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Helping the Poor Manage Risk Better: The Role of Social Funds

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HELPING THE POOR MANAGE RISK BETTER: THE ROLE OF SOCIAL FUNDS

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ANNEX 1: Social Funds in Latin America and the Caribbean (to be completed for conference)

ABSTRACT

Recent trends in trade, technology, and politics have created new opportunities for global welfare improvement, but have also increased risks. This challenge requires rethinking social protection and its instruments, particularly social funds.

This paper reviews social funds and suggests future directions by using a "social risk management" framework to examine how social funds can help the poor manage risk better. Risk management covers risk reduction, risk mitigation, and risk coping.

Analyzing social funds within the social risk management framework suggests that: they should be assessed as one of many components in countries' social risk management strategy; they should move from coping and mitigation to support for risk reduction; they should focus more on the medium term impact of projects; their targeting should focus on vulnerability and vulnerable groups; their "investment menus" should be expanded to include more risk reduction projects; and more emphasis should be given to participation and capacity building.

This paper has been prepared for the Conference on Social Protection and Poverty. Its findings, interpretations and conclusions reflect those of the author and should not be attributed to the Inter-American Development Bank

I. INTRODUCTION

In a world of increasing opportunities and risks due to globalization and technological and political change, there is a need to reassess what we mean by social protection and what role social funds should play in a new strategy of social protection. In parallel with these global developments, social funds have established themselves as important instruments for social protection in many parts of the developing world. This paper will bring the development of social funds into the new global context and the resulting new approach to social protection. The paper will present a new framework for social protection and will show how an analysis and assessment of social funds within this framework helps clarify what the role of social funds should be.

> ***Issues for Poverty Reduction***
>
> *"The key issue for the early part of the next century is how to bridge [the] gap between opportunity and risk. The challenge for policy makers is the design and implementation of institutions, mechanisms and policies at various levels to harness the potential for poverty reduction, by setting a long term course which will access global and local opportunity but allow broad sharing of the gains from development, while managing the short term risks of inequality, vulnerability, marginalization and social dissolution. This is not an easy task, and crucially important will be learning from a detailed evaluation of experiences with actual interventions in the past. It is important to go beyond broad strategies, to draw lessons for implementation which take into account time horizons and social constraints that policy makers actually face."*
>
> Dr. Ravi Kanbur, Staff Director, World Development Report 2000/2001 on Poverty, in Kanbur (1998)

To better understand what social protection is and what the roles of public national and international organizations should be in support social protection, Section II proposes a new definition and conceptual framework for social protection, namely social risk management. This definition moves us away from simply looking at social protection as a crisis response and towards a more holistic, institution-oriented definition that puts social protection squarely at the center of the fight against poverty and social exclusion. Section III then updates what we know about social funds, their origins, development and scope of activities. Section IV analyzes social funds and their activities within the social risk management framework. Section V presents what this analysis means for the future of social funds, before presenting some brief concluding remarks in Section VI.

II. SOCIAL PROTECTION AS SOCIAL RISK MANAGEMENT[1]

A. Global trends and increases in risk

Recent trends in the evolution of trade, technology, and political systems have created great opportunities for improvements in welfare around the world. Globalization of trade in goods, services, and factors of production has the world community poised to reap the fruits of global comparative advantages. Technology is helping to speed innovation and holds the potential to remove the major constraints to development for many people. Political systems are increasingly open, setting the stage for improved governance by holding those in power accountable to larger segments of the population. Combined, these developments create a unique opportunity for unprecedented social and economic development. These trends have been especially evident in Latin America and East Asia.

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[1] This section draws heavily on Holzmann and Jorgensen (1999).

The other side of the coin, however, reveals that the same processes that increase the opportunity for welfare improvements also increase societies' susceptibility to economic shocks. This was demonstrated on a worldwide scale in 1998. We saw how the global financial crisis hit hardest the same regions that were poised to reap the greatest benefits. Further, greater trade or better technology can increase the differences between the "have" and "have-nots," just as it can increase opportunity for all, depending on the social context into which it is introduced and the policy measures taken. There is no certainty that any improvements will be widely shared across individuals, households, ethnic groups, communities, and countries. When taking this analysis further, especially in the context of the unequal income distributions of Latin America, this is a serious threat to the social sustainability of the gains. Globalization-induced increases in income variability combined with marginalization and social exclusion can, in fact, increase the vulnerability of large groups.

To further complicate matters, the push towards globalization and the higher mobility of production factors also reduce the ability of Governments to raise revenues and pursue independent economic policies and, thus, to have national policies when they are needed most.
This three-way challenge: greater opportunities, greater risk and less ability for governments to pursue independent policies, make it imperative to reassess the role of development policies in general and of social protection specifically. In the World Bank we have embarked on this process, and the remainder of this Section will present some of our initial ideas.

