

# SOCIAL INVESTMENT FUNDS

A Tool for Poverty Reduction and Affordable Housing



**UN**  **HABITAT**  
FOR A BETTER URBAN FUTURE

# SOCIAL

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A Tool for Poverty Reduction and Affordable Housing

Nairobi, 2009

**UN****HABITAT**

## **The Human Settlements Financing Tools and Best Practices Series**

Social Investment Funds: A Tool for Poverty Reduction and Affordable Housing

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# FOREWORD



The global housing crisis, especially in the developing world, is getting worse by the day making the right to adequate shelter a quest that is becoming more and more difficult to meet, despite the targets set by the Millennium Development Goals.

Such is the rate of urbanization – the influx of people into towns and cities, and their natural growth – that the world has now reached a point where for the first time now, half the global population lives in towns and cities.

By the year 2050, six billion people – two-thirds of humanity – will be living in towns and cities. And as urban centres grow, the locus of global poverty is moving into towns and cities, especially into the burgeoning informal settlements and slums, of the developing world. In the developing world, this is happening so fast that slums are mushrooming in what is termed the urbanization of poverty.

This makes it imperative that we use every means at our disposal to ensure that we at UN-HABITAT, and our partners, keep applying ourselves to Target 11 of the Goals – to achieve significant improvement in the lives of at least 100 million slum dwellers, by 2020.

And for this, we need innovative governance, and local thinking and reporting if we are to bring hope to the urban poor. Equally importantly, we need to support our towns and cities, indeed our countries, to adopt pro-poor policies and strategies that will obviate the need for further slum creation.

It is against this background, that the Human Settlements Financing Tools and Best Practices series focuses on the development of know-how, knowledge and tools in human settlements financing, from which Member States can learn in delivering affordable housing to the poor.

A handwritten signature in black ink, which appears to read 'Anna Tibaijuka'.

Anna Tibaijuka,  
Executive Director, UN-HABITAT  
Under-Secretary-General of  
the United Nations,

## ABBREVIATIONS AND ACRONYMS

ABC	Ahora (or Savings) Bono (or Subsidy) and Credito (or Loan). Affordable housing scheme used in Costa Rica and Guatemala.
ACHR	Asian Coalition for Housing Rights
ADB	Asian Development Bank
AGETIPs	Agences d'Exécution de Travaux d'Intérêt Public (Public Works and Employment Agencies)
BOT	Build Operate Transfer
BSIF	Belize Social Investment Fund
BWI	Bretton Woods Institute
CBO	Community Based Organisation
CDD	Community Demand Driven
CDIA	Cities Development Initiative for Asia (operated through the ADB)
CLIFF	Community Led Infrastructure Finance Facility
CODI	Community Organisation Development Institute (Thailand)
COHRE	Centre on Housing Rights and Evictions
DFID	Department for International Development (UK)
FEDUP	Federation of the Urban Poor (South Africa)
FIS (1990-94)	Bolivia's Social Fund,
FIS (1990-93)	El Salvador's Social Fund
FISE (1990-94)	Nicaragua's Social Fund
FISE (1990-93)	Panama's Social Fund
FONAPAZ	Guatemala's Social Fund
FONAVIPO	National Fund for Popular Housing (El Salvador)
FONCODES	Fondo de Cooperación para el Desarrollo Social (Peru's Social Fund)
FOSIS	Fondo de Solidaridad e Inversion Social (Chile's Social Fund)
FSE / SEF	Fondo de Social Emergencia (Bolivia's Social Emergency Fund;1986-1990)
IDB	Inter American Development Bank

IFI	International Finance Institutes
IMF	International Monetary Fund
IPF	International Personal Finance
LAC	Latin America and the Caribbean
LG	Local Government
O&M	Operation and Maintenance
OPIC	Overseas Private Investment Corporation
MPI	Zambia (1991-1995)
MU	Management Unit (of Social Fund)
NGO	Non Governmental Organisation
NSDF	National Slum Dwellers Federation
PMU	Project Management Unit
PPP	Public Private Partnership
PROCUMUNIDAD	Fondo de Promoción a las Iniciativas Comunitarias (Fund for the Promotion of Community Initiatives) [Dominica]
PRONASOL	Mexico's Social Fund (1989-93)
SA	South African Alliance
SAPs	Social Action Programmes
SDI	Slum/Shack Dwellers International (South Asia and Africa)
SEF	Social Emergency Funds
SF	Social Fund(s)
SFD	Egypt's Social Fund for Development
SIDA	Swedish International Development Agency
SIF	Social Investment Funds
SIRP (1989-93)	Madagascar's Social Fund
SPARC	The Society for the Promotion of Area Resource Centres
SRP	Zambia Social Fund (1989-93)
UPDF	Urban Poor Federation (Cambodia)
WB	World Bank



# TABLE OF CONTENTS

FOREWORD	III
ABBREVIATIONS AND ACRONYMS	IV
TABLE OF CONTENTS	VI
LIST OF TABLES AND FIGURES	IX
INTRODUCTION	1
Objectives	1
Issues	1
Structure of Report	2
THE CONCEPT OF SOCIAL INVESTMENT FUNDS	3
The Theoretical Concept	3
The History and Development of SIF	6
Detailed Objectives of Social Funds	11
Participation and Structure within SIF	14
CHARACTERISTICS OF SOCIAL INVESTMENT FUNDS AND THEIR EFFECTIVENESS	18
The Unique Characteristics of SIFs	18
The Effectiveness of SIF	21
A Change of Direction	24
A Role for Housing?	26
FINANCING SOCIAL INVESTMENT FUNDS	29
Funding Mechanisms of SIF	29
Major Funding Sources for SIF	29
Financing Social Funds in Relation to Social Expenditure	30
Financial Viability	32
Financial Recommendations	33
SOCIAL INVESTMENT FUNDS AND AFFORDABLE HOUSING	35
The Issues	35
State Provision	37
State Enabler	37
Demand Driven Subsidies	37
The Private Sector	48



RECOMMENDATIONS	50
Summing-up Social Funds	50
A New Proposal	51
Future Projects	51
Towards Funding Solutions	52
Institutional Change	55
Further Study	57
REFERENCES	58
APPENDIX 1: SIF GENERAL CHARACTERISTICS, LAC	62

# LIST OF TABLES FIGURES AND BOXES

## Tables

- 1 Evolution of Social Funds in Latin America: The IDB experience
- 2 Social Funds: Participation Analysis
- 3 Expenditure on Selected Social Funds (SF) as a percentage of GDP and Social Expenditure (SE), Social Expenditure/GDP Ratio; Real Social Expenditure/Capita
- 4 Capital and Equity of Urban Poor Federations operating in Africa, Asia and Latin America.

## Figures

- 1 Selection and operation of SIF in LAC
- 2 The CLIFF Process.
- 3 Levels at which the revolving fund could operate

## Boxes

- 1 Introductory note to Structural Readjustment Policies (SAPs)
- 2 Deconcentration or Decentralisation?
- 3 Belize: The Importance of Technical Assistance at the Sub-Project level
- 4 Revolving Funds for Productive Projects
- 5 Financing Social Funds – The Problems
- 6 Financial Sustainability- Issues
- 7 Financial Viability of Social Funds
- 8 CLIFF Financial Support
- 9 Summary of Urban Poor Fund Affiliates and their Activities
- 10 Private Equity Funds – How it works
- 11 The Difficulties of Engaging with the State



# CHAPTER 1

## INTRODUCTION

### OBJECTIVES

Whilst the principal objective of this report is to undertake an evaluation of Social Funds (SF) – both in terms of its institutional functionality and the scope of the projects, there is also a secondary purpose. In evaluating the Social Fund, there was a need to investigate the role and relevance of affordable housing programmes which may have been built into Social Funds. In the absence of any institutionalised solutions to affordable housing programmes within SF, this report will endeavour to research the applicability of integrating housing finance or affordable housing mechanisms into the Social Fund.

### ISSUES

Social Funds have existed since the mid 1980s. The model has been replicated globally, since its early inception in Latin America. The World Bank alone has funded more than US\$4 billion in SF in over 60 countries (Bhatia, 2005) – with some commentators claiming it has had questionable results.

In discussing the success of the Social Fund – a project which from the outset has sought to reduce poverty - it must be made clear that two alternative definitions of poverty have

arisen: one based on income or expenditure<sup>1</sup> alone and the other on the accessibility to basic needs<sup>2</sup>. By using an income based definition of poverty, only programmes that increase the income of the poor reduce poverty. Hence any health benefits to expecting mothers from the construction of new clinic, or the educational value of a new school which provides for special-needs children would be lost, based on the income definition of poverty. The accessibility to basic needs is important; and with the exception of housing and jobs, these services are accountable to the public sector. Another measure of poverty is based on the notion of exclusion. A person or group is considered poor if they do not exert control in the decisions which affect their welfare<sup>3</sup>. Hence in social funds, there is a clear need to measure the accessibility to basic needs.

<sup>1</sup> Income or expenditure based poverty measure leads to poverty lines which are multiples of the amounts needed for subsistence: one takes total family income or expenditure per member and compares this with the poverty line. If this is less, one is considered poor.

<sup>2</sup> Using a Basic needs measure of poverty one is considered poor if a person is unable to satisfy their basic needs e.g. access to basic education; health care; sanitation, minimal housing and in some cases employment.

<sup>3</sup> See Morely (2000) for a more detailed account of these definitions.

## STRUCTURE OF REPORT

*Chapter 2* outlines the basic mechanics of a Social Investment Fund. Describing the who, what, when, where and how of the Funds. The Chapter introduces the trade-offs that are required when implementing a fund.

*Chapter 3* provides a more specific overview of the unique characteristics of Social Funds, over the last thirty years, highlighting where the weaknesses lie. With this in mind, the chapter informs how Funds have chosen to move forward in addressing these issues. Whilst the mechanics of the funds have been exposed, the chapter discusses the appropriateness of introducing Social Funds that could facilitate housing options for the poor.

*Chapter 4* explains the financial sources of Social Funds over the years and critically, it explores the financial viability of the funds. Some suggestions are made towards methods to improve funding options.

*Chapter 5* refocuses the current debate on social funds away from performance and towards a revised sub project menu that would include the provision of affordable housing. Various housing policies are discussed where the state has acted as both the provider and enabler of affordable housing provision.

The role of the public non-profit sector (or the work of NGOs), is discussed to illustrate the influence which Urban Poor Federations, or organised low income communities have had in setting the affordable housing agenda across Asia and Africa through their work on savings and credit. Finally, whilst the private sectors involvement in social funds per se is minor, their role in funding microcredit schemes is increasing. For this reason, their role in facilitating housing options for the poor is discussed.

*Chapter 6* summarises the effect and relevance of social funds today. Importantly, the chapter observes where the current weaknesses in the model lie and how, in part, these could be rectified with a few radical changes. The recommendations identify three key sectors of reform in social funds – the projects; the institutions and the funding sources. A proposal to introduce a ‘revolving fund’ which would ease the problems of the above sectors is discussed. Further recommendations and studies are also suggested.

## CHAPTER 2

# THE CONCEPT OF SOCIAL INVESTMENT FUNDS

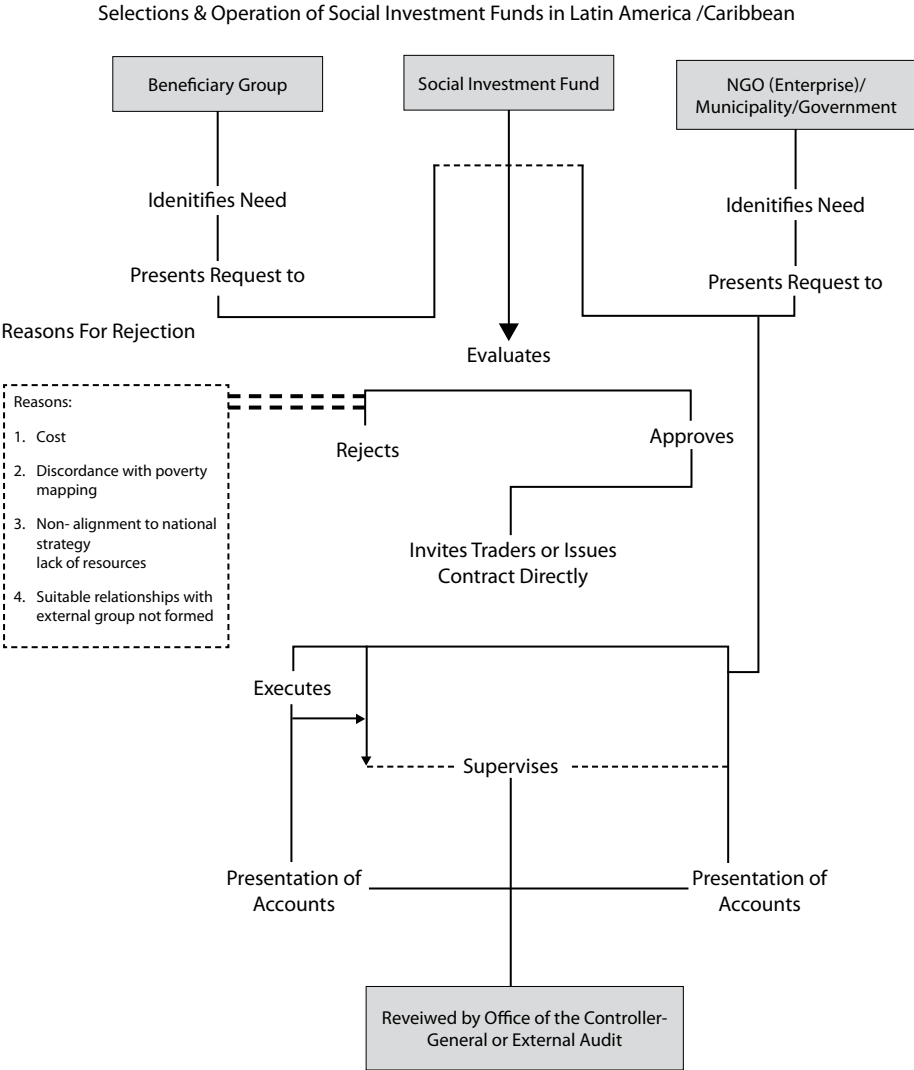
### THE THEORETICAL CONCEPT

**What** - A Social Investment Fund (SIF) or Social Fund is a quasi independent agency which stands parallel to a national government, to administer and distribute grants for small-scale community projects. Although located parallel to, or within government, the SIF's are designed to reflect national policies by targeting poverty reduction projects in geographical areas where there is otherwise an absence, or limited amount of state funded support.

**Who** - The term 'Social Investment Funds' or 'Social Fund' applies almost equally to the projects funded by international finance institutes (IFI), primarily the World Bank (WB), and Inter-American Development Bank (IDB) who have been responsible for financially supporting the lion's share of SFs over the last 20 years. The likes of IDB and increasingly the Caribbean Development Bank have become long term financiers of Social Funds. In addition to the major IFI that support the funds, governments make a small contribution to the administrative or project capital.

The financial contribution to the Social Fund from the IFI and the supporting government is managed by the Fund's in-house Project Management Unit (PMU). The SF team liaises closely with ministerial counterparts to ensure a strategic allegiance for targeting poverty reduction. In many cases, the Board of Directors of SF are the Ministerial heads, or Chief of departments from the government. Whilst the collection, disbursement and management of finances are managed internally with the PMU, the fund has adopted a private sector approach of commissioning procurement opportunities to sub-contractors. By utilising mobile and disbursed field officers who operate throughout the country, the fund provides a counterpoint to both urban communities and remote village settlements: giving often poor and neglected communities an opportunity to not only benefit from 'social investment' but to decide in which type of project is required for their community. Thus in theory, the Funds' approach is bottom-up in scope. Figure 1 illustrates in further detail how a project is selected and implemented. Note this structure can change depending on the country.

FIGURE 1: SELECTION AND OPERATION OF SIF IN LAC



Source: adapted by author from Wurgaft (1995)

A distinguishing characteristic of Social Funds is that projects are selected predominantly through a 'demand-driven' approach, though the selection is limited to a choice from a 'menu of options'. Chosen projects are then appraised against the Funds objectives<sup>4</sup>. Once a project is selected, either the community, or a selected contractor will begin to implement the work themselves. The demand-driven tool is an inherent mechanism within the Fund, to support local stakeholders in the decision making process of sub-project proposals.

When - Bolivia was the first country to adopt the Social Investment Fund model in 1986<sup>5</sup>, as a result of the structural readjustment programmes that took place throughout the region. Since then, the model has been replicated in most of Latin America<sup>6</sup> and the Caribbean. In other parts of the world, notably Africa, which initiated the SIF model in 1991 in Zambia, the funds have subsequently become the mainstay of the social policy for governments.

How – Initially, Social Funds were established in Latin America as a temporary solution to manage the macro economic shocks incurred through structural readjustment in the 1980s. Once donors saw how these temporary institutions established their networks and were actively dispersing funds, mobilising community groups, swiftly awarding contracts, liaising with authorities, and implementing a plethora of projects across rural and urban areas all in a very short time; they were persuaded to revisit the model. Rather than being temporary, the Social Fund provided opportunities to target poverty reduction with the supply of basic services by transferring to a more permanent status.

Within half a decade or so, the transition to a temporary status saw the emergence of established semi-permanent institutions with the full support of the host government. Social Funds came to be seen as mechanism to provide supplementary support to public works programmes.

The scope, or objective, of the fund can vary from country-to-country. The following categorisation attempts to capture the essence of the majority of the funds under the following headings:

- upgrading social and economic infrastructure;
- developing civil society and social capital,
- promoting private sector contracting;
- developing income generation activities; and
- supporting national programmes of decentralisation.

The Social Fund projects support government line ministries through social and economic infrastructure programmes, though increasingly, activities in vocational training or productive type programmes are apparent. The objectives of Social Funds vary considerably. Appendix 1 provides a more thorough, yet non-exhaustive list, of the stated objectives of SIF programmes across Latin America and the Caribbean (LAC) and of the African Social Funds.

As seen in Appendix 1, the objectives are largely homogenous in their scope, with the central aim of reducing poverty and further, to reach the poorest through 'social capital' projects (see El Salvador's FIS) – as well 'income improvement' schemes.

<sup>4</sup> The ambiguity behind the Fund's objectives has often made it difficult to determine the 'impact' of a SF. Without clearly defined goals, it is difficult to assess the success of the scheme and how it needs to go forward.

<sup>5</sup> Bolivia's Fondo de Social Emergencia (FSE) is often cited as being the first SIF, due to the international attention it received, however, Costa Rica initiated a similar SF programme in 1977.

<sup>6</sup> The exception is Mexico and Brazil, both of which have a very similar institute to Social Funds.



