor' (really the 'newly poorer') refers to individuals such as retrenched civil servants made poorer by the adjustment process though they may not have fallen below the poverty line. The old poor in contrast refers to those who may or may not have been negatively affected by the adjustment process, but were already below the poverty line. As a result, not all of the newly poorer are in fact poor and not all of the newly poorer are in fact new to poverty. The distinction between new poor and old poor is therefore quite misleading. Nevertheless, it has been widely used in the literature on social funds. A significant debate has taken place as to whether social funds should be targeted at the new poor or the old poor. In any event, it is likely that social funds failed to reach the new poor. For example, evidence shows that in the case of the Bolivian emergency social fund, of the very large number of tin miners who lost their jobs during the adjustment process, a very small percentage (likely less than 2 per cent) came to be employed on its projects. Admittedly, 'The ESF did not target the ex-employees of the public sector who are generally considered to have been the persons most directly affected by Bolivia's structural adjustment programme' (Newman *et al.* 1992; Jorgensen *et al.* 1992).

The political rationale for using social funds to mitigate the social costs of adjustment was to make the bitter pill of adjustment easier to swallow. This consideration was an explicit one and is evinced in many documents and discussions of early interventions of this kind. It is well-known that the first social fund (in Bolivia) was initiated in large part as a result of the forceful conviction of a World Bank consultant who was an ex-politician (a British member of parliament) who argued that it was necessary to undertake 'highly visible action' to mitigate the social costs of adjustment in order to make the latter more politically palatable.[12] The often close link between social fund management and the executive branch of governments owes its origin in part to the perceived need for the national political leadership to be able to claim credit for social fund achievements. One version of this argument, which has been influentially made, is that social funds help to create new coalitions for reform composed of those benefiting from the fund, who may well be distinct from those injured by the adjustment process. The former, if sufficiently numerous, can aid the political viability of the reform package even if it continues to harm others.[13] A less cynical version of this argument noted by Cornia (1999) is that 'if the government was not able to generate enough popular support for the economic reforms, it would not have been able to sustain any adjustment programme, without which the poor would have suffered even more because of a likely return to unsound macro policies'.

As the purpose of this chapter is to examine the ability of social funds to offset the poverty and inequality impact of adjustment, it is only necessary to mention briefly the other objectives upon which they have increasingly focused. Indeed, the compensatory role of social funds is today scarcely mentioned, although their pivotal role in the multilateral response to the Asian crisis testifies that they still are seen as potentially playing this role.[14] That the emergency response role of social funds is of continued importance is also testified to by the reliance upon them as mechanisms with which to respond to natural disaster and post-conflict reconstruction needs. Social funds are increasingly conceived as an intermediate and long-term service delivery instrument, which is more efficient than traditional means of service delivery through established ministries, through their employment of an ostensibly more participatory, decentralized, and demand-responsive approach. In this connection, they have been seen as everything from a 'beachhead' for the 'modernization of the state' (through the demonstration effect they have on ineffectual state bureaucracies) to a 'training ground in the democratic process' (Beneria and Mendoza 1995). These diverse claims, which are themselves controversial and call for more systematic evaluation, are not all taken up here (for independent evaluations see Goodman *et al.* 1997; Reddy, 1997; Tendler and Serrano 1999).

[12] See Marshall (1992) in Jorgensen *et al.* (1992).

[13] See Graham (1994). It is not clear how this argument can be reconciled with our knowledge of the small numbers of people affected by social funds (see next section) unless the argument rests on there being a powerful symbolic appeal to the creation of social funds.

[14] See in particular the 'social investment fund' component of the $300 million 'social investment project' for Thailand proposed by the World Bank (1998*b*).

11.4. EFFECTS ON INCOMES, INCOME DISTRIBUTION, AND POVERTY: MACROPERSPECTIVE

Have the resources assigned to social funds been adequate to contend with the scale of social costs entailed by policy reform, and the social needs in developing countries? Real programme expenditures in this area are difficult to enumerate on a strictly comparable basis. However, some rough comparisons are possible. It appears that the scale of social funds has varied substantially, from 6 to 85 million US dollars in the case of Africa, and from 40 million to 2.5 billion dollars in the case of Latin America (Table 11.1) (Marc *et al.* 1995: Annex 1, Table A.5).

If the expenditure on social funds is examined as a percentage of gross domestic product (GDP), their small scale is even more evident. Of the countries included in Table 11.1, in no case do social fund resources per programme year rise above 1 per cent of GDP, a figure smaller than the already small expenditures on income transfers and social programmes discussed in the previous chapter. Their scale in relation to GDP appears to have been somewhat lower in Africa (between 0.1 and 0.4 per cent per programme year) than in Latin America (between 0.4 and 1 per cent). As a share of social expenditure, social funds have accounted from 0.3 per cent in the case of Chile to 11 per cent in the case of Bolivia's emergency social fund, in the sample shown in Table 11.2. It can be observed that in Africa this share has more narrowly ranged between 1.7 and 7.4 per cent.