B. Definition of Social Protection

In our work at the World Bank we have found it useful to have a broad definition of social protection and to frame that definition in terms of social risk management:

> *Social protection consists of public interventions to assist individuals, households and communities better manage income[2] risks.*

This definition integrates what we have traditionally understood as social protection, including labor market interventions, social assistance, pensions and social funds, into a unifying theme. The definition gives us a framework for analyzing a country's overall efforts to help its citizens manage risk, whereas we have too often in the past analyzed and made recommendations on only one component of the social protection system (such as the social fund). Probably the most important advantage of using this definition is that it grounds our analysis directly into household behavior. Any and all interventions should be judged on how they help individuals, families or households manage risk better. The definition is also useful in that it re-emphasizes institutional issues, forcing us to look at how families, communities, the market **and** the public sector work in assisting individuals manage risk, since in reality, there are market, government **and** community failures in risk management, mainly due to information asymmetry. Currently one can see analysts jump quickly from an analysis that shows "market failure" to a recommendation for government provision, or an analysis that shows government failure and jumps to a recommendation of market-based solutions. With the new definition, this false either/or distinction is removed. Finally, the definition broadens our scope from just public transfers or

[2] Ultimately the goal for individuals and households is to optimize welfare through appropriate consumption choice, including availability of basic goods and services. As a policy variable we are concerned with income, its level and variance, because both determine the consumption possibilities in a free choice setting, and it is a variable we can help influence. We use the widest possible definition of income including in-kind, imputed income etc. (Holzmann and Jorgensen (1999)).

alleviating the effects of a crisis, to a more pro-active, pro-development framework which places social protection at the center of the development debate.

C. *Typology of risk management strategies and institutions*

To analyze how social funds fit within this more proactive, household-centered definition of social protection, it is necessary to clarify a typology of risk management strategies and institutions.

Risk management strategies fall in three broad categories:

1. Prevention strategies - to reduce the probability of a welfare reducing risk.

These are introduced ex-ante in order to increase the level of people's expected income and to reduce income variance. Strategies to prevent or reduce the occurrence of income risks have a very broad range that surpasses the traditional scope of social protection. These strategies are comprised of diverse areas including sound economic policy, public health policy, environmental policy, education and training strategies, and so forth. Preventive social risk management is typically linked with measures to reduce the risk for income generation, notably for labor. It is concerned with labor standards and the (mal-) functioning of the labor market, resulting from bad labor market regulations or other distortions, which lead to labor market imbalances and the resulting income loss due to unemployment.

Social funds have not traditionally played a major role in risk reduction, but there are examples such as support for training that will reduce the risk of unemployment, or preventive health interventions such as cancer screening that will reduce the probability of a health shock.

2. Mitigation strategies - to decrease the potential impact of a shock.

The objective of these actions is to reduce the variability of income if a shock were to occur. While these actions can happen informally (through personal contracts and networks) or formally (through anonymous market relations), the government can improve the efficiency or equity of existing instruments or provide or mandate the provision of instruments. Again, many of these actions transcend traditional social protection policies. For example, providing information on field and crop diversification or weather patterns will help reduce harvest and income risk.

Risk mitigation generally takes three forms:

a. *Portfolio diversification*, which reduces the variability of income by relying on various assets from which returns are not perfectly correlated (Ellis, 1998). This requires the acquisition and management of different assets such as physical capital, financial capital and human capital in their different forms. For example, if individuals can only invest in human capital, they can still diversify in different occupations, but perhaps to the detriment of the average societal return. Government policy that improves the access to different assets not only allows a better risk mitigation, but may allow for high rates of return as well.[3]

[3] For social risk management the definition of assets needs to be very broad. It would still include physical capital (land, buildings, and livestock), financial and human capital, but should also include social capital (belonging to groups with trust and high levels of cohesion) and the family structure itself (Davies, 19988; Ellis, 1998; Moser, 1998). While our theoretical constructs still have a long way to go in just coming to grips with an operational definition of social capital and an asset-like application of family structure, practical experience and statistical evidence suggests their importance in an asset management framework. For instance in poor households in many parts of the world, preference is given to expenditures that invest in social capital over investments in human capital. E.g., the household prioritizes gift giving and costs associated with rituals over paying school fees. The giving of gifts and participation in rituals, is a form of membership fee to belong to a certain social group, i.e., an investment in social capital. Much of the literature

b. *Informal and formal insurance*. Informal insurance arrangements are difficult to describe in that they come in different and often disguised forms because one "institution" serves insurance and non-insurance type functions (such as the family and the community). This mix and the basis of informal insurance – trust as a result of repeated interactions – renders hazardous the involvement of government to strengthen the insurance function.

c. While *hedging* has an increasing importance for financial markets (e.g., forward exchange rate contracts) and is based on risk exchange or payment of a risk premium to somebody for taking over the risk, these arrangements do not appear to work in an income-related environment and formal provisions. However, elements can be found in informal/personal arrangements. For example, various family arrangements or some labor contracts are more germane to hedging than insurance.

Social funds have played a large role in supporting portfolio diversification and asset accumulation strategies through their support for social and economic infrastructure improvements, human capital formation, and microenterprise development. Implicitly, social funds have also helped enhance social capital through building community-level trust and cooperation, thereby setting the basis for informal insurance where they have built procedures to support this goal, as in Romania, Argentina, Malawi, and Peru (Kammersgaard (1999)).

