Poverty Alleviation and Social Investment Funds

The Latin American Experience

Philip J. Glaessner
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Anna Maria Sant’Anna
Jean-Jacques de St. Antoine
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The World Bank
Washington, D.C.
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1: World Bank Loans (L) and IDA Credits (C) to Social Investment Funds in Latin America and the Caribbean ......................... 8

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In the second half of the 1980s, many governments in Latin America and the Caribbean created Social Investment Funds (SIF) to alleviate the negative impact on the poor of the debt crisis and the structural adjustment measures.

This report reviews the experience of twelve SIFs created in Latin America since 1986. It attempts to identify best practices and lessons learned and to analyze policy and operational issues related to the use of SIFs as financial intermediaries for small-scale, multisectoral investments aimed at alleviating poverty among targeted population groups. It also attempts to analyze the future perspectives of SIFs.

Although most Latin American SIFs have only been in operation for three or four years and information about the impact of their activities is limited, available information permits an interim assessment of their performance and of their likely future role. This report has been prepared in response to demand from Bank staff and staff of other financial and technical assistance institutions, as well as to government officials in Latin America and elsewhere who are interested in effective means to mitigate the impact of far-reaching economic reforms on vulnerable groups.

This report only deals with 12 SIFs and excludes others. For example, Colombia’s National Cofinancing system (SNC), the Dominican Republic’s social Emergency Fund (FES), Jamaica’s Social and Economic Support Program (SESP) and Mexico’s National Solidarity Program (PRONASOL) are excluded from this review. Colombia’s SNC has only recently begun to define its policies, and available information does not permit a full analysis at this time. Dominican Republic’s FES has not yet been established. Jamaic’a’s SESP and Mexico’s PRONASOL are administered as an annual budgetary appropriation program and have never been established as an autonomous fund although their operations are similar to those of SIFs. The scope and complexity of their operations merit a separate major assessment.

This report is based on World Bank and Inter-American Development Bank (IDB) project documents and a number of evaluation reports on the SIFs, as well as interviews with World Bank and IDB staff familiar with the operations of SIFs.

Sri-Ram Aiyer
Director
Technical Department
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ABSTRACT

Most Social Investment Funds (SIFs) in Latin America were created to alleviate the impact on the poor of the reduction in income and employment caused by the debt crisis and the structural adjustment measures taken to lay the basis for renewed growth. The traditional social sector ministries were ill prepared for this task.

Many SIFs have been transformed into permanent or semi-permanent entities to finance infrastructure and social service projects targeted to reach the very poor. Furthermore, most SIFs in Latin America have been characterized as effective financial intermediaries. The main attribute of SIFs is the high degree of autonomy achieved through choice of private sector managers with no salary limitation, and exemption from Government's annual budget cycle as well as from bureaucratic procurement and disbursement procedures. A computerized information system, frequent audits and a high degree of beneficiary participation and transparency have also ensured rapid and efficient execution of projects.

Among the lessons learned it is clear that most SIFs have complemented and reinforced structural adjustment and reform policies. Most SIFs have targeted their resources well to reach the poor, making a significant contribution to poverty reduction and have proven to be effective in channelling external aid and resources directly to the community level. Employment generation by SIFs, while modest in relation to the labor force or the numbers of under and unemployed, was significant in benefitting poor population groups. SIFs have begun to have a meaningful impact on the operations of the social sector ministries as well as on central water and sanitation entities. In addition, SIFs targeting techniques are being used by some line ministries, which are beginning to press for reforms in order to employ cost controls, management information systems and simplified procurement and payment systems used by SIFs.

It is important to note that SIFs operations have resulted in a massive involvement of the private sector. Successful private sector managers organized and managed the SIFs; the staff came largely from the private sector as did private consultants and auditing firms hired by the SIFs. The majority of infrastructure works were carried out by the private sector contractors; and the most important private sector participation was made by the poorer communities themselves. The political neutrality of SIFs has encouraged a positive working relationship with NGOs, which in turn have been most effective in helping carry out social assistance and small credit projects.

A significant long term achievement by SIFs has been the promotion of decentralization by strengthening the capacity of municipal governments to prepare and supervise the execution of infrastructure projects. SIFs are increasingly involved in helping municipalities and community groups assume responsibility for the provision of basic health and education services as well as local water supply and sanitation and exert pressure for expanded revenue sharing and greater local taxation.
SIFs’ demand driven strategy to finance projects is also instrumental. Cost sharing by project beneficiaries is an indication of the existence of effective demand for investment. These factors contribute further to mobilize additional resources and improve sustainability of the investment projects financed by SIFs.

Regarding future perspectives of SIFs it should be recognized that although SIFs have achieved close coordination with line ministries and other public agencies, it is proving difficult and time consuming to transfer to these agencies some of SIFs’ policies and procedures. It has also been noted that SIFs need to allocate more resources to supervision and intensify monitoring and evaluation, especially to ensure continued sustainability.

The likelihood that most SIFs will become long-term institutions raises a number of important questions. First, will line ministries and other central government institutions be less likely to carry out the institutional and administrative reforms necessary to improve their efficiency? The second issue is whether the SIFs can avoid becoming bureaucratized and politicized. The third issue is whether the more permanent SIFs should follow the example of Bolivia’s FIS by focusing exclusively on health, education, water, and sanitation investments. The fourth issue is how to finance SIFs’ operating costs without impairing their autonomy. The final issue is the extent to which the IDB, the World Bank and other donors should continue financing the operations of these SIFs.

The authors gratefully acknowledge the valuable comments received from many colleagues in the Bank, in particular, N. Hicks, M. Selowsky, S. Aiyer, I. Bannon, A. Silverman, C. Corbett, J. van domelem, T. Campbell, and staff of the Human Resources Operations Division of the LA2 Country Department of the World Bank.
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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>CONADE</td>
<td><em>Condejo Nacional de Desarrollo</em> (National Development Council)</td>
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<tr>
<td>FAES</td>
<td><em>Fond d’Assistance Economique et Sociale</em> (Economic and Social Adjustment Fund), Haiti</td>
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<td>FES</td>
<td><em>Fondo de Emergencia Social</em> (Social Emergency Fund), Panama</td>
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<td>FHIS</td>
<td><em>Fondo Hondureño de Inversión Social</em> (Honduran Fund for Social Investment)</td>
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<td>FIS</td>
<td><em>Fondo de Inversión Social</em> (Social Investment Fund), Bolivia, El Salvador, Guatemala</td>
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<td>FISE</td>
<td><em>Fondo de Inversión Social de Emergencia</em> (Emergency Social Investment Fund), Ecuador, Nicaragua</td>
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<tr>
<td>FONCODES</td>
<td><em>Fondo Nacional de Compensación y Desarrollo Social</em> (National Fund for Compensation and Social Development), Peru</td>
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<td>FOSIS</td>
<td><em>Fondo de Solidaridad e Inversión Social</em> (Solidarity and Social Investment Fund), Chile</td>
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<tr>
<td>FSE</td>
<td><em>Fondo Social de Emergencia</em> (Emergency Social Fund), Bolivia</td>
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<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
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<tr>
<td>KFW</td>
<td>German Credit Institute for Reconstruction</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>PREALC</td>
<td><em>Programa Regional de Empleo para America Latina y el Caribe</em> (Latin America and the Caribbean Regional Employment Program)</td>
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<tr>
<td>PRONASOL</td>
<td><em>Programa Nacional de Solidaridad</em> (National Solidarity Program), Mexico</td>
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<td>SIMAP</td>
<td>Social Impact Amelioration Program and Agency, Guyana</td>
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EXECUTIVE SUMMARY

Background

Social investment funds were created in Latin America and the Caribbean to alleviate the impact on the poor of the reduction in income and employment caused by the debt crisis and of the structural adjustment and reform measures taken to lay the basis for renewed growth. The traditional social sector ministries were ill-prepared for this task. Social investment funds were seen as a means to reestablish the credibility of government and secure political support for the reforms.

Most of the social investment funds were initially created as temporary institutions, but were subsequently either transformed into permanent entities or had their terms extended, and increasingly financed infrastructure and social service projects targeted to reach the very poor.

The following characteristics have made most Latin American social investment funds into effective financial intermediaries:

- **A high degree of autonomy** achieved through the use of private sector managers and exemption from public sector recruitment and salary regulations and from government annual budget cycle, procurement, and disbursement procedures.
- **The demand-driven nature of fund financing.** Public and private sponsoring entities that prepare and implement projects select them from a preestablished menu of projects. Private contractors usually execute the projects. The funds have achieved a high degree of involvement by municipalities, community groups, and Non-Governmental organizations (NGOs).
- **The funds have achieved a high degree of transparency** by using computerized management information systems and widely distributed operational manuals containing technical criteria and by undergoing frequent audits.
- **All the funds employ targeting mechanisms.** These are based on poverty maps and indices and actively promote high priority projects in extremely low-income communities, which are less well organized and vocal than better off groups.
- **Most funds have been able to mobilize support from many international and bilateral financing and technical assistance agencies**, mostly in the form of soft loans and donations. World Bank and Inter-American Development Bank (IDB) cofinancing has contributed to effective donor coordination.

Implementation Experience

A number of issues have arisen in the context of the social investment funds' implementation experience. To begin with, **employment generation** by the funds, while modest in relation to the size of the labor force or the level of underemployment and unemployment, has been significant, because it has benefited poor population groups at a moderate cost per person employed.
The funds have devoted 75 to 90 percent of their funds to financing small social and economic infrastructure projects. Fund investments now constitute a significant percentage of public sector investment.

While the funds have financed a great variety of social service projects, including pilot projects, of which some like the Honduran food stamp program have been extremely successful, they should not be expected to assume responsibility for financing such services in the long run. Their contribution should be to find innovative ways of delivering them to groups not reached thus far or to improve their delivery to groups already receiving them.

Most social investment funds are funding credit programs for informal sector businesses and/or small farmers that are administered by NGOs, savings and loan institutions, and cooperatives. The best run program, financed by the Honduran Fund for Social Investment (FHIS), has loan arrears of less then 5 percent. The FHIS provides loans at market interest rates and NGOs, savings and loans, or cooperatives assume the credit risks. Chile’s Solidarity and Social Investment Fund (FOSIS) has developed a novel system under which it finances the extra transaction costs that commercial banks incur making small business loans.

Initially the funds gave a high priority to getting off to a fast start to establish their credibility, but once established they have become increasingly successful in reaching the poor. Their most significant long-term achievement has been the extent to which they have stimulated community involvement and promoted decentralization by strengthening the capacity of municipal governments to prepare and supervise infrastructure projects and begin to assume responsibility for basic social services.

The best operated funds have executed relatively large programs more rapidly and efficiently than line ministries with same level of funding. The funds have also begun to have a significant impact on the operations of the social sector ministries and of central water and sanitation entities. Central ministries have let the funds assume responsibility for financing and supervising small infrastructure projects, which frees up ministry resources and staff for improved policy planning and service delivery. Some line ministries have adopted the funds’ targeting techniques and are beginning to demand reforms that would permit them to use the cost controls, management information systems, and simplified procurement and payments systems that the funds use. Finally, the best operated funds have achieved effective coordination with the line ministries, which is essential to ensure the sustainability of the projects financed by the funds, because in most countries where the provision of basic health and education services is not yet decentralized, sustainability remains a potentially a serious problem that deserves more systematic study.

Cost sharing by project beneficiaries is important, because it shows that demand for the investments exists, mobilizes additional resources, and improves sustainability. All the social investment funds require cost sharing in some proportion, even those that initially did not. The cost sharing scheme of Guatemala’s Social Investment Fund (FIS) is particularly interesting, because it favors the poorest municipalities.
Since Bolivia’s Emergency Social Fund (FSE) established a positive working relationship with NGOs by initiating dialogue and demonstrating its political neutrality, all other social investment funds have secured the active participation of NGOs and religious organizations in sponsoring, preparing, and in some cases supervising projects they have funded. While NGOs have been most effective in helping to carry out social assistance and small credit projects, many smaller NGOs are poorly run and the funds have had to evaluate them carefully. While NGOs have played a significant role in fund operations, the funds’ activities have involved the private sector as a whole to a massive extent: thousands of private contractors have carried out projects financed by the funds; successful private sector managers organize and manage the funds; and other staff are drawn largely from the private sector, as are consultants and auditing firms hired by the funds.

The administrative costs of most Latin American social investment funds have amounted to 8 to 13 percent of their annual commitments, which is reasonable compared with other financial institutions, and substantially better than most government agencies.

Lessons Learned

The experience of the social investment funds since their inception has resulted in a number of useful lessons. In line with the original rationale for their creation, most of the funds have complemented and reinforced structural adjustment and reform policies. They have also demonstrated that they can play a limited, but important, role in jump-starting long-term poverty programs. In addition, the funds have been able to mobilize the energies and resources of community groups, local governments, NGOs, and the private sector by using a participatory approach. They are helping municipalities to cope with their new responsibilities following decentralization and create pressure on the central government to expand revenue sharing and on the municipalities to collect more local taxes and user fees. Finally, the funds have demonstrated their ability to execute a much larger program of small projects than the line ministries.

While most of the social investment funds have achieved close coordination with the line ministries and other public agencies, transferring some of the policies and procedures that have enabled the funds to operate efficiently to these agencies has proved difficult.

Despite their generally efficient operations, most funds need to allocate more resources to supervision and to intensify project monitoring and evaluation. In most cases they have not done impact evaluations and beneficiary assessments soon enough. Monitoring project performance two or three year’s after project completion is important to ascertain whether project sponsors are meeting their commitment to maintain and operate the projects financed by the funds. Project sustainability also continues to be a potentially serious problem.

The most important factors in the design of social investment funds are: having a board of directors that represents the full spectrum of those involved in or affected by the funds’ activities; choosing highly regarded and experienced private sector managers to direct the funds’
operations; allowing special rules that permit the funds to recruit managers and staff at private sector salaries and to use simplified procurement and disbursement procedures; using a standardized menu of projects; employing simple, but effective, methods of targeting; and using computerized information systems and undergoing frequent audits to ensure transparency of operations and accountability.

Future Prospects

As concerns their future operations, most Latin American social investment funds were established as temporary institutions under the assumption that structural adjustment programs would restore vigorous economic growth within three to four years, and that within that time the capacity of regular government agencies to provide needed social services could be restored. This proved unrealistic. Consequently, the funds have been transformed into semipermanent institutions. The risk that the line ministries are less likely to carry out institutional reforms, because the funds have become semipermanent institutions can be minimized by formalizing the funds' takeover of ministry functions in those areas where they have a clear comparative advantage. Donors should stress the importance of governments developing long-term strategies for poverty alleviation and administrative reforms to be carried out in parallel with the funds' activities. The danger of the funds becoming bureaucratized and politicized can be minimized by extending their life for limited periods and making extensions subject to the results of independent reviews and by having close donor supervision.

One issue that arises in the context of the funds' future activities is whether more permanent funds should focus only on health, education, water, and sanitation. Some countries will favor this, because it avoids spreading staff too thinly, may achieve a greater impact, and reduces the danger of funds being viewed as super agencies. In other countries, this will not be feasible because the delivery of basic social services in outlying districts is not feasible without improving the economic infrastructure.

Governments' positive experience with existing social investment funds may lead them to consider creating new ones. In such cases recognizing their limitations is important: they are financial intermediaries, not policy setters, that can complement, but not replace fundamental reforms, such as the decentralization of social services.

To date donors have financed most staff salaries and other operating costs of the funds. In the future, when donor financing may decrease and the funds may become more involved in executing line ministry programs and municipal projects, the funds might be paid administrative fees of 8 to 10 percent of project costs to cover their operating costs. This should be an appropriate way to finance funds' long-term operations without impairing their autonomy.

Finally, should the World Bank and IDB continue to support the activities of well-established, successful funds? Convincing reasons to continue such support are: that (a) many countries have yet to undertake or complete key reform measures with regard to the poor; (b) government funding of social investment funds is limited by the need for continued fiscal
restraint; (c) most donors regard World Bank and IDB involvement as essential to ensure the transparency of funds' operations; (d) the Bank and IDB take a lead role in donor coordination; and (e) borrowers appreciate Bank and IDB concern with and wide experience in long-term institutional strengthening and would like to benefit from Bank and IDB technical assistance.
I. BACKGROUND

This Chapter will provide for the origin and background of the emergence of social investment funds.

The Debt Crisis and Structural Adjustment

The creation of social investment funds in a number of Latin American and Caribbean countries during the last eight years is the result of a complex set of economic, social, and political factors. The debt crisis of the early 1980s, the resulting cessation of foreign financing; the deterioration of the region’s terms of trade; and the emergency measures, such as the drastic cuts in imports and public expenditures, taken to deal with these circumstances resulted in substantial declines in per capita incomes, real wages, and employment. These declines affected a situation of structural poverty that was already extremely unsatisfactory: by 1981 more than a third of Latin America’s population was below the poverty line, with the countries of Central America (other than Costa Rica) and Bolivia, Colombia, Peru, northeastern Brazil, and southern Mexico exhibiting indices of extreme poverty.

In most countries of the region, the emergency measures taken to deal with the debt crisis did not form part of a coherent set of adjustment policies. In many cases governments introduced quantitative import restrictions, high tariffs, and multiple exchange rates. Their failure to carry out effective tax reforms and to address the increased losses by publicly-owned enterprises resulted in continued fiscal deficits despite massive expenditure cuts that disproportionately affected spending on education and health. To finance the continuing deficits, governments turned to their central banks. At the same time, to balance their external accounts repeated massive devaluations of the currency became necessary, adding fuel to the inflationary process. Inflation reached unprecedented levels in Argentina, Bolivia, Brazil, and Nicaragua and relatively high rates even in countries such as Guatemala, Honduras, Paraguay, and Venezuela, which for many years had enjoyed stable prices. Rapid inflation had a particularly severe impact on the poorest groups of the population. Civil wars in El Salvador and Nicaragua and guerrilla warfare in Guatemala and Peru aggravated the region’s economic deterioration.