It is interesting to note that during the years of the social funds, total social expenditure (either as a percentage of GDP or on a per capita basis) declined in four cases (Panama, Ecuador, El Salvador, and Zambia) out of 12 in Table 11.1, rose by an amount less than or equal to the expenditure on social funds in two cases (Bolivia and Madagascar (it is conceivable that some diversion from regular social expenditure to social funds might have occurred here), and rose in the remaining six. This muddy picture suggests that the claim that social funds arrested the decline in aggregate social expenditure during the reform period is difficult to sustain. This result is even starker when the initial year of the comparison is allowed to vary. When the comparison is carried out in relation to a suitable preadjustment period (e.g. 1979–81, which preceded the mass of adjustment programmes), rather than the relatively depressed interval 1987–9, it no longer appears that the social funds have in fact offset the fall in social expenditure as a percentage of GDP or indeed of social expenditure per capita (Tables 11.1 and 11.2). In this broader comparison, in 10 cases out of the fourteen included in Table 11.2, the additional expenditure failed to compensate for the initial fall in social expenditure or was not able to arrest its declining trend. This point takes on even more importance in light of the fact that the needs of the populations of the countries concerned are likely to have been heightened by their declining incomes and increased insecurity as a result of the adjustment process.

A third way to assess the scale of social funds might consist in comparing their yearly expenditure with the increase in the poverty gap over the years in questions entailed by stabilization or policy reform. This measure would best capture the extent to which social funds were able to compensate the poverty and inequality effect of

Table 11.2. *SE/GDP ratio and SE per capita in constant prices pre-crisis/adjustment, 2 years before the launch of SFs and during SFs*

Country (SFs name, years)	SE/GDP pre-crisis and adjustment[a]	SE/GDP 2 years prior SF[a]	SE/GDP during SF[a]	SE per capita pre-crisis and adjustment[b]	SE per capita 2 years prior SF[b]	SE per capita during SF[b]
Bolivia (FSE, 1986–91)	6.0 (1978–80)	6.2 (1983–4)	6.6 (1986–91)	111 (1978–80)	96 (1983–4)	98 (1986–91)
Bolivia (FIS, 1990–4)	6.0 (1978–80)	6.3 (1988–9)	8.7 (1990–4)	111 (1978–80)	92 (1983–4)	136 (1990–4)
Chile (FOSIS, 1990–4)	19.3 (1980–2)	13.1 (1988–9)	13.1 (1990–4)	65800 (1980–2)	52500 (1988–9)	62300 (1990–4)
Ecuador (several, 1983–90)	5.9 (1980–2)	5.7 (1981–2)	5.2 (1983–90)	12300 (1980–2)	12000 (1981–2)	10300 (1983–90)
El Salvador (FIS, 1990–3)	6.1 (1980–2)	3.7 (1988–9)	3.4 (1990–3)	284 (1980–2)	158 (1988–9)	156 (1990–3)
Mexico (PRONASOL, 1989–93)	7.5 (1980–2)	5.1 (1987–8)	6.5 (1989–93)	208 (1980–2)	126 (1987–8)	171 (1989–93)
Nicaragua[c] (FISE, 1990–4)	3.9 (1978–80)	—	16.9 (1990–4)	— (1978–80)	—	— (1990–4)
Panama (FSE, 1990–3)	14.8 (1985–7)	16.5 (1988–9)	16.1 (1990–3)	377 (1985–7)	349 (1988–9)	396 (1990–3)
Cameroon (SDA, 1991–5)	6.8 (1985–7)	6.0 (1989–90)	7.7 (1991–5)	25700 (1985–7)	18100 (1989–90)	19100 (1991–5)
Egypt (SFD, 1991–4)	16.7 (1981–3)	12.8 (1989–90)	13.7 (1991–4)	156 (1981–3)	144 (1989–90)	159 (1991–4)
Ghana (PAMSCAD, 1987–92)	6.4 (1977–8)	5.3 (1985–6)	6.4 (1987–92)	4130 (1977–8)	2850 (1985–6)	3650 (1987–92)
Madagascar (SIRP, 1989–93)	—	3.5 (1988)	3.8 (1989–93)	—	8930 (1988)	9310 (1989–93)
Zambia (SRP, 1989–93)	9.5 (1976–82)	5.4 (1987–8)	4.9 (1989–93)	358 (1976–82)	166 (1987–8)	140 (1989–93)
Zambia (MPI, 1991–5)	9.5 (1976–82)	4.8 (1989–90)	5.8 (1991–5)	358 (1976–82)	142 (1989–90)	151 (1991–5)

[a] In percentages.
[b] Social expenditure per capita in constant 1987 local currency units.
[c] For Nicaragua comparisons are made difficult as in 1990–1 a new currency and a large devaluation were introduced, and the war ended.