3. Coping strategies - to relieve the impact of the shock once it has occurred.

The main forms of coping consist of individual saving/dis-saving – borrowing/repayment or the reliance on public or private transfers. The government has an important role in assisting people in coping with income variability once the risk/loss has occurred, for example, in the case where individual households have not saved enough to cope with multiple or longer lasting shocks, running out of financial resources to finance their consumption. Finally, individuals may have been poor for their entire lifetime with no possibility to accumulate assets at all, being rendered destitute by the smallest income loss.

While the global financial crisis has brought to the forefront the need for assistance with coping, it is important not to forget the longer term in the rush to deal with the crisis. Care must be taken that the support for coping put in place to deal with the effects of the crisis do not hamper other forms of risk management. For example, if the debt of a country is increased to pay for transfers, this will inhibit the country's ability to invest in human and physical capital in the future, and thus inhibit individuals' ability to mitigate the effects of potential future shocks through portfolio optimization.

The level of formality can distinguish the instruments/arrangements used under each of these three risk management strategies. Three distinctions are proposed:

1. Informal/personal arrangements (such as marriage, mutual community support, and real assets such as cattle, estate and gold).

With the lack of market institutions and public provisions, the response by *individual households* is self-protection through informal/personal arrangements. This sidesteps most of information and coordination problems that cause market failure, but may be limited in its effectiveness.

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on women, focus on the role of investing in family structure. E.g., women give up a job with a higher return for the "protection of the family." Other examples indicate that the level social capital (measured via a trust index or a participation index) is positively related with GDP per capita and has a positive impact on economic growth. Hence, appropriate investment in "social capital" is a means to improve income conditions and reduce poverty, but the ways need still to be explored.

Examples include: the buying and selling of real assets; informal borrowing and lending; crop and field diversification; the use of safer production technologies (such as growing less risky crops); and the storing of goods for future consumption. Informal arrangements are generally best suited to deal with idiosyncratic shocks whereas they break down in the face of covariant shocks.

2. Formal/market based arrangements (such as financial assets and insurance contracts).

With the existence of market-based institutions such as money, banks, and insurance companies for inter-temporal exchange, individual households will also use these instruments for managing income risks. But, in view of their limitations due to asymmetric information, their use will be restricted. Their use, however, will rise with financial market development. Empirical evidence suggests that the establishment of a sound banking system and non-inflationary policy is an important device to cope with consumption vulnerability. Because formal market institutions are reluctant to lend to households without secured earnings, micro-finance is an important instrument of social risk management.

One reason for the popularity of social funds has been that it allows governments to build on the efforts of communities and the markets through community identification and contributions and the employment of private contractors. This is contrast with more traditional public sector institutions that solely rely on public provision or mandating.

3. Formal/publicly mandated or provided arrangements (such as rules and regulations, social insurance, transfers, and public works).

Governments can mandate or provide insurance for old age, disability, survivorship, accident, and sickness. In addition, the government has a whole array of instruments to cope with the consumption effect of lost income. The choice will depend on distributive concerns, available fiscal resources and administrative capacities, and the type of shock. It will also depend on efficiency concerns because the form of provision will impact individual labor supply and saving decisions. Governments may provide public works at below or at market wage for unskilled labor. This self-targeting instrument can substitute for, or complement unemployment benefits. Governments can provide social assistance benefits in-cash or kind in a targeted manner. Or governments can provide a minimum income in a universal manner to the total population (demogrants) or a subgroup (such as the elderly).

Table 1 shows a matrix with examples of social risk management broken down across the two dimensions of the three risk management strategies and the three levels of formality.

Table 1: Strategies and Arrangements of Social Risk Management

Arrangement / Strategies	Informal/Personal	Formal/ market-based	Formal/Publicly-mandated/Provided
Risk reduction			
	Less risky production Migration		Labor standards VET Labor market policies Disability policies
Risk mitigation			
Portfolio	Multiple jobs Investment in human, physical and real assets	Investment in multiple financial assets	Multi-pillar pension systems Asset transfers
Insurance	Marriage/family Community arrangements Share tenancy Tied labor	Old-age annuities Disability/Accident insurance	Mandated/provided insurance for unemployment, old age, disability, survivorship, sickness, etc.
Hedging	Extended family Labor contracts		
Risk coping			
	Selling of real assets Intra-community transfers/charity Sending children to work Dis-saving in human capital	Selling of financial assets Borrowing from banks	Transfers/Social assistance Subsidies Public works

III. SOCIAL FUNDS - DEFINITIONS AND SCOPE

In this section we will complement the definitions of social protection and the typology of risk management activities of the previous section with some background on social funds, looking at their origin, development and scope.