The authorities increasingly realized that they had to adopt comprehensive structural adjustment and reform measures to lay the basis for renewed and sustainable growth. First, they had to reestablish macroeconomic stability by introducing appropriate fiscal adjustment and credit controls. This involved raising taxes, improving tax collection and administration, reducing or eliminating subsidies for enterprises and for consumer goods and services, and cutting down on public employment. These actions had to go hand-in-hand with programs to reduce the state’s role and size by privatizing state-owned firms and financial institutions. Second, most countries opened up their economies by sharply reducing tariffs and eliminating many non-tariff barriers. This, together with the maintenance of competitive real exchange rates, has in many cases led to expanded nontraditional exports and increased productivity by
domestic industry. Most countries that have implemented comprehensive stabilization and structural adjustment policies have seen their economic growth begin to recover along with income and employment levels, although the rate of growth is modest. In the short run, however, eliminating subsidies of basic commodities and services; reducing the labor force in loss-making public and cutting back on public employment have reduced both incomes and employment. Private firms faced with international competition for the first time are also having to reduce the number of employees.

Both the policymakers carrying out structural adjustment programs and the international and bilateral financial assistance agencies that support them have increasingly recognized that effective action in the areas of social policy and poverty alleviation must complement these policies if they are to result in sustainable, long-term growth. In the short run, this implies taking measures to alleviate the social impact of both the economic crisis that necessitated the adoption of the stabilization and adjustment programs and of the programs themselves. In the longer run, it implies that comprehensive, vigorously implemented, and well-targeted social programs must complement the reform policies design to promote economic recovery and growth. This will ensure that the benefits of economic growth are shared more equitably than in the past and that effective investment in human capital will lay the basis for sustained growth (Bernstein and Bongton 1993; Mesa-Lago 1993; World Bank 1993c).

Weak Institutional Capacities

In many Latin American countries, the traditional social sector ministries have always been inefficient in delivering social services to the poor, particularly the rural poor, and the budgetary cutbacks and rapid inflation resulting from the economic crisis of the 1980s have further reduced their effectiveness. With most of the ministries staffed by poorly paid and unmotivated personnel—often political appointees—decisionmaking, expenditure control, and staffing authority are excessively centralized; procedures are unnecessarily complex and bureaucratic; and procurement and auditing systems are overly legalistic, rigid, and time consuming, which leads to excessive delays in project execution without preventing widespread corruption. Ministries have used a top-down system to devise and implement policies and select projects with little, if any, input from beneficiaries. This reflects the ministries’ limited links to local communities, the private sector, and nongovernmental organizations (NGOs) (Cisneros 1993; Mesa-Lago 1993; World Bank 1989a, 1990e).

However, the foregoing description of the overcentralization and ineffectiveness of most social sector ministries, and also of other public sector entities, must be qualified in two ways. First, the authorities in some of the countries are either planning or starting to implement actions to improve the operations of their social sector ministries. However, these reforms will take many years to be fully operative. Second, countries such as Chile, Colombia, and Mexico have initiated a process of overall public sector reform, have developed effective revenue-sharing systems, and have a more developed and consolidated structure of regional and local government. They have thus been in a better position to devise and implement programs to deal with the social impact of the economic crisis and of structural adjustment as part of their normal
budgetary process, while giving local governments and community groups a greater role in planning and executing social sector investments (Cisneros 1993; Mesa-Lago 1993; Ministry of Planning and Social Investment 1992; Silverman 1993; World Bank 1993e).

**Political and Social Cohesiveness**

Political factors were important elements in the creation of the social investment funds. By taking speedy and effective action to assist vulnerable and/or neglected groups and using a more participatory approach to project choice, design, and execution, the authorities saw social investment funds as a means to reestablish, or in some cases to establish, the government's credibility and to secure political support for the ongoing economic reforms. Such actions were more visible than reforming a ministry, which may have been attempted unsuccessfully in the past. It is important to recall that most of the countries that created social investment funds, initiated structural adjustment and reform programs after ill-conceived emergency measures and/or the absence of timely actions had created crisis situations (for example, Bolivia, Guyana, and Ecuador), or by countries that had been affected by both economic setbacks and civil conflict, either directly (El Salvador, Guatemala, Nicaragua, and Peru) or indirectly (Honduras) (Cisneros 1993; Mesa-Lago 1993; World Bank 1993c).
II. OBJECTIVES AND BASIC CHARACTERISTICS OF SOCIAL INVESTMENT FUNDS IN LATIN AMERICA

While this chapter describes the objectives and characteristics of Latin American social investment funds, annex A presents these characteristics in a tabular format by country, and annex B contains a brief description of the origins, objectives, and organization of twelve funds, also by country. Annex A includes only those social investment funds that have been in operation for some years or are about to start operations on obtaining financial support from international and bilateral assistance agencies.

Most of the social investment funds were set up in conjunction with government stabilization and structural adjustment programs, as reflected by the timing of their formation. Bolivia led the way with the creation of its Emergency Social Fund (FSE) in 1986, less than a year after the start of a comprehensive stabilization and reform program. The authorities viewed the fund as "a mechanism needed to create employment conditions that will help alleviate the current social crisis, as reflected in the unemployment situation and in health and nutrition indicators, until the goals of the New Economic Policy are achieved." (Cisneros, 1993).

In line with these considerations, the FSE was created by presidential decree as a temporary organization with an expected life of three years, which was eventually extended to four and a half years. However, instead of disbanding the FSE in 1990, the government transformed it into a permanent institution, the Social Investment Fund (FIS), which focuses exclusively on health and education (in contrast to the FSE, which had also dealt with economic infrastructure and support to small farmers and businesses) and targets its benefits to the neediest communities. This decision reflected the authorities' recognition that the development of Bolivia's human resources through the provision of basic health and education services was vital for the country's long-term development, and that the sector ministries' capacity to plan and supervise investments is likely to continue to be limited, particularly in small social infrastructure investments in rural areas.

While none of the other emergency social funds, most of which were set up in 1990 and 1991, have been transformed into permanent institutions limited to financing investments in health and education, most of them have tended to increase their financing of social infrastructure and social services over time and to improve their targeting to reach the very poor. At the same time, as noted in annex A, the duration of most of these funds has been extended or extension is under consideration. The three social funds set up from the beginning to finance investments to deal with longer-term poverty problems, Bolivia's FIS, Chile's Solidarity and Social Investment Fund (FOSIS), and Haiti's Economic and Social Adjustment Fund, have no specific termination dates. The distinction between short- and long-term funds is thus becoming less significant (Cisneros 1993; Jorgensen, Grosh, and Schacter 1991; World Bank 1990a).

A number of characteristics have made most social investment funds in Latin America into effective financial intermediaries for financing small-scale, multisectoral investments aimed at alleviating poverty among targeted groups as follows:
Staffing and procedures. Most of the funds have enjoyed a high degree of autonomy that protects them from interference in the project approval process and in their day-to-day operations by political and other interest groups. Probably most important as concerns staffing was the choice of highly regarded and experienced private sector managers to direct the funds' operations and the funds' exemption from public sector rules on staff recruitment and salaries. By paying salaries competitive with the private sector and creating a nonbureaucratic work environment, most of the funds were able to attract an exceptionally capable, hard working, and honest staff. No less important has been the exemption of most of the funds from government procurement and disbursement procedures. This has enabled them to award contracts directly to private consultants and construction firms using simplified competitive procedures, which has greatly speeded up the preparation and execution of small investment projects. At the same time, the funds developed increasingly sophisticated unit cost control mechanisms. Perhaps even more important was that as autonomous entities, the availability of the funds' resources was subject neither to the vagaries of the annual budget cycle and central government cash management, nor to the often cumbersome mechanisms for transferring central government funds to local and municipal governments. This meant that as long as the funds followed prudent financial policies, once they had approved a project and had signed contracts with the sponsoring and supervising entities and with the chosen contractors, the latter could be sure that the necessary funds would be available on a timely basis. Finally, by being able to avoid time consuming, bureaucratic government disbursement procedures, the funds enabled the executing agencies to pay contractors promptly. This was particularly important for small, often new, construction firms, which were frequently the only firms available to work on small projects in outlying areas, but lacked the financial resources that would have enabled them to face lengthy payment delays. The efficient disbursement procedures also helped contain cost overruns.

Demand-driven nature of funds' activities. The funds operate as financial intermediaries and not as implementers, that is, they use funds provided by their governments and by international and bilateral assistance agencies to finance small infrastructure, social service, and credit projects in poor areas. While the funds may provide the sponsoring entities with technical assistance in project preparation and implementation, they do not execute projects. Most of the funds' operations are demand driven. This has, in many cases, led to an unprecedented degree of involvement and participation by local community groups in the choice, design, execution, operation, and maintenance of basic education, health, nutrition, water supply, and sanitation projects. It has also stimulated regional, especially municipal, governments to play a more active role in the preparation and implementation of social projects. Finally, the willingness of most funds to involve

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1. Note that the salary caps the Guyanese authorities imposed on the Social Impact Amelioration Program and Agency have made it practically impossible for that fund to recruit and retain competent engineers, which has impaired its ability to appraise and supervise water and drainage projects effectively (Optima, Inc. 1993; World Bank 1992b).
NGOs in the preparation and supervision of projects carried out by community groups and to finance NGO-sponsored health, nutrition, and credit projects is notable.

- **Transparency of operations.** Following the example of Bolivia's FSE, virtually all the funds are using computerized management information systems. This has enabled them to operate with a degree of control, flexibility, and speed unprecedented for most public entities and to appraise and monitor the implementation of a great number of small projects that are often dispersed over a wide area. In many of the funds, staff in regional offices linked to the fund's head office by computer are promoting, monitoring, and supervising projects. The availability of up-to-date information through management information systems has greatly increased the transparency of the funds' operations. It has enabled them to furnish accurate, up-to-date information to the government and the press as well as to beneficiaries and donor agencies. Another device that has helped establish the transparency of the funds has been the use of objective, technical rather than political criteria in project evaluation and approval and in targeting. These criteria are laid out in detailed operational manuals. They have been widely disseminated and strictly adhered to. Finally, the funds have undergone periodic (often quarterly) financial audits frequently conducted by external auditing firms. These audits have found no evidence of major misuse of funds. This has doubtless bolstered the confidence of both the public and the donor community.

- **Targeting techniques.** As annex A shows, all the social investment funds in Latin America employ targeting mechanisms to try to ensure that the projects they finance reach their intended beneficiaries. In most cases, targeting makes use of poverty maps at the municipal level. These are based not only on per capita incomes, but also on poverty indices that reflect such factors as access to water and sanitation, school dropout and infant mortality rates, and extent of malnutrition. Most funds use this information to allocate more resources to poorer areas, but municipalities in which poverty is less prevalent frequently remain eligible for project financing, because they usually contain pockets of extreme poverty. Some of the funds, notably Bolivia's FIS, have tried to refine the poverty maps further by using information on poverty at the village level. One of the lessons the social investment funds have learned through experience is that in extremely low-income communities they need to promote high priority projects particularly actively, because these communities are usually weaker institutionally, less well organized, and less vocal than better off groups and find securing the assistance needed to prepare projects much more difficult. Most funds, besides targeting their investments geographically, have tried to give priority to certain types of projects, such as primary education or basic health care facilities, that are likely to have a particularly positive impact on the very poor. Guatemala's social investment fund, for example, intends to encourage priority projects in poverty areas by lowering cost-sharing requirements for such projects and areas. In the long run the targeting techniques developed by the social investment funds will probably have a significant effect on the way central governments allocate revenue-sharing funds to local governments.
Donor support and coordination. The social investment funds have been able to mobilize support from a great number of international and bilateral agencies, mostly in the form of soft loans and grants, and have been effective in securing donor coordination. Bolivia's FSE set an impressive precedent in this respect: between 1986 and 1990 it secured and disbursed US$198.1 million, of which US$173.1 million, or 87 percent, came from foreign donors. The International Development Association accounted for US$35.1 million and the IDB for US$37.8 million. The rest was supplied by twelve donors in both cash and kind, with the largest amount provided by Canada, Germany, Switzerland, and the U.S. Agency for International Development. Honduras's FHIS was able to finance a program of US$135.5 million between 1991 and 1993, of which external donors provided more than 80 percent: the International Development Association accounted for US$30.2 million, the IDB for US$31.5 million, the KFW for US$18.0 million, and the U.S. Agency for International Development for US$10.7 million, with international and bilateral donors, including the United Nations Development Programme, the United Nations Children's Fund, the World Food Program, Canada, France, Japan, the Netherlands, and Spain accounting for the rest. El Salvador's FIS, Nicaragua's Emergency Social Investment Fund (FISE), Peru's National Fund for Compensation and Social Development (FONCODES), and Chile's FOSIS have attracted high levels of international support from a large number of donors. Most of the funds have not allowed donors to design their own programs, but have succeeded in securing their agreement to accept the funds' procedures. The World Bank and the IDB have assumed a lead role in securing effective donor coordination by encouraging cofinancing procedures and pre-established menu. Table 1 presents information on the support the World Bank Group has provided to the social investment funds in Latin America and the Caribbean (Carvalho 1994; Cisneros 1993; Khadiagala 1994; Mesa-Lago 1993; Schmidt 1994).
Table 1. World Bank Loans (L) and IDA Credits (C) to Social Investment Funds
in Latin America and the Caribbean
(in million dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Fiscal Year</th>
<th>Name of Fund</th>
<th>Amount Authorized</th>
<th>Amount Disbursed (As of Dec. 31, 1993)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia</td>
<td>1987 (c)</td>
<td>Emergency Social Fund (FSE)</td>
<td>10.00</td>
<td>10.00</td>
</tr>
<tr>
<td></td>
<td>1988 (c)</td>
<td>Emergency Social Fund (FSE)</td>
<td>25.00</td>
<td>25.00</td>
</tr>
<tr>
<td></td>
<td>1990 (c)</td>
<td>Social Investment Fund (FIS)</td>
<td>20.00</td>
<td>18.17</td>
</tr>
<tr>
<td></td>
<td>1993 (c)</td>
<td>Social Investment Fund (FIS)</td>
<td>45.00</td>
<td>-</td>
</tr>
<tr>
<td>Honduras</td>
<td>1991 (c)</td>
<td>Honduras Social Investment Fund (FHIS)</td>
<td>20.00</td>
<td>18.92</td>
</tr>
<tr>
<td></td>
<td>1992 (c)</td>
<td>Honduras Social Investment Fund (FHIS)</td>
<td>10.20</td>
<td>7.16</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1993 (c)</td>
<td>Emergency Social Investment Fund (FISE)</td>
<td>25.00</td>
<td>4.53</td>
</tr>
<tr>
<td>Guyana</td>
<td>1992 (c)</td>
<td>Social Impact Amelioration Program (SIMAP)</td>
<td>10.30</td>
<td>1.78</td>
</tr>
<tr>
<td>Haiti</td>
<td>1991 (c)</td>
<td>Economic and Social Assistance Fund (FAES)</td>
<td>11.30</td>
<td>0.67</td>
</tr>
<tr>
<td>Guatemala</td>
<td>1993 (L)</td>
<td>Social Investment Fund (FIS)</td>
<td>20.00</td>
<td>-</td>
</tr>
<tr>
<td>Peru</td>
<td>1994 (L)</td>
<td>National Fund for Compensation and Social Development (FONCODES)</td>
<td>100.00</td>
<td>-</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1994 (L)</td>
<td>Emergency Social Investment Fund (FIS)</td>
<td>30.00</td>
<td>-</td>
</tr>
</tbody>
</table>
III. IMPLEMENTATION EXPERIENCE

A number of issues have arisen in the context of the social investment funds' implementation experience.

Employment Generation

Nine of the twelve funds whose characteristics are summarized in annex A were established in conjunction with government structural adjustment programs. In the case of six of these funds—Bolivia's FSE, Honduras's Fund for Social Investment (FHIS), El Salvador's FIS, Peru's FONCODES, Nicaragua's FISE, and Panama's Social Emergency Fund (FES)—rapid employment generation was a priority objective, at least during the initial "emergency" phase of their operations. Some of the funds have tried to maximize the amount of employment generated by refusing to finance equipment and requiring contractors to spend at least 25 percent of project costs on wages.

Information on the extent and cost of employment creation by the various funds is limited, and comparisons can be misleading, because available data cover different time periods and the costs per job created reflect differences in wage levels between the various countries and between rural and urban areas. Moreover, the amount of employment created by investing in different types of projects differs significantly, for example, investment in repairing or constructing small sewage or drainage projects, which involve trenching, will create much more employment than an equal amount of investment funds spent on repairing or building a water supply system. Taking all these factors into account, the available information indicates that the amount of employment generated by the investments financed by the various social investment funds, while modest in relation to the size of the labor force and the amount of unemployment and underemployment, was significant. Moreover, in most cases it benefited the poorer segments of the population and the cost per person employed was moderate.

In the case of Bolivia's FSE, the projects it financed generated a total of 731,000 man-months of employment. By mid-1987 almost 30,000 people, some 3 percent of the total labor force, were reportedly working at projects funded by the agency. Further estimates suggest that the average worker employed on FSE projects earned 45 percent more per week than if that worker had been underemployed, and 67 percent more than average earnings (bearing in mind that about 18 percent would have been unemployed). FSE investments were particularly beneficial in providing employment to workers in the construction industry, where activity had come to a virtual halt at the height of the economic crisis. Bolivia's FIS, the successor of the FSE, has financed more than 1,300 small basic health and education projects estimated to have generated about 33,000 jobs in 1993 (Jorgensen, Grosh, and Schacter 1991; Newman, Jorgensen, and Badham 1991; World Bank 1989b, 1990a, 1992f, 1993a, 1993b).