Source: Cornia (1999); IMF (various) Government of Finance Statistics; IMF (1997); World Bank World Development Indicators (1998).

Table 11.3. *Maximum possible average expenditure per poor person by social funds in selected countries*

Social fund	Amount (US$)
Bolivia, FSE	9
Bolivia, FIS	7
Chile, FOSIS	30
Dom. Republic, PROCOMUN	7
Ecuador, FISE	6
El salvador, FIS	11
Ghana, PAMSCAD	19.5
Guatemala, FONAPAZ	3
Guatemala, FIS	3
Haiti, FAES	3
Honduras, FHIS	7
Madagascar, SIRP	7.5
Mexico, PRONASOL	135
Nicaragua, FISE	11
Peru, FONCODES	11
Panama, FES	16
Senegal, SF	3.5
Uruguay, PRIS/FAS	62
Zambia, SRF/SMI	<1
Zimbabwe, SF	<1

Sources: Graham (1994), Stewart and van der Geest (1995), Goodman *et al.* (1997).

adjustment. However, information on the increase in the poverty gap during the relevant period for the countries that have introduced social funds is generally not available. Conclusions about the adequacy of the funds allocated would depend, in addition, on the precision of their targeting which, as it will be noted later, has often been poor.

Other indicators of the scale of social funds are also instructive. For instance, their absolute level of annual disbursements per poor person are generally small. Table 11.3 shows that these vary from less than $1 (Zimbabwe and Zambia) to an exceptional $135 (Mexico's Pronasol), and averages less than $18 per poor person, a figure that weakens the credibility of the somewhat grandiose claim that social funds could effectively cushion the poor from the adverse consequences of adjustment.

Similarly, Table 11.4 shows that the employment created per year by social funds in Latin America as a fraction of the labour force varied from 0.1 to 1 per cent; that is, values that cannot impact perceptibly poverty or inequality. It is also reported that in Honduras (1990–5) social fund-generated employment amounted to 7 per cent of the unemployed, in Peru (1991–5) to 2.7 per cent, and in El Salvador (1990 onwards) to 2.5 per cent (Tendler 2000). It is difficult to view these levels of impact on employment as sizable, or as likely to serve a meaningful compensatory function under the social strains generated by crisis and orthodox adjustment.

Table 11.4. *Employment creation in Latin American SFs*

Social fund	Social fund employment as a fraction of labour force (%)
Bolivia, FES	1.0
Bolivia, FIS	0.1
Chile, FOSIS	'negligible'
Ecuador, FISE	0.2
El salvador, FIS	0.3
Guatemala, FIS	0.3
Haiti, FAES	0.3
Honduras, FHIS	0.8
Nicaragua, FISE	0.6
Peru, FONCODES	0.2
Panama, FES	0.2

Source: Goodman *et al.* (1997).

Finally, social funds meant to compensate for the social costs of adjustment have often been very slow to begin functioning, seriously prejudicing their ability to achieve their proclaimed short-term goals. Ghana's PAMSCAD, the first major effort in Africa to mitigate the social costs of adjustment through compensatory action, was notoriously slow to begin to operate, casting much doubt on its value. Tendler and Serrano (1999) also report that many traditional social programmes appear to have disbursed funds more rapidly than social funds, contrary to a common conception. This may in large part be due precisely to the attempt of the latter to be participatory and demand-driven. Of course this does not suggest that participation is an undesirable goal—only that social funds or other institutional mechanisms that attempt to instantiate it may not be the most suitable vehicles for providing emergency compensation to the poor because their administrative structures take time to establish and because counterparts take time to organize themselves and to identify and formulate projects. Whether or not social funds are a viable instrument of long-term service delivery, they are patently inadequate as compensatory devices for short-term shocks. A more suitable institutional arrangement to contend with such shocks would be standing social protection institutions capable of expanding the supply of social protection services when required at low marginal costs.

11.5. EFFECTS ON INCOMES, INCOME DISTRIBUTION, AND POVERTY: MICROPERSPECTIVES

It has been argued above that, in general, social funds have not disposed of the aggregate resources necessary to meet their proclaimed poverty and equity objectives. However, if they had had larger resources, would it have been possible for them to meet these objectives? Are social funds in fact more efficient and equitable per unit of

Table 11.5. *Costs of employment generation in selected SFs*

Social fund	Total cost per person-day of employment (US$)
Senegal, AGETIP	18.3
Madagascar, EMSAP	3.0
Guinea Bissau, SIRP	19.1
Ghana, PAPSCA	8.4
Bolivia, ESF	9.8
Bolivia, FIS	41.3
Nicaragua, FISE	30.0
El Salvador, FIS	20.7
Haiti, FAES	3.5

Note: Where there were discrepancies between the figures implicit in these different sources, the authors used the most reasonable estimates based on regional comparisons and internal consistency of data. In order to generate comparable data estimates, it was assumed that a person-year contains 12 person-months and 300 person-days.