A. *What is a social fund?*

There is no universally agreed definition of a social fund. We propose to define social funds as:

> *"Agencies that finance small projects in several sectors targeted to benefit a country's poor and vulnerable groups based on a participatory manner of demand generated by local groups and screened against a set of eligibility criteria."*

Many social funds share several operational characteristics:

- Social funds appraise, finance and supervise the implementation of small social projects but do not (in general) identify, implement and maintain or operate the projects.
- Social funds establish menus, procedures and targeting criteria to support investments benefiting the poor.
- Almost all social funds insist on co-financing from the beneficiaries, to ensure that projects are not responding to need but to demand.

- Even though most are part of the public sector, they have operational autonomy and enjoy exceptions from public sector rules such as civil service rules or procurement and disbursement rules.
- While they respond to demand from local groups (community groups, NGOs, local governments or local representatives of regional or national governments), most have a set menu of eligible projects or a negative list of ineligible projects.
- Most tend to be like private firms in their operational practices, with a small staff employed on the basis of performance contracts, higher salaries and higher performance standards. Management is usually private sector style, that is, driven more by results than by rules.
- Although most social funds are heavily dependent on external financing, they are run by nationals of the country and do not rely on long-term expatriate technical assistance.
- Because of their operational autonomy, most funds operate under strict accountability and transparency criteria through independent audits and intense public scrutiny.

There are agencies that would meet these criteria but are not called social funds and there are agencies called social funds that do not meet these criteria.

B. Scope of the interventions, Americas and elsewhere

Since the first internationally known social fund, the Fondo Social de Emergencia in Bolivia was established in 1987, the world has seen an explosion in the number of these institutions and a proliferation of objectives and modes of operation. Today almost all countries in Latin America and the Caribbean have social funds or development projects (such as the one in North-East Brazil) that share the same operational characteristics as social funds. In sub-Saharan Africa, at last count social funds or their sister Public Works and Employment Projects (AGETIPs by their French acronym) existed in 24 countries (Frigenti and Harth (1998)) with at least half a dozen more countries at various stages of preparing or piloting social funds. In the Middle East and North Africa there are four social funds operating, one of which, the Egypt Social Fund, is the world's largest, with at least two more under preparation. In Eastern Europe and Central Asia, there are about 5 currently in operation with another half dozen at various stages of preparation. The Region that has the fewest social funds is Asia, with only three agencies in operation that are called social funds, and with five more under preparation. However, several agencies do exist in countries such as India and Indonesia that share many operational characteristics with social funds.

Number of World Bank-Financed Social Fund Projects since 1987

Region	Number
Africa	28
Asia	3
Eastern Europe & Central Asia	8
Latin America & Caribbean	26
Middle East & North Africa	6
TOTAL	**71**

Source: World Bank data

Regional networks of social funds now exist in Latin America and Caribbean (the Red Social), in Africa for the AGETIPs (AFRICATIP) and have just been formed in Eastern Europe and Central Asia. An exploratory meeting to form a social fund network in the Middle East and North Africa was held in Cairo in December, 1998. The founding meeting for the social fund network in Africa is scheduled for March 1999. A good measure of the popularity of the social fund instrument is that when the World Bank organized a conference in 1997 for countries to share their experiences on social funds, about 250 participants came from 70 countries, about 45 of which had active social funds.

This growth in the number and volume of activity of social funds activity of social funds[4] makes social funds one of the most successful examples of institutional replicability and adaptability in the short history of development efforts. While international agencies were largely responsible for the extension of the basic model between regions, the homegrown demand from countries for this type of program has fueled the adoption and adaptation to local circumstance. The fact that social funds allow governments to build on local groups' ability and resources, and thereby leverage scarce fiscal or aid money, has meant that these funds are now occupying important niches in many countries.

In spite of this explosive growth, social funds remain a very small part of the social protection activities in the vast majority of countries. In a recent review of social funds[5] financed by the Inter-American Development Bank, only one fund in Latin America spent more than one percent of GDP (Nicaragua). On average in the region, less than US$10 is spent per year per poor person through social funds.

C. Brief history and evolution of social funds

Originally, social funds were set up to provide temporary employment and provide "a bridge over the crisis"[6], through labor-based income transfers and a subsidization of social services and infrastructure. As the institutions have evolved, most are now seen as more permanent components of a country's social development strategy. The social funds still respond to emergencies, such as hurricane Mitch in Central America, the fall-out from the wars in Cambodia and Angola, an earthquake in Armenia or a drought in Zambia.

Although many social funds were initiated with fairly simple objectives, such as to create temporary employment during a crisis, today most social funds must balance multiple objectives, all of which fall broadly under the umbrella of efforts to improve the living conditions of the poor. Most social funds incorporate to a lesser or greater extent objectives in the following five categories listed below. Please note that these objectives are not mutually exclusive and several social funds have changed emphasis over time:

1. The improvement in a country's **infrastructure**, such as the current Bolivia Social Investment Fund, and the funds in Central America, Peru, Ethiopia, Malawi, Armenia, Angola, and Cambodia. These funds have tended to focus on addressing unmet needs of poor communities through basic social and economic infrastructure.