A recent impact assessment of Honduras's FHIS found that between 1990 and 1993 the fund had financed investments that had generated more than 140,000 jobs, close to 5 percent
of the labor force. Of this total, FHIS investments in economic and social infrastructure projects created more than 120,000 jobs, basic needs projects (mostly health programs) created 7,800 temporary and permanent jobs, and credit projects in the informal sector administered by NGOs and other private organizations created almost 13,000 permanent jobs. By 1992 monthly employment at FHIS-financed projects had reportedly resulted in a 25 percent reduction in open unemployment. Moreover, two-thirds of the jobs created were concentrated in the country’s poorest municipalities (World Bank 1993f, 1993g, 1994a).

Although data on the employment impact of the other social investment funds are more limited, preliminary information reveals a similar pattern. A first assessment of the impact of the investments by El Salvador’s FIS during 1992 and early 1993 found that they had generated 38,600 man-months of direct employment and another 16,800 man-months of indirect employment, a significant number of them in the country’s poorest areas, which had been gravely affected by a decade of civil war. In Peru, FONCODES financed some 4,000 community-based projects in 1992, its first year of operations, that generated more than 24,000 jobs per month, most of them in infrastructure projects in the country’s poorest communities. About a third of the jobs were created through the credit program for small farmers and businesses, which is funded by FONCODES and administered by NGOs and the savings and loan system. Panama’s FES financed 1,200 projects during 1991-93 that have reportedly generated some 28,000 man-months of temporary employment and 3,000 permanent jobs. The latter were generated as a result of the FES-financed small business credit program. Finally, Nicaragua’s FISE is reported to have generated more than 73,000 man-months of employment during its first eighteen months of operation, most of it short-term employment from the repair of schools, health posts, roads, and drainage systems (IDB 1993; World Bank 1993d, 1994e, 1994f) El Salvador FIS 1992 and 1994).

Except for the employment created as a result of credit programs financed by some of the social investment funds, most of the jobs generated were temporary, providing employment for five or six months. Thus in assessing the efficiency of job creation, data on the cost per man-month of creating employment are the most meaningful. Available information indicates that these costs, of which less than 30 percent represent wage payments, have ranged from US$270 to US$320 dollars in Bolivia, Honduras, and Nicaragua, doubtless reflecting differences both in wage levels and the types of projects financed. These costs are substantially lower than the costs of creating permanent jobs in manufacturing. Unlike make-work projects in the public sector, such as those of the Chilean employment program of the early 1980s, most of the projects the social investment funds financed to generate employment resulted in the rehabilitation or construction of economic and social infrastructure in the countries’ poor areas, including areas that had virtually no access to social services because of the lack of such infrastructure (Cisneros 1993; Khadiagala 1994; Mesa-Lago 1993).

Construction and Rehabilitation of Social and Economic Infrastructure

Most social investment funds have devoted between 75 and 90 percent of their funds to financing small social and economic infrastructure projects. In doing so they have been trying
to meet an urgent social need, because public investment in the maintenance, rehabilitation, and expansion of social and rural economic infrastructure had been radically reduced on account of the debt crisis of the early 1980s. Under these circumstances, the high priority communities gave such projects in requesting financing by the social investment funds is hardly surprising. By responding rapidly and efficiently to these requests, the funds were able to establish their credibility and meet their own objectives of generating a significant amount of employment and income for members of disadvantaged groups. In most funds, eligible social infrastructure projects included rehabilitating, expanding, and constructing schools, health posts, and water supply and sewage systems, while economic infrastructure projects consisted mostly of repairing and improving minor roads and small bridges, constructing rural access roads, and rehabilitating drainage and irrigation systems.

Over time, some of the funds' investments in infrastructure became a significant part of total public sector investment programs. In the case of Bolivia's FSE, its infrastructure investments, which had constituted less than 4 percent of total public sector investment during 1987, its first year of operation, accounted for more than 18 percent by 1990. Similarly, investments by Honduras's FHIS, which when it started operations in 1990 represented about 5 percent of central government investment, accounted for 18 percent of public sector investment by 1992. Information on El Salvador shows a similar pattern. The scale of accomplishments was even more impressive in specific subsectors: in three years the Honduras' FHIS financed the construction, expansion, and repair of 36 percent of all schools and child care centers and the provision of school desks to more than 80 percent of primary school children, many of whom had been sitting on the floor or standing during classes. Similarly, FHIS funds financed the building or rehabilitation of 30 percent of health centers and the building of some 200 small water supply and sewage systems. Data on the investments of Bolivia's FSE and FIS, Nicaragua's FISE, and Peru's FONCODES also indicate significant accomplishments (World Bank 1992f, 1994a).

The best operated funds have clearly demonstrated that they can ensure the rapid and efficient execution of a much larger program of social infrastructure projects than the line ministries could with the same level of funding. Honduras's Ministry of Education has estimated that the FHIS can finance and supervise the construction and/or rehabilitation of five times more classrooms than the ministry in any given year, because the ministry lacks the institutional capacity to plan, implement, and supervise construction and rehabilitation activities in a large number of geographically scattered schools. The recent mid-term review of Nicaragua's FISE reports that it has similarly demonstrated that it can finance and supervise the rehabilitation of several times more rural schools than the Ministry of Education with the same level of funding. The efficiency with which these funds operated reflected the characteristics described earlier, such as their special procurement and disbursement procedures and involvement by beneficiaries (World Bank 1993f, 1993g, 1994a).

The large number of projects involving the rehabilitation and construction of small infrastructure facilities financed by the various social investment funds stimulated the demand for construction services. Thousands of private contractors participated in fund-financed
activities, including firms that had traditionally worked on public sector contracts and a large number of informal construction contractors, the latter especially in remote rural areas.

**Delivery of Social Services**

The various social investment funds financed the implementation of a great variety of social service projects. Bolivia’s FSE financed such projects as school lunch programs; vocational training; and nutrition programs for pregnant women, lactating mothers, and infants. NGOs and religious organizations promoted and administered many of these projects. The FSE also funded a number of large vaccination and epidemic control programs sponsored by the Ministry of Health. Bolivia’s FIS targeted its social service projects much better than the FSE, and most of its projects focused on poor rural areas. In addition to nutrition programs for lactating mothers and their infants, it financed nutrition centers for infants at risk; epidemiological surveys; health training; and training for women in family and personal health, child care, literacy, and microenterprise and handicraft activities. Honduras’s FHIS financed the pilot phase of a family assistance program using food stamps, which has been extremely successful. The distribution of food stamps through elementary schools and health centers has increased preventive care visits to health centers by 150 percent per year and elementary school registration and attendance by 25 percent per year. This project complemented a broad gamut of FHIS-financed programs for primary health care; food security through household gardens; primary and preprimary education (including school breakfasts); nutritional assistance for preschool-age children; training provision for midwives, health promoters, and community health guardians; and the provision of furniture, teaching materials, and small libraries for primary schools. The social service projects financed by El Salvador’s FIS and Peru’s FONCODES were largely concentrated in the education sector, of which school meal programs planned and implemented by parent groups were among the most successful.

The financing of social services, the delivery of which should normally be the responsibility of the appropriate sector ministries or of local governments, raises a number of questions. In countries like El Salvador, Nicaragua, and Peru that are emerging from years of civil conflict, or countries like Bolivia that had experienced severe economic crises and a grave weakening of local governments, the involvement of the social investment funds in financing current expenditures for service provision is appropriate on a temporary basis, provided it goes hand-in-hand with policies to reform the sector ministries, strengthen local governments, and involve community groups and NGOs in service delivery. In the long run, the effective delivery of basic social services is a responsibility of government agencies, at the central, state, and local levels, that should be financed from regular central government budgetary resources, shared revenues, or local taxes. Nevertheless, the social investment funds still have an important role to play in promoting and financing pilot projects, which are likely to have a major demonstration effect.

The attempt to find new, more effective ways of delivering social services by involving community groups and NGOs partly reflects the difficulty of reforming the way in which government agencies operate and the time needed to implement reforms. The experience of
Guyana’s Social Impact Amelioration Program and Agency (SIMAP) illustrates this problem. The agency has been financing a nutrition program aimed at lactating mothers, infants, and malnourished children among groups particularly severely affected by the increase in food prices resulting from the elimination of government subsidies. In the virtual absence of NGOs, the government’s health care centers are implementing the program. Given the weakness of government administration and SIMAP’s organizational and technical shortcomings, this has proven to be a slow and difficult process, and the program is having a much more limited impact than planned, because an increase in the quality of health care has not complemented the food distribution (Optima, Inc. 1993; World Bank 1992b, 1994g).

The financing of social service programs by Chile’s FOSIS deserves special mention. The problems FOSIS is trying to address differ fundamentally from those of other social investment funds and its role is significantly different. Chile was among the first Latin American countries to carry out a comprehensive structural adjustment and reform program. This program has resulted in sustained, relatively rapid growth in incomes and employment. At the same time, Chile has developed a well-functioning revenue-sharing system and has increasingly delegated the responsibility for basic education and health care to its municipalities. FOSIS’s role has been to reach groups that fall through the cracks of a relatively effective social safety net. It has done so by trying to encourage such groups as isolated pockets of rural poor, including indigenous communities, unemployed youths, and senior citizens, to take advantage of some of the existing government programs and by financing a number of special social initiatives. Among them the Entre Todos program, designed to promote self-help organization among the urban and rural poor and training programs for unemployed youths who are not in school and for single mothers, is notable (Ministry of Planning and Social Investment 1992; World Bank 1994h).

The effectiveness of social investment funds is frequently judged by how many social service projects they finance or what percentage of their total funds finances such services. This appears to be based on a misunderstanding of the appropriate role of the funds in financing social services, which is to help find innovative ways to deliver them to groups not reached thus far and to improve their delivery to groups already receiving them, and not to be responsible for financing the provision of such services in the long term.

Credit Programs

Most social investment funds have devoted some of their resources to funding credit programs for small farmers and informal sector businesses. NGOs or savings and loan institutions typically administer these programs, whose success depends essentially on the funds ensuring that the institutions that are to administer the programs have a proven record of operating such credit schemes successfully; assuming the credit (fiduciary) risk; and supervising operations carefully, usually with the help of consultants.

The need for small credit programs arises from various factors. Loans to small farmers or microbusinesses are essentially based on the borrower’s character. This requires a detailed
knowledge of clients, which only banking at the local level can provide. But countries such as Guatemala have few bank branches outside the capital and other major cities. Moreover, even when there exists branches at the local level, the high transaction costs of making loans to small farmers or businesses, the inability of most small entrepreneurs to furnish collateral, and the perceived high risks make most banks reluctant to engage in such credit operations. In many cases the banks' reluctance is due to government policies that prohibit banks from charging market rates of interest to cover their costs and make a profit. At the same time, experience in many Latin American countries and in Asia has demonstrated that credit programs for small farmers and businesses based on group guarantees and a careful assessment of risk can be successful. The record of the credit program financed by Honduras's FHIS bears this out. This program, which has provided total loans of US$5.9 million, about 6 percent of the FHIS's funds, resulted in the formation of 254 credit cooperatives with nearly 6,000 members and in the financing of 3,000 small businesses. Implemented by twenty-one NGOs experienced in managing credit operations, the program has been extremely successful, with loan arrears of less than 5 percent. All loans are made at market interest rates, and the NGOs are required to finance 20 percent of project costs and assume the credit risks through revolving funds. The record of most of the NGOs and savings and loan institutions that have administered the microenterprise and small farmers' credit program financed by Peru's FONCODES has been almost as good. This program has benefited mostly rural communities. As in Honduras, loans are at market interest rates, the intermediary institutions provide training and technical assistance, and loan arrears rates have been a relatively low 4 to 8 percent (World Bank 1993d, 1994a).

Unlike such countries as Bolivia, Ecuador, Guatemala, and Peru, Chile has a network of banks and other financial institutions, such as credit cooperatives, that covers most of the country. However, the banks are often reluctant to lend to small businesses or farmers, because of the high costs and risks of making small loans. To solve that problem FOSIS has experimented with a novel system under which it creates incentives for the banks to make such loans by covering their extra transaction costs and credit risks, estimated at 12 percent of individual loan amounts through a competitive bidding process. This interesting approach to small business lending might well prove to be a model for other social investment funds financing small business credit programs in countries with an extensive network of banking institutions (Cisneros 1993; Ministry of Planning and Social Investment 1992).

The good record of the Honduras credit program was the result of a relatively lengthy process during which the FHIS carefully reviewed the operating methods and policies of the participating NGOs and developed a standardized set of operating rules and requirements. The FHIS also engaged a small number of specialized staff, who were periodically assisted in supervising the operations of the NGOs by international consultants familiar with small-scale credit operations. The Peruvian credit program, while generally successful, experienced a major failure in Lima, where the small credit operations of the savings and loans institutions proved unsuccessful. This was partly because FONCODES, unlike Honduras's FHIS, had not clearly stipulated that the financial intermediaries had to return the revolving funds to FONCODES and had not developed procedures governing the intermediaries' operating costs or criteria for the
sub-borrowers. FONCODES has committed itself to correcting these shortcomings, to improving its management information system, and to supervising the credit program more closely (World Bank 1993d, 1994a).

The principal limitation to the expansion of credit programs is the institutional capacity of the NGOs administering them. In addition, the amount of resources that the NGOs can devote to these programs is limited. In the long run, the programs’ success will be judged by how effectively the NGOs can expand their capacity, how long the microenterprises have to be supported, and how successfully the NGOs facilitate their clients’ access to the regular financial system.

Reaching the Poor

All the funds have employed targeting mechanisms to try to concentrate their financing on areas of poverty. In most cases, targeting improved as the funds gained operational experience. This was reasonable, because in most cases the funds initially gave higher priority to speedy financing of projects than to precision in targeting to establish their credibility and generate employment rapidly. This was particularly true of the FSE in Bolivia, which was trying to alleviate the social effects of a severe economic crisis and of a comprehensive stabilization and structural adjustment program as quickly as possible. As the FSE’s targeting was relatively broad, the early projects presented to it originated with relatively better off municipalities, which either had projects already prepared that were ready to be financed, or were able to secure assistance in preparing projects. The FSE responded by creating a Promotion Department and establishing a relatively crude system of targeted funding. However, while FSE projects reportedly benefited 1.2 million people (18 percent of the total population), most of them poor, only 5 percent of its total expenditures reached the poorest 10 percent of the population. The FSE’s successor institution, the FIS, refined the targeting mechanism; limited the types of projects it would finance; and increased project promotion in the poorest, largely rural, areas. After some two and a half years of operation, estimates indicate that 1.6 million people (24 percent of the population) would benefit from projects the FIS had approved, and that more than 80 percent of FIS-financed projects were located in areas whose inhabitants were among the poorer 50 percent of the population (World Bank 1989b, 1992f, 1993a, 1993b).

Like Bolivia’s FSE, Honduras’s FHIS initially gave high priority to getting started, but once it had established its credibility and perfected its targeting and monitoring systems and promotion strategy, its allocation of resources to the poorest localities started to improve. By 1993, the percentage of its total funds financing projects in municipalities classified as having high and extremely high levels of poverty reached 45 percent, compared with only 26 percent in 1990, its first year of operation, while the percentage of funds financing projects in municipalities having an average level of poverty had declined from 46 to 18 percent. Moreover, all the funds earmarked for basic needs projects went to the poorest municipalities, as did a high percentage of funds for social infrastructure projects (World Bank 1992d, 1994a).
Table 2. Percentage of FHIS Funds Allocated by Poverty Level

<table>
<thead>
<tr>
<th>Poverty Level of Municipality</th>
<th>1990</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely High or High</td>
<td>26</td>
<td>45</td>
</tr>
<tr>
<td>Average</td>
<td>46</td>
<td>18</td>
</tr>
<tr>
<td>Above Average</td>
<td>28</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

From its inception, El Salvador’s FIS tried to ensure that its financing would reach the poor through a more precise, and reportedly effective, administrative device. This approach involved determining project priorities on a weekly basis based on their beneficiaries, project type, and location. A preliminary assessment of its first three years of operations concluded that two-thirds of the projects financed by the FIS had benefited the rural poor, and that more than half of the country’s population living in extreme poverty had benefited from FIS-financed projects. These results are all the more remarkable given that the FIS had initially encountered substantial difficulties in covering some areas of extreme poverty, because the civil war had been most intense in those areas. However, the tradeoffs of more precise targeting in the initial period is usually a slower commitment of funds. El Salvador’s FIS approved projects worth a total of US$39.4 million during its first two years, compared to US$50.0 million for Honduras’s FHIS (IDB 1993; El Salvador FIS 1994, Honduras FHIS 1993).

Peru’s FONCODES has reportedly been quite effective in targeting its financing toward the country’s poorest areas. During its first fifteen months of operation, 92 percent of all the community-based projects it financed originated in the fifty poorest provinces, absorbed about half of its funds, and reached 35 percent of all targeted beneficiaries (World Bank 1993d).

A recent mid-term review of the operations of Nicaragua’s FISE’s operations found that its targeting was highly effective both geographically and in terms of financing small projects requested by community groups in some of the country’s poorest areas, particularly in the area of basic health and education. More than 80 percent of its resources have been committed for projects in extremely poor municipalities (World Bank 1994f).