Sources: Authors' compilation based on Jorgensen *et al.* (1992), Glaessner *et al.* (1994), Marc *et al.* (1995), and Goodman *et al.* (1997).

expenditure than traditional anti-poverty instruments, as frequently argued? After almost one and a half decades, the data with which to answer these questions remain limited.[15] However, it is now possible with some confidence to make some preliminary judgements in this regard.

11.5.1. *Transfer and Cost Efficiency*

A widespread claim on behalf of social funds has been that unit costs of the infrastructure and services that they provide are lower than under traditional governmental programmes. There is little direct documentary evidence for this claim, however. In any event, it is usually overlooked that a proper accounting of costs should include both the costs undertaken by the counterpart and those of the social fund itself. Including counterpart costs would tend substantially to increase unit cost estimates for social funds. A recent study by the semi-independent Operations Evaluation Department of the World Bank (World Bank 2002: Annex H) offers the first systematic evaluation of the unit costs of infrastructure and social service delivery through social funds and alternative means. Strikingly, it provides no evidence to

[15] By far the best publicly documented social fund remains the first, the Bolivian emergency social fund (see Jorgensen *et al.* 1992). Elementary data on such fundamental matters as unit costs, the distribution of economic status of beneficiaries, and the composition of expenditures remain generally lacking. Efforts to fill these gaping lacunae would enable a more realistic assessment of the claims made on their behalf and a more comprehensive assessment of the value of social funds.

support the claim that social funds have lower unit costs. The unit costs reported in the study present a mixed picture that offers no basis for this inference. Other evidence is provided by the costs of generating employment through social funds and other means (see Table 11.5).

Although these costs are difficult to interpret as they include all programme costs, including those for administration and materials, and are based on conversion of costs at market exchange rates, they are often relatively high (averaging $17 per person-day of employment), and do not appear to compare favourably to those of traditional supply-driven employment generation schemes. For instance India's supply-driven Jawahar Rozgar Yojana scheme has a cost of roughly $1.5 per person-day of employment created.[16] In turn, indirect evidence of the cost efficiency of social funds service delivery is, however, available in the form of the reported administrative costs of some of these funds. Table 11.6 summarizes this data.

Glaessner *et al.* (1994) report that the administrative costs of most social investment funds in Latin America amounted to '8 to 13 per cent of the annual commitments once they reached a relatively high level of activity'. The internal comparison of the administrative costs of different funds is complicated by the use of different accounting conventions (Cisneros 1993; quoted in Glaessner *et al.* 1994). Nevertheless, it does seem that their administrative costs may be relatively low as compared to traditional governmental ministries and agencies. This evidence must be interpreted with great caution, however. Social funds administrative costs do not include the direct and opportunity costs to counterparts of executing projects. The administrative costs of

Table 11.6. *Reported administrative costs as a share of expenditure in selected SFs*

Social fund	Percentage
Bolivia, ESF	5.5
Bolivia, SIF	9
Honduras, FHIS	8–14
Honduras, ESF	9
Haiti, ESF	10
Guatemala, SIF	10
Senegal, AGETIP	5
Zambia, SRF	12
Sao Tome, SIF	15
Guinea Bissau, SIRP	26

Sources: Grosh (1990), ILO (1992), Jayarajah *et al.* (1996), Stewart and van der Geest (1995), UNCTAD (1994), Marc *et al.* (1995), and Glaessner *et al.* (1994).

[16] Authors' calculation based on figure reported in the Government of India Economic Survey for 1998–9.

traditional approaches to delivering social services in final form to communities cannot therefore be straightforwardly compared with those of social funds, the work of which may consist only in promoting, selecting, and financing subprojects, but not in executing them.

11.5.2. *Targeting Efficiency*

The appropriate targeting of benefits is a central issue in designing and evaluating any programme meant to benefit the poor. The goals of ensuring that as many intended beneficiaries as possible are reached (minimizing errors of exclusion or *F*-errors), and that as few unintended beneficiaries as possible are reached (minimizing errors of inclusion or *E*-errors), are paramount.[17] The goal of targeting benefits effectively is closely connected with the more general goal of achieving equity in the distribution of benefits. An efficient and equitable anti-poverty programme will both reach as many of the poor as possible (minimize *F*-errors) and benefit as few of the non-poor as possible (minimize *E*-errors).