Characteristics of the early LAC Social Funds are distinguishable in how they operated in a temporary environment; in some cases acting as a bridging agency in post conflict countries, such as Guatemala's FONAPAZ. Perhaps more crucially to this paper is how the intention of Dominica Republic's PROCUMUNIDAD promoted civil society involvement in resource management and how Chile's Social Fund, Fondo de Solidaridad e Inversion Social (FOSIS), sought to support income-generating activities, as methods to reduce poverty. Two critical factors can be extrapolated from these latter examples: the role of capacity building and micro-credit. Both factors will be discussed later in the report in terms of how these two elements could move the funds towards incorporating affordable housing options.

## THE HISTORY AND DEVELOPMENT OF SIF

During the 1980s and 1990s national macro-economic policies in the developing world shifted towards a free market approach of economic liberalisation, which would enable these countries to be seen as emerging markets; buoyant for investment from foreign capital. By adopting free market principles, these so called transitional economies consequently underwent enormous social and economic change. The intensity of this policy reform period is evident through the provision of structural readjustment programmes instigated by the International Monetary Fund or the World Bank. This change can be reflected in the increasing number of structural readjustment programmes undertaken by these developing countries in the 1970s which doubled and in some cases tripled in the 1980s (Cornia et al 1987: 49).

The structural adjustment policies in the early 1980s sought to restore macro-economic balance. It was presumed that this attention to seeking macroeconomic stability would lead to

a return to economic growth which accordingly would have the least affect upon the poor. However, it was later established by the World Bank that a "resumption of growth" would take longer than anticipated; indicating that structural adjustment was causing temporary poverty. Thus interim measures were required to offset these social costs imposed by these policies, whilst also aiming to improve the political viability of the reforms (World Bank, 1986, cited in Cornia 1999). Not long after this, the first Social Investment Funds were established to support income maintenance and social expenditure programmes aimed at compensating the 'adjustment poor'. However the distinction between 'chronic poor' and 'adjustment poor' was never clearly defined, or targeted. Consequently both the remit and scope of the Social Investment Funds began to evolve into wider programmes – with a shift of emphasis from "income maintenance to community based provision of social services" (Cornia, 1999).

The emergence of 'Social Funds' throughout Africa and Latin America in 1980s and 1990s rose in response to the need to provide a form social assistance to the economic realities facing the poor and vulnerable in these transitional countries. In Eastern European countries, state funded social assistance programmes, such as unemployment insurance or assisted health treatment helped to support this transition.<sup>7</sup> Nevertheless, Social Funds in the Balkans, Caucasus and Central Asia became established (Bigio, 1999, Chase 2002).

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<sup>7</sup> Social Investment Funds are not considered part of a 'social protection' or 'social assistance' programme; as funding is reliant on donors and thus external from government. Further, Social Funds do not have guaranteed permanent status. See Wood J et al (2008): Upscaling of the Social Protection Index (SPI) for Committed Poverty Reduction, ADB for further reasoning on why SF are omitted from a recent pan-Asian Social Protection study. Also see Siri (2000) page 21 for a similar caution of SF being perceived as open-ended social assistance programmes.

## BOX 1 INTRODUCTORY NOTE TO STRUCTURAL READJUSTMENT POLICIES (SAPS)

**Background to Structural Readjustment:** After the Second World War, the inception of the Bretton Woods Institute (BWI), otherwise known as the “Washington consensus”, led to the formation of the International Monetary Fund (IMF) and the World Bank. Both of these parties have strictly applied monetarism (neo-classical economic theory), which later evolved to neo-liberalism, in their policy making. As a condition for lending money to less developed countries, so that they could finance their deficit, or apply for new loans, the IMF and WB imposed Structural Readjustment Policies.

**What is SRP?** Structural Readjustment Policies or SRPs are recommended by the IFC and WB to recipient countries of loans.

**Key Features:** Although Structural readjustment policies are designed for individual countries they have common traits. They can be composed of: (a) Stabilisation Policies, and (b) Structural Adjustment. Whereas ‘Stabilisation Policies’ are composed of: i) fiscal policy, (ii) monetary policy and (iii) devaluation; ‘Structural Adjustment’ is composed of: (i) resource mobilization (ii) public sector allocation (iii) market liberalization and (iv) institutional reform.

Market liberalization – a facet of Structural Adjustment, is composed of: goods market (agriculture and industry); current account (exports and imports) domestic financial markets (banking system); capital markets (treatment to foreign capital) internal factor markets (capital & labour); return to market-determined price; removal of qualitative restrictions; promotion of private sector operations; limitations on the role of government.

Promotion of private sector operations is composed of: Divestiture (leaner civil service, health, education, housing, etc); closure (transferring state firms to the private sector); privatization of services (contracting out) exposure to competition from the private sector (prisons, hospitals, schools, etc). Many of these structural adjustment policies were adopted by emerging countries, in the developing world.

**Why did LAC region need Structural Readjustment:** Several stabilisation techniques were used as LAC countries decided to follow neoliberal trade agreements. Trade liberalisation, liberalisation of the labour market including domestic financial deregulation and the liberalisation of the capital account have all been techniques used by LAC countries in the advent of neoliberalisation.

**Impact of SR on the Poor:** “The distributive impact of SAP is indeterminate as it varies with the quality of existing institutions, human and physical infrastructure; the degree of diversification of the economy, the size of export orientation and labour intensity of the tradeable sector, the elasticity of supply responses and policy mix” (Cornia, Reddy, 2001). However, evidence suggests that inequality between 1980-2000 rose in line with policy reform in Africa, and LAC.

Setting aside stabilisation policies for the moment; culminated evidence cited by Cornia and Reddy suggests that when “assessing the overall neoliberal policy package (proxied through a synthetic index measuring the intensity of reforms) on wage differentials for 18 Latin American countries between 1980-1998, Behrman, Birdsall, Szekely (2000) found that the overall package had a significant disequalizing effect, which, however, tended to decline over time.” Further, “the effects of liberalization and globalization during 21 reform episodes in 18 countries (13 from Latin America; 3 from Asia; Russia and Zimbabwe ) over the last two decades found that inequality rose in 13 cases, remained constant in 6 cases and improved in two” (Cornia & Reddy, 2001). However, each Structural Readjustment policy instrument – whether its trade liberalization; liberalization of the labour market; domestic financial deregularisation and the liberalization of the capital accounts all have varying effects on the success of a country’s adoption of these macroeconomic policies.

Source: Jauch (1999); Behrman et al (2000); Cornia & Reddy (2001)

Social Funds can be roughly classified into the following three categories<sup>8</sup> :

- *Social Emergency Funds (SEFs)*: Transitory in nature; counter-cyclical programmes targeting the poor and non-poor affected by structural adjustment. Multisectoral operations. Operated by autonomous or semi autonomous organisations, independent to public authorities—utilising the private sector and NGOs. Externally funded and demand-driven. Small scale projects were implemented to generate short-term employment. Emphasis was on quick disbursement of funds to provide tangible results. Examples would include Nicaragua's and Bolivia's SEF.
- *Social Investment Funds (SIFs)*: The introduction of SIFs evolved from macroeconomic stability. SIFs are similar to SEFs in all of the above characteristics. Yet, their defining difference is with their long-term commitment to a country which continues after structural readjustment. Secondly the demand-driven process created programmes that sought to alleviate poverty through increasing the supply of facilities; whether it was health, education, water and sanitation or vocational training. Examples would include Zambia and Jamaica.
- *Social Action Programmes (SAPs)*: The least prevalent; multisectoral in scope; and predominately supply driven. Converse to both SEFs and SIFs, the SAP are managed by line ministries. They have been implemented as part of a structural adjustment programme to target the 'adjustment poor' and 'chronic poor'. Examples include Pakistan's SAP.

A special mention must be made of the Public Works programmes that operate throughout West Africa, known as AGETIP<sup>9</sup>. These AGETIP programmes started in Senegal in 1989. By definition AGETIPs are not a Social Fund, there is however, a strong similarity in their objectives and historical context. The first AGETIP commenced two years before the first Social Fund in Africa.

- *AGETIPs* – The aim of the operation was to delegate public work programmes to commercial, yet non-for-profit agencies (AGETIP), which operated infrastructure projects to address urban unemployment and economic deficiencies through small scale public works projects.

The main difference between the AGETIP, or other general public works programmes and Social Funds is threefold. Social Funds acts as a mini-bank, or holding agency of funds, distributing finance to contractors, NGOs or micro-credit groups on delivery, whereas the AGETIPs are paid to implement. There is more emphasis on the Social Fund to select projects along with participants from the community. Funds research the adequacy and timeframe of each programme and short-list those responsible to implement the project. Secondly, many public works programmes, focus on short term employment generation unlike Social Funds, which have a wider mandate in attempting to invigorate capacity building, strengthen civil society, generate non-infrastructure income generation and -promote the private sector as well as decentralisation. Finally, Social Fund projects are supposedly led by the demand driven process of local communities selecting projects.

<sup>8</sup> Cited by Cornia (1999)

<sup>9</sup> Agences d'Exécution de Travaux d'Intérêt Public (Public Works and Employment Agencies)

Other attempts to classify Social Funds have been made by distinguishing the types of activities which the funds undertake (see Jorgensen and Van Domlen, 2000). However, with numerous Latin American funds fitting into several categories, this typology soon became flawed.

Perhaps a more useful attempt of classifying Social Funds was the study undertaken by the IDB (2002). Their typology illustrated in Table 1 separates out Social Funds by the generation in which they were created. In doing so, a number of commonalities come to the fore. The first generation of funds created up until 1995 to respond to emergency situations, focused on social compensation - to the neglect of community participation and multi-sectoral programmes. The second generation of Funds began to evolve and learn from these omissions.

Administered from 1995-1998, this second generation began to specialise in their project scope and improve their poverty targeting. However the lack of maintenance of sub-projects was still an issue – primarily as a consequence of municipal and community exclusion from the project cycle. Again, as new rounds of funds were initiated, previous mistakes recorded in post-evaluations were taken on board and amended into the third generation funds. This most recent set of funds from 1998 to present, involved greater community participation in the project cycle. In all cases, there was a link between SIF and their intention to reduce poverty and inequality. Attempts to decentralise projects in line with national policies, such as improved water supply and drainage, also had greater emphasis. In addition to these changes, improvements were made to apply sustainable livelihood approaches to development.<sup>10</sup>

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<sup>10</sup> Six assets of Sustainable livelihoods exist: human, natural, financial, physical, social and political. Third generation Social Funds applied human and social capital to their projects.

TABLE 1. EVOLUTION OF SOCIAL FUNDS IN LATIN AMERICA: THE IDB EXPERIENCE

	FIRST GENERATION (1990- 95 /'96)	SECOND GENERATION TO 1998 /'99)	THIRD GENERATION (1998 /'99 TO PRESENT)
Community participation	Demand of projects. (induced by private sector promoters)	Beneficiary communities and municipalities excluded from the project cycle	Emphasis on community participation and community strengthening in project cycle
	Excluded from project cycle		
Targeting	Ex-ante defined eligible. Investments for prioritizing social infrastructure	Development and use of poverty maps for targeting investments to the poorest communities	Attention to allocation with efficiency and equity criteria
Relation with. Line Ministries	Inter-institutional agreements defining Operation and Maintenance (O&M). responsibilities	Use SIFs to help trigger reforms in the social welfare sector	Most SIFs transformed into permanent institutions. However definition of SIF role not sufficiently clarified
		Facilities often lacked staffing for adequate. operation	Intensive work on inter institutional coordination with line ministries because central/inter-agency
		O&M arrangements failed - projects financed under previous operations needed repair	
Local Government participation	Mostly excluded	Mostly excluded	Focus on decentralization and coordination with local governments:
			Sharing Financial responsibilities
			Greater delegation of project cycle
Project. Characteristics	Focus on Employment. programs and Social Compensation	Focus on Social and economic Infrastructure	Emphasis on integrated investments at the community level in order to maximize the impact of investments. New role in human capital strategies
	Programs		

In summary, Social Funds in the mid 1980s and throughout the 1990s were marked by key characteristics which helped to define this approach to poverty alleviation from established social assistance programmes. The Social Funds' multisectoral approach meant that the managers of these programmes could design programmes that cut across disciplines to effectively improve their poverty targeting. An example would be the provision of water supply and waste water systems,

which would directly and indirectly improve the health and education of families in rural areas. As mentioned previously, the projects would be both 'demand driven' i.e. chosen by the end user with the additional benefit of creating short-term employment generation, predominately through the design and implementation of small scale infrastructure. Employment generation would also focus on human capital – i.e. benefits to health and education. The earlier Social Fund projects

were designed to target those affected by structural adjustment, rather than just the poor. Finally, Social Funds required political approval from governments to ensure their geographical reach. Linkages with government ministries became increasingly crucial as poverty targeting came to the fore.

Some attempts have been made to offer a further rationale behind the context to why Social Funds emerged (Marc et al, 1995; Cornia, 1995; 1999). The first notion is that the poor needed compensation to counter the temporary rise in poverty caused by macroeconomic adjustment. *Secondly*, Social Funds were introduced to compensate the poor - to counter a further fall in their living conditions after periods of economic instability, the Funds could quickly provide employment. For example, the Bolivian FSE spent US\$179 million over the duration of Fund's life creating 61,000 person years of employment or an average of approximately 20,000 work posts during peak years of operations (about 1 percent increase in the supply of jobs). However, not all funds could generate the similar amount of growth, with Ecuador and Peru managing to increase employment by only 0.2 percent. A *third* reason for the origin of Funds, as reasoned by Marc et al (1995), suggests that adjustment programmes in the near term would leave the most vulnerable with little benefit. Therefore, political opposition to these economic reforms may be thwarted unless plans were made to assist those affected by adjustment, i.e. plans were needed to halt potential internal conflict, protest or civil war. The final rationale for the need for Social Funds was again illustrated in Marc et al (1995) analysis of the Zambia's Social Recovery Project, whereby following years of economic decline, government institutions proved that they were unable to provide a co-ordinated, targeted and multi-sectoral response to emergency situations that would also assist in poverty remediation. Where adjustment had affected some areas,

the local capacity of government was unable to respond to deliver social service programmes.

## DETAILED OBJECTIVES OF SOCIAL FUNDS

The operation of Social Funds can be tracked with three commonly occurring characteristics: the propensity to support small scale schemes, such as business start-ups, microcredit and other socio-economic characteristics. Secondly, the projects, although demand driven, can also be proposed by local government, or other local organisations, who are responsible for organising the submission of the project brief and its implementation. In theory, the proponents of the project will also contribute to the finance and operation and maintenance (O&M). Finally, the Social Fund will be managed by an autonomous institution which is separated politically and financially from government (Batkin, 2001).

These generic operational characteristics of the Funds, listed above are important to illustrate how the Social Funds can be applied to varying circumstances across different countries. A combination of objectives has been used to accommodate these varying country contexts. Although the method of operation is common across Social Funds, the means to which poverty reduction is achieved varies considerably.

Previous social sustainability development programmes failed because of resource constraints, persistent and systematic weaknesses in the public sector, lack of community ownership and technical skills. The Director of the Jamaica Social Fund, Ms. Gillings, asserts that the failure of these programmes to be sustained beyond their inception phase, was due to lack of technology transfer that would have enabled communities to undertake a greater role in the management of public facilities (cited in Bigio A, Ed 1997 pp83).

With the above assertion in mind, the Social Funds that were conceived throughout the 1980s and 1990s drew together common characteristics, that aimed to implicitly respond to their *raison d'être*; whether it was emergency situations, natural disaster, economic adjustment, chronic and acute poverty, or resettlement. Social Funds are made up of combination of the six objectives, listed below:<sup>11</sup>

### *1) Short Term Labour Opportunities*

Almost all Social Funds have had this as an objective. Wage levels are set at, or below the national average, to promote self-targeting and increase the likelihood of reaching the poorest of the poor. However, because a significant proportion of the scheme's investment is directed towards construction materials, (sometimes reaching 80 percent of project costs) and for the skilled labour and design; the poorest of the poor are often not well targeted. When the projects are responding to natural disasters the emphasis is on rapid dispersal of funds which is often costly and not entirely efficient.

### *2) Infrastructure Creation and Rehabilitation*

Possibly the most widespread objective of Social Funds over the years is poverty reduction through social and economic infrastructure. Projects such as rebuilding clinics, extending schools, providing potable water supplies, building roads, have been common across Latin American and Africa. Emphasis is put on the efficient, cost-effective delivery of the project, through competitive tendering and providing operation and management support throughout the process, leaving the community to become involved in the selection process and provide unskilled labour.

### *3) Non-infrastructure Income Generation*

Several Funds, such as Chile's FOSIS, moved beyond social and economic infrastructure projects to direct income generation activities which include microfinance, business start-ups, food banks and agricultural investments<sup>12</sup>. However, the extension of these programmes away from infrastructure presupposes the adequate skill base of Social Fund staff to manage microfinance. Issues around managing the public-private aspects of these projects are less clear cut than infrastructure upgrading projects.

### *4) Private Sector Promotion*

Opportunities for new contractors to become involved in public sector and Social Fund projects is often promoted in countries that have erstwhile a poor history of private sector activity.

### *5) Civil Society Strengthening*

Converse to the above objective, some Social Funds' primary aim is to develop the social capital of its beneficiaries. Using the funds as a catalyst for communities to organise, plan, implement and manage projects empowers them and creates ownership of projects. Some objectives in the past have aimed to mobilise the more organised and vocal communities.

### *6) Decentralisation*

The Social Fund methodology has been adopted by countries that aim to decentralise their government administration and strengthen local governance. The funds provide the opportunity to decentralise scheme selection, planning, financing and implementation. The decentralised mandate of social funds is to develop new government systems for planning and managing resources, institutional capacity building, staff training, the design of operation manuals and supporting community involvement.

<sup>11</sup> Batkin A (2007) Social Funds, theoretical backgrounds.

<sup>12</sup> See appendix 1 for snap-shot overview of LAC Social Funds, including Chile's FOSIS

Depending on the size of the country and its Fund, the maturity of the programme and the experience of the staff, along with several other factors, the objectives can vary, with all funds incorporating at least two of the above objectives and some decentralisation programmes having all six. Consequently, there are numerous trade-offs which have to be made, which are perhaps overlooked in the design stage of the projects.

From the numerous evaluations of funds there are certain trade-offs between the objectives which need to be considered by the fund designers (Batkin, pp435-436):

- *Trade off 1: Quick disbursement vs other Objectives:* In responding to natural disasters or economic crisis, there is pressure to disperse funds rapidly. This pressure reduces the opportunity to prepare a managed dispersal of funds that could otherwise organise communities and contractors and prepare local governments in advance. Within a non-emergency environment, Social Funds are constrained by prescribed project financing periods. Pressure to disburse will thus constrain the other fund objectives.
- *Trade-off 2: Income from labour vs Other benefits:* A fund which aims to provide short term labour as its key objective does so at the possible disbenefit to other projects. The cost of involving the unskilled labour commands the need to provide large infrastructure costs. Building schools, clinics and culverts and roads requires cement, rods, compacter machines, pipes, not to mention the staff training, logistics, and community mobilisation and supervision. Finding a balance between using the finance of funds for short term labour creation and other objective is key design issue that needs to be considered from the outset of any fund. Notably the issue of whether funds should be providing a short term coping mechanism, as opposed

to projects to reduce risk and vulnerability over the long term, is a key factor in their success that still requires consideration today.