Panama’s FES has financed more than 1,200 projects costing a total of US$26.5 million during the last three years, largely with funds provided by the U.S. Agency for International Development. Of the total funds, 63 percent financed small social infrastructure projects—primarily water supply and sewage systems, latrines, schools, and health posts—which constituted 80 percent of the FES’s projects. The targeting of the FES’s financial investments appears to have been effective, given that 82 percent of all projects and 73 percent of total financing will benefit the 49 percent of the population classified as poor and very poor. In addition, the majority of projects and funds have been directed toward the rural poor, including indigenous groups (IDB 1994; FES Report 1993).
A recent evaluation of some of the projects financed to date by Guyana’s SIMAP found that its projects generally reach low-income populations. This is especially true of projects concerned with primary and nursery school rehabilitation, day care, and health and nutrition centers, as well as the nutrition program, which accounts for a substantial proportion of SIMAP’s financing. Most of the drainage and road projects, however, seem to benefit relatively well-off groups (Optima, Inc. 1993; World Bank 1992b, 1994g).

Guatemala’s FIS and Ecuador’s FISE have only recently started operations. Their targeting strategies are well conceived and relatively sophisticated. In the case of Guatemala, only areas outside the capital are to benefit from FIS financing. Even though the capital has pockets of extreme poverty, they have access to assistance provided by both the central and municipal governments and NGOs. The highland areas, where the majority of the critically poor, mostly Indian population live, are to be the main beneficiaries of FIS financing. Ecuador’s FISE has developed a poverty map at the village level and plans to focus on specific vulnerable groups, such as women, children, and indigenous populations, who are disproportionately represented among the poor (World Bank 1992a, 1994d).

As noted previously, Chile’s FOSIS was created to complement the traditional mechanisms for providing social services by focusing on the needs of specific disadvantaged groups and localities, especially in rural areas. The indications are that FOSIS has succeeded in reaching many of these groups, and the increased demand for FOSIS assistance has been so great that the fund is planning to refine its beneficiary and project selection procedures (World Bank 1994h).

**Promoting Municipal and Community Development**

Perhaps the most significant achievement of the social investment funds in Latin America has been the extent to which, by operating as demand-driven financial intermediaries, they have stimulated community involvement and have helped promote decentralization by strengthening public sector management at the municipal level. Information on the various agencies whose projects have been financed by the social investment funds reveals a definite pattern. In countries where the public sector is highly centralized or where, because of civil conflicts or political turbulence, municipal governments had been seriously weakened, community groups or NGOs financed a high proportion of projects financed by the funds. Thus in El Salvador community organizations prepared and implemented more than 70 percent of projects financed by the FIS, while NGOs were responsible for another 7 percent. In Panama and Peru community-based organizations and NGOs have sponsored almost all projects financed thus far. In Honduras, by contrast, municipalities prepared and implemented 79 percent of projects financed by the FHS, and neighborhood organizations, religious entities, and NGOs accounted for only 14 percent. Municipalities will probably also play an important role as project sponsors in Guatemala, where in financing social and economic infrastructure projects, FIS funds will complement municipal funds derived from the constitutionally-mandated transfer of 10 percent

In the case of Bolivia’s FSE, where as noted earlier getting started quickly was given the highest priority, public sector agencies (central government ministries and agencies, departmental governments, regional development corporations, and, to a more limited extent, municipalities, which often had a pipeline of projects ready to be presented to the FSE) sponsored two-thirds of all projects financed by the fund. Over time, however, the FSE succeeded in fostering the active involvement of community groups, religious organizations, and NGOs, which ultimately sponsored 27 percent of all FSE projects (World Bank 1989b, 1992f, 1993a, 1993b).

The active involvement of community groups is significant for a number of reasons. First, when community groups are involved in selecting the projects to be presented to the social investment fund, the projects are much more likely to meet the community’s needs than if they were chosen to reflect the priorities of a government agency, which may not be aware of local conditions. Second, once communities have developed a sense of ownership of a project, they will be more willing and interested in sharing in its financing and in ensuring that it is well maintained and properly operated. Third, experience indicates that when a community group is given responsibility for implementing a project that it has helped to choose and prepare it has a great interest in ensuring that the private contractor executing the project does so well and honestly. The experience of Mexico’s National Solidarity Fund (PRONASOL), which is not an autonomous social investment fund, but a large-scale government poverty program, bears this out. As with the social investment funds, a major feature of PRONASOL’s operations is the involvement of municipal governments and community groups in preparing and implementing small social and economic projects that they choose, and which are partly financed by PRONASOL. According to a recent evaluation of projects financed by PRONASOL’s Municipal Fund in four southern states of Mexico, two of the most important reasons that indicate that the sustainability of these projects is likely to be high are (a) that "projects are selected locally, which indicates that beneficiaries consider them to be of high priority"; and (b) that "a sense of beneficiary ownership and knowledge about the projects has resulted from direct participation, along with municipal governments, in project implementation." Moreover, the recent report indicates that the projects financed by PRONASOL’s Municipal Fund and implemented with the help of the communities have had a much lower cost than similar projects implemented by line ministries (in the case of primary school construction the savings amount to 30 to 40 percent) (Silverman 1993).

A recent report on the operations of FONCODES in Peru offers an interesting account of how vertical, top-down social programs can be transformed into highly participative, community-based projects. In this case, parent associations formed executing committees representing at least 1,000 students, and presented proposals whereby they assumed the

2. Central government revenues transferred to the municipalities can only be used to finance investments, but not current expenditures.
responsibility for delivering breakfast to a certain number of students for a year. FONCODES responded by contracting the services of the National Research Institute, a specialized NGO, to define the specifications for a balanced school breakfast, and organizing local competitive bidding by companies for providing the nutritional supplements. FONCODES then signed a contract with the winning company to provide school breakfasts for a year. On approval of the project, the company started monthly delivery of the necessary supplies to the department's capital, where the parents' associations collected them. After checking that the supplies were satisfactory, the executing committees authorized payment of the supplier. The parents then organized the daily preparation and delivery of breakfasts to the students in their areas.

Virtually all projects financed by Peru's FONCODES are sponsored and implemented by executive committees, nominated by community groups, which receive and manage FONCODES's grants and are responsible for project implementation. When communities are extremely poor and unable to formulate and present a project proposal by themselves, NGOs, church groups, and municipal governments participate as promoters and provide technical assistance. In some cases they enter into a management contract with the community (World Bank 1993d).

In El Salvador the FIS has begun to complement and support a government pilot program to decentralize primary and preprimary education to the local level. Through the EDUCO program, parent groups organized into community associations for education, are being made responsible for contracting teachers, procuring teaching materials with funds provided by the government, and managing the schools. In response to requests by the community associations, the FIS has started to finance the construction of schools and the purchase of furniture, equipment, and school supplies (El Salvador - FIS 1993 and 1994).

Even where municipalities sponsor most projects to be financed by social investment funds, grassroots groups and NGOs frequently play an important role in maintaining and operating such projects. Thus, Honduras's FHIS sponsored the establishment of local water committees to administer FHIS-financed water and sewage projects, collect water fees, and ensure project maintenance. It also sponsored the formation of school and health center maintenance committees and financed training programs to teach people to manage and maintain latrines. In the operations of Ecuador's FISE, "community witnesses" play an important role. As representatives of communities that are to benefit from projects financed by the FISE, they sign the project contract to verify the amount of counterpart resources that the community will provide, to confirm the community's acceptance of the project, and to promote effective beneficiary participation and supervision during project implementation (Schmidt 1994; World Bank 1994a, 1994d)

The social investment funds have begun to lay the groundwork for decentralizing the responsibility for small-scale infrastructure investment to municipalities. For many municipal authorities this is the first time they have been involved in prioritizing, preparing, and supervising the execution of projects. As sponsors of projects to be financed by the funds, the municipalities have had to participate in contract management and assume responsibility for
covering projects' maintenance and operating costs. The process has been one of learning by doing.

The municipalities have responded to this challenge in various ways. In Honduras many of the municipalities have hired engineers for the first time, and more than one-third of the country's municipalities now have an in-house engineering capacity. In other cases, the municipalities have secured technical assistance from local or international NGOs, engineering firms, or consultants. A number of projects presented to the funds have been prepared by engineers of construction firms, who have donated their services free of charge in the hope that their firms would secure the construction contracts.

Honduras's FHIS has found that the following factors have contributed to its success in financing a relatively large program implemented primarily by small municipalities. First, most projects financed have been small and technically simple. They were relatively easy to prepare and could be rapidly appraised, contracted, and executed. The average time between project presentation and approval has been reduced to about four weeks and most projects have been completed in about five months. Second, the FHIS distributed blueprints to the sponsoring municipalities to facilitate construction and ensure that projects met appropriate quality standards. Third, the FHIS supervised project execution jointly with representatives of the sponsoring municipalities. Fourth, the FHIS kept its lines of communications with municipalities' mayors open and provided them with full information on the status of FHIS-financed projects on a monthly basis. Finally, while willing to provide technical assistance and advice, especially to the poorest municipalities, the FHIS tried to discourage elaborate development planning exercises (World Bank 1994a).

By involving community groups in project selection and implementation, the social investment funds are building up local capacity for municipal self-help efforts. In many urban areas of Latin America neighborhood funds for local improvement have been created to finance small projects, such as street paving, drainage, public lighting, and some social services. The social investment funds could assist such neighborhood funds, which require the involvement of both municipal authorities and beneficiaries in the selection, implementation, and maintenance of these projects, and call for substantial cost sharing and partial or full cost recovery on the part of the beneficiaries. The social investment funds would thus lay the basis for local governments gradually to assume more difficult functions, such as stimulating local economic development and creating a broader local tax base. Given that Latin America has the highest rate of urbanization of any developing region, and that its major urban centers contain some of the most vulnerable groups in society, the importance of strengthening local governments' capacities and increasing the involvement of community groups in efforts to improve the infrastructure and delivery of social services and encourage self-help efforts is obvious. The participatory approach of the social investment funds and the efficiency and transparency of their operations make them powerful tools for carrying out these tasks (Campbell 1991).
Strengthening Public Sector Management

The social investment funds with the longest records of effective operation—Bolivia’s FIS, El Salvador’s FIS, and Honduras’s FHIS have significantly improved the management of public sector entities. Their positive impact on the performance of municipal governments in choosing and preparing projects, contracting construction firms or NGOs, and supervising project implementation has already been described. The influence of these funds on the operations of the social sector ministries and central water supply and sewage agencies has also been considerable.

Once the funds had demonstrated that they were much more efficient than central government entities in selecting, appraising, and financing small projects to rehabilitate or construct schools, health centers, and small water supply and sewage systems and in supervising their execution by private contractors, the central government entities have been eager to let the social investment funds assume the responsibility for financing and supervising the implementation of a large number of such projects. This has freed up resources and staff in the ministries, which can be used to improve policy planning and service delivery, and in the central water and sewage agencies, which can concentrate their efforts on financing major projects.

Another feature of the funds’ operations that has begun to influence other public sector agencies is targeting. Line ministries and other central agencies are increasingly using the poverty maps prepared by the social investment funds in planning their operations. In addition, when central government agencies have sponsored projects financed by the social investment funds, they have had to comply with the funds’ operating procedures, including careful record keeping and regular audits. At the same time they have recognized the value of the funds’ management information systems, project cost control mechanisms, and simplified procurement and payments procedures and have begun pressuring the government for broader reforms in these areas (IDB 1993; World Bank 1992d, 1992f, 1994a).

Project Sustainability and the Relationship between Social Investment Funds and Line Ministries

The operational experience of the social investment funds clearly shows that their effectiveness depends to a large extent on close coordination of their activities with the policies, planning, norm setting, and budgeting of the line ministries and other public agencies for two

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3. In a number of instances, external funds for projects or programs that the central government agencies had been unable to implement were transferred to the funds. For example, the Honduran Ministry of Health delegated the rehabilitation and reconstruction of health centers under the World Bank-financed Health and Nutrition Project (Credit No. 2452-HO) to the FHIS. Likewise, the FHIS will carry out school construction, rehabilitation, and expansion activities under the proposed Basic Education Project to be financed by the Bank. Similar arrangements have been made in Nicaragua under the Bank-financed Health Project (Credit No. 2556-NI) and the proposed Basic Education project.
main reasons. First, in most Latin American countries the provision of basic education and health services has not been effectively decentralized. The sustainability of many of the projects financed by the social investment funds thus depends on the line ministries or other central government agencies including in their budgets, materials, supplies and salaries of the teachers, health workers, and administrators needed to operate the facilities whose construction, rehabilitation, or expansion the funds are financing. At the same time, the funds need to be assured that the salaries, benefits, and other operating costs budgeted for will actually be paid.

Second, the projects financed by the social investment funds should conform to the line ministries' technical norms and standards, and municipalities, community groups, or NGOs that sponsor, prepare, and supervise the execution of fund-financed projects should follow ministry guidelines regarding the location of schools and health posts. The procedures to ensure effective coordination between the social investment funds and line ministries should, however, be such that the funds’ ability to respond speedily to requests for project financing is not impaired.

The social investment funds have developed a number of ways to promote effective coordination with the line ministries to try to ensure the sustainability of the projects they finance. First, the line ministries and planning ministries or both are represented on the boards of directors of most funds. Second, in many cases the funds have concluded formal cooperation agreements with the line ministries and have included relevant ministry norms and guidelines in their operational manuals. Third, most funds have adopted the procedure first used by Honduras’s FHIS of informing the relevant ministry or agency that the fund intends to appraise a project and giving it a limited time to comment. If it does not hear from the ministry or agency, the fund proceeds on the assumption that the ministry or agency has no objection to the proposed project. Fourth, almost all the funds have given priority to the rehabilitation and expansion of schools, health posts, and roads over the construction of new facilities. Finally, many of the funds only proceed to finance projects upon written confirmation from the relevant ministry or agency that expenditures for staff salaries and for teaching materials or medicines will be budgeted. (Carvalho 1994; Khadiagala 1994; World Bank 1994a).

Available information indicates that in many cases the line ministries have met their commitments to cover the operating costs of social infrastructure facilities financed by the social investment funds. In some case, however, ministries have failed to do so. For example, Bolivia’s FIS financed the construction of a number of health posts at the request of the Ministry of Health, which was to have provided the needed services, but failed to do so. Such cases demonstrate the importance of the funds closely monitoring the operations of projects after they are completed to ensure that they are actually providing the services that justified their financing. Sustainability remains a potentially serious problem that deserves more systematic study (World Bank 1993a, 1993b).

A final reason why effective coordination between social investment funds and line ministries is highly desirable is that it lessens the resentment, and sometimes the open hostility, of the ministries toward the social investment funds, whose staff are better paid, and most of
whose activities and operating methods challenge the traditional, often highly bureaucratic, procedures of the ministries.

Cost Sharing

Experience indicates that cost sharing by project sponsors and beneficiaries is important, because their willingness to pay for social services and infrastructure is a clear indication of effective demand for such investments, and because cost sharing mobilizes additional resources and improves the sustainability of projects. As Annex A shows, most of the social investment funds in Latin America have obtained a high proportion of their resources from external donors. Central government financing has also been important, however, especially in financing the funds’ initial operations, which helped them establish a good track record and secure the support of external donors.

As for cost sharing by project sponsors or beneficiaries, Bolivia’s FSE and Honduras’s FHIS did not initially require such cost sharing. Subsequently, however, sponsoring government entities reportedly contributed between 5 and 9 percent of the cost of projects financed by Bolivia’s FSE, NGOs contributed about 11 percent, municipalities and community groups contributed about 15 percent, and religious organizations contributed 17 percent. Furthermore, estimates indicate that Bolivia’s FIS, the FSE’s successor agency, secured cost sharing of more than 20 percent on the part of community groups and sponsoring NGOs. Most of these contributions took the form of labor and materials furnished by the communities. In Honduras, the municipalities sponsoring most of the projects have, on average, contributed 12 percent of project costs and, in most cases, have assumed responsibility for maintaining projects financed by the FHIS (World Bank 1989b, 1992f, 1993a, 1994a).

While Peru’s FONCODES required no cost sharing by the sponsoring community groups during its initial "emergency" operations, subsequently most groups have contributed from 5 to 19 percent of project costs, often in the form of labor and materials. El Salvador’s FIS has from the start required sponsoring groups or agencies to contribute at least 10 percent of project costs, and Nicaragua’s FISE has required local communities to contribute at least 5 percent. Ecuador’s FISE, which has just started operations, expects government agencies to contribute 14 percent of project costs and community groups and NGOs to share about 20 percent of the cost, mostly in the form of unskilled labor and locally available materials (IDB 1993; World Bank 1993d, 1994d. 1994e).

Guatemala’s FIS has based its approach to cost sharing on the experience of a pilot social investment fund project that in 1990 and 1991 financed a significant number of projects prepared by grassroots groups. The pilot project found that most of them were willing to share project costs and assume responsibility for maintaining projects for which they had sought financing. The FIS, which only recently started operations, has worked out an approach whereby the minimum cost sharing percentage required on the part of sponsors and beneficiaries depends on the type of project proposed and the poverty classification of the municipality where the project is located. The minimum cost sharing required in the poorest municipalities is 5 percent.
for basic health, education, and nutrition projects and 10 percent for social and economic infrastructure projects and those to provide credit to productive enterprises. In contrast, in areas of only moderate poverty, the minimum cost-sharing requirement is 5 percent for basic health projects, 10 percent for nutrition and education projects, 15 percent for social and economic infrastructure projects, and 20 percent for productive sector credits.

The approach of Guatemala's FIS to cost sharing is of particular interest, because the fund expects that municipalities will sponsor many of its projects. As noted earlier, FIS financing will complement the funds derived from the country's revenue-sharing scheme, under which 10 percent of central government revenues is distributed to the municipalities. The FIS's requirement that the better-off municipalities contribute more will redistribute public resources to some extent (World Bank 1992a).