Social funds may suffer from errors of exclusion, which are sizable for a number of reasons. First, even if they have the alleviation of poverty as their sole objective (which the AGETIPs for instance typically do not) their resources may simply be insufficient. Second, even if they were to have sufficient resources to reach the poor, the ability of their administrators to sort among project proposals according to the extent of deprivation of the proposed beneficiaries may be limited due to incomplete information. Third, poor communities may be less capable than less deprived ones of effectively identifying viable projects and articulating their demands. The last problem is particular to so-called 'demand-driven' programmes such as social funds. It is likely that both the first and third problems have been especially severe for social funds.

In practice, the quality of targeting of social funds has been mixed. Bolivia's emergency social fund has been by far the best documented one in this respect. It was found that employees in positions generated by the fund were overwhelmingly 'prime age' (20–65 years), married (71 per cent), male (99 per cent), and largely the sole income earners in their families (62 per cent). Ninety-three per cent of workers in one survey reported themselves as heads of household, and received 90 per cent of their income from the fund. Finally, statistical estimates suggest that only 13.5 per cent of the fund workers were drawn from the two lowest family income deciles. However, 77 per cent of workers appear to have been drawn from the bottom 40 per cent of the distribution of individual income, and almost half from the lowest three income deciles (Jorgensen *et al.* 1992; Stewart and van der Geest 1995). Thus, in Bolivia's fund employment generation can be concluded to have been weakly targeted in income terms, in that it reached the moderately poor, but failed to reach the truly disadvantaged. However, the fund was a massive failure in attaining gender equity.

[17] The terms *F*-errors and *E*-errors are used by Cornia and Stewart (1993), to describe errors of exclusion '(F)ailing beneficiaries', and errors of inclusion '(E)xcess benefits', respectively. Besley and Kanbur (1988) and Sen (1994) use alternative terminology ('Type I' and 'Type II' errors) to describe the same concepts.

The recent study by the Operations Evaluation Department of the World Bank (World Bank 2002: 14) offers damaging evidence regarding the targeting efficiency of the Bolivian fund and of the social funds for Armenia, Honduras, Nicaragua, Peru, and Zambia. Figures produced in the report show that for all these countries the distribution of the benefits among beneficiaries was strictly proportional. When targeting of poor areas rather than poor households is used as the criterion, the picture is almost identical, with the exception that one country (Peru) appears to be successful at targeting on this basis. It is striking that the only available quantitative evidence on social fund targeting openly contradicts the claim about the targeting and redistributive characteristics of this kind of income transfer.

Other studies confirm the unfavourable benefit incidence of the monies disbursed by social funds. It has been reported that in Honduras' demand-driven social investment fund municipalities with a higher poverty incidence received only $5.40 per head, whereas those with lowest incidence received $56.40. Most cases are far less extreme, however, if still unbalanced. For example, in El Salvador's social investment fund 26 per cent of resources went to the five (out of fourteen) poorest provinces, 46 per cent to the four richest (1990–5). In a study of beneficiaries, it was estimated that 60 per cent of the beneficiaries of Fondo de Inversión Social (FIS) projects were poor and that 40 per cent were non-poor (Goodman *et al.* 1997). Pradhan *et al.* (1998) find on the basis of a careful study of preintervention household-level data that better-off households are more likely to be beneficiaries of social funds investments in health, water, and sanitation. A number of such examples can be readily listed, although there are also examples of seemingly more successful targeting such as Ecuador's Emergency Social Investment Fund (FISE), in which only 3 per cent of loans went to the top 40 per cent of the municipalities (Goodman *et al.* 1997).

Regional imbalance is also frequently observed. Both Senegal's DIRE and AGETIP and Ghana's Programme of Action to Mitigate the Social Consequences of Adjustment (PAMSCAD) were significantly urban-biased. Almost two-thirds of the expenditures of Senegal's AGETIP were located in the capital city and one other district (Goodman *et al.* 1997). In general, AGETIPs appear to have been significantly urban biased. Other illustrative examples of heavy urban bias among AGETIPs include Chad's Social Development Action Project (PADS), the Guinea-Bissau Social and Infrastructure Project (SIRP), and Gambia's GAMWORKS (Marc *et al.*, 1995; and authors' fieldwork). Draper (1996) found that the Economic and Social Assistance Fund (FAES) in Haiti allocated 69 per cent of all financial commitments and 73 per cent of projects to three of nine (more accessible by road and better-off) departments containing 53 per cent of the population. The case evidence makes it difficult to conclude that social funds are successfully targeted at the poor and can help in correcting the inequality of market income.