- *Trade-off 3: Parallel structures vs Public sector reform:* Social Funds operate as quasi-independent institutions, often parallel to government ministries. Their separation from government is an attempt to purposefully bypass what is seen as often corrupt and inefficient systems, leaving the funds to directly impart their funds and management on the projects. The numerous Fund evaluations report on their well managed systems, e.g. rigorous, transparent protocols; their ability to pay staff well on private sector salaries, whilst obtaining strong political support for their programme operations. However, as noted by several observers (Bhatia, 2005; Tendler, 2000, Batkin, 2001), these characteristics attributable to Social Funds, exist at the expense of government and donor attempts of reforming the public sector.

There is an apparent conflict with putting ownership of Social Funds directly in the hands of central government line ministries. The demand driven and cross-disciplinary nature of the Funds sub-projects conflict with the remit of the ministries who unlike the Funds cannot canvass and finance for multi-sectoral schemes. Yet the selection of sub projects by the Funds can not happen in isolation – away from national planning. The inherent costs of social infrastructure projects (teachers, medicine and materials) require cooperation with ministries and their budgets.

Local government is almost similarly bypassed, except where decentralisation programmes operate. Whilst Social Funds have shown their ability to successfully implement numerous projects, they have done so at the expenses of leaving ministries and local government in the shadow, continuing to under-perform.



The existence of this parallel structure raises critical questions regarding the future and long term financial and institutional sustainability of the Funds.

- *Trade-off 4: Public, Private and Civil Sector Involvement:* One of the merits of the Social Funds is their inclusion of all these sectors in their projects. Different funds have different approaches in the level of involvement. Whereas some funds rely on the community to construct, manage and monitor the projects, other funds allow the community to decide on the project, whilst using competitive tendering, contractors undertake any work. The point here is that the objective of the fund must be clearly known by all parties at the outset. Otherwise parties will become disenfranchised if their responsibilities are seen to be diminished.

## PARTICIPATION AND STRUCTURE WITHIN SIF

Participation is a key principle of Social Funds. For this reason, they are considered to offer more opportunity for communities to become involved in projects which directly affect them, than government funded projects. Yet as noted (IDB, 1998, Morely, 1998, Goodman et al 1997) the level of involvement of the community in the selection, design, construction, O&M is contingent from the outset in the design of the Fund. Therefore, participation can be limited, as the speed of approval and disbursement of the fund in some countries excludes beneficiaries from the decision making processes, the execution, supervision and maintenance.

Within a region which has strong support of NGOs and Community Based Organisations (CBOs) which have a history of capacity building, Social Funds often subcontract the role of community organisation and scheme identification to these groups. In the absence

of these groups local governments have been encouraged to identify, prioritise, and implement projects after consulting with the community. This method will often involve the co-ordination with national ministries through the use of poverty mapping.

As Goodman et al (1997) and others (IDB, 1998) note, participation needs to exist at all stages of the project cycle decision-making process to ensure successful execution and sustainability of small scale development projects. When beneficiaries make commitments at the project identification stage to involve themselves in the project-cycle, there is more likelihood of projects succeeding. However, to improve the level of participation within Social Fund projects, Goodman et al recommend an “overhaul of project cycle procedures” (pp13) that would make projects better attuned to needs of project beneficiaries rather than key stakeholders such as Social Fund employees and project contractors.

The orientation of the third generation of Social Funds has begun to address the level of participation by carefully designing this mechanism into their Funds. Capacity building entails the participation of all actors – be it municipal officers, or civil society organisations, to collaborate over the selection of priority investments, managing the implementation process, and thus moving the emphasis of the Social Fund, from financing small scale development projects, to creating local linkages that support a network of community groups.

The mantra of “learning by doing” is one often espoused by numerous grassroots organisations<sup>13</sup>. When this approach is adopted by Social Funds, as a capacity building mechanism, this *ideologue* represents the innovative side of Funds - whereby CBOs and Municipal authorities work in identifying projects and their most vulnerable citizens to whom the projects should target (Goodman et al, p13). The approach assumes a delegation of project responsibilities (from bidding contracting, supervision). Crucially, as Goodman et al note, by designing capacity building into the structure of the Funds, projects have an opportunity to imbed a “preventative maintenance culture” through these nationally funded schemes that decentralise maintenance to local stakeholders.

A word of caution must be added, as increased participation does not necessarily equate to a win-win situation, as Batkin notes:

*“..[viewing] Social Funds principally as a means of introducing community participation into infrastructure provision risks diverting attention from the roles (and non roles) afforded to other stakeholders”<sup>14</sup>*

In other words, the multi-sectoral approach of Social Funds must be savoured, which requires the respect of all actors.

Table 2 provides a detailed breakdown of the Funds methodology and the various levels of participation. In terms of ‘participation’, table 2 illustrates possible grey areas within the programme design. The design depoliticises bias in the programme. As seen in Table 2, Social Funds involve elements of stakeholders from the most senior civil servants, down to the most marginalised income groups.

<sup>13</sup> A reference commonly heard by the likes of the Asian Coalition of Housing Rights (ACHR) network and Slum/Shack Dwellers International (SDI) who support a plethora of CBOs working across Asia and Africa.

<sup>14</sup> Batkin A, (2001) page 445

TABLE 2. SOCIAL FUNDS: PARTICIPATION ANALYSIS

STAKEHOLDER	TYPICAL ROLE	COMMENTS
President's/ Prime Minister's Office	Selection of Fund Management Board and Chair Formal agreement with donors Formal approval of schemes, accounts and reporting to donors, Selection of senior PMU management	Social Funds normally established parallel line agencies
Social Fund Management Unit	Fund management, procedures and Reporting to government and donors	Establishment of social fund MU as financial control parallel structure poses sustainability questions. Staff commonly drawn from Outside government, with Higher salaries and allowances. Nongovernmental planning, procurement, supervision etc. procedures are the norm. Integration with government planning (e.g. recurrent cost of new infrastructure) tend to be ad hoc
National Parliament And Local Councils	Minimal – information only	Most Social Funds attempt to avoid political interference'
Ministry of Finance	Minimal: Social Funds normally Off-budget	Except in the (very rare) cases of significant national contribution
Line Ministries	Minimal/No role in scheme selection Or approval Technical standards (roads, schools, Water supplies etc.)	Most Social Funds exclude Line Ministry involvement by design. No linkage between Social Funds and sector planning. Most Social Funds include explicit or implicit requirement that built infrastructure according to National standards.
District/Provincial Local Government	Proposing larger schemes Design, costing, and technical support to community schemes. Scheme appraisal (subcontracted by Social Fund management).	Little linkage mechanism between LG planning systems and community -administrations driven scheme selection
Lower levels of local Government	Scheme identification, selection and design	Authentic community participation only occurs where procedures explicitly require it
Administration	Force account contracting	
NGOs & CBOs	Sub-contractors to social fund management Community organization Community sensitization about social Fund methodology PRA, needs assessment and prioritization Training on procedures (e.g., local groups)	Use of NGOs/CBOs depends on their coverage And capacity. Where NGO coverage is dense (esp. South Asia) they can play the main role in Transition economies working through lower Levels of local government offers a more

TABLE 2. SOCIAL FUNDS: PARTICIPATION ANALYSIS

STAKEHOLDER	TYPICAL ROLE	COMMENTS
Villagers/ Communities	(Normally with LG or NGO/CBO facilitation) Needs assessment Scheme identification Scheme prioritization Local contribution (in cash and/ or kind) Contracting (for small simple schemes) Labour supply (for collecting and Transporting materials and construction Work) Contractor monitoring (in addition to, not instead of, monitoring by a contracted firm or social fund staff) O&M (water user groups, school Management committees, maintenance Fund etc.)	In the less-participatory Social Funds scheme prioritization is done by local government or elites alone, and community participation is restricted to manual labour and cash or kind contributions. Where there is a tradition of Local 'voluntary labour', this can be indistinguishable from forced labour and cannot be viewed as "participation". In countries where there is a tradition of local govt' exacting levies for poorly specified purposes from indicator of participation. If the community as a whole has not met to agree on the contribution they will make, what it is for, and how it will be made (labour or cash), contribution alone cannot be assessed as participation
Marginalized groups	Normally only involved where the scheme identification, prioritization and selection criteria require that the needs of marginalized groups are explicitly considered.	Social Funds are not good at reaching the poorest of the poor and marginalized groups directly
Private companies	Large established companies: Contractors for larger schemes and implementation supervision. Simple buildings, water points etc. "Community companies": non-formal Village groups which undertake simple schemes.	Good Social Funds prioritized developing small & Medium – sized private Small local companies: contractors by preferred selection of local firms & offerings contractor training, in technical skills, pricing and bidding
Donors	Social fund Financing Audit TA (to establish social fund Management, prepare manuals & Procedures, accounting systems, assist appraisal or proposed schemes, etc.) External evaluation	The great majority of social Funds remain highly donor dependant

MU Management Unit; TA Technical Assistance; LG Local Government; SF Social Fund,  
Source: Batkin (2001) p437

## CHAPTER 3

# CHARACTERISTICS OF SOCIAL INVESTMENT FUNDS - AND THEIR EFFECTIVENESS

### THE UNIQUE CHARACTERISTICS OF SIFS

There are numerous traits which distinguish a Social Fund from other poverty reduction programmes. Each Fund is different from the next, partly due to the historical context of the country. In Latin America, Social Funds grew out of the need to protect poorer citizens from structural readjustment and the ensuing debt crisis, whilst also promoting social harmony projects in post conflict countries. In Africa, the establishment of the funds was mainly to provide compensatory measures following on from structural readjustment. South Asia already had a history of public work programmes and for present and former Asian communist countries, social protection programmes was enshrined in the political dogma. The 1997 financial crisis merely encouraged free market Asian countries to initiate their Social Fund programmes. As the funds moved across continents, the template to replicate Social Funds used elements of the early Latin American models, such as Bolivia's Fondo de Social Emergencia. The Social Fund methodology uses affective Project Management Units (PMU) based within, or aligned to national ministries to promote local governance and pilot decentralised management and financing of small scale

infrastructure projects. The PMU success also derives from their accountable practices, having to frequently report to the donors on the outcomes of the projects. The PMU and their projects are also externally audited to improve functionality of the institutions.

The majority of Social Funds are comparably small in Asia compared with other continents. The average Fund size in Asia is US\$18m,<sup>15</sup> compared to US\$240m in Latin America. Initially, funds were established as temporary institutions, though by de facto they have become permanent. Their permanence reflects the perceived success of the programmes by the Funds donors – a moot point for some observers (Wurgaft, 1995; Lustig 1997; Cornia, 1999; Tendler, 2000; Chacaltana, 2002). As the majority of Funds continue beyond their expected life span, and have morphed into semi-permanent institutions, questions are raised over their *raison d'être*. For instance, Social funds act as financial intermediaries, whose function is to mobilise resources (from foreign donors), which enables almost all of the Funds financial operations to be sourced from grants (Siri, 2000).

<sup>15</sup> An exception to this would be Thailand's Social Investment Project (set up as a post-crisis project in 1999) which is sixteen times the average size of Social Funds in Asia.

National governments rarely support more than 20 percent of the Funds finances, therefore leaving the fund's semi-permanent status to rely on the financial whims of donors. Notwithstanding the financial sustainability questions of the funds, donors such as the IDB have chosen to increase their lending to third generation Social Investment Funds to tackle persistent poverty in Latin America.

Whilst Social Funds have moved beyond their original remit to mitigate against structural adjustment, they remain limited in resources and operational capacity to pay-off long term, or structural social debt (Wurgaft, 1995)<sup>16</sup>. Alternative funding strategies for Social Funds at the local and national level needs further debate. The donor-dependent status of the funds may provide the autonomy it needs from central government, but any system which inherently relies on foreign assistance is eventually governed by their mandate.

#### DECENTRALISED BY DESIGN?

This bottom-up approach of working with low income communities compliments a top down poverty targeting strategy which enables the fund to successfully operate in areas often outside of the line ministries scope. Yet, the success of projects reaching the poorest is also heavily reliant on the willingness and ability of communities to prepare project applications (IDB, 1999 P.5). Often the poorest communities do not have the ability to do this.<sup>17</sup> Perhaps, unsurprisingly, Social Funds failed to consistently reach the poorest of the poor in the communities where projects operate.

Nevertheless, evident with a number of Social Fund evaluations, such as Belize, that with the right project champion, a school headmaster, or a village chief, accessibility to the poorest households can be maintained. Combining the PMU poverty mapping and following the line ministries' agenda, the poorest communities can be reached. Accessibility to the poorest does not guarantee the project's success as technical issues prevail. Box 3 highlights this point.

Operating from a central office, with support from regional offices and officers, the Fund takes social projects out of ministerial departments and manages them with a degree of partisan control as well as financial and technical rigour, whilst encouraging local beneficiaries in the design and management of the project. This methodology would imply a degree of decentralisation. Commentators such as Tandler (2000) would disagree and have argued that this decentralised tag is erroneous, claiming that the process represents a 'deconcentrating' of power - as power has not been devolved to local governments. Further, one needs to question the value of a fund's objectives in shadowing a ministries' role and in part replicating a government system. Why should donor support not invest technical and financial resources into an already proven system of democratic governance? Batkin (2000b) similarly notes that the creation of 'poverty' funds diverts attention and resources away from public authority structures to become more efficient, accountable and pro-poor. The case studies in Box 2 provide examples to the limitations of decentralisation within the funds. The examples highlight that whilst regional Fund offices exist to promote participatory action, the money is still dispersed through central government or the central office of the fund.

<sup>16</sup> The definition of Social debt applied here relates to the amount of resources required to overcome poverty and reach a socially acceptable level of equity. It distinguishes between long term social debt, which corresponds to the cost of overcoming poverty existing at the beginning of the 1980s and short term social debt generated as a result of the unequal distribution of cost of adjustment in the 1980s to mid 1990s. (Programa Regional del Empleo para America Latine y el Caribe 1988b) Cited in Wurgaft, (1995)

<sup>17</sup> Chile's micro credit programme reached the 'better-off poor' and 57 percent of project beneficiaries of Uruguay's Fund have incomes above the poverty line.

This allows the central authority to use its discretion as to how the finances are distributed. Evidently, the current approach of managing local projects is less than apolitical<sup>18</sup>. Arguably, the creation of local projects office has increased the dependency of locals on the decision makers – the centralised state – who decide over the selection of local projects (Morely, 2000). Commentators have pointed out that alternatively decentralising tax collection could create greater autonomy for poor communities in the selection and financing of projects within their own region (Morely, 2000).

## BOX 2: DECONCENTRATION OR DECENTRALISATION?

**Columbia's**, *Red de Solidaridad* Social Fund established an elaborate system of regionally managed projects which set budgets and distributed funds by different project lines and locality. The problem with this approach is that it seemed to replace one top down system, with another, only slightly less top down.

**Peru's** FONCODES allows applications to be prepared and projects chosen by the community itself, with some technical assistance from the local SF office. Projects are technically ranked, with the best being selected and built. The fund ensures the bidding process is competitive, the quality is guaranteed and the selected projects meet local need. FONCODES effort to decentralise provides offices all over Peru with 70% of these offices having the final decision-making authority for all projects under US\$60k.

**Mexico's** *Solidard* has a similar project specific committee like FONCODES. However, the allocation of funds across the regions is made by central government, in particular the president and under-secretary of regional development. The criteria for these allocations were never clear, and became controversial.

Source: citing Francke (for Peru case study) in Morely (2000)

Projects require increasingly experienced staff and technical personnel at the project level to deliver programmes to involve the poor at the operational, management and if necessary maintenance phase of the project. Yet, what is assumed in the Social Fund methodology is that a group of urban poor living in close proximity to one another equates to a 'community', who can respond to the impetus to operate a project. As will be explored in Chapter 5, mobilising disparate households to a common goal requires enormous long term effort. Social Funds need to consider adopting new methodologies of working with the urban poor if they are to realise a 'decentralised' and inclusive approach to community development that involves the poorest groups.<sup>19</sup>

Increasing the level of participation amongst the project participants has been recognised by the Funds donors who state that the Funds should:

*"move from being a source of funding to become a unit which assists the poor in finding financing and technical assistance to carry out projects with their own choosing"* (IDB 1998, p13).

With the complexities of organising low income groups, but with the foresight of how this can be done through urban poor groups, the further recommendation by the IDB could embolden existing urban poor groups to integrate with Social Funds:

*"There is a great scope for partnership with NGOs and other civil society groups in this area, which could be subcontracted by the funds to do the actual community organising work"* (IDB 1998, p14)

This recommendation needs to be considered in the next steps of understanding urban poor groups (see Section 5.3.4. of Chapter 5).

<sup>18</sup> The author's field assessment found evidence of political opportunism in the operation and maintenance of water and sanitation projects at the district level. However, this is something that can be 'designed-out' of any process (see Crosbie 2008).

<sup>19</sup> After more than a decade of developing relationships with local stakeholders, the Urban Poor Federations in Africa and Asia (which are detailed in chapter 5) are now successfully invited to the negotiation tables of major and minor development projects.

## THE EFFECTIVENESS OF SIF

By the late 1990s it was becoming clear as to the effectiveness of SIF. Since the 1990s, numerous evaluations of Social Funds programmes have taken place which have challenged the prognostication that the Funds provide a silver bullet to stabilise the impact of poverty on the poor as market reform programmes took place (see Cornia, 1999; IDB 1998, 1999; Wurgaft, 1995; Chacaltana, 2002; Tandler, 2000).

Whilst the early part of this chapter and Table 2 suggest some of the weaknesses of the funds, their effectiveness is indicated through several measurements. For instance, from a financial perspective, by the early part of 2000, Social Funds had globally received over US\$2bn in just a decade (see Section 4.2 for a more detailed description of their funding parameters) to support their in-country operations. The majority of this funding was supported from IFIs such as the WB and IDB in grant form, with little onus placed on the funds managers to move towards financial self-sufficiency. Within a decade Funds had suddenly become a large beneficiary of international aid - rather than central or local government - in mobilising and implementing small-scale community infrastructure projects. Yet, their ability to cost efficiently deliver, design and implement projects that reach the poorest effectively needs to be considered beyond their monetary expenditure.