In many rural areas small water and sewage projects represent a relatively large proportion of both the number of projects and the total amount of financing of the region's social investment funds. Their sustainability depends on the beneficiaries' willingness to pay user fees to cover the costs of operation, maintenance, repairs, and eventual service expansion. Experience in most countries of the region has confirmed that very poor communities are often readier to pay appropriate user fees than better-off groups. The reason why many better-off groups are unwilling to pay appropriate water rates is that many countries have provided water to favored groups virtually for free for political reasons. Honduras's FHIS has sponsored the creation of community groups to administer small water and sanitation systems; collect user fees; and use them to finance the systems' operation, maintenance, and expansion. Most social investment funds would be well advised to follow the Honduran example of involving the beneficiaries in the administration of their water and sanitation systems and in the collection of adequate user fees, and of using a specialized NGO or a local sector agency to provide technical assistance and ensure that the systems are adequately maintained.

**NGOs' Performance**

NGOs play a significant role in the operations of most social investment funds in the region. Indeed, the active participation of both national and international NGOs, as well as of religious organizations, in programs and projects sponsored and financed by governments and external assistance agencies is unprecedented. Bolivia's FSE pioneered the involvement of NGOs in social investment fund operations. The fund was able to develop a positive working relationship with them by overcoming their initial lack of trust and skepticism, which was based in part on many NGOs' ideological opposition to the government's economic adjustment program. It did so by establishing transparent and efficient operating methods; engaging in an active, continuous dialogue with the NGOs; and demonstrating its political neutrality by financing projects strictly on their technical merits, irrespective of the political orientation of the leaders of the sponsoring groups. El Salvador's FIS and Honduras's FHIS similarly were able to secure the collaboration of both national and foreign NGOs once they had established their credibility and demonstrated that their decisions were based on technical rather than political
considerations. Over time the attitude of most NGOs changed. They tended to become less ideological and more pragmatic. This made it easier for funds such as Nicaragua’s FISE, Panama’s FES, and Peru’s FONCODES to associate NGOs with their projects, many of which are community based. NGO representatives are members of the boards of directors of most of the social investment funds in the region (IDB 1993, 1994; Jorgensen, Grosh, and Schacter 1991; World Bank 1992f, 1993d, 1993g, 1994e).

The social investment funds have sought the involvement of NGOs as a link between the funds and community groups. NGOs help communities plan, prepare, implement, and operate projects and could sponsor innovative projects in such areas as nutrition, health services, training of health workers, support for women’s groups, small water and sanitation systems, and credit to microenterprises. The funds have also enlisted NGOs to help them with project supervision, particularly in areas where the latter have long been involved in assistance activities.

NGOs have generally been most effective in sponsoring or helping to carry out social assistance and small credit projects. Over time, however, it became apparent that many smaller NGOs are not well administered, have a high turnover of their relatively poorly paid staff, and are weak in long-term planning. The social investment funds have consequently had to evaluate carefully the experience and capacity of NGOs that are to be the sponsors or beneficiaries of projects financed by them. They have frequently provided NGOs with technical assistance, and have monitored their activities closely. Honduras’s FHIS has been particularly careful in assessing the capacity of NGOs implementing its successful program of credit for microenterprises. The FHIS requires participating NGOs to be legally registered, have at least three years of experience, and have sufficient qualified staff and enough equipment to undertake subloan appraisal and supervision. Moreover, their loan portfolio must show a satisfactory recovery rate, they must be able to provide technical assistance to beneficiaries, and they must be willing to open their books periodically to external auditors (Carvalho 1994; World Bank 1994a).

NGOs have tended to operate more in urban than in rural areas, and while they do reach the poor, these are not generally the poorest groups of the population. Moreover, except for some international NGOs, their capacity to prepare and implement projects has been limited. This situation has now begun to change. The social investment funds have not only enlarged the scope of NGO operations by financing some of their projects, but have provided them with training and technical assistance and have contracted them to carry out research and monitor various programs financed by the funds. Some of the social investment funds, notably Honduras’s FHIS, have created incentives for some NGOs to service the poorer, more remote rural areas by covering some of their additional operating expenses (Carvalho 1994; Khadiagala 1994).

Private Sector Involvement

Private contractors have carried out most of the projects financed by the social investment funds. Bolivia’s FSE, for example, financed civil works and equipment contracts involving
close to 1,300 private contractors, and Honduras’s FHIS financed projects carried out by more
than 1,200 contractors and consultants. Similarly Bolivia’s FIS, El Salvador’s FIS and
Nicaragua’s FISE financed projects carried out by hundreds of contractors, many of them small
enterprises that were performing work financed by a government agency for the first time. The
significant role NGOs play in the operations of most social investment funds has been
another way of involving the private sector. Finally, successful private sector managers have
organized and managed most of the funds, which was a key element in their success, and were
able to secure the services of capable professionals, most of whom had private sector experience.
In addition, all the funds use private consultants to help them supervise project execution, secure
the information needed for effective cost control, carry out needs and living standards
measurement surveys, and audit their operations (Cisneros 1993; Jorgensen, Grosh, and Schacter

The funds’ use of private sector institutions and methods doubtless had political, and even
ideological, implications. Most governments carrying out structural adjustment programs felt
that this was a way to demonstrate that a relatively large program to create employment and
provide social and economic infrastructure and social services to poor groups and areas affected
by the economic crisis could be carried out quickly and efficiently without creating a new, large
bureaucracy. In addition, by financing projects the beneficiaries chose from a menu set by the
funds, but executed by private contractors, the funds’ operations could demonstrate the virtues
of policies whereby the government would make policy, but would leave the execution of many
programs and projects to the private sector (Cisneros 1993).

Administrative Efficiency and Operating Costs
of the Social Investment Funds

The administrative costs of most social investment funds in Latin America have amounted
to 8 to 13 percent of their annual commitments, once they reached a relatively high level of
activity. This is considered reasonable when compared with other financial institutions, and
is much better than for government ministries and agencies. Bolivia’s FSE has had the lowest
operating costs to date: 5.5 percent of annual commitments. This is because of the efficiency
of its staff in handling a large number of projects. At its peak the FSE reportedly approved 30
projects a week, worth about US$2 million, and was executing as many as 1,000 contracts

4. For a project approved by a social investment fund to be financed, contracts are usually signed by three
entities: the fund as the financing agency, the sponsoring entity (for example, a municipality, other public
agency, community group, or NGO) as the beneficiary and grantee (or borrower), and the executive entity (for
example, a private construction firm) as the contracting party. In most cases the social investment funds
disburse directly to the contractors upon advice from the sponsoring entity and after monitoring project
execution. In some cases, the funds disburse funds to the sponsoring agencies, who in turn pay the contractors.

5. A comparison of the administrative costs of the various funds is complicated by the fact that some of them,
like Peru’s FONCODES, have used outside consultants to carry out many aspects of project appraisal and
supervision, which in other funds are carried out by regular staff members and considered as part of project
costs (Cisneros 1993).
simultaneously. It achieved this scale of operations using 130 staff, of whom about 80 were professionals.

The speed and effectiveness with which the FSE promoted, appraised, and approved a large number of projects doubtless helped it in rapidly establishing its credibility. However, it faced serious problems with supervision and monitoring, and thus with ensuring the quality of the projects it was financing, because each inspector was responsible for up to fifty ongoing projects. Further supervision was delegated to key sector institutions, many of which were weak and disorganized. The FSE’s management responded by hiring technical specialists to support the inspectors in its regional offices, and by financing some of the supervising sector agencies so that they could free up more staff to supervise projects. Thus, the FSE’s remarkably low administrative costs may have reflected the fact that initially it did not allocate adequate resources to project monitoring and supervision (Cisneros 1993; Jorgensen, Grosh, and Schacter 1991; World Bank 1992f). Bolivia’s FIS took into account the FSE’s difficulties in ensuring adequate supervision. It reduced the number of projects individual inspectors were expected to supervise at any one time to twenty-five, created two additional field offices, and contracted a large number of special supervisors.

Honduras’s FHIS also experienced some problems in supervising its rapidly increasing project portfolio during its first two years, but was able to improve supervision substantially by reducing the number of projects individual staff members were expected to supervise, hiring additional staff, and contracting specialized consultants and NGOs. El Salvador’s FIS has also hired a large number of specialized private consultants to help it supervise the growing number of projects it is financing. This may be one of the reasons why its administrative costs are substantially higher than those of most other funds (Cisneros 1993; IDB 1993; World Bank 1993a, 1993b, 1994a).

Nicaragua’s FISE, Panama’s FES, and Peru’s FONCODES have all experienced difficulties with project supervision and monitoring, resulting in serious delays in project completion, and in some cases impairing project quality. Both the FISE and FONCODES are committed to assigning additional staff and consultants to project supervision and to improving the management of their supervision efforts, with the assistance of the World Bank and the IDB. The IDB is also engaged in an intensive effort to help Panama’s FES improve the quality of its project portfolio (IDB 1994; World Bank 1993d, 1994e, 1994f).

Other aspects of the operations of most funds that need strengthening are impact evaluation and beneficiary assessments. Bolivia’s FSE and FIS did this well; others did it too late. One of the lessons of experience is the importance of monitoring and evaluating project performance two or three years after project completion to ascertain whether the entities that committed themselves to maintaining the projects financed by the funds are actually doing so, and whether the projects are producing the intended results.
IV. LESSONS LEARNED

The most significant lessons derived from the foregoing review of the implementation experience of the social investment funds in Latin America can be summarized as follows:

- **Contributing to structural adjustment and reform.** Most of the funds have complemented and reinforced structural adjustment and reform policies. They have helped to reestablish the credibility of governments by demonstrating that a relatively large program to create employment by financing small projects in poor areas affected by the economic crisis could be prepared, approved, and carried out quickly and efficiently without creating a new large bureaucracy.

- **Helping to launch long-term poverty programs.** The funds have demonstrated that they can play a limited, but significant, role in initiating long-term poverty programs. They have done so by financing long-neglected social and economic infrastructure and by providing credit to small farmers and microbusinesses. At the same time they have financed innovative ways of providing social services, particularly in areas and for groups not reached or poorly served by traditional public sector programs.

- **Mobilizing participation.** Even more important in the long run than their achievements in creating employment or delivering social services has been the way in which the funds were able to mobilize the energies and resources of community groups, local governments, NGOs, and the private sector by using a participatory rather than a top-down approach. Some of the more successful funds have shown that they have the potential to play an important role in helping municipalities and community groups cope with their new project management responsibilities and accountability when government programs are decentralized. The funds initially promote municipal development by substituting for municipal financing. In the long run, however, by insisting on substantial cost sharing by the municipalities and on the latter assuming responsibility for maintaining and operating projects, they create pressure on the central government to expand revenue sharing and on the municipalities to collect more local taxes and user fees.

- **Operating more efficiently than government entities.** Some funds have demonstrated that they can ensure rapid and efficient execution of a much larger program of small social and economic infrastructure projects than the line ministries could with the same level of funding. They have been able to accomplish this partly because of their streamlined procurement and disbursement methods, ready availability of financial resources not subject to the government’s annual budget cycle, cash management and transfer mechanisms, and involvement of the beneficiaries. Even more important, however, has been the high quality of the funds’ management and technical staff. The importance of retaining the services of key fund personnel or of replacing managers with other staff with private sector experience when the government changes is being increasingly recognized, even in countries where virtually all public sector management positions are filled by political appointees. At the same time, while the funds’ have demonstrated the importance of modifying civil service rules to attract and retain first-class staff and to
function more efficiently, transferring this experience to the rest of the public sector has proven difficult.

- **Coordinating activities with government entities.** The operational experience of the social investment funds has clearly shown that close coordination of their activities with the policies, planning, and budgeting of the line ministries and other public agencies is essential for the funds' effective operation and the sustainability of many of their projects. The most effective funds have developed procedures that enable them to integrate their activities with those of other public entities without impairing their ability to respond quickly to requests for project financing. Once the funds had demonstrated that they were more efficient than central government entities in financing small social and economic infrastructure projects and supervising their execution by private contractors, the central government entities were willing to let the social investment funds assume the responsibility for financing and supervising such projects. This has freed up the resources of the central entities, which they can now use to improve policy planning and service delivery and to finance large projects.

- **Allocating resources for supervision, monitoring, and evaluation.** Most of the social investment funds did not, at least initially, allocate sufficient resources to the supervision of their growing portfolios of projects. In addition to ensuring adequate project supervision, they need to intensify their efforts to monitor and evaluate the impact of their operations.

- **Addressing project sustainability.** The best operated social investment funds have laid great stress on securing commitments from line ministries, other central governmental entities, municipalities, community groups, and NGOs that the projects that they finance will be adequately maintained and their recurrent costs covered. However, project sustainability continues to be a potentially serious problem.

- **Focusing on fund design.** In the design of the funds, the following aspects are particularly important: (a) boards of directors that comprise representatives drawn from many different groups and entities, which helps to limit the political pressures on the funds' management; (b) the choice of highly regarded and experienced private sector managers to direct fund operations; (c) special provisions that enable the funds to recruit highly qualified staff at competitive salaries and to follow simplified procurement and disbursement procedures; (d) the use of a standardized menu of projects, which limits the range of specialists the funds have to recruit, provides standard parameters and specifications for project preparation by the sponsoring entities and for appraisal and supervision by the funds; (e) the use of simple, but effective, targeting mechanisms; and (f) the use of computerized management information system, which together with frequent (often quarterly) audits ensures the full transparency of the funds' operations and the accountability of their management.
V. FUTURE PROSPECTS OF THE SOCIAL INVESTMENT FUNDS

Most Latin American social investment funds were established as temporary institutions in the expectation that the adoption of structural adjustment and reform programs would, within a relatively short time (three to four years), restore vigorous growth in incomes and employment. The authorities also expected that the capacity of the regular government agencies to provide needed social services could be restored and improved at the same time. Both these assumptions have proved unrealistic. Although economic growth has started to recover in most countries that have carried out structural adjustment programs, the increase in incomes and employment is still relatively modest. Moreover, many countries have yet to carry out some of the most difficult macroeconomic, sectoral, and administrative reforms.

At the same time, the authorities have realized that line ministries and other central government agencies will require far-reaching changes in their organization and operating methods to be able to expand public spending in the social sectors efficiently by ensuring appropriate targeting, quality control, rapid channeling of resources to the local level, and community participation. Moreover, if the line ministries are to operate with anything like the effectiveness of the social investment funds, the laws and regulations governing budget allocations, procurement, auditing, recruitment, salary limitations, and trade union activities (from which most social investment funds are exempted) would have to be modified. These changes will take years to carry out.

Thus, the Bolivian authorities' actions to transform their Emergency Social Fund into a more permanent institution, the Social Investment Fund, rather than disband it, and the extension of virtually all other emergency funds, in some cases repeatedly, is understandable. The funds' retention means that most are now beginning to play an important role in long-term poverty alleviation.

The likelihood that most of social investment funds will become long-term institutions raises a number of important questions. First, will line ministries and other central government institutions be less likely to carry out the institutional and administrative reforms necessary to improve their efficiency? This may happen, but experience indicates that one way to minimize this possibility is to have formal agreements whereby the funds take over some of the line ministries' functions in which they have a clear comparative advantage, such as financing social infrastructure projects, distributing learning materials, and managing nutrition programs. This will enable the ministries to concentrate on improving the quality of the remaining services they provide. Moreover, the involvement of municipalities, regional governments, community groups, NGOs, and the private sector in the preparation, implementation, and maintenance of the funds-financed projects, whose operation depends on staff paid by the line ministries or other central agencies, will exert continuing pressure on the latter to improve their personnel policies and budgeting and payments procedures and to decentralize their operations. At the same time, the Bank and other financing agencies and donors must stress the importance of governments formulating long-term strategies for poverty alleviation and administrative reform to be implemented in parallel with the funds' activities.
The second issue is whether the social investment funds can avoid becoming bureaucratized and politicized in the long run. This may happen, but the danger can be reduced by extending the life of the funds for a limited number of years; making each extension depend on the results of a careful, independent review of their performance; and having multilateral and regional financial institutions closely supervise and evaluate their activities.

The third issue is whether the more permanent social investment funds should follow the example of Bolivia's FIS by focusing exclusively on health, education, water, and sanitation and divesting themselves of their involvement with economic infrastructure and credit to small farmers and microbusiness. The answer will depend on each country's situation.

Some countries will be in favor of doing so because by narrowing the focus of their operations, the funds could (a) reduce the risk of spreading their technical staff too thinly, (b) achieve a greater impact on the targeted group for sectors in which they were working, and (c) lessen the danger of being viewed as "super agencies" by the permanent bureaucracy and find it easier to coordinate their activities with the line ministries and other public sector agencies.

In other countries, the situation will be different. In Guatemala, for example, a key role of the social investment fund will be to use its funds to complement those that the central government distributes to the municipalities and try to improve their allocation, so that a larger proportion of funds is used to improve conditions in poor rural areas outside the cabeceras (county seats), which tend to absorb too much of these funds. Indeed, in many areas creating a more adequate social infrastructure and a basis for crop diversification supported through credit to groups of poor farmers is virtually impossible without improving access to outlying villages by constructing or improving rural roads. The FIS is more likely to be able to get community groups and municipalities to prepare, present, and contract such small projects than the National Road Service, which concentrates on the major roads.

Similarly, in countries such as Peru, where community groups are the main sponsors of projects financed by the social investment fund, its effectiveness in securing their active involvement would be more difficult if the menu of projects FONCODES were willing to finance excluded economic infrastructure. As noted earlier, many of the social investment funds devote some of their resources to financing credit programs for microenterprises and small farmers that are administered by NGOs. Securing the collaboration of these private organizations, assessing their effectiveness, and supervising and monitoring their performance are delicate and time-consuming tasks. Transferring the responsibility for financing and supervising such programs to another public agency would be unwise, unless that agency had a proven record of successfully financing small business programs and working with NGOs. Nevertheless, joint public-private ventures should be actively explored.