2. The **employment** funds, typical of the initial stage of funds created in response to emergencies, such as in Bolivia and Egypt. In the absence of emergency, job creation also appears as a prime objective in other funds, such as the AGETIPS in Africa or the planned Bulgaria fund, whose main objective is the provision of short-term employment mainly through the repair of infrastructure.

3. Broader-based **community development**, exemplified by such the social funds in Argentina, Romania, Malawi and Zambia, where a major objective of the funds is to build community capacity to demand and manage development resources. This is most frequently done

[4] The Inter-American Development Bank and the World Bank alone have invested more than $3.5 billion in social funds.

[5] Morley in Bigio (1998) p. 46.

[6] Avila, Campero and Patino (1992).

through a "learning-by-doing" process where the social funds finance mainly infrastructure projects that the communities manage and implement.

4. Improvement in the delivery of **social services**, as typified by the funds in Chile, Argentina and Romania, where a major emphasis is put on financing private-public partnerships in social service provision, including a large emphasis on training.

5. And **support for decentralization,** promoted by the funds in Chile, Honduras, Bolivia or Ethiopia, where a major objective of the fund is to work closely with local governments to support the decentralization effort of the country. Some funds pass on their expertise to governments (Zambia, Honduras) while others (like Chile) transfer successful pilot interventions to local governments.

There is hardly a uniform trend in where social funds are going, and any knowledgeable social funds person will be able to come up with a dozen funds that are not following any of the trends given here. In any case, in a very general sense these are some of the trends that can be observed:

- Social funds are generally becoming **more permanent**, more integrated into a country's overall social and economic development efforts – this implies more and better coordination with line agencies, local governments and civil society.
- There is a relative increase (but from a very small base) of the share of resources from social funds that go **to social services.**
- Increasing social funds pay more attention to popular **participation** both to enhance sustainability and to build social capital.
- Social funds are increasingly seen as and are moving to operate more as supporters of **decentralization.**
- Social funds are faced with increasing demand for **income generating sub-projects**, but the experience so far has been mixed. The funds with better performance in the microfinance area have usually done a combination of two things: First, they have selected appropriate intermediaries and second, they have adopted policies that take into consideration best practice in the microfinance area. The Chile social fund presents an interesting case in terms of its successful support for income generation.
-

D. Successes and Shortcomings of Social Funds

In the ten-plus years of experience with social funds several stylized facts can be developed about what works and what does not[7]. On the positive side social funds have proven to be:

- Fast - they are the quickest-disbursing part of the World Bank's portfolio and they have developed a reputation for timely and quick disbursements to the small projects they finance;
- Agile - they have proven to be very good at adjusting to changed circumstances, as decentralization moves forward, as a natural disaster happens, etc;
- Participatory - they tend to be more participatory than other development projects, but they have the potential to do even better, and there is wide-variety across social funds;
- Well-targeted - they tend to reach poor communities, but the poorest households or marginalized groups need help in formulating and implementing projects;

[7] While these stylized facts are the author's own, many are supported by the findings of assessments such as Bigio (98), Frigenti and Harth (1998) and Goodman et al. (1997).

- Cost-efficient - they have low overheads and administrative costs and generally manage to provide infrastructure at much lower costs than traditional public sector agencies;
- Accountable - both in terms of financial and public accountability the funds tend to outperform other development interventions;
- Trust-generating - where they work well they help generate trust in the public sector among communities and build social capital;
- Diverse - in that they can work in very different situations (for example, in Armenia, Argentina, Cambodia, Rwanda and Haiti).

Social funds have a mixed record on sustainability. On health and education investments they tend to do better than traditional ministries due to the emphasis on community participation; on economic infrastructure they do as well or as poorly as other agencies depending on the institutional framework in the country[8].

Social funds generally do not do well on the following points:

- Microcredit – but there are exceptions and the newer funds tend to do better
- Integrating with the rest of the public sector, there is still too little learning between social funds and the rest of the public sector
- Integration with the policy framework, because of their operational autonomy, several funds have ended up running as almost parallel governments confusing beneficiaries and not contributing to capacity building
- Measuring their impacts in order to identify which types of interventions will maximize the effectiveness of social fund investments.

IV. SOCIAL FUNDS IN A SOCIAL RISK MANAGEMENT FRAMEWORK

This section merges the discussion of social funds (Section III) and social risk management (Section II) to show how thinking about social funds as one component of social risk management may change our view of social funds, or help clarify what their role will be. Section V will then outline where we see social funds going based on this analysis.

A. Social Funds and Social Risk Management Agents

One of the reasons for the relative successes of social funds has been their ability to work with a wide variety of agencies, private contractors, line ministries, local authorities, de-concentrated agencies, international and local NGOs, community-based organizations and the communities themselves. Social risk management is focused on helping individuals manage risk better, but individuals' risk management strategies employ a variety of institutions or economic agents. The most basic unit is the family – where a lot of the information asymmetries are minimized (see Section II). NGOs and Community-Based Organizations (CBOs) also help through information intermediation between the families in a community and the outside world. Similarly, market-based institutions are employed through the labor or financial markets. Finally, the various public sector agencies also play a role. Social funds work with all these agencies, and it is not surprising that social funds are often regarded by the beneficiaries[9] (and sometimes by the public at large) as fully responsive to community and household priorities and therefore, as an important agent of public support for their own risk management.