However as stated above in this chapter, it is apparent that the funds face difficulty in reaching the poorest of the poor. Even if the poorest 'participate', this does not necessarily equate to their ownership of the finished product for their community. Financial, technical and administrative hindrances such as the education level of a village leader and their 'know-how' of the procedures can prevent linkages between the real needs of isolated communities and the outreach staff of SIF. Thus, Funds can and do easily fall into the trap of providing services for articulate,

organised communities, that may have few public services and may be cash-poor, but are socially stable and follow self-sufficient livelihood patterns such as the Mayan communities in Central and Latin America. Therefore, there is space in which Funds need to provide for the poorest. Although tools such as poverty mapping are beginning to be used by line ministries and fund managers, these have limitations if outreach officers can not frequently (i.e. at least once a month) visit communities and settlements to conduct reviews and analysis of the projects. This is currently not the case. After the projects are implemented, officers rarely revisit projects until a year later. Clearly there are weaknesses within the system.

## SOCIAL FUND PERFORMANCE - STRENGTHS AND WEAKNESSES:

It's worth noting their relative strengths and weaknesses, based on the funds objectives which were highlighted in *Section 2.3*:

- ***Short term labour opportunities:***

The funds have fallen short in creating significant employment opportunities that were expected to counter the structural economic changes. The average level of employment created by Social Investment Funds has been less than 1 percent of the total labour force (Siri, 2000 P.8).<sup>20</sup> Yet as noted by IDB (1997, P131, P83) and Siri (2000) this is hardly surprising, given that the small size of the funds total expenditure in relation to the countries' GDP, which is often less than 1 percent in most cases. Pointedly, the resources available for Social Funds were not adequate to provide employment generating programmes.

<sup>20</sup> As collated by Lustig (1997), citing Moncada (1996) WB (1997) and other LAC evaluations, Latin America Social Funds increased the level of employment only marginally: The El Salvador fund, FIS, created 4,400 jobs per year or about 2.5 percent of the unemployed. Around 50 percent of those employed on projects had an income below US\$32 (close to the extreme poverty line). The Honduras Fund, FHIS, created 9,000 jobs per year between 1990 and 1995; direct employment from the fund equated to 7 percent of the unemployed. In Peru, the FONCODES produced an average of 19,000 jobs per year the equivalent of 2.7 percent of the unemployed.



As Cornia (1999) considers, other social assistance programmes in Africa and Latin America providing food subsidies would receive substantially more resources than Social Funds. Stewart and Van der Geest (1995) suggest that the failure of the early Social Funds was partly due to their limited coverage and poor targeting.

The minimal impact which the Social Funds had on generating employment equally failed to raise the income levels of project beneficiaries. The reasons for creating a minor impact on employment and income are attributable to the projects' focus - on small scale infrastructure projects, that would inevitably create temporary employment, which often went without technical training for the beneficiaries. Short term employment generated by the projects had to be of minimal level so as to not encourage interest from outside the project area. Nevertheless, projects created employment with salaries of subsistence levels. Whilst the likes of Tendler (2000) and Siri (2000) lament the lack of employment generation and income improvement to derive from the Funds, the IDB (1998; Goodman and Morley, 1997b) state that *"the funds need to be seen as instruments to improve living conditions of the poor rather than generators of income for them"*. With this in mind, one needs to consider the relevance of how housing programmes could be introduced. This will be discussed in section 3.4 below.

• **Infrastructure**  
**Creation and Rehabilitation**

SIF is commonly perceived by the wider public through their rapid delivery of small scale infrastructure projects. For example, SIF's ability to establish and install water systems to rural communities has significant livelihood benefits. Nonetheless, it is not the installation of infrastructure alone that contributes to the projects success; rather it is the management of the water system by the villagers, that puts ownership of infrastructure in the hands of

the community. Management is organised through a Water Board - an institution to manage and monitor community development projects. However, the politicisation of the Water Boards has in some respects hampered their efficiency. For example, technical staffs who have been paid to maintain the system have overnight resigned from their position with short notice - leaving villagers without anyone to operate the system. Often, only one individual is trained to technically maintain the water supply network, thus allowing too much power to reside with one person. Further, the installation of a water system and its maintenance by water boards carries political kudos to those involved. Political parties often a role to play in the management of these boards. The politicisation of water boards is to be expected of any process that aspires to manage communal finances and thus power. One would need to consider how the de-politicisation of water boards could be accomplished (Crosbie, 2008).

Using to SIF to finance feeder and local roads is increasingly rare, but more common in AGETIP programmes. Calculating the expenditure to beneficiaries' ratio may highlight the discrepancies of how a road project could justifiably benefit a few households in a remote part of a country. For this reason, road projects have lately drifted off the SIF radar. SIFs expenditure in this field appears to duplicate the outgoings of the Ministry of Public Works projects, raising questions as to whether the Fund is simply taking government capital costs off budget.

The rehabilitation of community facilities, such as health clinics and school buildings have been successful in terms of their efficient delivery - yet they persistently face two problems: their lack of maintenance leading to disrepair and the absence of involvement of the beneficiaries in the project lifecycle. Maintenance can be tackled by ensuring that training is provided to all staff in the new and existing clinics and maintenance manuals

are available. If buildings are provided to indigenous groups or those who have little knowledge of new materials, training or work shadowing should be provided by contractors. If communities do not have tools to use to fix a problem co-operative workstation could be formed whereby equipment could be borrowed at a short term loan, for a small cost. In many cases these suggestions do not take place in SIF. Secondly, as witnessed in the school extensions in the Belize SIF, communities never took ownership of projects, which led to buildings being neglected and unmanaged and the imitators of these projects left waiting for assistance on how to improve the structure. The absence of community mobilisation before the project is initiated, with continued mentoring throughout the project lifecycle would alleviate the problems associated with participation, inclusion and ownership of the project.

• ***Non-infrastructure Income Generation***

The only financially self-sufficient Social Funds were those that took micro-credit as the impetus behind their programmes. These programmes not only had the ability to scale up projects, but were able to do so over a period of time that exceeded their donor expectations (see section 4.4. on financial viability of Social Funds). Chile, Peru and Egypt, are considered leading examples of social funds that transferred their temporary donor status to being self-sufficient and financially sustainable.

• ***Private Sector Promotion***

Micro-enterprise, overlaps with the issues above, micro-credit, but private sector promotion has in many cases been implemented without linking to microfinance operations. In recent evaluations in Central America, it was the skills training projects which generated entrepreneurial activities, reducing both household poverty and vulnerability to ‘shocks’<sup>21</sup> ; improving sustainable livelihoods,

promoting independence of individuals and removing their dependency from the state.

For instance, one skills training project cited in the following paragraphs illustrates how certain SIF<sup>22</sup> projects can help to initiate business ventures. Former agriculturalist and factory workers had successfully started their own business establishing a roadside café, directly as a result of attending a skills training course. Within three to four years of attending the course, the couple had saved enough capital to start their own business venture. They stated that they were mobilised and ready to begin earlier if they could access capital. However plans of linking with local microfinance institutions on this project did not come to fruition.

The livelihood of this couple (the male was 60 years old) was changing dramatically. Evidence of ‘financial capital’ was seen through how they were saving - profit being made was being reinvested into the business to purchase improved equipment (e.g. a fridge for cool beer and food and a TV for customers). Notably the proprietors did not own either of these assets in their own home. The owners considered that they needed two more years to begin to make a profit which wouldn’t be put directly into the business. However, the reaffirmation of being able to cope with ‘shocks’ and provide ‘human capital’ was evinced through his statement of supporting his five children in certain measures and financially supporting his five grandchildren through school. Further statements recalling how ‘capital’ was being invested came from the owner sharing his enthusiasm of how another of his ventures, a local gift-shop in a nearby jungle reserve, frequented by tourists was beginning to succeed.

21 Shocks refers to the ability of a household to cope with short term affects on household assets caused by factors such as a death in the family, hyper inflation, oil price rises.

22 Crosbie (2008)

Clearly, there is a need for microenterprise projects to continue to be supported by SIF, if such changes to livelihoods are to continue. Yet, there needs to be a link to microfinance initiatives, which do not necessarily exist with all Funds. Both microenterprise and microfinance need to be promoted simultaneously.

#### • *Civil society Strengthening*

Due to the modality of the Social Fund programmes, the project lifecycle has a defined beginning and end. For this reason, engaging with civil society, be it NGOs, CBOs or villagers is only required to serve the purpose of delivering the project and no further. This leaves yawning gaps as to how beneficiaries can sustain projects and move forward to further reduce themselves from poverty. Numerous examples seen from project evaluations reveal the lack of motivation from communities to sustain projects. Box 3 illustrates how the perennial issue of new infrastructure projects, funded by social funds, fail due to their lack of maintenance – is directly related to the lack of civic ownership of projects. Social Funds have not engaged enough in this area. There is enormous scope to move the emphasis from project delivery to a process of developing civil society. However, this may require the engagement and support of other actors and NGOs in this task.

#### • *Decentralisation*

Without repeating commentary made in *Section 3.1.1* (covering the critical decentralisation issues), the question remains hanging as to why donors continue to supplement social funds which duplicate the role of existing governmental institutions. Further, the funds do have the ability to divert attention away from existing, accountable, governmental structures. The issue of using tax and decentralisation has also not been addressed through Social Funds.

## A CHANGE OF DIRECTION

As summarised above in *Section 3.2.1* Social Fund performance varies when compared against its own objectives. Whilst performance of some of the Funds objectives are well received, there is clearly a need to improve effectiveness. Effectiveness can be strengthened by building on successful areas and intervening appropriately in the project menu.

The culmination of international evaluations of Social Funds undertaken on behalf of the donors, resulted in position papers by the likes of the IDB (1998) and the WB (2002) who came to realise that methodology in how the Funds operate and are managed needed to be reconsidered.

The outcomes of these position statements by the donors iterated that “*social funds should promote social reform*” rather than being seen as its panacea. The Funds should give a voice to marginalised groups and provide a pro-poor allocation of resources to line ministries. These revised mandates and strategies, concocted by the IDB and WB provided detailed considerations as to where improvements should lie. A summary of the reports conclusions will be outlined below.

One of the past failures of the earlier Social Funds was the inadequacy of targeting the poorest when devising and allocating sub-projects. This action manifested itself in projects failing to reach the poorest of the poor. Since identifying this issue several measures have been taken to improve the poverty targeting of communities – namely through the use of poverty maps; improved alignment with line ministries and detailed quantitative assessments of communities that would include improved O&M of projects before, during and after the implementation. One method used by the Jamaican SIF was to use a ‘participation advisor’ to help prioritise the needs of the residents against the demands placed on the most vulnerable.

A key recognition by the donors and fund managers is that the project menu must be inherently flexible to adjust to these local conditions.

Another critical correction for Social Funds to continue to make is their ability to provide technical assistance to the poor. Evaluations of sub-project performance underscored how the absence of any technical training during or after

the project led to the neglect, dilapidation and eventual misuse of structures. Box 3 illustrates two examples of the importance of technical assistance at the sub project level. Post project assistance by Social Fund staff in the financing and technical maintenance of projects should also be promoted. Finally, improvements in the project quality control need to be maintained. Post project impact evaluations examining 'livelihoods' are also recommended.

### BOX 3: BELIZE: THE IMPORTANCE OF TECHNICAL ASSISTANCE AT THE SUB-PROJECT LEVEL

**Weak Technical Support:** One of the main problems of reconstructing any new building within a low income community is transferring ownership from the implementer to the locals. In San Miguel, this transition never occurred. Two problems existed that created a dependency model upon this village. Firstly, the involvement between Belize SIF (BSIF) and the beneficiaries, a Mayan community, in the design, construction, supervision and management of the new school was not participatory enough to encourage the villagers to take ownership of the school. The community perceived the project as being controlled by BSIF. This left the community dependent on BSIF. Subsequently, when it came to maintenance of the building, the Mayan community was waiting for BSIF or the Government to fix the problem. From inception through to implementation, the building is now seen as a donation from the Government of Belize or from BSIF. Secondly, the generic design of the structure was not sympathetic to the local geography - in this case mounting the building on top of an exposed hill. After any downpour of rain, water would flood into the building from the flat roof. Attempts by the contractor of building a buttress wall around the roof, failed in preventing water from flowing into the building. The community appears immobile towards seeking assistance and apathetic towards working on other projects.

**Strong Technical Support:** A Water and Sanitation system designed and funded by the BSIF in the northern and southern parts of the country benefited through the formation of a Water Board at the village level - as the instrument to implement, manage and monitor the delivery of the water system - which was instrumental to the project's success. A group of lay villagers were brought together to perform the duties required to operate the water board at the village level. These tasks include revenue collection, identifying where investment should be, maintenance, administration, and collaboration with district and national government (through the submittal of reports). Two of these positions are paid: the billing clerk and the technician. The critical factor here is how the mobilisation of an institution (the water board) to manage a community facility has happened in villages which had erstwhile little community mobilisation. The Water Boards have effectively harnessed community cohesion to work for the collective good of the village. In one of the beneficiary villages the project was strengthened by mobilising two villages around the project that would benefit from the supply of water. The water board has become the institution that binds these settlements together, encouraging villagers to find solutions to problems directly related to the operation and maintenance of the water utility. The impact on 'human capital' was evident through numerous examples: how the availability of a clean, constant supply of potable water had seen a reduction in water borne diseases flaring up in the community; common ailments such as diarrhoea had been noticeably reduced. Also household savings of Bz\$120 per month on medical bills and transportation costs were made. Improved attendance of children to local schools as illnesses decreased. There appeared to be some correlation between the role of girls in not collecting water and their academic ability. With no water to collect, and households savings made their attendance was now encouraged in an erstwhile patriarchal society.

Source. (Crosbie, 2008)

## A ROLE FOR HOUSING?

So far, the inconsistencies of SF have been highlighted, without much discussion on housing. Evidently, at the sub project level, the provision of affordable housing, or a financing mechanism that would facilitate low income housing projects has not moved onto the Social Fund menu. Needless to say, this does equate to a lack of demand for affordable housing in areas in which Funds operate. Nor does the absence of housing on the project menu stifle the performance of community projects. As the IDB (1999, p.8) clearly states:

*“where funds are made permanent, their objectives should be clearly defined...functioning as a laboratory for piloting innovative social programmes”.*

Social Funds provide an opportunity, within an institutional setting that is supported by government's agenda, to introduce new sub-projects to the activity menu. Rather than operating outside of the 'system', the funds could harness innovative housing finance and housing development schemes.

As several commentators and donors have realised (see El Gammal, 1999; the IDB 1999), if Funds are to tackle structural poverty they need to move away from providing simple infrastructure projects, and move towards more complex 'service delivery' (e.g. micro-enterprise, micro-finance), or 'productive' projects (e.g. breeding stocks in rural communities). Whilst Chile's FOSIS boasts the most financially sustainable Fund, through its use of micro-credit, there is still room for further work into how service delivery projects could be strengthened. Chapter 5 discusses this issue in greater detail. In many ways, the introduction of projects that facilitate housing options for the poor could be considered 'productive', as the livelihood benefits to derive from security of shelter are of a magnitude that develops a household's social and human capital.

However, according to the discussions held around El Gammal's presentation, international banks are reluctant to support 'productive' projects when they involve land purchase or land reform. Nevertheless, since 1999, there has been a sea-change in opinion towards land reform by the international finance institutes (IFI). For instance, the World Bank and UN-Habitat's collaboration to form Cities Alliance has provided an institution to act as a facilitator for the urban poor on land reform issues in the international arena. With a mandate to improve the livelihoods of slum dwellers, through land reform projects, in-situ upgrading, or land tenure schemes, Cities Alliance provides a crucial link between the urban poor, NGOs and the IFI infrastructure and land reform projects- a link that could provide an important contact point for Social Funds in the future, if issues of affordable provision are to be pursued. The ADB is also increasingly linking its infrastructure projects with the work of Cities Alliance. In addition to its role with Cities Alliance, the ADB's has also recently established a new thematic group, CDIA to plug the gap in the development process. The idea is to move urban plans (that will be in various states of detail) and project wish lists to a point where the projects can be considered for funding. This could involve better urban plans, prefeasibility studies and/or project prioritisation. Again, this could be an avenue to consider, if Social Funds are considering donor funding or additional technical and financial advice from the likes of the ADB.

As cautiously noted by the IDB *“if Social Funds are to support productive projects, their evaluations of procedures should mimic the market to the greatest extent possible”.* In addition *“beneficiaries should be made to assume the risk of the project”.*

As beneficiaries tend to consider productive projects as grants, rather than loans that have to be repaid, consideration will have to be given to forging a new 'relationship' between fund managers and the project beneficiaries. As part of a revised methodology, one such requirement will be to consider how alternative funding strategies can be sourced at the project menu selection stage. Currently, the reliability of social funds on external donors for finance has highlighted the need for the Funds to consider alternative approaches to the model.

If Funds are to pursue 'service delivery' or 'productive' projects, then the question is raised as to whether the funds could move away from their external donor dependency to a more self-sustaining fund. By introducing micro-enterprise projects and micro-credit schemes for housing, one implicitly suggests that a revolving fund for housing could take place. Chapter 5 section 5.3.4 provides evidence of how revolving funds are already being used by urban poor groups for the provision of affordable housing. In addition to housing, some Social Funds already operate on the basis of using a revolving fund, with the intention of becoming autonomous in their financial operation. Box 4 below provides two recent examples.

One of the constraints of Social Funds has been their ambiguity in focusing their objectives on either short or long term goals. If short term goals are pursued, then the Funds will continue to work through intermediaries such as contractors, and NGOs. However, if the Funds are to provide social capital and support long term objectives, then their methodology will have to adapt from a 'project to a process' operation. Evidently, a long term approach would be requisite if one was to introduce housing finance mechanisms or 'service delivery' projects such as micro-credit. Yet, the problem herein is that donors are required to report back on facts. They can evaluate projects with greater ease and clarity once they can compare numbers and outcomes against

#### BOX 4: REVOLVING FUNDS FOR PRODUCTIVE PROJECTS

Bangladesh has a Poverty Alleviation Project (similar to a micro-enterprise scheme that would be funded by a SF). US\$100m credit goes to an NGO and is used entirely for micro-credit. Initially supported by the government, the WB now offers assistance.

Egypt: By the end of its first two phases the SDF will have capitalised about US\$600-700million with its Enterprise Development Programme, making the fund about 60-70 percent financially sustainable by the year 2000. Interest charged to beneficiaries is significantly higher than the interest rate the SDF has to pay. In the mid 1990s SDF's obligation to the government of Egypt was discharged. It is expected that the Enterprise Development programme will transform into a sustainable institution that will facilitate the leveraging of credit and technical assistance from a multitude of banks.

Source: Bigio (1999)

resources. For example it is simpler to compare the resources required to build a new school and evaluate its impact on reducing poverty education than it is to measure issues such as empowerment. Whilst donors recognise the importance of social capital, only a small amount is allocated for this resource. For instance, the IDB allocates only 5 percent of its contribution to social funds for process orientated investments (Bigio).

Interestingly, it would seem from the above points that the introduction of housing finance and affordable housing into the realm of Social Funds is not incongruous to the debate on how these institutions could move forward. Whilst there appears to be scope to open up the sub-project menu, and diversify into productive projects such as micro-credit to support affordable housing, there needs to be consideration as to what already exists in the countries where SF operate.