In envisaging the role social investment funds are likely to play in the longer run, a look at the activities of Chile's FOSIS may prove helpful. Unlike the other countries of the region that have established social investment funds, Chile successfully completed the implementation of a program of comprehensive structural reforms some years ago, and has made significant
progress in carrying out sector and administrative reforms, including revenue sharing. It has also delegated the responsibility for financing and administering basic education and health care to the municipalities. Nevertheless, the democratically elected government that came to power in 1990 decided to create FOSIS. Unlike most other social investment funds, FOSIS finances almost no infrastructure projects. Its main role is to help specific groups of poor that the relatively well-functioning social safety net does not reach. FOSIS’s focus on sustainable self-help programs, its insistence on a relatively high level of cost sharing by the beneficiaries, its willingness to try out innovative approaches, and its close coordination of its activities with other government programs and institutions are impressive. FOSIS may point to the way in which other social investment funds might want to operate, once their governments have successfully carried out major macroeconomic and sector reforms. One disadvantage of FOSIS, however, is that its operations have to conform to government procurement, auditing, and payment procedures and are subject to the annual government budget cycle. These features have slowed up and complicated its operations (Cisneros 1993; Ministry of Planning and Social Investment 1992; World Bank 1994h).

The positive experience of most Latin American social investment funds may well lead governments in countries of the region that have not used this mechanism to consider creating new social investment funds. However, they should be aware that while these funds can contribute significantly to poverty alleviation, their role is limited. They are financial intermediaries, not policy setters. They can complement, but cannot take the place of, fundamental reforms, such as decentralization, that are needed to improve the scope and effectiveness of service delivery to the poor. Their most important role may be to help prepare municipalities to assume responsibility for the provision of such services.

Recent developments in Colombia illustrate a set of circumstances that may lead to the creation of social investment funds whose major objective is to reinforce the decentralization process. In Colombia, this process began in 1983 with a series of measures intended to strengthen municipal finances, and by 1987 central agencies were not allowed to execute projects without municipal participation. At the same time, the authorities created a plethora of special funds attached to central and regional government entities. In the last two years the government has merged a dozen of these funds into four cofinancing funds coordinated by a special committee. Two of the new funds are social investment funds: one finances projects for the most vulnerable sectors of the population and the second has absorbed the functions of the National Hospital and Ministry of Education funds. The new cofinancing funds only finance projects sponsored, prepared, and executed by municipalities. Their objective is to help improve the targeting and technical quality of the projects prepared and implemented by municipalities and to ensure that they conform with national policies (World Bank 1993e).

Another development worth noting in envisaging the future role of the social investment funds is their increasing impact on line ministries and other central and regional entities that recognize the funds’ comparative advantage in getting projects implemented. Nicaragua’s Ministry of Health has recently set up three small funds to speed up the implementation of hospital rehabilitation, rehabilitation of small health facilities, and training. These are not social
investment funds, but they use project preparation, appraisal, and approval criteria and procedures similar to those of social investment funds (World Bank 1994f).

One issue that arises in the context of long-term social investment funds is how to finance their operating costs without impairing their autonomy. To date international financial and technical assistance organizations, such as the IDB, the United Nations Development Programme, and the World Bank have partly or entirely financed most of these costs, including the staff salaries of most funds. This has been both helpful and appropriate so far, but in the long run direct donor financing may decrease and funds may execute larger portions of line ministries’ programs. One option may be for the ministries to pay the funds administrative fees of 8 to 10 percent of project costs to cover the funds’ operating costs. Similar arrangements could be made in the case of projects partly financed by municipalities.

Another issue is whether the IDB and Bank should continue to be involved. Why should these agencies and other donors continue to finance the operations of these funds, many of which seem to be well established and relatively successful? A number of convincing reasons argue in favor of continued support. To begin with, most Latin American countries have yet to take or complete some key structural adjustment and reform measures. Many of these measures will have a particularly strong impact on the population’s poorer groups. The continued operation of the social investment funds would help defuse social tensions and permit consolidation of the reforms. Second, the ability of most of the region’s governments to finance the operation of their social investment funds is, however, still limited during this period of adjustment. The financing by the social investment funds thus continues to depend largely on their ability to secure financing—preferably in the form of soft loans and grants—from a great number of multilateral, regional, and bilateral donors. Most of these donors may be reluctant to continue their support unless the IDB and/or the Bank are also involved, especially given that many bilateral donors view the involvement of the IDB and the Bank as an essential element for ensuring the transparency of the funds’ operations. Another important reason for continued IDB and Bank financing of the funds’ operations is their lead role in donor coordination. In the absence of such coordination, bilateral donors and some international and regional assistance agencies are more likely to ask that their funds be used only for specific activities or projects and to insist on the creation of separate project units, which would involve higher operating costs. Finally, borrowers want to keep the IDB and/or the Bank involved because the two institutions are concerned with building up institutional capacity, especially at the local and municipal levels.
REFERENCES AND BIBLIOGRAPHY


### ANNEX A: CHARACTERISTICS OF SOCIAL INVESTMENT FUNDS IN LATIN AMERICA AND THE CARIBBEAN

<table>
<thead>
<tr>
<th>Country and Name</th>
<th>Year Established</th>
<th>Duration</th>
<th>Degree of Autonomy</th>
<th>Main Objectives</th>
<th>Target Population</th>
<th>Exempted from</th>
<th>Total (US$ millions)</th>
<th>External (%)</th>
<th>Government (%)</th>
<th>Beneficiaries (%)</th>
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<tbody>
<tr>
<td>Bolivia, FSE</td>
<td>1986</td>
<td>4½ years</td>
<td>High. Directly under the Presidency. Created by Executive Decree</td>
<td>Employment creation and rehabilitation of Economic and Social Infrastructure</td>
<td>Urban and Rural poor, suffering from income loss and unemployment resulting from the economic crisis and with poor health and nutrition.</td>
<td>Public Sector: Salary limits and Procurement and Auditing Rules</td>
<td>198.1</td>
<td>87</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>Chile, FOSIS</td>
<td>1990</td>
<td>Indefinite.</td>
<td>Relatively high. Under Ministry of Planning and Cooperation.</td>
<td>To assist poor groups to overcome poverty by their own initiatives and efforts, and to complement the traditional mechanisms for providing social services.</td>
<td>Poor farmers and indigenous people, marginalized youths, seniors, seasonal workers, women heads of households, and microenterprises. FOSIS is starting an effort, supported by an IDF grant, to evaluate the effectiveness of its targeting methods and define them on the basis of an improved analysis of regional poverty conditions.</td>
<td>No exemptions.</td>
<td>1994 - 1997 Financing Plan</td>
<td>137.0</td>
<td>69</td>
<td>14</td>
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<th>Extern. (%)</th>
<th>Govern- ment (%)</th>
<th>Beneficiaries (%)</th>
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<tbody>
<tr>
<td>Ecuador, FISE</td>
<td>1993</td>
<td>4 years</td>
<td>High. Directly under the Presidency. Established by Executive Decree.</td>
<td>To reach the poor and vulnerable groups with basic social infrastructure and services, promote self-help and stimulate community organization and participation and promote decentralization.</td>
<td>Poor populations with a special focus on specific vulnerable groups, women, children, and indigenous populations which often remain beyond the reach of assistance efforts. Targeting based on poverty maps at provincial, departmental, and village levels. Poverty map based on indicators of income, nutrition, access to basic services, and living conditions.</td>
<td>Staff hired on fixed term personal service contracts, exempted from civil service rules and benefits. Not subject to local procurement rules.</td>
<td>(1993 - 1997 Financing Plan)</td>
<td>120.0</td>
<td>72</td>
<td>10</td>
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<tr>
<td>El Salvador, FIS</td>
<td>1990</td>
<td>Originally 4 years. Extended until Nov. 1997 by the Legislature in April 1993.</td>
<td>High. Directly under the Presidency. Created by Legislative Decree.</td>
<td>Mitigation of extreme poverty resulting from the long civil war and reduced social spending by financing social and economic infrastructure projects that generate high levels of employment.</td>
<td>Population in state of extreme poverty in country's 12 departments. Poverty Index developed based on children's size and weight deficit, school dropout rate, and percentage of unmet basic social needs.</td>
<td>Civil Services: restrictions on recruitment and salaries, procurement, and pre-audits.</td>
<td>(1990-93 Financing Plan)</td>
<td>67.0</td>
<td>67</td>
<td>9</td>
</tr>
<tr>
<td>Guatemala, FIS</td>
<td>1992</td>
<td>8 years</td>
<td>High; Directly under the Presidency. Established by law.</td>
<td>Improve health, nutrition, basic education and income-earning potential of the poor, especially in indigenous communities during period of economic reform and until line Ministries are able to serve rural population more effectively.</td>
<td>Poor in all municipalities other than Guatemala City. Targeting based on population and poverty index, reflecting access to basic sanitation, potable water, basic education, housing, and basic needs.</td>
<td>Salary limitations and procurement rules.</td>
<td>(1993 - 1997 Financing Plan)</td>
<td>80.0</td>
<td>71</td>
<td>14</td>
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<td>Total (US$ millions) External (%) Government (%) Beneficiaries (%)</td>
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<tr>
<td>Guyana, SIMAP</td>
<td>1990</td>
<td>No specific termination date. SIMAP to prepare phase-out plan.</td>
<td>Not high. Semi-autonomous under Ministry of Culture and Social Assistance. Created by an &quot;order&quot; under the Public Corporation Act.</td>
<td>To alleviate the negative effects of structural adjustment measures on the most severely affected groups in the country.</td>
<td>Population in poor areas, particularly women of child bearing age and children under five, suffering from malnutrition. Targeting based on poverty map by region. Specific locations of health or nutrition projects determined by using mortality rates and malnutrition at village levels.</td>
<td>Subject to government cap on salaries.</td>
<td>14.5 92 4 4</td>
</tr>
<tr>
<td>Haiti, FAES</td>
<td>1990</td>
<td>No specific termination date set. Evaluation after 3 years not carried out because fund not operative since the 1991 coup. Created by Presidential Decree.</td>
<td>High. Autonomous under Ministry of Economy and Finance.</td>
<td>To finance labor-intensive short-term projects to improve living standards of the poorest rural and urban populations and increase their productive potential.</td>
<td>Primarily rural poor, particularly in Northern Departments where the greatest number of poor live. Ceiling to be placed on projects in urban areas.</td>
<td>Public Administration rules on salaries, procurement, and auditing.</td>
<td>23.6 91 0 9</td>
</tr>
<tr>
<td>Honduras, FHIS</td>
<td>1990</td>
<td>Originally 3 years, extended to 4 years in 1991 and to 7 years (until 1997) in 1994</td>
<td>High. Directly under the Presidency. Created by law.</td>
<td>Poverty alleviation and improvement of social infrastructure at the local level.</td>
<td>While FHIS aims at nationwide coverage, poor municipalities are assigned larger allocations based on population size and a poverty index composed of sanitation, water supply, and child malnutrition data. Geographic targeting is complemented by Sector Targeting.</td>
<td>Public Sector: Salary Limits and Procurement and Auditing Rules.</td>
<td>(1990 - 1992 Financing Plan) 68.0 78 12 10</td>
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<th>Exempted from</th>
<th>Amount and Sources of Financing</th>
<th>Notes</th>
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<tr>
<td>Nicaragua, FISE</td>
<td>1990</td>
<td>5 years to be extended.</td>
<td>High. Directly under the Presidency. Created by Presidential Decree.</td>
<td>Preserve living standards of marginal population during economic adjustment and improve them in the medium term through financing of social infrastructure and services and employment generation.</td>
<td>Population in extreme poverty. Targeting based on poverty map, that ranks departments and municipalities according to population, child malnutrition, and access to potable water and basic sanitation. Geographic targeting complemented by sector targeting.</td>
<td>Law of Public Administration (recruitment and salary limits and procurement rules).</td>
<td>Total (US millions)</td>
<td>Externally (%); Government (%); Beneficiaries (%)</td>
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<td>25.5 61 39 0</td>
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<td>Panama, FES</td>
<td>1990</td>
<td>Originally 3 years. Extended to 5 years in 1992 and indefinitely in 1993 when the FES was designated executing agency of government program for human development.</td>
<td>Relatively High. Degree of autonomy legally not clear. Directly under the Presidency. Created by Executive Decree.</td>
<td>Offer employment and help provide basic services to the most vulnerable part of the population by financing community-generated projects, executed by NGOs and private contractors. The FES is currently revising its strategy and objectives.</td>
<td>Poor and critically poor population and indigenous communities. Targeting based on poverty index that relates per capita income in rural, urban, and suburban areas to the cost of basic necessities.</td>
<td>Salary Limits: However, FES is subject to ex-ante audit by the Comptroller General and it is unclear to what extent it can follow its own procurement procedures.</td>
<td>Total (US millions)</td>
<td>Externally (%); Government (%); Beneficiaries (%)</td>
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<td>68.0 86 9 5</td>
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<tr>
<td>Peru, FONCODES</td>
<td>1991</td>
<td>No time limit set.</td>
<td>High. Directly under the Presidency. Created by Legislative Decree.</td>
<td>Mitigation of the effects of the profound economic crisis and social costs of structural adjustment and reforms through financing of community-based small-scale, short-term social investment projects with an immediate impact on the poor and most vulnerable groups.</td>
<td>Poor population in rural and marginal urban areas. Targeting based on poverty map constructed with index based on per capita income and infant mortality rates. Targets fine-tuned for conditions of special hardship, such as emergency security conditions.</td>
<td>Public Sector: Salary Levels and procurement rules.</td>
<td>Total (US millions)</td>
<td>Externally (%); Government (%); Beneficiaries (%)</td>
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<td>(1991 - 93 Financing Plan)</td>
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<td>495 51 40 9</td>
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Note: Social Investment funds (except those noted below) finance all four types of projects, that is, Social Infrastructure, Economic Infrastructure, Social Services, and Support (Credit) for Production. Bolivia's FIS finances only Social Infrastructure and Social Services. Nicaragua's FISE and Guyana's SIMAP do not finance support for production. Chile's FOSIS does not finance economic infrastructure.
ORIGIN, OBJECTIVES, AND ORGANIZATION OF SOCIAL INVESTMENT FUNDS IN LATIN AMERICA 6

The following is a brief description of 12 Social Investment Funds in Latin America and the Caribbean.

1. Bolivia - Emergency Social Fund (FSE)

Origin of FSE

In December 1986, fourteen months after President Paz Estenssoro took office, the Emergency Social Fund was created. The Fund was conceived as a means of alleviating the severe social crisis that the country was experiencing, and as an instrument that would help offset the initial negative effects of the economic stabilization and structural adjustment measures, which the new government was beginning to implement. The FSE was created by executive decree as a temporary facility with a three year term, subsequently extended to 4½ years, under the direct supervision of the Office of the President of the Republic.

Objectives of FSE

Based on the experience of other Latin American countries such as Chile, Peru and Colombia, which had carried out programs to create employment, the Bolivian government decided to design the FSE as an autonomous agency which would create employment and/or income for the country's lower-income groups, by financing infrastructure investments and social service projects. Given the need for fiscal restraint, the Bolivian government was obliged to borrow external resources to finance its social programs. This aspect conditioned the design of the FSE to a large extent since, in order to offer an attractive scheme to international financing agencies, it was necessary to ensure the financing of sound projects, transparency and administrative efficiency.

Organization of FSE

The selection of the FSE's Executive Director on the basis of his professional experience, rather than on the basis of political factors, was decisive in enabling the Fund to be administered like a private enterprise. The fact that the FSE reported directly to the President was also helpful in ensuring that decisions were made without taking account of party politics. Both in the definition of the FSE's organization chart and in the design of its

6. This annex relies heavily on the writing of Rodrigo Cisneros (1993).
mode of operation, the need for administrative efficiency was always kept in mind. The organization chart was designed based on those of the Inter-American Development Bank (IDB) and the World Bank. There were five divisions under the office of the Executive Director: Promotion, Appraisal, Monitoring, Administration and Finance; and two support units: Legal Affairs and Computer Services. In the same manner as in the IDB that served as a model, promotion work and project appraisal were performed by headquarters staff, while project monitoring and supervision were carried out at the FSE’s seven regional offices. Although these offices had the autonomy to authorize disbursements for projects, payments and all accounting matters were handled at headquarters in La Paz.

**FSE’s Mode of Operation**

The typical stages of the FSE’s project cycle included promotion, appraisal, approval, signing and execution. Unlike the World Bank and IDB, in which one project team handles nearly all stages, different staff handled each of the FSE’s processing stages. This was due to the need to establish operational control mechanisms, since projects were financed on the basis of grants. Furthermore, the speed and large number of operations being carried out could have led to errors. Using a project "assembly line” approach, as well as constant supervision from one stage to the next, the intention was to minimize the chance of making technical mistakes. Projects were almost exclusively carried out by private sector contractors, to whom the FSE disbursed funds directly. Project supervision was the responsibility of key sector entities or of institutions that requested or promoted the projects.

The FSE’s decision to work almost exclusively with the private sector on project execution and to issue disbursements directly to implementing agencies, stemmed from these major arguments:

(a) The government was undergoing a process of administrative streamlining and was therefore making significant reductions in budget allocations to public institutions. To give FSE funds to these institutions would have meant returning budget reductions through another channel;

(b) Most public institutions were unable to cover the entire country and lacked the technical capacity to administer and/or contract project execution;

(c) The inability of the country’s regulatory agencies to prevent corruption, made it impossible for the FSE, in its search for transparency, to disburse funds directly to public sector institutions;

(d) The crisis that the private sector was undergoing led to the conclusion that small businesses and individual contractors
would be willing to formulate and execute projects all over the country with relatively low incremental costs; and

(e) If funds were embezzled, FSE was in a position to easily sue any company or contractor, which would never have been possible in public sector institutions without creating serious political problems.