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[8] Bigio (1998).
[9] Van Domelen and Owen (1998).

B. Social Funds in the Arrangement/Strategies Matrix

Figure 1 shows a mapping of the different types of social funds discussed in Section III into the matrix in Table 1. The **employment** funds are set up to help people **cope** with the effect of the crisis. What differentiates social funds from traditional public programs is that this employment is provided through private sector contractors, and thus the social funds are able to move out of the bottom right corner of the matrix towards the middle of the last row. Some recent social funds with a public works component such as the Malawi Social Action Fund have managed to include some elements of community participation, spreading the coverage of these funds into the first column as well.

Figure 1: Social Funds in the Social Risk Management Framework

Arrangement / **Strategies**	**Informal/Personal**	**Formal/Market-based**	**Formal/Publicly mandated/Provided**
Risk Reduction		Decentralization Funds	
Risk Mitigation	Community Development Funds		Infrastructure Funds
Risk Coping	Social Assistance Funds		Employment Funds

The **community development** funds fit within the cells of support to informal **mitigation** and **reduction** mechanisms. They help in mitigation by building social capital (one more asset for the portfolio of the vulnerable) and in reducing certain risks such as local conflict through the support for locally generated joint efforts.

The **social service** funds have so far mainly focused on supporting households' **informal coping** mechanisms (such as support for AIDS victims, helping the poor get access to existing transfers) or within mitigation (through support for building human capital through nutrition, training and other human development services). The **support for decentralization** funds are working across the market-based and public sector aspects of risk **mitigation** and **coping**. By building the capacity of local governments to interact better with the private sector and with communities, they are helping lower the information gap, that has in the past caused government failure in the provision of some social risk management services at this level.

The trends in social funds we identified in Section III (more permanent, more social services, more participation, more decentralization and more income generating) would seem to indicate that social funds are shifting upwards in the matrix towards risk reduction and right to involve support for informal coping mechanisms as well. So the overall trend since the beginning of social funds have been from the lower right hand corner moving up and left.

C. Social funds as one component of Social Risk Management

Even though different kinds of social funds cover different aspects of social risk management, social funds are only one tool in a government's array of policy options and assistance programs in the social protection area. Most of the issues of concern for the future operations of social funds have had to do with the institutional framework in which they operate. Questions of the relative roles and responsibilities of social funds vis à vis line ministries and local governments are still evolving and depend to a great degree on individual country circumstance. There has been less questioning of the role of social funds as a primary social protection measure in many countries.

In considering social funds within a broader social risk management strategy it is important to place their operations within the full range of public policy. To illustrate, using the example of employment creation, a government's social risk management strategy in this area should encompass, inter alia:

- fundamental macroeconomic policies oriented to labor intensive growth,
- specific labor market policies and regulations to create the conditions for optimum market behavior in the creation of job opportunities,
- financial sector policies and their effects on employment generation in the private sector, and
- transfer programs through public works programs or unemployment benefits.

As briefly discussed above, several social fund-type mechanisms have been created with temporary employment as a prime objective. For instance, in Bolivia after the closure of the tin mines, in Egypt to deal with the effects of the Gulf War, in West Bank and Gaza in response to the border closures with Israel, in Ecuador as a response to the economic contraction during adjustment. To think of a social fund within a social risk management framework means to assess first whether temporary employment is needed (e.g., is open unemployment the issue for the vulnerable?); and then whether a social fund instrument is better at delivering such services than other, perhaps more centralized and top-down interventions. The result of such an analysis should not be pre-judged: even though social funds have done well on many scores, employment creation has not been their strong suit.[10]

A social risk management strategy would look first to the policy environment and its effect on employment. There may be a 'bigger bang for the buck' in adjusting labor market regulations than creating a small number of short-term jobs through public works. Second, the specific vulnerable groups should be identified. For instance, social funds have not been very effective in targeting a specific type of worker to benefit from these temporary jobs, be they ex-miners or redundant public sector workers. Although considered 'vulnerable', such groups often have coping mechanisms (severance pay, higher skill and education levels, etc.) which make direct employment generation through public works less attractive. Lastly, the broad range of possible direct assistance interventions should be considered. If, within this framework, there was scope for a social fund to play a part in generating temporary jobs, it should be clear the relative share of the social risk management strategy that the fund is responsible for. In general, even the larger social funds with explicit employment creation objectives have generated temporary jobs equivalent to well below one percent of the labor force. While this may serve as an important political tool during difficult periods of transition and shocks, as a social risk minimization strategy, its effects reach a relatively small number of households at risk.

[10] For the results on Bolivia see Newman, Jorgensen and Pradhan (1991).

The same holds true for social fund operations as a poverty alleviation or compensation measure. Although the number of people benefiting from improved access to and quality of social infrastructure and services is far greater than the potential employment impacts, the amounts disbursed are minor. The IADB study discussed above found that the value of goods and services being transferred by a social fund to the poor typically average well below five percent of the per capita income of the poor[11]. Therefore, the social protection effects of social funds, either in terms of employment creation or in the provision of basic services to the poor have been more important for their micro effects on individuals and households than on any effect at the macro or national levels.