For instance, there may well be strong microfinance schemes or successful state-funded housing programmes for the poor already in place. As already suggested, there is an intrinsic need to assess each locality individually before projects commence. Incidentally, the success of micro-credit schemes varies considerably, from country to country.

If this is a method to be employed, then funds will have to operate in a more commercial manner, or at least transfer this commercial 'risk' to the operating NGO. In a global climate of extended debt, these institutions need to be alert to market failure – that can be brought on by externalities or from the non-payment of poor borrowers.

## CHAPTER 4

# FINANCING SOCIAL INVESTMENT FUNDS

### FUNDING MECHANISMS OF SIF

As Funds are donor driven, the financing of monies from the likes of the IDB or CDB go directly to the country fund, bypassing central government. Some criticism, already highlighted in this paper, draws on the implicit duplication which funds and therefore its financing create in shadowing already workable democratic institutional systems. However, whilst Social Fund financing avoids being mixed into government funds, for redistribution, the funds provide a transparent system in which to deploy capital on projects efficiently - this excludes the effectiveness of the project. As funds have direct access to their own capital, their efficiency is best exemplified during post-disaster reconstruction, whereby capital is made available immediately for the rehabilitation of schools and clinics.

The magnitude of finance which funds receive from their donors reflects the perceived trust and anti-corruption stance of these institutes. By removing a financial link to central authorities, it is envisioned that funds can operate not only efficiently, but without interference from central government. In many instances this is seen as an advantage to donor agencies.

The World Bank, for instance, has for the first time in twenty years, issued credit through the Social Fund, rather than the Government for infrastructure renewal projects; based on the Funds credit performance and efficient delivery of projects.

### MAJOR FUNDING SOURCES FOR SIF

International Funds have poured billions of dollars into Social Fund programmes since their inception. As of 1996, the IDB alone had financed 1.3 billion dollars in low interest loans<sup>23</sup>. External donors, such as the European Communities have given large grants to these programs. Historically, the financing of Social Funds is associated with loan finance from the World Bank (WB). This truism is based on the Funds donor dependency axis and its origins with the Bretton Woods Institute's involvement in Latin America's structural readjustment in the 1980s. In reality, by the early 2000s, the WB funded US\$554m worth of Social Funds, whereas the IDB contributes US\$1.3bn to 17 funds. Co-financing<sup>24</sup>, another critical funding stream, totals US\$558 million (Batkin, 2001).

<sup>23</sup> Goodman (power-point presentation)

<sup>24</sup> Co-financing includes funds from local government, scheme beneficiaries, religious institutes, community organizations and donations from elites.



A cross comparison of the Social Fund expenditure can express the differences in the gross expenditure and allocations of funds. The amounts allocated from donor agencies to Funds vary in relation to the geographic spread and in how they are designed from the outset. Although financial allocations of Social Funds can be screened, it is more difficult to determine the real programme expenditure of these Funds. Cornia (1999), even goes as far to say that by staggering Social Funds over a period of years could have 'diluted' the process and thus effectiveness of programme.

In LAC, the average fund size was US\$240m, though covering a wide range, varying from US\$31m in Paraguay, and US\$44m in the Dominican Republic, to a staggering US\$1.25bn in Columbia and US\$2.5bn for Mexico's PRONOSOL Fund. In LAC, donor assistance accounts for over 80 percent of the total value of the Fund. In three exceptional examples, Chile, Columbia and Guatemala the national contribution is over 85 percent.

In Africa, Social Funds relied on external finance ranging from US\$6m to US\$85m to support their programmes, of each fund. Nevertheless, 78 percent to 94 percent of Social Fund resources in Africa, are provided by International donors (Cornia, 1999). In contrast to the other two regions, Asian funds are relatively small. The average fund size is US\$23m (excluding Thailand). The average national contribution to Asian funds is just 10 percent.

### FINANCING SOCIAL FUNDS IN RELATION TO SOCIAL EXPENDITURE

The type and amount of finance given to a country's fund depends in part to their economic status. The regional difference in Social Funds per programme as percentage of GDP is of a small variance. This can be seen in table 4 below. In Africa, the Social Fund programme as a percentage of GDP has a range of 1.7 percent to 7.5 percent. In LAC, the range is 0.4 to 1 percent of GDP per programme year.

TABLE 3. EXPENDITURE ON SELECTED SOCIAL FUNDS (SF) AS A PERCENTAGE OF GDP AND SOCIAL EXPENDITURE (SE), SOCIAL EXPENDITURE/GDP RATIO; REAL SOCIAL EXPENDITURE/CAPITA

Country Name of SF,years	Total amount of SF in \$mn (& % of external funds)	SF per programme year, as % of GDP(a)	SF per programme year, as % of SE (a)	Social expenditure as % gdp before and during Social Funds (b)	Real Social expenditure before and during Social Funds (c)
<b>SIX AFRICANS SFs</b>					
Cameroon (SDA 1991-95)	49 (78) (d)	0.11	1.8	before 6.0 during 7.7	before 18100 during 19100
Egypt (SFD 1991-95)	613 (n.a) (d)	0.36	207	12.8 13.7	144 159
Ghana (PAMSCAD 1987-92)	80 (94)(d)	0.22	3.8	5.3 6.4	2850 3650
Madagsar (SIRP 1989-93)	41 (88) (d)	0.28	7.5	3.5 3.8	8930 9310
Zambia (SRP 1989-93)	49 (94) (d)	0.28	5.7	5.4 4.9	166 140
Zambia (MPI 1989-93)	20 (n.a) (d)	0.12	2.2	4.8 6.5	142 151

Source: Cornia's (1999) calculation based on data in UNCTAD (1994), Glaessner et al. (1994), Marc et al (1995), Reddy (1998) and IMF-GFS (1998).

## EXPENDITURE ON SELECTED SOCIAL FUNDS (SF) AS A PERCENTAGE OF GDP AND SOCIAL EXPENDITURE (SE), SOCIAL EXPENDITURE/GDP RATIO; REAL SOCIAL EXPENDITURE/CAPITA

Country Name of SF, years	Total amount of SF in \$mn (& % of external funds)	SF per programme year, as % of GDP(a)	SF per programme year, as % of SE (a)	Social expenditure as % gdp before and during Social Funds (b)	Real Social expenditure before and during Social Funds (c)
EIGHT LATIN AMERICAN SFs					
Bolivia (SEF 1986-91)	191 (85) (d)	0.72	11.0	before 6.2(e) during 606	before 96 during 98
Bolivia (FIS 1990-94)	96 (69) (d)	0.38	4.5	6.3 8.7	92 136
Chile (FOSIS 1990-94)	77 (43)(d)	0.04	0.3	5.9 5.2	52500 62300
Ecuador (several, 1983-90)	180 (n.a)	0.20	3.8	5.9 5.2	12300 10300
El Salvador (FIS 1990-93)	67 (67) (d)	0.31	9.3	3.7 3.4	158 156
Mexico (PRONASOL 1989-93)	2500 (0) (d)	0.17	2.7	5.1 6.5	126 171
Nicaragua (FISE 1989-93)	93 (n.a) (d)	...	...	n.a 16.9	... ...
Panama (FISE 1990-93)	32 (62) (d)	0.10	0.6	16.5 16.1	349 396

Source: Cornia's (1999) calculation based on data in UNCTAD (1994), Glaessner et al. (1994), Marc et al (1995), Reddy (1998) and IMF-GFS (1998).

Notes: (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 two 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 two 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) 1983-84

## FINANCIAL VIABILITY

One concern raised amongst operators of first and second generation funds was the “pressure applied by development agencies to replicate one model in all countries” without taking into account the indigenous disparities evident in each country (Bigio, 1997). Box 5 provides some examples of this concern.

### BOX 5. FINANCING SOCIAL FUNDS – THE PROBLEMS

**Ecuador’s** Social Fund depends entirely on external finance. Although the scheme was successful and was able to obtain finance for the second phases of the programme was easier than the first phase of the project donors were reluctant to modify the design that was country specific and better suited to the local context and needs.

**Zambia’s** Social Fund was a copy of the original Bolivian Social Fund, FSE. Donors were unwilling to permit change in the design of the programme. During implementation of the Fund, provision and procedures had to be revised to suit the Zambian context. In the 2nd phase, the Fund was entirely designed and financed by Zambians with the credit agreement being negotiated through a Zambian perspective with World Bank.

**Egypt’s** Social Fund encountered initial resistance from some donors by supporting employment creation programmes through micro-enterprise and labour intensive employment programmes. The fund was pressurized to support activities that would contribute to severance pay to workers made redundant by the privatization of sectors that would affect low income groups. It took two years for the Egypt’s fund administrators to arrive at an “Egyptianised concept of a Social Fund.

Source: Adapted from Bigio (1997)

The financial sustainability of Funds was overlooked for several years. This was largely due the perception of both governments and donors that the Funds were temporary in their nature. Yet, the Funds position to adopt a socio-economic agenda across ministerial lines has provided a useful source of funding for governments who sought to decentralise social protection activities into the provinces. This is not to overstate the notion that governments and donors ‘rely’ on funds to address low income community issues. Nevertheless, fund managers and senior government officials need to address the sustainability of their programmes and fund, with, or without donor funding. Otherwise, countries run the risk of falling into the cyclical trap of borrowing more to spend more on the poor whilst coming under an increased magnitude of debt. As indicated in Table 3, with the dates in parenthesis, Social Funds are financed for a set period of time. After this period, based on programme evaluations, the availability of financing, and the institutional improvements made by the Fund, donors can choose to terminate the fund, assuming that other systems are firmly in place to now deliver their objectives.

The examples in Box six illustrates methods in which fund managers have sought to replenish their funds.

Moving Social Funds away from donor dependence requires a swing change in project conception and execution. Focusing on developing enterprises and micro-enterprises may prove that funds could be self-sustaining by creating revolving funds. Yet to establish such enterprises takes time and momentum and could result in the fund size diminishing. Box seven below provides some examples of how Social Funds are moving towards financial sustainability.

**BOX 6: FINANCIAL SUSTAINABILITY-  
ISSUES**

**Benin's** capacity to replenish its Social Fund finances was limited given the country's already astute indebtedness to international banks. Fund managers took a commercial approach to finding finances for their funds from donors. After proving that their World Bank funded pilot schemes were successful, donors were willing to underwrite the finances for these programmes.

**Egypt's** Social Development Fund requested finance from donors based on two arguments: additional funding was required on the basis that structural reform in their country was incomplete and job creation was still required. If employment didn't arrive, the gains made in the Social Fund programme would be jeopardized and could entail social unrest. Secondly, the fund successfully implanted the first phase of the project; it was to continue with this achievement and expend it would require additional revenue.

Source: Adapted from Bigio (1997)

**BOX 7: FINANCIAL VIABILITY OF  
SOCIAL FUNDS**

**Bangladesh's** Poverty Alleviation programme, supported by the WB, is a similar micro-enterprise that a Social Fund would support. US\$100m credit is distributed to one NGO, for micro-credit purposes. Support was initially provided by the government, but later transferred to the WB.

**Egypt's** SDF had managed to capitalize between US\$600m- US\$700m from its Enterprise Development Programme, making the fund 60-70 percent financially sustainable. The interest rate paid on the loans to the beneficiaries is higher than SDF has to pay. In April 1995, the Fund's obligation with the Egyptian government was dropped, making it entirely independent. By 2000, it was expected that the enterprise Development Programme would be an entirely financially sustainable institution that will facilitate the financial leveraging of credit and technical assistance from numerous banks and agencies.

Source: Bigio (1997)

**FINANCIAL RECOMMENDATIONS**

Although there is no single silver bullet recommendation to resolve the financial viability of all Fund projects, there is recognition that there needs to be change. On the cost recovery of projects, Fund Managers, Fund designers and donors have realised that they cannot rely on government ministries because often they cannot assure the available resource. Therefore, the privatisation of social projects, such as Build Operate Transfer (BOT) and private management of infrastructure projects for O&M is considered by some as an avenue to pursue for cost recovery.

Listed below are a number of recommendations that came from the international conference on Social Funds. These actions could strengthen the financial viability of Social Fund projects, but they should also be considered in light of introducing housing finance schemes to the funds:

1. Microcredit programmes could be a critical element to Social Funds by being able to facilitate the revolving fund idea. It is recognised that in some places such as Belize's SIF the largest microcredit group was not large enough to provide the geographic and personnel coverage of the SIF programmes.<sup>25</sup> Nevertheless, this is merely a case of finding an alignment between the SIFs and microcredit groups to scale-up to ensure success.

<sup>25</sup> See Crosbie, D (2008) An Evaluation of the Belize Social Investment Fund. Caribbean Development Bank

2. As Social Funds mature they need to adapt their finance streams and dependency away from donors. Funds should aim to mobilise technical and financial resources from local institutions and donors with the intention that they could also borrow from 'commercial sources'. Depending on the maturity of the available microfinance programmes in a country, a 'commercial source', could be considered microcredit. As the following chapter will explain, microcredit funds are beginning to move out of their NGO environment which has nurtured them for so long as they are increasingly being formed and supported by multinational finance houses.
3. Social Funds should aim to raise additional revenue through financial participation of the community. This additional revenue can supplement local or central government expenditure on projects in rural areas.
4. The mandate of Social Funds should remain flexible so that projects and programmes can transfer to line ministries or be put in the responsibility of local government. However, as Hasan (2008, 2006, 2007) frequently notes, there is an assumption that government departments can fulfil the tasks given to them by donors if training is imparted or if they are ordered to perform by senior civil servants. Hasan argues that the capability and capacity of state institutions cannot be enhanced without first improving their accountability and transparency. The Social Funds organisation should be in parallel to that of the government. This enables the plans and policies of the ministries to be aligned with the SF projects.

## CHAPTER 5

# SOCIAL INVESTMENT FUNDS AND AFFORDABLE HOUSING

### THE ISSUES

Historically, providing housing for the poor or a financial mechanism that would allow them to obtain a loan to purchase a house has fallen outside of the remit of Social Investment Funds and other types of Social Funds. This is probably due to a number of reasons. The first being that Social Funds were established to respond to impacts of structural readjustment; thus fund managers and fund designers would have been concentrating their efforts on reducing unemployment and trying to diversify job creation at the lower echelons, rather than focus on shelter issues. Secondly, the type of projects that Social Investment Funds have operated in the past has largely been designed to benefit communities, rather than individuals, such as water and sanitation schemes; road upgrading or rebuilding public institutions such as schools and clinics. Where projects have sought to increase the capacity of individuals it has largely been through vocational training for unemployed youth or women, i.e. the project has focused on single groups within a specific timeframe. Thirdly, there is a lack of technical and financial capacity within Social Funds to provide guidance on housing construction, or on housing finance matters. This technical and financial capacity normally exists outside of Social Funds within other government agencies or with micro-

credit groups. However, these institutions have rarely aligned their work to provide for a sustainable approach for the provision of affordable housing.

So the question remains, as to whether this omission of providing affordable housing to low-income groups through Social Investment Funds is admissible or not. The following part of this chapter examines the institutional mechanisms – both formal and informal - which currently exist to provide housing finance for low income groups in the developing world. As stated in the objectives of this report, from this analysis, one will aim to consider the applicability of integrating affordable housing solutions into the Social Investment Fund.

In order to understand the complexity of housing finance and housing provision for the poor, one needs to understand their options. The availability of finance for low income households is important as it reduces their vulnerability and promotes viable options which directly impact upon their lives. At the most basic level, there are two successful options available for these groups: savings and loans. Savings provide an opportunity to take hold of households' finances whilst preparing them for future borrowing. Savings reduce future risk by accumulating resources which can be used

in emergencies and enable families to spread their income over non productive periods. By saving, household have the opportunity to borrow: by building up sufficient deposits, enabling them to view how much money they can set aside for loan repayments and in cases when savings are part of a microfinance schemes there are elements of solidarity between members of the collective scheme. Loans on the other hand provide households the opportunity to accumulate assets. Loans could be used for household purchases or for purchasing a house. Either way, loans provide the opportunity to own the asset. Both savings and loans require institutions that provide the opportunity for low income households to save rather than take on external risk of borrowing from ambiguous and unreliable funding sources.

Whether there is a demand for saving and loan schemes amongst low income groups, their efforts to enter these schemes have often been restricted due to an absence of a formal banking system that caters for the poor. In finance, the market responds to scale. Small savings may only attract low levels of return and the administration charges placed on borrowing may be relatively high compared to the issued loan.<sup>26</sup> Consequently, formal banks have often not seen the need to provide for this income group. Yet, over the last few decades there has been a transformation in the banking sector – in the emergence of micro-credit and micro-finance schemes.<sup>27</sup> Some, such as Grameen Bank in Bangladesh have grown in magnitude to cover a nation rather than townships or cities. The founder of the institution was recently awarded the Nobel Prize. With such international attention has come the emergence of the private sector and with it an increasingly varied financial product and service, on offer to low income groups. Yet, with increased lending for enterprise loans, i.e. funds to establish a small business; has perhaps come at the expense of providing

loans for housing. As Mitlin states, the “lenders have struggled to deal with shelter related lending partly because longer loan periods are required, even for an incremental housing process”. Some financial institutions have however, moved towards lending to households for housing loans when they have confirmation that they can rely on the security of tenure of the applicant (Cain, 2007). For informal settlements or squatters, who cannot obtain this finance, the predicament inevitably leads to a ‘Catch 22’ scenario: without security of tenure, informal residents see little reason to save or obtain a loan, as their future certainty is unknown, thus leading to these areas to mushroom into a downward spiral of poverty, manifesting into urban slums. Nevertheless recent upgrading programmes in South East Asia verify that housing investment – whether incrementally or comprehensively - may help to increase security of tenure for informal settlements (ACHR, 2004; Boonyabanha 2005; UPDF, 2008). But with this investment is the need for a funding source and the responsibility of informal settlers to organise and self-regulate, to collect and save as a community.

Looking at Central American countries as examples of housing policies and their relevance of being integrated with Social Funds is useful, as this is where Funds originated and have been active for a number of years. It is also a useful tool to concentrate analysis within one region in order to obtain a reasonable semblance of comparative examples; which may offer realistic alternatives for Social Funds. The following part of this chapter, Section 5.2 discusses the finance options for low income housings that highlight the opportunities for Social Funds to integrate with these programmes.

<sup>26</sup> Mitlin D, (2008a) Editorial of Environment and Urbanization. pp5

<sup>27</sup> Ibid

## STATE PROVISION

Historical housing policies of developing countries which saw the state being the provider of housing services often failed. Whether it was the inability of the 1960s 'sites and services' programmes to prevent upper income groups from consuming housing units, or similarly in its lack of capacity to influence national housing policy contributed to the questioning of the state as provider. For example, the subsidised urban land and housing units built in Central America failed to reach the poor. With the process being less than transparent it raised questions over the accountability of the service. However these operations and similar ones such as 'Social Saving Funds' began to imbed a savings culture amongst informal districts – a principle that was to become the foundation of both formal and informal housing policies throughout the developing world for the remaining part of the century.