Little rigorous evidence on exclusion errors of individual social funds is available. However, some idea of the magnitude of such errors of exclusion can be gained by assessing the maximum number of individuals who could be reached by social funds under the best-case scenario, as compared with the actual numbers of the poor in adjusting countries. It can be seen that such proportion has been small. Proportions

of the population estimated to have been reached in different countries range from 0.3 per cent of the population in Ghana, and 0.5 per cent in Egypt to 13 per cent in Honduras, 19 per cent in Bolivia, and 27 per cent in Mexico (UNCTAD 1994).[18] As mentioned earlier, these unsatisfactory results are due to the low resources of social funds in relation to needs, as well as from inadequate information about where the poor are, and the low capacity of the poor to voice demands effectively.

The problem of the differential capacity of communities to successfully formulate and present projects to social funds has been widely documented under Bolivia's SEF, in Brazil, Honduras, and Nicaragua, among other places (Reddy 1997; Tendler 2000). Even where communities do successfully present project proposals, it is possible that these are priorities of community leaders or NGOs rather than genuinely of communities themselves. In Ghana's PAMSCAD (community initiatives project), which was intended to play the role of a demand-driven social fund, 'district-level officials often submitted project lists to central authorities for funding while ignoring project requests at the village level' (Kingsbury 1994). Beneficiary assessments of social funds have also systematically found that projects are disproportionally initiated and led by prominent local persons. For example, such an assessment in Zambia found that fifty-eight of sixty subprojects were initiated by one or two prominent local individuals (Owen and van Domelen 1998). A further index of the extent to which social funds are not truly demand-driven is the striking degree of ignorance of the existence of social funds, their functioning, and local responsibilities, which is prevalent even in communities containing subprojects (Owen and van Domeler 1998).

The problem of low capacities of the poor to formulate and present successful projects has been addressed by social funds in recent years. Their managers have sometimes tried to deal with this problem by consciously intervening to upgrade these skills and assist representatives of the poor in this process. Peru's Fondo Nacional de Compensación y Descardlo Social (FONCODES), Bolivia's FIS, and El Salvador's fund are said to have used active promotion of projects among communities as a means of reaching the poor (Goodman *et al.* 1997). Nicaragua's European Solar Industry Foundation (ESIF), for example, initiated such a programme when this deficiency became clear.[19] Bolivia's Social Equity Forum (SEF), an outreach unit, was established to help people prepare projects but was eventually changed into a programming department, concerned with attaining a particular mix of projects. Such activity appears at least in some instances to have been successful.

Another approach to the equity problems of demand-driven social funds has been to construct 'hybrid' programmes in which targeted supply-driven components complement demand-driven activities. Thus, Chile's Fondo de Solidaridad e Inversión

[18] These figures may include double counting due to individuals being 'reached' by more than one subproject. The definition of 'reached' is unclear as is that of 'beneficiary'. Fergany (1994), for instance, complains of the 'extremely vague' character of the definition of 'beneficiaries' by the Egyptian SFD, which leads to one-fifth of the population being officially claimed as such.

[19] In the early stages of the ESIF, procedures were apparently so unrealistic that even government social welfare agencies were unprepared to produce project proposals at the speed and in the manner required (Fergany 1994).

Social (FOSIS) has a bank of its own projects developed according to equity criteria alongside those received from communities. Similarly, Peru's FONCODES has launched a massive school desk manufacturing programme for which it intentionally contracts only from small vendors, in addition to its demand-driven component (Grinspun 1995).

The idea of a social safety net being demand-driven may be a mirage in the sense that, to ease the administrative burden of selection, project managers often only choose projects that conform to a number of predetermined project types. Beneria and Mendoza (1995) found that this was the case in Honduras and wrote in this regard that 'in reality, the poor have to comply to a pre-established menu of projects if they wish to benefit from ESIF funds'. The variety of problems besetting the demand-driven mechanism of social funds makes it evident that they would be hard pressed to disburse funds both quickly and well. Indeed, in instances where such funds have been lauded for their quick response to emergency needs, this has been only because of their relaxation of their usual requirements, by becoming in particular more supply- than demand-driven (e.g. see World Bank 2000).

A final serious obstacle to social funds reaching the poor is the insistence on receiving counterpart contributions for subprojects. In fact contributions by communities have perversely come to be described in much social fund literature as an indicator of a community's commitment in regard to a subproject, and thereby as a sine qua non for 'participation' (for instance, see Narayan and Ebbe 1998). Although these contributions may in principle be reduced or waived for the very poor, they are often set at a substantial level (e.g. 25 per cent of costs in the case of the Zambian social fund). Even worse, in some cases (Zambia, for instance) communities willing to make bigger contributions score higher in the selection process. Further, contributions are usually required on an 'up front' basis prior to subproject implementation. Narayan and Ebbe (1998) report that 62 per cent of World Bank-sponsored social fund projects require a 'community contribution' in money, land labour, or materials prior to implementation. Alton (1999) finds on the basis of a survey of World Bank project documents a consistent discrepancy between social fund target user contribution levels and actual levels, suggesting that the insistence on such contributions runs in to real constraints of poor people's ability to provide them.