Especially in Latin America, it is important not to expect social funds to be the one and only answer to poverty reduction and social risk management. This is tempting because of the funds' high visibility and measurable results. While social funds have proven to be an important instrument, they have not been and were never intended to be a panacea, neither for poverty reduction[12] nor for social risk management.

V. WHITHER SOCIAL FUNDS?

The preceding analysis has given some examples of how social funds could be analyzed within a nation's social risk management strategy. In the past there was been little analytical underpinnings for why a social fund and what such a fund should do. Governments have found them attractive since they provide financing to poor groups that were not previously reached and they do so in a transparent and agile manner. Donors have liked social funds for similar reasons. Where there has been some prior analytical work done, social funds have primarily been viewed as either a quick response to transitional problems or a compensatory mechanism to transfer resources to poor communities. Bringing in the more dynamic notion of social risk management has implications for where social funds should be evolving. The primarily implications have to do with: (a) more focus on impacts and flow of services than the infrastructure itself; (b) mechanisms for targeting beneficiary households and communities; (c) the types of eligible investments financed by social funds; and (d) the impacts of the processes themselves used by social funds.

A. Impact and Flow of Services

Provision of infrastructure puts social funds in the category of supporting risk mitigation at community level since there are more assets available for a community to manage in a portfolio sense after the social fund has financed new or improved infrastructure. To move the social funds squarely into the risk reducing area their investments

Better Impact: The Example of Education

Education investments account for a significant share of current social fund portfolios. In most cases, grants are given for school rehabilitation and/or construction of new classrooms at the primary level. Potential impacts of these investments vary between projects. These benefits range from extending the useful life of a building, to creating space for increased enrollment, increasing the number of years offered at the school, improving teacher and community morale and hence the quality of education. Under a social risk management strategy, the benefits of building repair are far outstripped by the benefits of increasing enrollment and number of years completed, as these will have the largest effects on the capacity of poor households to reduce risks over time.

Therefore, taking social risk management as a primary considerations, social funds would become more discerning in their education investments, placing relatively more resources into projects which had greater potential to affect either enrollment (directly though creating more spaces or indirectly through reduced drop-out rates) or years of schooling completed. By focusing their attention on impacts in educational attainment, social funds will be better able to steer themselves away from becoming simply a substitute for a national school construction and maintenance program.

[11] Goodman et al (1997).

[12] Bigio (1998), Goodman et al (1997).

need to help prevent shocks. This would mean to make sure that the water supply system indeed does provide clean water over a period of time to prevent water-borne diseases, to make sure learning is taking place in the school, so the risk of future low earnings are reduced. In other words, social funds need to pay more attention to the flow of benefits from the infrastructure it has created, including paying more attention to operation and maintenance. To date, social funds have been more focused on outputs than outcomes, understandable in the context of social crises and the need to prove their operational capacity. Moving to a greater focus on outcomes will require that social funds become better 'learning organizations' capable not only of action, but in-depth monitoring and evaluation.

B. Beyond Poverty Targeting

As mechanisms to reach the poor, social funds use three primary targeting techniques: first in the types of investments that are on the menu, which are typically basic services; second in screening of each microprojects, where it is assured that the beneficiaries are poor; and third in some form of geographical screening or weighting system which allocates resources in a progressive fashion to poorer regions.

In addition, most social funds use some form of pro-active measures to correct for the inherent bias of a demand-driven system, namely that the poorer areas will not be able to effectively compete for resources. These proactive measures include reducing transaction costs for poor applicants by setting up regional offices, financing pre-investment technical support, and in some cases such as in Argentina, Chile and Romania, and providing resources for poor communities to mobilize and organize in order to effectively express demand.

Given the limited resources available to social funds compared to the poverty problems of the countries, difficult decisions about who to reach are unavoidable. In general, the targeting strategies of social funds use a broad focus on poor communities, not distinguishing by vulnerability. To improve their effectiveness at risk management, social funds should seek to identify communities, households and individuals within the broad pool of the poor which are by their nature more vulnerable and marginalized. If one of the goals of social risk management is to improve equity, assisting the most vulnerable will increase the impact of social fund investments. This will be difficult given the demand-driven nature of the funds and fierce competition for resources coming from eligible communities. Nonetheless, there are several strategies which social funds should consider, many of which are already used by selected social funds. Such strategies might include:

- a more exclusionary approach to eligible communities;
- a sliding scale of community contributions with less counterpart required of the most marginalized participants;
- expansion of the menu to include projects explicitly oriented to such vulnerable groups as the elderly or indigenous groups; and
- a greater emphasis on resources to enable communities to tap into other government programs.[13]

[13] Romania's Social Development Fund is financing programs that allow marginalized groups to get access to existing government benefits such as child or elderly allowances.