## STATE ENABLER

The lessons which policy makers learnt from the savings schemes; sites and services programmes; and using the state as the provider for housing and land solutions, was to turn the role of the state around so that it became the 'enabler' rather than provider of housing. The state followed a measured pattern of setting norms, regulations and facilitated funding including new forms of subsidies for the provision of land, for basic infrastructure services and shelter. This approach facilitated a new arrival for housing policy whereby a combination of NGOs, the private sector and poor families would provide the housing model in Central American countries.

## DEMAND DRIVEN SUBSIDIES

So what can be learnt from these past housing policy schemes and their relevance, if any, to Social Funds? Four Central American countries demonstrate the opportunities and failures of one of these state enabling policies - demand driven subsidies. Commentary is made on the relevance of these subsidies to Social funds, whilst also examining the possibilities of how they could integrate with Funds.<sup>28</sup>

*Costa Rica:* The approach of demand driven state subsidies for housing was embraced by the Costa Rican government. The state provided both the regulatory framework in which these programme operated in, and resources for housing, leaving the private sector to provide the housing units. Four different types of subsidies were initiated, the most relevant and comprehensive being the ABC scheme – or savings, subsidies and loans. From 1987-2005 12,722 families had taken up these subsidies, representing 21 percent of all Costa Rican households. The scheme was considered a success as politicians either in power or opposition had prioritised housing policies.

Without knowing the financial and budgetary allocations required by the Costa Rican government, it's difficult to assess how satisfactory the ABC scheme could integrate with the Social Funds; an issue which became critical in El Salvador and Honduras. Yet, what is important to take from this model is how the ambition to provide security of tenure and therefore shelter to low income families has remained at the forefront of policy making for over two decades, regardless of the ensuing political and economic cycles.

<sup>28</sup> Reviews of Central American countries references Stein, A & Vance I (2008) recent analysis of housing policies in the region.



*El Salvador:* The National Fund for Popular Housing (FONAVIPO) was created to provide and mobilise state subsidies to other financial intermediaries that would provide credit for shelter to low income families who required the service. The structure of FONAVIPO ensured that these families were required to save in order to obtain a loan. Yet, the system was fundamentally flawed, as there was no sustainable revenue source from the government that could subsidize the credit for housing.

One outcome of the FONAVIPO scheme was *urbanizaciones* – settlements constructed on the peri-urban of cities with inexpensive housing units, constructed by private developers and bought by state mortgage finance. Intentionally designed for lower income families these areas were bought into by upper income groups. One academic argues that as a consequence of these areas being occupied by formal workers the settlements were left unattended for most of the day, which encouraged an exponential rise in juvenile crime.<sup>29</sup> Conversely, the construction of *lotificadores*, or illegal subdivision of land by private developers who provided infrastructure or identified private landowners who provided plot subdivisions became a popular method to sell or rent housing plots for informal and formal workers. Conversely to *urbanizaciones* the *lotificadores* consolidated rapidly. From 1977-2000 around 300,000 families gained access to housing without state funding, rather the private developer loaned money to families.

The relevance of demand driven state subsidies in El Salvador to Social Funds can be considered in these four significant points. First, any state subsidy that is prepared to loan or provide credit needs a system which can guarantee its momentum. Increasing taxes on products to offset the additional expense of providing subsidised credit for housing

could be one such method. For El Salvador this didn't happen. Secondly, if Social Funds are to encourage state subsidy, there needs to be an immediate closer relationship between the Ministry of Finance and this quasi-autonomous institution of the Fund. Thirdly, the involvement of both state and private entities could be seen as a formative version of public private partnerships. The design and implementation of PPP schemes in developed countries have not always been transparent nor successful. With the state providing subsidised mortgages and private developers building unserviced lots, this initially may appear viable. However, if the enabling process is left without a regulatory system to monitor the actions, the result could be the formation of accidental ghettos, as became with the *urbanizaciones*. Finally the 'accidental' success of the *lotificadores* would not have happened without the government taking a lenient position towards land issues and informal settlers. The relationship between land tenure, informal settlers and government housing policies is critical in determining the success of state subsidy schemes for the urban poor.

*Honduras:* Some of the problems inherent in El Salvador state subsidies scheme and that of Nicaragua, emerged in the two housing programmes of Honduras. The limitation of the self-help model was the amount of subsidy given to the urban poor. With private developers building housing units and banks financing the move, the state offered interest free loans (equating to US\$4,000 for free). Yet the system quickly became dependent on international loans for its internal resources.

Pointedly, the state subsidised system's inherent vulnerability lies with the magnitude of the task – to subsidise housing programmes for the urban poor. In the case of Honduras, household subsidies were expensive; coupled with this, the government was having to subsidize interest rates. For developing countries, to take on this responsibility is an onerous task, which appears unaffordable for

<sup>29</sup> Fortin-Magana, G (2003) Low income housing in El Salvador, in ReVista Harvard Review of Latin America, winter 2003, accessible at <http://drclas.fas.harvard.edu/revista/articles/view/199>

low income states. If the state can't afford this method of funding and is reliant on external donor aid, then the likelihood of involving Social Funds to share in the responsibility of managing such a programme seems needless. Further research into the success rates of these schemes is required.

*Guatemala* adopted the ABC scheme of Costa Rica. Yet families found it difficult to save enough to access the subsidies, so turned to micro credit. To sustain subsidies, the government increased taxes on petrol.

As Stein and Vance (2008) note, the private building sector has been at the forefront of encouraging housing policy onto a government agenda to subsidise housing construction in most of the Central American countries. This external pressure conflicts with the demand driven process of state subsidies and calls into question their relevance.

The Guatemalan example iterates the El Salvadorian case of using taxes to sustain a subsidy system. Secondly, the role of the micro-credit groups is critical. Micro finance is discussed below in section 5.3.3 and 5.3.4

#### PRIVATE NON PROFIT SHELTER FINANCE

One interesting development that occurred in public institutions in South Asia and South East Asia and replicated in Central America countries was the development of Private Non Profit Shelter Finance. Funded by international donors, these NGOs have become specialised housing agencies, providing financial and technical assistance to the urban poor. Some of these groups have micro-financing schemes designed into their institution which provide new housing, or housing improvements and income generating activities for the urban poor.

Inextricably linked to the ability of private and public shelter finance institutions is the relationship which the government has with

land tenure. As Stein and Vance note (2008), the degree to which land tenure including land titles is a prerequisite to access to finance varies from country to country. Thus the impact that these housing programmes can have on permitting finance and land tenure options to the urban poor can vary significantly.

The emergence of these non-profit shelter finance institutions in both Asia and Central America exemplify the cumulative technical and financial ability of these home grown institutions to manage their housing needs internally, with minimal external assistance – other than donor aid. These national institutions appear organised and informed in matters relating to housing the informal urban and rural poor (legal, financial, technical and political). They have the ability to provide geographic coverage across urban and rural areas with a wide catchment base. Rather than duplicating what these institutions offer, Social Funds could use these institutions as a useful anchor in which to align their work and to develop housing outreach programme.

#### PUBLIC NON PROFIT SHELTER FINANCE

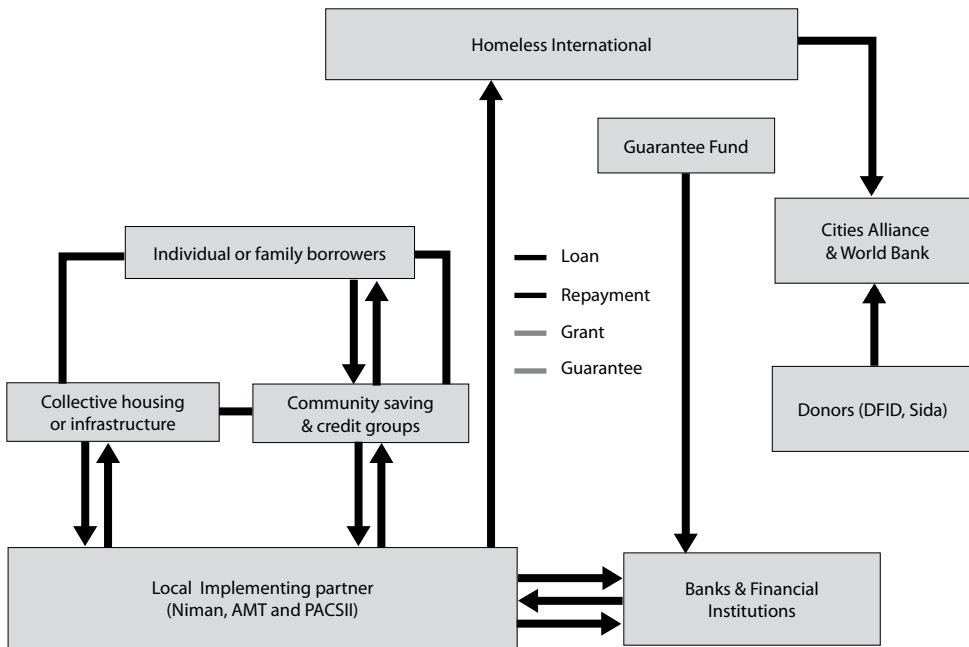
In South Asia, and South East Asia, the Private model used is inverted to a public model to *support* Community Based Organisations and NGOs who provide microfinance initiatives to the poor. These local microfinance institutions operating across Asia and Africa, found that it was they that took on the risk to scale up their successes whilst also being constrained by the lack of access to capital.

The work of one organisation – Homeless International – has attempted to bridge this finance gap by providing seed capital from international donors (DFID and SIDA provided £9.3million). This injection of liquidity has encouraged these local microfinance institutions to expand their services to the urban poor. The additional capital was channelled through Cities Alliance (the low income housing arm of

the World Bank), who can provide technical advice. The result of organising capital from international and bilateral donors through to local development partners of operating in the ground was the formation of the Community Led Infrastructure Finance Facility (CLIFF). CLIFF provided the bridging finance for local microfinance institutions to expand whilst also providing peer-to-peer platform for a plethora of partners and stakeholders to share their experience and learn from the varying approaches as to what financing schemes work and how housing finance mechanism can be strengthened such as working in closer alignment to local grassroots CBOs.

Figure 2 shows the relationship that the fund's organiser, Homeless International, who operates CLIFF, has with various agencies and its ability to channel funds from multilaterals, through international agencies and directly into large local partners on the ground. It is these local partners who provide the revolving funds, evident of the micro-credit schemes, commonly known to communities. The CLIFF system allows a far greater number of urban poor to access housing funds who would otherwise have turned to informal money lenders or worse still, would have remained excluded from the credit and loan system, were it not for CLIFF securing large amounts of capital.

FIGURE 2. THE CLIFF PROCESS.



Source: Homeless International (2007)

CLIFF is coordinated at the international level by Homeless International, using its own Guarantee Fund (worth more than £0.6 million) to help secure banking finance. CLIFF is implemented on the ground by established organisations of the urban poor and NGOs that support them.<sup>30</sup> CLIFF then operates through Alliances in the host countries, to consolidate the work of urban poor federations working on slum rehabilitation programmes (see section 5.3.4 below). For example the Indian Alliance is made up of National Slum Dwellers Association (NSDF), a women's collective Manila Milan and a local NGO called SPARC which provides professional and technical support to the above.

These Alliances started off using their own revolving funds which were later supported by CLIFF. CLIFF also provides support in the form of grants, as listed in Box 8.

**BOX 8: CLIFF FINANCIAL SUPPORT**

**Technical Assistance Grants:** covers professional fees required to implement community projects

**Capital Investment Grants:** used to finance loans for household/community construction. Loans are repaid and recycled by the local CLIFF implementing partner to support additional projects

**Knowledge Grants:** Used to encourage cross-exchange/sharing of project experience with other communities in country or within region.

**Management Grants:** Covering management costs of the organizations that implement CLIFF

Source: HI (2007)

Of the funds listed above, about 75 percent of them are allocated from the capital grants budget. To receive a capital grant, projects must demonstrate that they can comply with the majority of the following criteria:

- Have the potential to scale-up or be a flagship project
- Have emerged from strategies developed by organisations of the urban poor and their existing relationships with local authorities – both of which can be strengthened by the proposed project.
- Actively include and benefit the most marginalised members of the community where the project is to be implemented.
- Are costed, financially viable, and offer options for negotiating loan finance from commercial banks
- Include an analysis of risks to the project and who will manage this
- Include long term maintenance and sustainability of the assets developed as a result of the investment
- Incorporate knowledge sharing activities in the project.

The criteria listed above may seem laborious whereas in reality the funding approach allows flexibility to be built into the selection process. Often the cost of funding one project is weighted against how it compliments the range of projects in an Alliance or Urban Poor Federation. For example, the magnitude or significance of a project, such as its ability to be an example to scale-up, would be permitted, even though the initial outlay may exceed the standard costs of construction, or political problems may arise from the redevelopment. An example of this would be how Ros Reay in Phnom Penh conducted an in-situ upgrading project for US\$10,000 to push through policy change to informal settlers in the city (ACHR, 2004). However, upgrading US\$10k is rather

<sup>30</sup> Homeless International (2007) Community Led Infrastructure Finance Facility (CLIFF). Annual Review. Page 6

high, but the model provided a green light for similar schemes to be initiated throughout the city, but would be completed at 50 percent the cost of Ros Reay (ACHR, 2008). Rather than assessing individual projects, CLIFFs methodology is to apply its criteria to a portfolio of projects, thus realising that individual projects may suffer losses but the portfolio will not be put at risk.<sup>31</sup> Therefore, CLIFF shares some of the risk with the poor.

### FEDERATIONS OF THE URBAN POOR

During the last decade a new approach of securing land tenure, improving livelihoods and shelter in the developing world has emerged through the international, devolved grassroots movement known collectively as Slum/Shack Dwellers International (SDI) and the Asian Coalition for Housing Rights (ACHR). Building on the relative weaknesses found in state funded housing schemes such as sites and services, these autonomous movements encourage residents living in informal settlements<sup>32</sup> to collectively save. This small action has the inherent tool of bringing disparate and isolated households together, to question their surroundings and collectively focus their attention on improving tenure security, access to services and incremental shelter improvements. From small scale savings, the groups federate at the city, and then if successful, at the national level. A more detailed account of the methodology of these groups can be found in the references listed in the footnote.<sup>33</sup> In simplified terms, these federations have formed around common principles and practices:

- The formation of savings and credit groups are formed as a basis for collective action – to gather money, information and share knowledge and experience, all of which improve the organisational capacity of the savings groups;
- The creation of Urban Poor Funds, which are predominately<sup>34</sup> managed by the Federations, provide access to capital in form of low interest loans and community-led development
- Enumeration and settlement mapping – carried out by the urban poor and often involving residents from the mapped settlements to participate, assists informal dwellers to understand their settlement – as to who lives where and in what conditions. Ownership of the information is retained by the locals who can use this as a negotiation tool in their work to acquire land, loans and tenure security and infrastructure services.
- Exchange Programmes – are held between strong savings groups and new groups internally across cities, and increasingly to other towns and cities in the host country. International exchange programmes, or rather south-to-south learning between successful and emerging savings group is also encouraged and common between the ACHR/SDI network.<sup>35</sup>

31 Homeless International (2007) Community Led Infrastructure Finance Facility (CLIFF). Annual Review. Page 7

32 Informal settlements in this sense can apply to households who are squatting, those who rent on public and private land in slum like conditions and those living in resettlement sites.

33 A more detailed account of the work of Urban Poor Funds and their methodology can be found in the recent overview by Mitlin (2008b), and in Mitlin D, and Satterthwaite, D (2007)

34 The Governance structure of UPDFs 'Boards' vary greatly, often containing pivotal members of the city's municipality as a key member

35 Interestingly, Social Funds in the Latin American and the Caribbean have recently considered that south-to-south learning is required in their system, to improve projects (see Gillings, 2004). See Patel and Mitlin (2002) for further discussion on the merits of south-to-south exchanges between community groups within the Federations.

- Pilot Projects – which are implemented are used to demonstrate how communities can save, design, construct their own housing and infrastructure through the savings method. Pilot projects can initially be financially supported through various external groups to raise the project's profile.
- City-Community state agreements – which facilitate the eradication of slums and incremental improvement of low income settlements, are developed through close negotiation and constructive links between communities and authorities.

Whilst the Urban Poor Federations were originally initiated by two international NGOs, ACHR and SDI, the 'Federations' and their subsequent funds have devolved immediately into the hands of local NGOs. These NGOs were financed initially by donors with an ever increasing amount of capital from the community. The success of the funds is based on capital revolving and not getting stuck. This means debts have to be repaid as soon as possible. With additional finance, (from donors) the Federations can lend more money to the poor and in theory recoup the money for greater profitability that can once again be reinvested.

District leaders who live in informal settlements organise the collection of monies for each fund. By default of the location of their house (in a slum, resettlement site, or shanty town) the district leaders can identify poor households within their settlement. In this way, the fund is kept local and directly targets poor households.

Performance of the federations is monitored through monthly progress meetings held between various stakeholders including the district leaders and often the municipality if they are involved in the funds. Details of the savings are published reveal which districts and which loans are performing and which are less successful. Annual figures are also published by the international NGOs. The likes of CLIFF will also be monitored by international donors who will examine the performance of loan and credit schemes.

There are 15 core affiliates within the SDI network, each with a federation of neighbourhood based CBOs or savings schemes and a support NGO. A summary of some of these affiliate Urban Poor Funds are listed in Box 9. The Federations

## BOX 9: SUMMARY OF URBAN POOR FUND AFFILIATES AND THEIR ACTIVITIES

*Cambodia's* Urban Poor Development Fund operated originally in the capital Phnom Penh where it has 500 organised groups, of which half are in saving groups. The fund has now spread to 132 provincial towns culminating in total savings of US\$292,000 with 20,000 members. With close co-operation from ACHR, the fund has benefited from initiating slum upgrading programmes, planned resettlement and land-sharing schemes.

*Ghana* one of the youngest affiliates, the fund was established to assist in the development of land that was acquired by the group. The Fund is supported by UN-Habitat's Slum Upgrading Facility (SUF)

*The Indian Alliance* – As illustrated above, the fund does operate differently to other Urban Poor Funds. It pioneered the work of CLIFF, which is a major institutional pillar both in redefining the urban poor funds and for local authorities. The alliance has one of the most complex funding arrangements, whereby community initiatives are financed through a construction company and/or through small separately managed revolving funds (see Mitlin, 2008b p53-56)

*Nepal's* – savings and credit cooperative structure has grown into a federation of women's collective savings group. Katmandu's Urban Community Support Fund, launched in 2004 by the municipality has supported one project in the capital and another in the province. The accumulation and allocation of savings between savings and credit groups has allowed some groups to purchase land.