11.5.3. *Long-run Benefits of Social Funds*

Do social funds generate short- or long-range benefits? Clearly, this depends on the nature of the projects involved. The early social funds, which had focused on employment generation, must be judged primarily on their short-run achievements, as it is upon these that they had focused. However, the social investment funds and to a lesser extent the AGETIPs ought to have been examined with the criterion of whether they have produced longer range benefits for the poor, through their investments in social infrastructure. Morley (2000), for example, argues that 'the funds deliver government services to poor communities that never had them before... and they build simple social infrastructure quite efficiently at low cost. They improve the living conditions of the poor even if the measured income of the poor does not go very much up'. However, as noted above there is *no* concrete evidence that social funds' costs of delivering such infrastructure are in fact lower than those of traditional delivery systems.[20] Some analysts have raised questions of whether social funds have made adequate provision for the recurrent costs entailed by social investments; see, for example, the survey of such concerns in Reddy (1997). Later generations of social funds seem to have addressed this concern by requiring commitments by communities or government agencies to undertake such commitments for the future; see Narayan and Ebbe (1998). There may of course be other reasons that social funds are an instrument of more efficient service delivery than traditional mechanisms, such as that the 'demand-driven' approach of social funds may have enabled them to finance the development of forms of social infrastructure most desired by communities. There is, unfortunately, little evidence to permit the rigorous evaluation of this proposition.

Claims that social funds are an instrument for 'demonstrating' pathways of modernization of the traditional state apparatus are probably also highly overstated. It is almost impossible to find documented instances of the vaunted 'demonstration effect'. Additionally, although the participatory approach of social funds is surely an essential element of any appropriate strategy of provision of social services in developing countries, for the reasons adduced above it cannot be the only element. In addition to the errors of exclusion, which they would necessarily entail (due to the differential propensity of communities to engage in self-organization and articulation), there are further inherent limitations to the applicability of this approach, associated with the limited capabilities of local counterparts and communities, and asymmetries of information and incentives. Local counterparts may lack in the capability, and in some instances the incentive, to efficiently provide services to local communities or act to protect a monopolistic role or special interest.

Social funds may be an important long-run instrument, within a larger repertoire of options for delivering income transfers or social services to the poor, and thereby for combating inequality and reducing poverty. However, there is little evidence to support this claim. Moreover, this role for social funds is very different from that originally ascribed to them—to be a 'cushion' with which to reduce the social costs of adjustment.

11.6. CONCLUSIONS AND RECOMMENDATIONS

Social funds have been presented as capable of much larger tasks than they have in fact been able to fulfil. Why then have they been so alluring to decision-makers? The answer lies in the heady mixture of their political symbolism, the ease with which they are seen as 'offering convincing and simple explanations for the causes of certain problems and providing appealing blueprints for action' (Tendler 2000), reflecting a general

[20] For instance, Walker *et al.* (1999) find that although unit costs of Honduras' FHIS are 'very reasonable' compared with the industry norms, those for new water projects are 'three times that which is normally expected in other programmes'.

scepticism of the role of the state and a belief that policy reforms that cause damage to some can still be 'beneficial for all' if suitable compensation is offered.

Notwithstanding the visibility and appeal they enjoyed with national and international decision-makers, social funds played a minor role in reducing the number of adjustment poor and chronic poor, and in reversing the adverse distributive and poverty shifts entailed by economic stabilization and liberalization. The number of jobs added to the economy was generally less than a meagre 1 per cent of total employment. In addition, social funds often allocated their expenditures not to the poorest groups and activities with high social benefits but rather to programmes that required little preparation and were perceived as having large demonstration effects. The targeting effectiveness of social funds has been lower than that of traditional income transfer programmes.

Greater impact on poverty and inequality would have required much larger resources, more permanent relief structures established prior to crisis, improved planning and targeting, and limited reliance on demand-driven mechanisms. Social funds should be viewed at best as a partial corrective to the social costs and inequality generated by policy reform. A more substantial impact on adjustment-induced poverty and inequality would have required a different approach to the policy reform process itself. In its absence, however, social protection would have been more effectively delivered by permanent social security arrangements providing universal but modest insurance against both individual and collective risks. Such social security arrangements (which contrast with the ad hoc and limited social funds) exist in a number of developing countries, as will be discussed. Our most important conclusion is that poverty reduction requires a combination of measures, including a macroeconomic policy designed with attention to its distributive and social impact, sustained investments in social programmes, and the development of flexible but permanent and universal social protection systems that are well integrated into a nationwide social and economic development framework. Our critical examination of the worldwide experience of social funds in the context of adjustment-induced increases in poverty and inequality leads to the following more detailed conclusions as well. To start with, alternative policy reform programmes ensuring macroeconomic stability while avoiding large distributional dislocations and social costs must be identified and employed (examples of such alternative approaches can be observed in countries as different as China, Malaysia, India, and Mauritius). The experience reviewed in this volume indicates that the social costs associated in many cases with the introduction of Washington Consensus-type reform packages were almost never significantly reduced by the introduction of social funds. In addition, the reform-related cuts in social expenditure were reversed by the launch of social funds only in a small number of cases, and years later. Few organizational changes have been effected so far at the IMF to meet this challenge, mobilize adequate funds, or modify the orthodox position on key adjustment policies that have been shown to have adverse consequences for poverty and inequality. In turn, it is too soon to determine whether the changes underway at the World Bank in this area are leading to alternative macroeoconomic and sectoral policies with more favourable effects on poverty and inequality.