Because the FSE was not an executing agency and did not hire project implementation agencies, it was forced to authorize direct contracting procedures, since most of the institutions requesting financing had no funds to finance project formulation and did not know how to handle bidding processes. Because direct contracting was accepted, unemployed professionals or small businesses, without contracts, went out to outlying areas for the purpose of presenting projects to communities in exchange for receiving contracts afterwards. Of course, in order to control a direct contracting system and keep contractors from formulating projects from which they could benefit unduly by as executing agents, the FSE had to develop a very strict system of unit costs and model projects for each region of the country.

Project Promotion was carried out directly in rural communities and by means of visits to government and non-government institutions. During this stage, applicants were given guidance and projects were reviewed to check whether they were eligible and fitted FSE’s regional and sector targets for the distribution of its resources. Projects were appraised in the field by staff members of the Appraisal Division. Field appraisal was always a decisive factor in project processing. Projects were approved by an Administrative Council which met on a weekly basis. It was presided by the Fund’s Executive Director, assisted by three outside sectoral advisors who acted as Council members. Moreover, for the purpose of streamlining the transmission of information and feedback regarding decisions, all of the Fund’s Directors were obliged to participate in the council’s weekly sessions. In order for approved projects to receive financing, a tripartite contract was signed by the FSE as the financial agency, the applicant as the beneficiary and grantee, and the private executing entity as the contracting party. Although the FSE did not appear as a contracting party, the guarantees required of the contracting party were issued in favor of the FSE.

Although the FSE’s Division made periodic reviews of projects under execution (projects had to be visited at least once a month, prior to the approval of each disbursement request), direct project supervision was delegated to the key sector institutions. Although in the design and definition of the FSE’s operational procedures consideration was given to the limited capacity of government institutions, when the time came to define supervision criteria, it was decided that the key institutions would directly supervise projects to be financed in their respective sectors. These institutions, of course, never had enough skilled staff nor felt responsible, to supervise projects properly. In some cases, the FSE even decided to pay them for supervision work, but this did not help to improve the quality of their work.
2. Honduras - Honduran Fund for Social Investment (FHIS)

Origin of FHIS

When President Callejas took office in January 1990, he immediately named a working group to be in charge of creating the FHIS. He had heard of the proposal for the FHIS, prepared by a PREALC mission, several months previously, while he was still a candidate. The interest in creating this agency was based on the fact that the new government was determined and committed to implement a serious economic structural adjustment program. The FHIS was created by legislative decree in February 1990 as a "diversified" agency of the Office of the President for a period of three years, subsequently extended to 7 years.

Objectives of FHIS

The decree that created the FHIS states that "the agency to be created should be eminently complementary to the effort being made by the government". It also states: "the Fund's objective is to promote improved living conditions for disadvantaged groups in rural and urban areas by granting financing for social or economic development programs and projects for the purpose of increasing their productivity and level of employment and income, and contributing toward meeting their basic needs." As in the Bolivian FSE case, the Honduran FHIS began with modest objectives that were well adapted to what one institution could achieve on its own: to supplement work performed by the government and to promote improved living conditions. In this sense, the FHIS fits perfectly into the execution of macroeconomic policies that President Callejas' government carried out during his four years in office.

Organization of FHIS

Although FHIS' organizational structure is very similar to the Bolivian FSE, in their recommendations several consultants at first suggested that the composition of the Bolivian Fund's Administrative Council was too one-sided, since it was presided by the same Executive Director. In view of this, FHIS's Administrative Council was established, with the participation of the Ministers of Planning, Labor and Social Welfare and Finance, the President of the Congress, three civilian representatives, including an NGO representative, a presidential delegate, and the FHIS' Executive Director. As one might expect, this Council, which is practically a legislative body, meets only once every three months, thereby sacrificing the regulatory role that the Bolivian FSE Council had in favor of a mere policy-setting role. The FHIS Council is only responsible for setting policies and approving regulations and, unlike the FSE Council, is not involved in project approval which, in this type of institution, is the process by which decisions are actually made and policies are defined. Furthermore, in the FHIS the responsibility for project approval was delegated to an Operations Committee which is presided by the Executive Director and whose other members are the various FHIS Division Chiefs, subordinate to the Executive Director.
Although the FHIS Executive Director operates with much more autonomy in matters of decision making than the FSE Director did in Bolivia, this has not been a problem for FHIS' operations. In fact it proved to be of advantage, since the person chosen as Executive Director was able to give the institution the momentum it needed.

The FHIS represents an evolution of the Bolivian model. It is better at targeting its resources to different districts based on per capita poverty levels. Prior to project approval FHIS tries to make certain through an inter-institutional coordinating mechanism that the project conforms to sectoral policies and ensure the future operation and maintenance of projects, which it proposes to finance. Although this procedure has helped the FHIS to act in accordance with current policies, it has not been a sufficient guarantee for the maintenance of all its projects. In anticipation of this, since its beginning the FHIS has financed the setting up of maintenance committees for the projects and has achieved considerable success in local maintenance of drinking water and basic sanitation systems through Community Councils. This idea is already being applied in Social Funds in other countries.

Although the FHIS retained the FSE's basic organization structure, the Promotion and Appraisal Offices were combined into one, called the Project Office, for the purpose of achieving greater uniformity of criteria with respect to applicants. For project promotion and appraisal, the definition of the FHIS' eligibility criteria has been more systematic than that of the Bolivian FSE. Nevertheless, project evaluation procedures are nearly identical to those of the FSE. With regard to monitoring, the FHIS first assigned to inspectors the responsibility for nearly twice as many projects as the FSE, but sharply cut this number and increased the staff of inspectors after the second year of operation. As in the FSE, the FHIS delegated the responsibility for ongoing project supervision to the sponsoring agencies or to leading sectoral agencies of the government. Of course, as in the Bolivian case, this supervision did not work well. As in Bolivia, most FHIS projects were carried out by the private sector. Only in the case of a few social service projects, did the FHIS finance Implementation Units which carried out turn-key projects.

3. Nicaragua - Emergency Social Investment Fund (FISE)

Origin of FISE

When President Chamorro took office in May 1990, the democratization process, that began, raised great expectation in international circles. However, due to the serious social and political crisis that the country was undergoing, there was no government institution in place that could guarantee the proper use of all the international aid that was expected to arrive in support of democracy. In November 1990, with the close cooperation of the IDB, the government created the FISE as a temporary institution with a five-year term, under the President's direct supervision.
Objectives of FISE

The decree creating FISE states the following principal objectives for the institution: "...to help meet the pressing demands of the poor, particularly those living in extreme poverty, as a result of the war that the country has experienced and the structural adjustments that the government is implementing under its economic stabilization process, by financing qualified projects that will allow basic social needs to be met and by creating employment."

Thus, like the FSE in Bolivia and FHIS in Honduras, the FISE in Nicaragua began with very concrete, well-defined short-term objectives. Unfortunately, the almost immediate availability of funds for the FISE caused the Fund's institutional development and consolidation to be relegated to second place, at least during the first year of operations. By the second year, no priority had yet been given to developing computer systems or to defining eligibility criteria. This meant that the FISE was not be prepared to face efficiently the enormous pressure to commit and disburse its resources. In fact, the urgent need for projects caused the FISE, during its first year of operation, to allocate most of its resources to street paving projects which have high costs and are easy to formulate. Although this type of project could have had a significant impact on the creation of temporary jobs, this did not occur because the FISE did not limit or restrict the use of machinery by construction companies which carried out these projects. Most of these problems have since been resolved.

Organization of FISE

The Fund's foremost authority is the President of the Administrative Council, to whom the Executive Director must answer. In addition to its president, the Administrative Council has three members of whom two represent NGOs and one the private sector. The Executive Director, appointed by the country's President, supervises five operational Divisions (i) Projects; (ii) Monitoring; (iii) Administration and Finance; (iv) Borrowing and Planning; (v) Data Processing. As in other Social Funds, it also has a legal Affairs Unit and an Internal Audit Unit.

4. Ecuador - Emergency Social Investment Fund (FISE)

Origin of FISE

Under a scheme similar to that of the FSE in Bolivia, the FISE in Ecuador was created by executive decree in March 1993, nearly four years after its preparation had begun. The time that passed before its creation and the large amount of publicity on the projects long before it became a reality, reflected political controversies, especially regarding the decision on where the FISE should be located.
Objectives of FISE

The decree creating the FISE states the following objectives: (i) to improve the conditions and quality of life of the poor; (ii) to identify, prioritized and pinpoint areas and groups at risk and in emergency situations, and to seek appropriate alternatives for their well-being; (iii) to be receptive to the demands of populations not served by government programs; (iv) to promote community self-help processes and encourage community organization and participation; (v) to stimulate participation in the management of programs and projects in all sectors; (vi) to strengthen the participation of local and sectoral institutions; (vii) to update poverty analyses; and (viii) to prioritize social spending for the poorest groups and regions.

Organization of FISE

The FISE is conceived as a temporary institution under the direct supervision of the Office of the President and whose foremost authority, as in other Social Funds, is an Administrative Council. Its closing date was set for December 31, 1997, through a modification of the original decree creating the Fund. Since this is only an executive decree, which cannot grant the Fund any exceptional status, the institution's effectiveness depends to some extent in its ability to attract international financing under whose agreements, according to the Ecuadorian constitution, any exceptional ruling that is considered necessary may be protected.

The Administrative Council is comprised of seven members: a delegate of the country's President who is a representative of the people and presides over the Council; a delegate of the Ministry of Finance; a delegate of the Ministry of Social Welfare; a delegate of the General Secretariat of CONADE; the Coordinator of FIS; and two NGO representatives. All members of this council, which is only a regulatory agency, are appointed by the country's President.

FISE's operational structure is headed by the Coordinator who is in charge of six Divisions: Projects, Monitoring, Administration and Finance, Borrowing, Data Processing and Legal Affairs. The weekly approval of projects is performed by an Approval Committee comprised of the FISE Coordinator and three members of the Administrative Council; the President's delegate who presides over this Committee; the CONADE representative; and one of the NGO representatives. As in other short-term Funds, projects are to be executed only by private sector agencies or contractors.
5. Guyana - Social Impact Amelioration Programme (SIMAP)

Origin of SIMAP

Based on an initial program created by the government to alleviate social problems, SIMAP was created in August 1990 with IDB technical and economic support as an independent institution, inspired by the Bolivian FSE.

Objectives of SIMAP

In 1990, the creation of SIMAP and its structure appeared to be directed toward an objective similar to that seen by the Guyana government’s leading authorities in the Bolivian FSE. With the same intention, IDB was supporting technical assistance and had also approved a non-reimbursable operation for the institution's first two years of operation. Unfortunately, more than 24 months after conversations began with IDB, the Technical cooperation offered had not materialized, since the IDB, among others, did not accept some of the government-proposed nominations for membership on the Board of Directors. Although after some time the government named other directors who were acceptable to the IDB, this problem caused the government to distance itself from the SIMAP and to withdraw both its political and financial support.

When the World Bank approached SIMAP in early 1991, it found an institution that was not yet operating. The World Bank regarded Guyana’s economic adjustment process as very different from that of most countries in the region; the social costs of adjustment in Guyana are also different. Specifically, unemployment in Guyana is a smaller problem than the social crisis resulting from the marked changes in relative prices which made it very difficult for most of the population to pay current food prices. Consequently, a trend toward increased rates of infant mortality was observed. To curb this trend, the World Bank focussed its support for SIMAP on nutritional assistance programs implemented through Ministry of Health clinics. The fact that Guyana has an extensive network of primary health services with sufficient staff, and that it has few NGOs influenced the World Bank’s decision. Based upon this focus, SIMAP’s operations have been divided between infrastructure projects financed by the IDB and social service projects financed by the World Bank. This split is reflected in the different operational strategies within SIMAP: IDB-financed projects are carried out by private contractors or NGOs while World Bank-financed projects are prepared with SIMAP’s financial support and executed in cooperation with the Ministry of Health. In a certain sense, the latter operational category transformed SIMAP into virtually an executing agency, directly involved in defining policies and procedures to improve the Ministry of Health’s medicine and food distribution services. After three years of operations, the anticipated institutional development of the SIMAP for financing other types of projects has not been achieved.

Among the reasons for SIMAP’s limited success to date is the fact the barrier between being de-facto executing agency, or not being one, is very difficult for government
institutions to respect. In reality, speaking about SIMAP's objectives is nearly as difficult as speaking about its procedures, since its involvement is a mixture: Financing of typical Social Fund projects, and financing of regular government programs which could be part of any sector loan operation.

**Organization of SIMAP**

As in other Social Funds, under SIMAP's organizational structure the foremost authority is the Board of Directors. This Board nominates SIMAP's Executive Director. SIMAP's Council of Directors is comprised of six members who represent, respectively: the Ministry of Finance, the Ministry of Health, the Ministry of Education, the University of Guyana, the private sector, and NGO's. All of them are appointed by the Minister of Culture and Social Development. The Executive Office oversees an Operations Management Office which is responsible for three operational divisions and three support units. The Divisions are: Finance, Projects and Data Processing; the support units are: Legal, Ex-Post Evaluation Services and Technical Assistance. Although the IDB and World Bank have been working with the government of Guyana to establish the SIMAP since early 1989 and 1991, respectively, the Fund has only had a somewhat more solid institutional structure since March 1993 and thus may be able to begin financing projects more effectively. Unlike other Social Fund operations in which support by financial institutions for the administration of this type of program has been significant, for the SIMAP there have been restrictions on financing salaries since the beginning. IDB's technical cooperation only considered paying 12 staff, while the World Bank financed salaries only during the project preparation period under the Project Preparation Facility. In other words, the external finance received by the SIMAP does not allow it to hire more than 24 people with salaries of US$1,000 per month. Considering the large number of duties assigned to the SIMAP as a financing institution and as semi-executor of several programs, administrative resources would appear to be far too limited, added to Guyana's difficulties in hiring qualified professional staff.

6. **Peru - National Fund for Compensation and Social Development (FONCODES)**

**Origin of FONCODES**

FONCODES was created by legislative decree in August 1991 with IDB technical assistance. IDB approved non-reimbursable technical cooperation totalling US$4 million to launch the Fund. Following an initial period in which little use was made of these funds, they were put to better use beginning in 1993.

**Objectives of FONCODES**

Since August 1991, the decree that created FONCODES underwent two important amendments in August and December 1992. These amendments reflect the importance that
the government assigns to the Fund and its willingness to make this institution as effective as possible, as an instrument complementary to the economic policies that are being implemented in Peru. Like the Funds in Bolivia, Honduras and Nicaragua, in which the objectives defined are quite concrete and not very ambitious, the most recent amendment to the decree creating FONCODES states as one of its objectives: "to finance social investment projects presented ... generally by any institution or social group which represents, and seeks social benefits for, an organized community." After two years of operation, FONCODES has financed a significant number of projects throughout the country. Counterpart contributions are required from beneficiaries who normally offer needed labor at no cost. Community participation is estimated at 10% of the cost of each project financed by FONCODES and varies according to the type of project; it is higher in infrastructure projects and lower in social service projects.

**Organization of FONCODES**

The FONCODES was created by legislative decree as a decentralized public institution under the direct supervision of the President of the Council of Ministries, who is the Minister of the Office of the President and as such presides over the FONCODES' Board of Directors. FONCODES' Board of Directors, which meets at least once every fifteen days, is comprised of its president and four other directors appointed by the country's President. FONCODES' operational staff is comprised of an Executive Director appointed by the country's President, under whose authority is the General Manager who currently manages six divisions: Projects, Control and Monitoring, Regional Offices, Operations, Legal Affairs and Data Processing. Both the General Manager and the other managers are appointed by the Board of Directors. As in most other Social Funds, FONCODES is defined as a temporary institution (it still has no established time frame). It has also been granted exceptional status which exempts it from the government's hiring law, allows it to act outside budget law regulations and allows it to establish its own regulations on hiring staff. The Fund currently has 23 regional offices which are responsible for project promotion, appraisal and monitoring. For project evaluation and supervision, FONCODES has established the policy of subcontracting services and has an enormous number of external appraisers and supervisors. The work performed by external project appraisers is reviewed at "cabinet meetings" by regional staff appraisers who later send files to Lima, where they are "appraised" at headquarters by other staff appraisers.

7. **El Salvador - Social Investment Fund (FIS)**

**Origin of FIS**

After President Cristiani took office in June 1989, a serious structural adjustment program for the economy began, even though the country was still at war. Similarly, work started on defining the objectives and organization of a future Social Investment Fund which after over eight months of preparation, was created by an executive Decree in October 1990.
Objectives of FIS

The decree creating the FIS states the following objectives for the institution: "to meet the pressing demands of the poor, particularly the extremely poor, in order to strengthen their capacity with regard to the country's economic and social development through the financing of qualified projects aimed at meeting their basic, priority social needs, supporting their productive management and contributing to their education." Unlike other Social Funds, the broad, vague definition of objectives and procedures in the decree, creating the Salvadoran FIS, was an attempt to give it the greatest possible flexibility in its operations.

Organization of FIS

For the design of the FIS' organizational chart, the previous experiences of the Bolivian FSE and the Honduran FHIS were considered. As in these cases, the leading authority is the Administrative Council, under the direct supervision of the Office of the President. Its composition is much more complex than that of the FSE, but much simpler than that of the FHIS, and includes an innovation in the form of a Council President. FIS' Administrative Council is comprised of its president and three directors, all of whom are appointed by the country's President. The Council's current directors include two NGO representatives and one private sector representative. These directors, together with the Council's President, work for the Fund on an *ad honorem* basis and hold weekly sessions to approve projects. The Council's President continuously visits the FIS' offices to supervise its activities. FIS' operational structure, similar to that of FHIS in Honduras, consists of an Executive Office which reports to the Council's President. This Office oversees seven divisions: (i) Projects, responsible for promotion and appraisal; (ii) Control and Monitoring; (iii) Legal Affairs; (iv) Administration and Finance; (v) Planning, which seeks financing and monitors compliance with regional planning for resource allocation; (iv) Data Processing; and (vii) Social Planning, a unit that does not exist in Funds in other countries and which disseminates the work performed by the FIS, organizes public ceremonies for the inauguration and/or conclusion of works, etc. Last year a Management Unit was also created.