*Philippines* – The UPDF formed in 2000 drawing on past

*Sri Lanka* – The Women's Development Bank in Sri Lanka has been active for a number of years. It broke away from a formal credit union due to frustration in the practice. The Federation consolidated its lending activity, drawing on existing skills, and capacities. A fund has been established to respond to development/shelter needs as a result of the Tsunami

*Tanzania* – The Tanzanian Federation of the Urban Poor is supported by the Centre of Community. The Federation is active in Arusha, Dar es Salaam and Dodoma. The Federation is working to support 30,000 people facing resettlement as a result of port expansion in Dar es Salaam. The Jenga Fund is planning to finance its first projects in 2008. The Fund is a minor partner in UN-Habitat's SUF.

*Uganda* – The Uganda Federation has grown significantly in 2006-07 after facing years of being restricted to one settlement in Kisenyi. As a precursor to an Urban Poor Fund, savings groups in Kisenyi have used their savings to secure resources from the state to purchase land and construct sanitation units. Other groups have secured land for development.

*Zimbabwe* – Active since late 1990s. The Federation was active building in 10 towns across the country, prior to recent political-economic turmoil.

Source: Mitlin (2008b), UPDF (2008), SDI and ACHR Website

Micro-finance for shelter has effectively evolved from micro-finance for enterprises. Micro-finance for shelter has sought to provide access to loan finance for those who are building their homes incrementally (Daphnis and Ferguson, 2004). Loans are now provided by a number of groups, be it NGOs, commercial sector (see Section 5.4 below) and other agencies. The size of loans varies from US\$500 to US\$3000 (UN-Habitat, 2005). What is apparent and relevant to Social Funds is that micro-finance strategies are outside of government interventions for shelter, yet the state can become involved through their lending or support of the micro-finance institution. Further, the micro-finance loans represent a highly individualised approach to alleviating urban poverty and improving standards, thereby, the loans represent a relationship between borrower and financial provider (Mitlin, 2008b).

Table 4 shows the capital and equity which is leveraged by community funds in the 16 countries where SDI is most active<sup>36</sup>. As Mitlin notes what makes the financing unique to Urban Poor Funds, is that donors and agencies that support the “SDI commitments to a financial mechanism where the allocations are used are determined by the Fund Management Team”, which marks a significant change in which donors determine the priorities of funding programmes. Such autonomy is ambitiously striven for in the more ‘decentralised’ of social funds.

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<sup>36</sup> Mitlin (2008) p27-28.



TABLE 4. CAPITAL AND EQUITY OF URBAN POOR FEDERATIONS OPERATING IN AFRICA, ASIA AND LATIN AMERICA.

COUNTRY	START DATE OF FUND	EXTERNAL FUNDS <sup>37</sup> US\$ (000s)	URBAN POOR <sup>38</sup> SAVINGS US\$	LAND <sup>39</sup>		HOUSES <sup>40</sup>		INFRASTRUCTURE <sup>41</sup>		TOILETS <sup>42</sup>	
				No. of Families	Value in US\$ (000s)	No.	Value in US\$ (000s)	No. of Plots	Value in US\$	No. of blocks	No. of seats
Brazil	2005	25,	5,000	150	225,						
Cambodia	1998	897	58,971	5,000	750,	2,798	1,130	11,591	477,318		
Colombia	2001	5	1,000	60	25,						
Ghana	2004	120	50,000	5075							
India		23,000	100,000	35,000	17,000,	35,000	70,000			600	6,000
Kenya	2003	500		1,000	500,	100	350			2	20
Malawi	2005	1,000	35,000	1,770	500,	770	560	900	60,000	3	15
Namibia <sup>43</sup>	1999	1,700,	110,000	3,500	100,	1,500	3,000	800	400,000	800	800
Nepal	2004	313		44		44	160,				
Philippines	2000	2,242,	25,530	26,166	3,500,	547	2,094	1,089	326,250		25
South Africa	1995	12,000	220,000	20,000	5,600,	13100	65,000	850	800,000	3	500
Sri Lanka	2004	120	100,000	120	120,	50	50				
Tanzania	2007	8	12,000	250						1	18
Uganda	2004	45	3,000	109	50,						
Zambia	2006	100	5,000	1,000	300,						
Zimbabwe	1998	1,942	67,632	8,500	600,	1000	300,000	2,000	100,000	1	20
Total		44,018	991,133	107,994	29,300,	54,909	142,644	17,230	2,163,568	610	7398

37 External funds include grant and loan finance mainly from Northern donors.

38 Urban Poor Funds are local communities' savings held within the fund. Communities can also have other saving funds at community level.

39 Land here is normally individual plots, except in India where multi-storey blocks are constructed. Plot sizes vary considerably.

40 Houses are normally constructed in concrete blocks or brick. Houses built using traditional materials are not included as they are constructed without the use of loan finance. The value is based on market value of the houses inclusive of the value of land.

41 Infrastructural developments vary from country to country, and range from communal facilities to individualized water and sanitation.

42 Toilets refer to toilet blocks, in most cases communal.

43 This does not include Build Together Programme monies.

Source: Mitlin (2008b)

A couple of points need to be mentioned about the Urban Poor Funds. Not only do they provide low income households, internal financial and technical support for incremental upgrading, but they also allow access to state funds for urban development including subsidy entitlements. The following mechanisms may be available to the urban poor, depending on relationship of the Federation with the authorities:

1. UPDF becomes a conduit for existing state subsidy programmes
2. The Federation has negotiated with the state for a capital contribution to the Fund.
3. The Federation uses the loan finance to negotiate the release of other subsidies – financial /cash or in kind.

Clearly there are some similarities between the methodology of both Social Funds and the Federations. The careful autonomy in the decision making process of both Social Funds and Urban Poor Federations, removes some influence from donors and the complicated political process. Instead, both the processes rely on apolitical board members who steer the decision making of projects. For both Social Funds and Urban Poor Federation, the decision making process in selecting recipient communities who will benefit from funding or an investment in a project is keenly observed by in-house managers (for the Funds) and local leaders (for the Federations). However, the involvement of these individuals who sit on the board and who work for the state (at the national or municipal level), or who are representatives at a district level raises the question over the extent to which these people can be objective, as they may well have their own political fixtures at heart. Yet, in cases like Belize's, and Jamaica's Social Investment Fund, the board members provided guidance on need, through informed statistical evidence. It was up to the Fund management to match this

with the demand driven process in the rural and urban settlements (Crosbie, 2008; Gillings, 2004). Similarly, the board members of the Urban Poor Development Fund in Cambodia would be chaired by a senior member of the city's Municipality, who was informed of the savings process, with other board members consisting of representatives of UN-Habitat, the fund manager, a fund supporter (foreign national) and district chiefs who collectively managed the monies. Again, local know-how was able to identify and respond to the needs of strong, organised communities.

Point one above indicates that Federations can use Funds to be the conduit of existing state subsidy systems. Similarly, Social Funds could have a similar ability to capture donor financed schemes from other foreign aid programmes, and collectively channel this aid through the Fund. In order to manage an increasingly large web of financial assistance and to efficiently distribute its monies, the Fund could turn to utilising local NGOs and micro-credit systems.

By itself, the Urban Poor Funds cannot be a panacea for alleviating shelter and infrastructure inefficiencies for the urban poor. The Federations and the Urban Poor Funds require the close relationship with the authorities; which regularly needs massaging. If the state is willing to financially contribute to funds and find the time to exercise an extension of democratic control on the urban poor it needs to be assured of the financial accountability of the Fund which is built on a partnership with the urban poor. The term 'partnership' is ambiguous, as it balances 'control' and 'trust' between the state and its citizens. In countries where unplanned resettlement, fire bombings of squatter settlements and forced evictions take place (see COHRE, 2006 for recent examples of housing rights exploitations), the 'partnership' can become fragile. Yet the relationship can be maintained by instilling ownership in Urban Poor Funds by the authorities – a role which

will inevitably expose contradictions in their policies. This is a risk that the Federations face; yet this exposure to party politics and the economic realities of repayment can encourage Federations to increase their autonomy, seek alternative housing solutions, and reduce their vulnerability and naivety to the state supply system.

## THE PRIVATE SECTOR

So far, the role of the private sector in providing housing solutions for the urban poor has been discreet. Considering developed world economies rely heavily on a formalised private sector to provide housing solutions for both the majority and low income groups, its absence, thus far, may be of some surprise.

As reported in previous chapters, Social Funds may have had debateable success to harness private sector involvement; yet this is not something to be discouraged. Hitherto in the housing sector, a gap has existed between utilising international liquidity from the private sector to increase the housing access to the poor. The rise of international finance and the private arm of this industry (hedge funds and private equity firms) continually seek to find new capital and liquidity. The increased permeability of emerging markets has seen private capital rush to new frontiers and revenue streams. Their investment is not a one-horse-race, as it is these firms that take on the increasing risk. With the global demand of housing creating a need for loans, the private sector has moved in to provide needed resources, using the debt from issued loans as capital in complicated derivative trades on the stock market. Housing finance for the poor has now seen private capital seeking to venture into financing affordable housing in the developed and the developing world.

In 2007, a US government agency, the Overseas Private Investment Corporation (OPIC) issued tenders worth US\$100million for private equity investment funds to help community development projects in Latin and Central America (Moore Odell, 2007). The example in box 10 elucidates how public capital, channelled through private equity funds, is taking on new risks in the mortgage finance world by preparing to finance affordable housing loans in developing countries.

### BOX 10: PRIVATE EQUITY FUNDS – HOW IT WORKS

Private equity firms such as Alsis which are supported by the US government's OPIC are a Mortgage Finance vehicle. With a target capitalization of US\$300m the Alsis Latin American Fund looks for equity capital from institutional investors, investment banks and multi-lateral lending agencies. The Fund focuses on residential loan portfolios in the secondary market, to avoid competition with local primary loan originators. The objective is "to generate strong risk adjusted returns by acquiring asset backed loan portfolios in Latin America and securitizing them in local international markets".

Source: adapted from Moore Odell (2007)

Private equity funds, financing affordable housing is not unique to OPIC. Deutsche Bank has recently moved into financing micro-credit schemes in emerging markets (Mahmood, 2008). Both models of mortgage finance offered by private equity firms and micro-finance schemes through investment banks illustrate the inevitable market capitalisation of housing programmes. The magnitude of these funds by investment banks provides the opportunity to inject huge amounts of liquidity into affordable housing markets.

Until recently (September 2008), it was seen, that the private sector's investment houses and equity firms could take on this risk to invest, with minimal risk: using cumulated debt as equity. As this paper is being written the ramifications of allowing unregulated (global) finance to low income groups through sub-prime mortgages is now well known, as the global economic downturn has now become sorely evident.

Yet, there are inherent risks evident in providing access to housing finance to low income groups. Some of the experiences of Urban Poor Funds illustrate this complexity. Box 11 cites Swillings (2005)<sup>44</sup> articulate observations of how the availability of state capital to the urban poor does not guarantee the successful delivery of affordable housing. Rather, loan repayments require informal groups to adhere to a formal system of financial regularity. To create such a system requires coercion and training by many actors.

### BOX 11: THE DIFFICULTIES OF ENGAGING WITH THE STATE

The South African federation, in mid-1990s changed access to housing and housing delivery as this became the focus within a national context dominated by pressures to demonstrate the benefits of democracy. The SA Federation, based on the Indian Alliance, had little experience of bottom up community organising through savings groups. Yet, a deal between the Department of Housing transferred R10 million to the uTshani Fund, enabling the fund to act as a conduit for public subsidies. To many, the benefits were apparent: access to funds to take the 'people's housing process' to scale. Mobilization levels were intense across the country. People expected to get something for their efforts.

On the ground, a subtle but vital shift took place: savings became a means for accessing subsidies. The simple message was: save R500 and you can get a R15,000 subsidy via the fund. Obtaining houses became an end in itself – amelioration became the priority, and transformation fell away. Attention swiftly turned to the complex processes of land acquisition, house design and construction. The focus became the 'beneficiaries' and not the urban poor as a whole. However, the subsidies were delayed by cumbersome and resistant bureaucracies, which meant that the process of housing delivery was funded by bridging loans to members from the fund. By 2003, the state owed the fund R54 million.

Federation leaders were under enormous pressure to make promises to non-beneficiaries who wanted the same deal as beneficiaries despite the fact that building costs were rocketing while the subsidy remained static. Fund managers got squeezed between a state that broke its promises (while restating its positive policy commitments to the contrary) and federation leaders who were reluctant to push back members' expectations.

Unsurprisingly, once houses were built, 'beneficiary' members were not locked into sufficiently strong daily savings and repayment routines resulting in declining levels of loan repayment. This was exacerbated by the 'non-beneficiary' members having no incentive to pressurize 'beneficiary' members to repay because there was no direct relation between loan repayments to some distant 'national fund' and accessing new loans at the local level. Vertical financial flows had broken the horizontal flows of social capital. In combination with this, the constitutionally loose framework of accountability of national and regional leaders, blamed for delays and contestable decisions on allocation, led to a contorted matrix of institutional and personal tensions that became increasingly redundant for the tens of thousands of non-beneficiary members on the ground.

Source: Swilling (2005)

<sup>44</sup> Cited by Mitlin, D (2008b). This analysis draws on Pieterese, E and Khan F (2006) in Ballard et al (2006)

## CHAPTER 5

### RECOMMENDATIONS

#### SUMMING-UP SOCIAL FUNDS

In the twenty or so years in which Social Funds have existed, they have established a common trait - to continually evolve and amend their weaknesses; either in response to constructive evaluations or impartial critiques. Thus, the original Social Funds model of the 1980s, which established itself to cushion the poor from the throes of free-market capitalism have in the 2000s ceased to exist; in exchange for what has become a more targeted strategy. Whilst the Funds did not provide the elixir to rural or urban poverty, they did open up a spirit of IFI funding towards a more holistic collection of participatory, grassroots community projects – something which had hitherto been led under one thematic group such as dealing with housing in the ‘*sites and services*’ programmes of the 1970s. As well as diversifying the range of community projects for donors to fund, Social Fund units have proved their ability to respond swiftly to a variety of situations, including post-conflict, post-emergency, economic crisis and transition. Whilst acknowledging that certain projects failed to live up to expectations or comparison of similar donor funded community schemes,<sup>45</sup> Batkin notes that:

*“The impact and sustainability of public infrastructure provided through social funds with effective procedures for local selection which engender...local ownership...appear to be considerably better than traditional line ministries.”* (Batkin, 2001, p458)

The quote extends to social funds incurring a “preventative” and “mitigating” role in the provision of social infrastructure. So whilst short term labour is provided through projects, it is not their sole *raison d’être*.

Critics have commonly pointed out funds failing to raise long term employment or household income – whilst honourable charges – now seem inconsistent in what the social funds have become: “*instruments to move people out of poverty*” (IDB, 1998). To critics this may seem like donor rhetoric wriggling out of the earlier shortcomings of funds, as the disbursement of billions of US dollars over the last two decades, has failed to generate headline grabbing results. Perhaps this expectation amongst critics and beneficiaries alike may derive from how the funds are incorrectly perceived as ‘social assistance’ programmes – sometimes seen as a ‘revolving door’ of annual expenditure for low income groups. Pertinently, the funds are not a social assistance programme (*see* Siri 2000, p21).

<sup>45</sup> Batkin (2001) notes that coverage of short term labour opportunities in SF was less than ‘public works’ programmes page 458

This is a timely reminder to refer back to the beginning of this report: that an income based measure of poverty alone cannot be accurate enough to capture how projects which have improved educational and health standards have reduced poverty. Hence with social funds, there is a clear need to measure the extent to which the poor can access basic needs.

Whilst the likes of Batkin (2001) congratulate the “effectiveness, efficiency and accountability” of locating the fund outside of mainstream governmental structures, he and many observers (Cornia, 1999; Morely in Bigio, 1997; Tandler, 2000, Siri 2000) raise similar pertinent points that the institutional and financial sustainability of the funds remain unresolved as to the extent to which the funds divert resources away from institutional strengthening of local and central government. Further, some debate needs to be made as to whether affordable housing could be integrated in social funds and if so how.

## A NEW PROPOSAL

The first question one must ask is whether housing should be on the social fund project menu? This author believes that there is scope to introduce housing if the correct stakeholders are in place and the government is willing to support alternative housing options for the poor. For low income groups, access to affordable housing is facilitated by their own participation in microcredit schemes which provide savings and loans. This access to liquidity allows the poor to make incremental improvements, or to rebuild their home. By borrowing from a state recognised microcredit scheme which promotes housing loans (and equally savings schemes), the upgrading process puts the poor in a position to move towards their security of tenure.

This paper therefore recommends that access to microcredit should be paramount to the funds’ long term objectives. Access to microcredit should continue to be made available through the existing public and private finance institutes. However, this paper advocates that a revolving fund needs to be established to lower the risk for participatory stakeholders. A revolving fund would allow financiers to scale up the lending and thus house building process. The scale of this ‘revolving fund’ will need to be determined through further debate.

To address these critical issues, one needs to examine three aspects: the ‘future projects’; the ‘funding’ arrangements and the ‘institutional’ order of social funds. In turn, the following subheadings provide some suggestions as to how the funds can move forward; whilst also addressing the housing question.

## FUTURE PROJECTS

In respect to the possibility of integrating housing into social funds and the future sub-project menu of social funds, several key elements have emerged. First, from a theoretical position, the funds need to move from being project to process based. This will require a shift by donors to ensure improved long term monitoring of projects. Mandatory longitudinal research is not necessarily the answer. In the evaluations of funds, monitors will need to systematically address the ‘impacts’ of projects, particularly through the use of social livelihood indicators – again indicating a long term approach to monitoring, before, during and after project implementation.

Donors encourage funds to cultivate innovative pilot projects. One of the important features gleaned from the earlier funds, was the success of the microcredit system of Chile's FOSIS programme. The fund raised income, generated employment and encouraged entrepreneurial growth. However it must be realised that the credits from the fund were directed to the non poor.<sup>46</sup> However, this need not be the case. The microcredit systems operated by the Urban Poor Federations in Asia and Africa predominately reach those living on, or under the poverty line.<sup>47</sup> It would appear that there is an opportunity for more social funds to move carefully into the realm of microcredit financing. Without duplicating the work of existing institutions in the locality, the Funds should learn how to partner-up, to build local capacity within the PMU and within the local microcredit unit. Resourcing adequate staff within the PMU and at a local microfinance group will need to be made with costs covered by either group. The PMU will also have to develop new skills to be able to respond to microfinance initiatives and their groups which can currently operate over large swathes of a metropolis, (Mumbai) or one that is nationally operated (CODI, Thailand; or the Homeless Peoples Federation, Philippines). Transferring responsibility between the PMU and microcredit groups would be expected, but critically, there will be a need to engage beneficiaries to understand that micro-credit is a collectively owned asset, rather than a social assistance programme. Microfinance would need to be seen as an enabler of housing loans, rather than end in itself. Consequently, donors may be able to overcome their hitherto hesitancy in linking with land reform programmes.