C. Expanding the menu of microprojects

Using a social risk management approach calls for a reconsideration of the 'menu' of eligible social fund microprojects. Priority investments would include those interventions that have the most profound effect on reducing the risks faced by the most vulnerable populations. This means an expansion from the traditional area of social infrastructure investment. Financing projects which address such issues as legal assistance to help vulnerable groups obtain property rights, financing transportation to facilitate remote communities' access to health and education services, supporting empowerment training for women are examples which might be envisioned under a social risk management strategy.

To date, there has been relatively less emphasis placed on community economic development (which would help reduce and mitigate risk) than on short-term employment creation and delivery of basic social infrastructure. There are some notable exceptions, such as the cases of Egypt, Chile and Albania where significant resources have gone to microfinance and technical support to entrepreneurs. These programs help to accumulate assets at the household level, a key element in a social risk management strategy. If social funds accept their place in a broad social risk management strategy for country, this will mean more emphasis on support for community economic development, an area where social funds have done less well in general[14].

D. Participation and Capacity Building

Social funds contribute to social risk management through the creation of local capacity. In addition to the impacts of the investments themselves, social funds further this local capacity building in two important ways. First, social funds have been an important source of resources and learning by doing for decentralized, locally based entities, including local governments, NGOs, local offices of line ministries and community groups. This is consistent with the notion that vulnerable communities are better served by public interventions that are executed in a decentralized fashion, where the asymmetries of information are less. The impact of local agencies more able to address local problems is difficult to quantify but has been observed in many impact assessments of social funds.

To maximize this impact, social funds design should go beyond a more narrow focus on local agencies and groups as executing agencies, or channels for investments, and seek to obtain further institutional impacts. Many social funds have made important strides in this respect. For example, in Zambia, local government officers are fully integrated in the project cycle and receive an important complement of training. In Argentina, participatory provincial and local councils have been established to further coordination, information sharing and resource optimization around social investments, including those made by the social fund.

The second area of process impact is on the 'social capital' of poor communities. Due to their demand-driven, participatory approach, social fund interventions may increase both household and community social capital by increasing community cohesion, furthering community propensity to act jointly for the benefit of members of the community, and building trust and empowerment. In most cases, this effect is attributable to processes that increase social capital through the skills, networks and confidence gained by the community at large in the identification

[14] Where microfinance or other income generating activities have been successful, the majority of beneficiaries are women, especially women heads of households, so a move in this direction would also help develop more gender-balanced social risk management. The fact that men do not apply is not only due to targeting, but also due to the fact that market failure is less for men than for women.

of their needs and by project committee members who manage the implementation of the microprojects. This increased community capacity to address problems is often observed in increased participation rates in community-initiated activities and improved perception of the community by its residents, as borne out in beneficiary assessments carried out on social funds[15].

Social funds that have been more successful at building social capital appear to be those that have processes which give maximum responsibility to communities for the design and implementation of microprojects. For instance, many funds use a formal community assembly mechanism to identify and prioritize needs. Several funds channel financing directly to community project committees, who are then responsible for project implementation, including selection of contractors or service providers, administration and supervision. These mechanisms have helped raise awareness of the broad range of community perceptions of needs, forge links of shared concerns between community members, mobilize general participation, and give valuable organizational experience to selected community members.

In some instances, there may be an apparent trade-off between building capacity of local agencies and increasing social capital of poor communities. For instance, social funds which channel money directly to community groups are often criticized as short-circuiting local government's prerogatives. On the other hand, social funds, which rely to a large degree on intermediaries (be they governmental or non-governmental agencies) usually have less intense community participation and responsibility built into their project cycles. In fact, optimal social fund design should seek to combine the two elements. Strengthening both local institutional capacity and social capital of communities would best further the goal of social risk management.

VI. SUMMARY AND CONCLUSIONS

We have tried to show how social protection is best looked at as social risk management, with interventions targeted at helping the vulnerable reduce, mitigate and cope with risks. We have discussed the evolution of social funds and the scope of their interventions within this framework. Social funds have played a role in social risk management in the past, but mainly in area of risk coping with some impact on risk mitigation. Their relative operational efficiency and ability to work with a variety of actors involved in social risk management makes them potentially important vehicles for risk reduction and mitigation as well. To move social funds in this direction would require moving social funds in the following directions[16]:

- More emphasis on impact and flow of benefits from the infrastructure created, seeking to maximize impact and not just output, including more attention to the elements of projects that heighten impact and the sustainability of these effects.
- Move from poverty to vulnerability targeting, by targeting specific vulnerable groups, different contributions levels depending on vulnerability, development of model projects for specific vulnerable groups and more focus on putting vulnerable groups in contact with existing government programs.
- New additions to or more promotion of items on microprojects menu, such as legal assistance, preventive health projects, empowerment training and income generating.
- Strengthen focus on building social capital and local organizational capacity through better participatory techniques.

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[15] Van Domelen and Owen (1998)

[16] An indication that the social risk management framework is relevant for the developing countries, is that these conclusions and directions are very similar to the ones developed in the 1997 international conference on social funds (Bigio (1998)).

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