It is important to point out that in planning and implementing its procedures, the Salvadoran FIS has corrected the main shortcomings of the Bolivian FSE and the Honduran FHIS. (i) It has assigned top priority to the development of computer systems; (ii) there is adequate inter-institutional coordination with the key institutions of sectors in which FIS finances projects; (iii) all infrastructure projects must be carried out by private contractors, and IDB has allowed direct contracting for projects of up to US$60,000; (iv) in order to control the quality of projects financed, in all cases without exception, private supervisors are hired whom FIS pays directly; (v) for purposes of resource allocation and regional targeting, the same scheme as that of the Honduran FHIS has been used; however, instead of defining sector goals, an interesting system has been adopted which prioritizes projects according to the type of beneficiary, project and project location each week, when the files ready for appraisal are prioritized. But, despite the adoption of these procedures, which should have
made the FIS more efficient than the Funds in other countries, the Salvadoran Fund's staff is disproportionately large in relation to the country's small geographic size and the total amount of resources that it handles.

8. Panama - Social Emergency Fund (FES)

Origin of FES

The FES was created in May 1990 by Executive Decree as a temporary institution with a three-year mandate, since extended to five years and then indefinitely and subject to the Ministry of the President's Office.

Objectives of FES

The FES' creation is included in the same decree by which the government established a Social Action Program (PAS) for which the following objectives are stated: (i) to concentrate the government's efforts on meeting social demands; (ii) to create employment; (iii) to provide the poorest people with income opportunities; (iv) to strengthen the self-management skills of the informal sector and of the neediest groups; (v) to contribute toward expanding and improving infrastructure; (vi) to promote and strengthen the management abilities of NGOs involved in development; and (vii) to strengthen local government structures.

Organization of FES

The Social Action Program (PAS) is comprised of a National Council presided by the country's President, with the participation of: the Minister of the President's Office, the Minister of Planning and Economic Policy, the Minister of Health, the Minister of Education, the Minister of Housing, the Minister of Labor and Social Welfare, the Minister of Commerce and Industry, and five private citizens, appointed by the country's President on an as honorem basis to represent the general population.

This National Council is actually an expanded Social Cabinet, responsible for defining the FES' policies. In turn, the FES is administered by a Board of Directors with the following members: one representative selected by the country's President from among the five private citizens who are members of the PAS' National Council; FES' Executive Director who is appointed by the country's President; and three persons who represent the general population and are also appointed by the country's President. Under the guidance of the Board of Directors, FES' organizational structure is very similar to that of the Bolivian FSE which has seven divisions as well as an Internal Audit Office: Promotion, Appraisal, Monitoring, Administration and Finance, Data Processing, Borrowing and Legal Affairs. Although as in some countries the decree creating the FES gives it a series of exceptional
rulings, these are not applicable because the legal document that supports the Fund is merely a presidential decree which, since it is not issued by Congress, is not legally binding. This has created some bureaucratic problems for the FES; for example, since it is subject to constant monitoring by the Comptroller General's Office, the latter is the person who really sets the FES' operational policies, disregarding its decisions. In order not to fall into the bureaucratic system of government hiring, the FES has been forced to work only with non-profit organizations such as NGOs, Churches and charity associations which are the ones allowed by the government to receive public funds. In its three years of operation, the FES' executive staff has undergone a number of changes, but in spite of this it has achieved solid institutional development.

9. Guatemala - Social Investment Fund (FIS)

Origin of FIS

After Guatemalan President Cerezo took office in April 1986, a series of measures were taken, aimed at lowering inflation rates and promoting the export of non-traditional products. At the end of 1988, under the assumption that a number of additional measures would need to be taken to restructure the economy and control public spending, a proposal was prepared at PREALC's suggestion for the creation of a Social Investment Fund (FIS) based on the Bolivian FSE model, which at that time was well underway and awakening the curiosity of the international community. When the proposal to create the FIS was presented to the World Bank for comments in early 1989, the Bank criticized it since the Guatemalan situation was very different from that of Bolivia: i) it was not experiencing an emergency situation as in the Bolivian case; ii) Guatemala's need to improve social services appeared much more important than the creation of employment; and iii) Guatemala showed clear indications of an administrative decentralization process because since 1986 the country's 330 municipalities had been receiving budget allocations from the central government, corresponding to 8% of the government's total income (US$50 million were distributed in 1989). After various visits by the World Bank and several consulting teams, the proposal was corrected and in August 1989 the government created COFIS, a commission to be responsible for preparing and structuring the future FIS. This commission formed part of the Ministry of Finance and was headed by the Third Vice-Minister. COFIS began its operations by financing several pilot projects while at the same time designing the future institution's legal and institutional aspects. In March 1990, the World Bank, IDB and KFW negotiated funding with the government totalling approximately US$45 million for the future FIS. However, in 1991, by the end of President Cerezo's term, Congress had refused to approve the draft law for the creation of the Fund and the negotiations on financing were interrupted.

7. A recent change of the country's constitution raised the revenue sharing by municipalities to 10%.
Because of President Serrano's interest in continuing with the FIS project, the World Bank, together with KFW and the Central American Bank for Economic Integration (CABEI), approved a joint credit operation to support the FIS totalling US$48 million in November 1992. The law creating the FIS was finally approved by Congress on July 1, 1993. After the Executive Director and members of the Board of Directors were named, the World Bank loan was signed in September 1993, but owing to the resignation of President Serrano, the FIS' operations have only recently begun under new leadership.

Objectives of FIS

The main objective of FIS is "...to invest in activities to improve the living standards and socio-economic conditions of the country's low-income sectors, especially in rural areas..."

Organization of FIS

The FIS law establishes an organizational structure similar to that of other Funds: a temporary institution with an eight-year mandate, under the direct supervision of the President's Office and managed by an Administrative Council comprised of five members named by the country's President. The Council's president is also the Executive Director, as in the Bolivian FSE. Two unique features of the FIS are that funds slated for Guatemala City would not be financed, and that government institutions may not request financing for projects. The only organizations eligible to receive FIS funding are municipalities, NGOs and community groups. Unlike the conditions established in other countries' Social Funds, in Guatemala counterpart contributions are required, from both beneficiaries or municipalities. The percentages corresponding to these counterpart contributions are determined in terms of poverty levels in the various municipalities. Breaking with the basic schemes and guidelines of other Social Funds, the Guatemalan FIS considers the possibility of financing teacher salaries for a maximum of one year, on condition that the Ministry of Education allocate budget resources to pay these salaries in the following years. The FIS adopted this policy in response to the difficulties faced by line ministries in reallocating current year budget funds.

10. Bolivia - Social Investment Fund (FIS)

Origin of FIS

Considering that, as a temporary institution, the Emergency Social Fund (FSE) had achieved success in its operations which concluded in 1990, and also that the ministries in charge of social sectors in Bolivia were still experiencing many problems and were not able to carry out investments efficiently, in the course of conversations between the government and the World Bank it was decided to convert the FSE into the FIS, a permanent institution in charge of financing health, education and basic sanitation projects. The FIS was created by executive order in January 1990 when the FSE was completing its work.
The decision to create the FIS arose in the last months of President Paz Estenssoro's government, perhaps somewhat prematurely, since there was no idea of who would be the next president and what type of policies he planned to implement with respect to financial or sector policies. At that time, the World Bank, as the FSE's main sponsor and financier, feared that if the Fund's life were extended, the still-unknown new government might misuse the flexible procedures and exceptional terms that had been granted to the FSE. Furthermore, nearly all of the FSE's staff agreed that the Fund's administrative efficiency and speedy operations had been possible only because of the strong leadership of the Executive Director, and the fact that there was a deadline to meet resource commitment goals. It would be dangerous to postpone the termination of the FSE without changing its structure and regulatory framework, since after more than three years of excessive work, the Fund's staff were beginning to be less demanding about project quality and compliance with procedures. Although it would have been better to make use of the experience gained in the FSE, the decision to create the new FIS before the future government's schemes and policies were known was very risky since, unlike the FSE, whose objectives and procedures were always closely linked to the macroeconomic policies that were being implemented, the new FIS might run the risk of becoming isolated from the rest of the government's schemes and policies. Although the order to create the FIS was signed by the new President Zamora's government, its institutional design had been prepared beforehand and was not conditioned to new policies to restructure social sectors, upon which the new government was expected to concentrate.

The FIS was launched in 1990 with excess funds transferred from the FSE, new contributions from the National Treasury and an initial credit that the World Bank had pledged from the beginning.

Objectives of FIS

Although the order creating the FIS only states the objective of financing projects in the health, education and basic sanitation sectors, some of the Fund's documents give it more ambitious objectives such as poverty alleviation and increased coverage for social services.

Organization of FIS

The FIS' organizational structure is similar to that of the FSE, but some of its duties and procedures have been modified. Unlike the FSE, FIS, which is not working with objectives of an emergency nature, has been able to do a better job of targeting, based on analyses made in the poorest regions of the country. The FIS also coordinates its involvement more closely with government agencies in charge of each of the sectors in which it finances projects and has improved project supervision.

The new Social Investment Fund retained the offices and all the assets of the former Emergency Social Fund, as well as most middle-level technical staff. (FSE's Division Chiefs resigned at the end of 1989 due to various political, institutional and personal reasons). It
retained the same organizational structure with regard to direct supervision by the Bolivian President and the composition of the Administrative Council until the recent Presidential Elections and change of Administrations. FIS now reports to a new "Super" Ministry of Human Development and its Executive Director no longer has Ministerial rank. The Monitoring, Administration, Financial Operations and Legal Affairs Offices have been kept, while the operational bureaus of Promotion and Evaluation have been replaced by two more specialized bureaus, those of Health and Education. High priority is still assigned to all matters concerning the use of computerized projects administration systems, and the role of regional offices has not changed. However, the FSE's shortcomings of supervision have been corrected through the hiring of specialized supervisors for each infrastructure project and the creation of two additional regional offices. The decree creating the FIS, continues to exempt it from the government's hiring salary and procurement regulations. However, at the World Bank's suggestion, stricter procurement guidelines have been established.

11. Chile - Solidarity and Social Investment Fund (FOSIS)

Origin of FOSIS

Considering that in 1990 Chile regained democracy, work began at the end of 1989, with the support of PREALC, on a proposal for the creation of a Social Fund similar to the Bolivian FSE. Project preparation was based on the assumption that the arrival of democracy would generate a large flow of external funding to assist the country in implementing social programs and projects that would contribute toward consolidating the democratic process. However, unlike other countries in the region in which Social Funds were created, Chile was in an enviable economic situation in 1989. Export levels were the highest in the country's history, the trade balance showed a significant surplus, the foreign exchange reserve level was increasing and the country's production level was growing.

In July 1990, six months after President Aylwin took office, the Solidarity and Social Investment Fund (FOSIS) was created by the same executive decree that created the Ministry of Planning and Cooperation and the International Cooperation Agency.

Objectives of FOSIS

The executive decree that created FOSIS states that this institution's objectives are: "...to finance all or part of plans, programs, projects and special activities dealing with social development, which should be coordinated with those carried out by other government departments, especially with the Regional Development Fund. To meet its objectives, FOSIS may finance activities whose purpose is: (i) to contribute to the eradication of extreme poverty and unemployment; (ii) to be concerned with the status of low-income groups and those which are socially at risk, especially underprivileged adolescents; (iii) to try to improve
the working and production conditions of low-income groups; (iv) to support the participation of persons affected by poverty in solving their problems; (v) to design and execute efficient programs and projects to solve poverty problems; and (vi) to facilitate the development of the poorest sectors by means of technology transfer, credit assistance, electrification, drinking water, communication systems, health and education."

Since its creation, FOSIS has been restructured each year, basically due to the lack of clearly defined objectives and the general context faced by Chile in which structural adjustment measures, consolidated several years ago, are already showing results and in which the government's administrative decentralization process has also begun to work.

**Organization of FOSIS**

The order creating FOSIS states that the program: "...shall be subject to supervision by the president of the Republic, with whom it shall deal through the Ministry of Planning and Cooperation." As in all other countries with Social Funds, its chief authority is the Council which is comprised of six members: the Minister of Planning and Cooperation who presides over the Council; the Under-Secretary of Regional and Administrative Development, and 4 advisers designated by Chile's President, three of whom represent universities, workers and the business sector, respectively.

FOSIS' operational structure is under the authority of an Executive Director who is named by the country's President at the Council's suggestion. Under the Executive Director's Office is the Sub-Directorate and five Departments: (i) the Regulatory Department which is both a legal advisory an internal audit office; (ii) Finance; (iii) Planning; (iv) Production Support; and (v) Social Projects. Both the Subdirector and the Department Directors, as well as FOSIS entire professional staff, are designated by the Council.

The decree creating FOSIS limited the number of staff who could work in this Fund to 37: 7 Directors; 14 professionals; 2 technicians; 8 administrative staff members; and 6 assistants. Because of these limitations, the Fund has had to seek alternative mechanisms to achieve the necessary operational capacity. It therefore works with staff in each of the Regional Sub-secretariats of Planning and Coordination which name one staff member as a regional FOSIS representative. The Fund also constantly hires a significant number of temporary consultants to carry out various project promotion, evaluation and supervision duties.

Unlike other Social Funds, FOSIS has no exceptional status. Staff is hired according to existing laws for public institutions; FOSIS' activities are subject to control and monitoring by the Comptroller General's Office; the systems for hiring contractors or other executing entities must comply with legal stipulations; and the Fund is subject to the budget law with respect to its preparation and annual execution. Although it would appear that FOSIS has been able to adapt to the imposed limitations, these have been real obstacles that caused a delay in launching the project in 1991.
Unlike most current Social Funds, FOSIS finances practically no infrastructure, since it coordinates such activities with the National Regional Development Fund which has funds to finance this type of works. Due to its interest in working with the most impoverished sectors, together with the creativity and notable capacity for adaptation demonstrated by FOSIS staff, the initial difficulties with respect to creating and launching the Fund have not been obstacles, but rather have helped FOSIS to achieve a key role in Chile's social sectors. The fact that FOSIS does not duplicate efforts or overlap budgets makes it a promoter of the social efforts and benefits offered by the government and also contributes toward assisting those people who are not included in such programs.

Although after three years of operation FOSIS has managed to cover the entire country, in institutional terms it still lacks standardized systems and procedures. Nevertheless, it should be pointed out that it has developed a number of very interesting mechanisms for cooperating with the public and private sectors. The incentive for commercial banks to become interested in granting credit to the neediest people is a model that should be imitated in other countries. The project bidding system, in which bidders are invited to present projects from all around the country by a certain date, allows annual budgeted resources to be used fully.

12. Haiti - Fond d'Assistance Economique et Sociale [Economic and Social Assistance Fund] (FAES)

Origin of FAES

As in the cases of the Honduran FHIS, the Bolivian FIS and the Chilean FOSIS, the proposal for the creation of the FAES was prepared shortly before an election, on the assumption that the new government would adopt the proposed scheme, even though the types of policies, that the new government would implement, were unknown. Unlike the other Funds which were created only upon the imminent arrival of the respective new governments, the FAES was created by decree in the final months of the outgoing government. Project preparation for the creation of the FAES, as in the case of the FIS in Guatemala, had the joint support and technical assistance of the IDB and the World Bank since December 1989.

The FAES was created by executive decree in June 1990, at a time when no coherent economic policy was being implemented and no one knew what types of policies the new government would adopt. Along with creating the FAES, the President named its General Director for a two year period. In early 1991, with the arrival of President Aristide, the FAES' launching was postponed due to a disagreement that arose between banks and the government; the latter, in opposition to the IDB and the World Bank, wanted to name a new Executive Director to replace the one named by the outgoing government. By the time of the coup d'etat that brought down President Aristide, the FAES had not obtained sufficient government support to be able to begin operations.
Objectives of FAES

The decree creating the FAES stated the following objectives: "to finance short-term projects with a high labor component to improve the living conditions of people in urban and rural areas and increase their productive potential." In line with the definition of objectives, the types of projects that would be accepted as eligible for financing by the FAES would be almost the same as those considered by the Bolivian FSE.

Organization of FAES

The FAES was created as an autonomous institutions under the guidance of the Ministry of Economy and Finance. Like all other Social Funds, it would be governed by an Administrative Council, which would be comprised of eight members: (i) a delegate of the Ministry of Economy and Finance, who would preside; (ii) a delegate of the Ministry of Planning who would act as Vice President; (iii) a delegate of the Ministry of Foreign Relations; (iv) FAES' General Director; (v) a delegate of the Haitian Foundation for Private Schools; (vi) a delegate of the Association of Non-Governmental Organizations; (vii) a delegate of the Farmers' Association; and (viii) a delegate of the Federation of Friends of Nature. With the exception of the General Director who would be the Fund’s Chief administrative authority, all members of the Administrative Council would provide their services on an ad honorem basis.

Under the General Director’s Office, the organizational structure would be very similar to that of the Bolivian FSE. Similar to the Honduran FHIS, project approval would be the responsibility of an Administrative Committee comprised of all Division Chiefs and presided by the General Director. As in the Honduran case, it should be asked why an Administrative Council with the participation of so many sectors should be created since, policies are implemented by means of project approval, which remains in the hands of the Director General. As in most other Social Funds, the decree creating FAES grants the agency exceptional status with respect to the national budget law, the payment of salaries to its staff, and government hiring and procurement systems. As in most other Funds, all infrastructure projects financed by FAES would have to be executed by private contractors, and, as in the FIS programs of El Salvador and Bolivia, private supervisors would have to be hired for all infrastructure projects.
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