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<sup>46</sup> 72 percent of those receiving credit were above the poverty line (Tomei 1997, cited in Chacaltana, 2002).

<sup>47</sup> It is not apparent the extent to which the microfinance solutions adopted by the Urban Poor Federations reach the poorest of the poor. Some work would suggest there are limitations in the coverage to the poorest in Cambodia. Fallavier, P (2007) Unpublished thesis; MIT.

If the rural and urban poor can become organised through urban poor federations, they have an improved chance of negotiating for rights to land use – be it collective, private or public land. Thus the micro-credit system becomes the conduit for improved security of tenure. As major donors such as WB and the ADB are increasingly emphasising land tenure and slum issues, (Cities Alliance, CDIA) funds should harness this attention, develop their scope to cover microcredit and thus realise additional social capital of working alongside institutions that share similar goals.

## TOWARDS FUNDING SOLUTIONS

The second challenge for social funds and their ability to foster affordable housing projects is to address future funding avenues. Clearly, the current donor dependency model draws heavy criticism for producing projects that rely on aid, rather than self-initiative to reduce household poverty. As Social Funds are not financially secure, dependent on a variety of multilateral and bilateral donors over their given lifespan, there is a need to consider new alternative funding strategies. Supplementary funding could come from either public or private parties.

## PUBLIC FUNDING

There are two ideal notions here: that national public resources increasingly finance social funds and secondly, that this financing could facilitate affordable housing options for the poor. The most progressive and fruitful housing policies for national governments in the developing world appears to be when the state acts an enabler. This allows for other groups – NGOs, or the private sector to come forward to facilitate housing options, particularly if there is a lack of resources within government to manage the task. Critically, the state will only ever be in a position as an 'enabler' if it is supporting housing reform (or the availability of housing) to low income groups, including

squatters. State advocacy for housing can only happen if there is a strong regulatory framework which can assist in enforcing norms, rules and regulations. Without this framework, ghettos of the rich such as the *urbanizaciones* and of poor, *lotificadores* can spring up as seen in Central America. Equally important in this relationship is the role of the line ministries. Their facilitation of any partnership between social funds and microcredit groups need to be aligned with a strong state regulatory framework – which is accountable and transparent to support a revised activity menu.

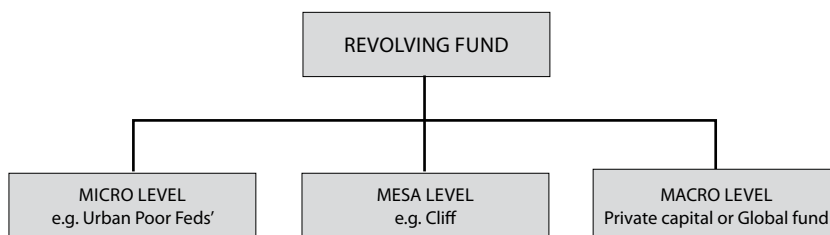
As was evident from the number of examples in this report, state subsidy of housing is not necessarily the most financially sustainable solution for low income countries; which often have a backlog of under-served households. Therefore, if social funds were to advocate affordable housing options, a large scale revolving fund for micro-credit shows greater potential than a state subsidy programme. More research will be needed on the size of the revolving fund; as illustrated in Figure 3; as one cannot determine whether this fund could additionally support other Social Fund projects on the activity menu. The Social fund would have to scale up to be able to respond to new customers. An influx of beneficiaries will inevitably put pressure on the social fund and microcredit staff, so resourcing these institutes will need to be considered. This is a major issue, as many social fund staff will have little experience of microcredit operations, housing construction or housing finance. There is a need here, to emphasis that microcredit for social funds could successfully link with Urban Poor Federations who have the grassroots experience as well as the technical and financial know-how of a multitude of housing programmes.

Collaboration between the groups would necessitate an easier transition if the social fund was to adopt projects that would facilitate affordable housing. Social Funds do not always operate in countries or cities where there is a strong Urban Poor Federation. In which case, Social Funds need to consider the value of establishing with existing microcredit institutes. The Urban Poor Federations experience of microfinance is often a direct result of their successful transition from using microenterprise. Therefore social fund managers will have to be cautious as to where they establish links with microcredit groups. If there is a poor history of credit repayments, or apathy within the groups, then further consideration should be maintained before linking to NGOs.

New funding sources will be required to finance a revolving fund. As revolving funds exist, similar to the multi-financed CLIFF, emphasis should be on forging new links with these established groups, as much as it is to find new financial resources. New partnerships within a revolving fund can lower the risk to beneficiaries and all the holders of the fund. The larger the fund gets, the more risk can be spread across its pool of members. Using a revolving fund to finance other projects requires some further thought. Presently, many of the Urban Poor Federations use private finance or separately managed funds to implement community projects.



FIGURE 3. LEVELS AT WHICH THE REVOLVING FUND COULD OPERATE



Decentralisation has not fully happened through the Social Fund process. Clarification is still required on the role of central and local government in relationship to a social fund. What appears to be absent in most of the social fund literature is a debate around utilising tax credits to fund sub projects. A decentralised social fund which has regional offices could provide an additional task of collecting local taxes from the community which in turn would financially support community projects within their locale. Even if a tax was placed on squatter settlements the contribution would go some way to restoring their environment; though any tax collection from this group would thus imply a residency to the land they occupy.

Further work on tax issues and social funds needs to be explored, especially in light of how this could support an enlarged state supported revolving fund.

### PRIVATE FUNDING

There are three elements in which to discuss the relevance of the private sector in relation to the future funding of social funds and in the provision of housing:

- Private sector and Social Fund subprojects
- Private sector and House building
- Private sector and Microcredit

The first bullet concerns the private sector's role in building community projects. Build Operate Transfer, or BOT has been used alongside commissioning of small contractors. This has proven to be a useful mechanism for short term employment, but has limited merit in transferring capacity building to local beneficiaries. Some of the upgrading programmes evident in the Asian Urban Poor Federations elucidate how minimal capital expenditure is required for community projects, once the beneficiaries can be mobilised through the federations to assist in design, build and after care of the project. However, the social fund is a transparent institute with checks and balances that are regularly audited. The fund itself would have to alter or even jettison its tendering system if it was to adopt a complete community based approach to construction. Abandoning the tendering system is doubtful at this stage; but an increase in the communities involvement of projects needs to be rectified. However, it is not necessarily the private contractors who should be put in a position of capacity building.

Secondly, the private sectors' role to provide housing in social funds has hitherto been absent. The influence of the private house building sector in many countries has often been responsible for pushing housing onto the political agenda. A consequence of which is that in both developed and developing countries, the private house building sector has been an instrumental provider of affordable housing. So could a marriage between the

two parties of the social fund and private developers coexist? Any integration is likely to depend on whether the social funds decide to integrate their housing projects with the Urban Poor Funds. Currently, the private sector ignores incremental housing improvements - a viable and cost-efficient method of providing affordable housing solutions for the poor and which is advocated by the Urban Poor Federations. This is not to say the private sector is superfluous to federations. Rather, the private sector would need to change its model from developer to supplier to wholesale low cost products; a profitable business that would streamline upgrading projects and lower costs for beneficiaries.

The third way in which the private sector has the potential to become involved in funding Social Funds is through the continued expansion and support of private microcredit banks. Private equity has provided a viable route for the poor to enter the savings and credit market and use access to capital for house building. Unlike many western commercial banks that were falling into receivership whilst this paper was being written, Provident Financial and International Personal Finance (IPF), two international microfinance banks, reported upbeat statements in their lending to Eastern Europeans and Mexicans.<sup>48</sup> As these banks provide a niche market, they can provide a number of agents on the ground to collect monies. This service allows agents to check on the borrowers and find out if there are any difficulties in repayment; a service which mainstream banks find difficult to copy. Private microfinance generated by these commercial banks need not finance the social fund *per se*. However, there could be an opportunity for private finance to contribute to a larger revolving fund once it gains maturity, allowing local and donor finance to retract.

## INSTITUTIONAL CHANGE

There are two institutional issues that remain unresolved with social funds – their sustainability and the extent to which funds divert resources from local and central government. Whilst this report cannot offer an absolute answer to these problems it does proffer the suggestion of a revolving fund, which to some extent could move the debate forward.

## CENTRAL AND LOCAL GOVERNMENT

From an institutional perspective, there is still a need for a multisectoral approach to implementing community projects without replicating the work of line ministries:

*“Multi-sectoral schemes have the advantage that if well-targeted and designed, they can potentially serve as the basis of a more concentrated and sectorally integrated approach to social protection and poverty reduction. They have the disadvantage that they may require greater expertise and administrative capacity on the part of SF administrators than if parcelled into sectoral components, and that they can easily become diffuse and unmanageable.”* (Reddy, 1998)

Whilst the multisector formula appears to be advocated; there is a need to maintain a closer involvement from government ministries. If a government participated in a revolving fund from its inception, it would provide senior civil servants with greater confidence and know-how of the mechanics behind the revolving fund. Therefore, if from the inception, civil servants were to be involved with a revolving fund, they would have the opportunity to step in and out of the fund – knowing when to withdraw and let the social fund staff deal with administrative issues whilst intervening for issues of national interest.<sup>49</sup>

<sup>49</sup> If they were interested, the government's involvement in a revolving fund could gradually increase, choosing to operate, or even nationalise the fund if they wanted to. However, this would clearly depend on other stakeholders, how the fund is financed and just how big the fund wants to be. These opportunities could appear to be threats for the private sector. Though under the recent economic climate, the backing of national government in private banking has provided a lifeline to many commercial banks.

<sup>48</sup> The Economist, 15th-21st November 2008. p81

The success of many third generation social funds is in part how they have used government ministers or senior civil servants as their board of directors. Similarly, many new Urban Poor Federations have government ministers or senior municipal staff on their boards. Therefore, the incorporation of civil servants with institutional mechanisms already exist in these different funds – they just need to be integrated into a revolving fund. If a revolving fund was established, the involvement of senior civil servants and ministers at the board level would need to be maintained, so they could learn from the institution and be considered part of the system. Equally important is that the board of directors is transparent, thus decision making is accountable to individuals and the group: an important factor to reduce corruption and encourage participation from community groups.

As mentioned above, when a revolving fund matures it will have an opportunity to bring in the private sector to financially participate. Again, this would give the government an opportunity to increase or decrease its role within the revolving fund.

## URBAN POOR FEDERATIONS

The two favoured options to move the poor out of poverty have predominately been savings and credit schemes. Whilst the current arrangements of these federations suit an incremental approach of fostering communities to save and collect, teething problems do persist within the urban poor federations. As repayments for housing loans are often longer than enterprise loans, it is often the latter which is supported. Another concern is that housing loans are predominately issued when there is security of tenure. Whilst using a tax system to offset housing subsidies it should be considered within each country's context, this paper is mooted the proposal of a revolving fund as an alternative method to provide the conduit for affordable housing

and to reduce the institutional instability that can come with social funds. To use the axiom 'strength in numbers' would best illustrate how the federations have succeeded. Bridging loans from international sources have strengthened the capacity of the Federations to geographically increase their coverage and diversify their portfolio of projects. Once the donors approve financial support of the federation, they are in effect taking on some of the shared risk from the Federations. In other words, the Federations have benefited from these regional alliances such as CLIFF and SDI. A similar or larger revolving fund, organised with the social funds and national governments would have the ability to step-up the profile and magnitude of the Federations, the loans process and credit available for housing. It is not the intention of a revolving fund to duplicate the role of the Federations, the Social Funds, or line ministries. Where Urban Poor Federations already exist, the revolving fund would merely be increasing of a magnitude which was not possible before. Presently, the Federations are already floating the idea of their own global fund.<sup>50</sup> One of the failures of El Savador's FONAVIPO scheme was the lack of a revolving fund. A revolving fund linked to an alliance would increase the capacity of the Social Fund and give the option to government to withdraw or increase their involvement in the social affairs of their country.

The critical item in this discussion is the optimum size of the fund. As illustrated in figure 3, the size of the revolving fund at a micro level could be operated only adequately by the each country's Urban Poor Federation. At the mesa level, an Alliance such as CLIFF could be introduced to scale up the fund. Finally, if the fund wanted to have an impact both nationally or beyond, private capital could be brought to the table.

<sup>50</sup> ACHR/SDI/CODI/ IIED (2007) Savings and Credit and Community Funds Seminar. November 10-14th 2007, Bangkok. Available from [www.achr.net](http://www.achr.net)

## FURTHER STUDY

A number of critical questions and themes have emerged from this report that will require study and clarity to develop these ideas further. Listed below are some of the possible issues that could be taken forward:

The Revolving Fund:

- How big should the revolving fund be?
- Should a revolving fund for housing link to other emerging global funds, namely SDI's recently mooted global fund?
- What should be the role of the private house builders with SF?
- To what extent should private finance contribute to a revolving fund?
- How could tax be used to create financial and institutional sustainability for the social fund?

## COUNTRY SPECIFIC WITHOUT SIF

Interestingly, the Urban Poor Federations are active in South and South East Asia and many parts of Africa. About five years ago new saving Federations were established in East Timor and last year, in Fiji. Currently there are no Social Funds operating in East Timor, Fiji, Polynesia or the Federated States of Micronesia. The absence of SIF, but the emergence of housing and savings and credit funds could lead to an interesting scenario. Perhaps this could be a testing ground of how a country operates without a social fund and how it manages being led by community savings process.

## COUNTRY SPECIFIC WITH SIF

Option A: carry out a study in country where both a SF operates and a microcredit system which is part of an Urban Poor Federation. How could the finance, management and governance systems integrate? A useful case study would be to examine combining two such funds such as Cambodia's Urban Poor Federation which also has Cambodia's Social Fund II operating. In comparative terms how would this compare to the Urban Poor Community Fund in Thailand, CODI which has become an institutionalised department of the Thai government?

Option B: The third generation of Social Funds, which exist in many parts of Asia, the Caribbean and Central America, remain evolving institutions. They therefore provide an opportunity for experimentation and diversification away from their formulaic structure.

Many of these third generation funds operate in countries where there are no Urban Poor Federations. The challenge here would be for the Funds to establish greater links with civil society and possibly, through NGOs, encourage the mobilisation of Urban Poor Federations. If these Federations can be formed, then the question moves to whether Funds could orientate themselves into a revolving finance structure – either by linking with existing microcredit schemes or establishing a similar scheme for themselves.

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## APPENDIX 1: SIF GENERAL CHARACTERISTICS, LAC

COUNTRY FUND, 1ST YEAR OPERATIONS	LOCATIONS	DURATION	ORGANIZATION	KEY STATED OBJECTIVES	TARGET POPULATIONS
Bolivia (BO) SIF 1991	Presidency	Permanent	Decentralized through 9 field offices	To facilitate government reform, especially to implement the Popular participant law and involve municipalities To develop education-health-production in an integrated way To finance health, education, water supply and sanitation projects for the poor and train municipalities in O&M.	The poor, indigenous peoples, disadvantaged women and children and migrants.
Chile (CH) FOSIS 1991	Ministry of planning and Cooperation	Permanent	Decentralized through 13 regional offices	To alleviate poverty. To help the poor integrate into mainstream society and production. To support income generating activities and improve the skills of the poor so they can escape poverty themselves.	Poor families. Indigenous peoples, marginalized youths, scenarios, seasonal workers, women-headed households microentrepreneurs and residents of isolated localities.
Dominican Republic (DR) PROCUMUNI DAD 1995	Presidency	Temporary through 1999	Calls itself decentralized but no field offices	To alleviate poverty. To promote civil society participation in managing resources to improve the quality of life of the most vulnerable. To enhance the transparency, effectiveness and efficiency of resources targeted to poor.	Lowest income groups and the poorest communities.
Ecuador (EC) FISE 1991	Presidency	Temporary through 1999	Decentralized through 4 regional offices which beginning to approve and evaluate projects	To alleviate poverty through targeted social spending. To improve the living condition of the poor and address their demands not satisfied by the current social programs. To bolster self-help schemes by promoting community development and participation	Poor and vulnerable groups including women, children and indigenous populations. Groups most affected by adjustment.

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COUNTRY FUND, 1ST YEAR OPERATIONS	LOCATIONS	DURATION	ORGANIZATION	KEY STATED OBJECTIVES	TARGET POPULATIONS
EL Salvador (ES) FIS 1990	Ministry of Planning and coordination of Economic and Social Development	Temporary through 1997 proposal to become permanent	Centralized	To compensate the extreme for the effects of adjustment . To provide basic needs and support of the poor. To facilitate the integration of the poor into the national development process. To stimulate community development.	The extreme poor and most vulnerable groups.
Guatemala (GU) FID 1993	Presidency	Temporary through 2001	Decentralized	To raise the standard of living of the poor. To empower poor communities so they play a role in reducing poverty.	The poor and rural communities.
Guatemala (GU) FONAPAZ 1991	Presidency	Temporary Would dissolve once projects ready for transfer to other agencies	Centralized but confined to the warzone, ZONAPAZ	To contribute to the peace process and improve the quality of life of the population most affected by the armed conflict and extreme poverty in ZONAPAZ. To improve ZONAPA social poverty and economic infrastructure. To reduce ZONAPAZ poverty through income generating productive activities. To strengthen ZONAPAZ community participation and organization. To strengthen municipalities ZONAPAZ.	Those most affected by armed conflict in the worsen ZONAPAZ who are also extremely poor, particulary refugees.
Haiti (HA) FAES 1995	Ministry of Finance and Economy	Temporary	Centralized but Planning to decentralized	To finance small, labor-intensive physical infrastructure , social and productive projects for low income communities To generate temporary employment. To improve basic health, nutrition, education service, infrastructure and the environment. To strengthen grassroots organizations, NGO's municipalities and cooperatives.	The disadvantaged population especially the extreme poor (i.e. 80% of the poulation).

Social Investment Funds have been a favoured instrument of International Finance Institutes for more than twenty years. Originally used as a tool to mitigate against the affects of structural readjustment policies on the poor; Social Investment Funds have emerged as a successful mechanism to fast-track community-based projects on the ground. This report provides an overview of the Social Investment Funds and their projects which have been implemented in Asia, Latin and Central America, Eastern Europe and Africa since the 1980s. The report describes the key characteristics of these funds and highlights their relevant weaknesses – predominately related to their financial sustainability; and offering ways in which these issues could be ameliorated. The report also questions the extent to which affordable housing or access to housing for low income groups, could be part of the social fund projects. This report suggests that social funds need to utilise existing microcredit organisations, through an enhanced savings and credit model, such as a large scale 'revolving fund', Social Funds have an opportunity to optimise their services and skill base while providing governmental and non-governmental bodies the institutional space to operate. An emboldened and enlarged revolving fund could also eventually remove the current donor dependency of the social fund model.

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