Second, it is essential to develop during normal times permanent and cost-effective social security systems. Prior to the introduction of the social funds, several developing countries had developed a variety of social insurance arrangements including employment-based safety nets, targeted transfers, food subsidies, and nutrition interventions (Cornia 1999). Employment-based safety nets can effectively reach needy but able people of working age and permit the achievement of distributive and poverty alleviation objectives over the short-run while contributing to the growth of productivity and poverty alleviation over the long term by speeding up the creation of public infrastructure. India's Jawahar Rozgar Yojana and Chile's Minimum Employment Programme are some of the most successful examples of permanent, large-scale, and affordable public work schemes that were flexibly increased or decreased to meet changes in needs and that covered far greater numbers of poor persons than social funds could have been able to do.

Some middle-income countries had also achieved extensive coverage of social insurance against the risks of unemployment, sickness, invalidity, old age, and occupational injury. In addition, as shown by the experience of Kerala and Tamil Nadu, low-income countries have also been able to develop low-cost, non-contributory, state-funded insurance arrangements providing coverage against key risks of immiseration arising from old age, sickness, injury, and widowhood also in low-income rural settings (Guhan 1992, 1995). Finally, many countries had developed transfer schemes aiming at guaranteeing access by the poor to basic items. In urban South Asia the transfer took the form of targeted rations sold to low-income people at 'fair price' shops while generalized wheat or tortilla subsidies were available in Brazil, Egypt, and Mexico. While generalized food subsidies suffered from several problems, subsidies targeted by broad criteria (e.g. the distribution of inferior commodities disfavoured by the non-poor, programmes limited to poor areas, schoolchildren, nursing mothers, and so on) and direct nutritional interventions constituted cost-effective transfers. Such systems, once in place, provide effective standing protections for the poor and can be readily expanded to protect the newly poor during downturns or sharp price adjustments.

Permanent but flexible cost-efficient arrangements of this type are more likely to contain the social costs of severe crises than hastily arranged temporary social funds with a 'demand-driven' orientation. Social protection arrangements should be introduced prior to the launch of major policy reform programmes—and not years after these have been in operation—both because of the human costs generated by such delay and because increases in poverty, inequality, and unemployment which may occur in the aftermath of policy reform can become self-reinforcing and difficult to reverse, due to the loss of the capabilities of individuals and communities that often results. Creating permanent and yet flexible social safety nets along the lines mentioned above should thus be a priority of governments, the Bretton Woods Institutions, and the International Labour Organization (ILO). Ad hoc social funds should be established mainly in the case of exceptional contingencies, such as when sharply rising social demands entail an overly rapid expansion of existing social arrangements that would limit their ability to protect the poor.

Third, during periods of crisis and policy reform, there is no substitute for the allocation of adequate resources to social protection. It would be virtually impossible to achieve nationwide social protection objectives with the resources allocated to social funds in recent years. In countries committed to fighting poverty, the social protection systems alluded to above absorbed substantially larger resources (2–5 per cent of GDP, excluding pensions) than those assigned so far to social funds. Their ability to expand quickly when necessary in order to meet social needs depended on a permanent structure of experienced staff, a sound portfolios of projects, clear management rules, adequate allocation of domestic resources, supply-driven execution, and, with the exception of food subsidies, fairly efficient targeting.

Finally, the targeting of social protection programmes should aim not only at reducing programme leakage but also at minimizing the exclusion of the poor. Where demand-driven programmes exist they should be combined with supply-driven programmes explicitly aiming at reaching the poorest.

All in all, countries faced by the need for significant policy changes will do well to learn from the chequered experience with social funds and to invest in comprehensive social security arrangements, which can lessen the human and distributive toll of such changes, as well as, more fundamentally, to pursue creative alternative approaches to achieving economic stabilization and policy reform. Such change is unlikely to be the result of shifting intellectual currents alone. It will also be the outcome of social demands, political interests, and institutional imagination.

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PART IV

COUNTRY CASE STUDIES