Research for Action 48

Social Funds in Stabilization and Adjustment Programmes

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Giovanni Andrea Cornia
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ABSTRACT

Well before the introduction of adjustment-related Social Funds (SFs), many developing countries had developed a variety of safety nets comprising food subsidies, nutrition interventions, employment-based schemes and targeted transfers. Middle-income and a few low-income countries had also achieved extensive coverage in the field of social insurance. In countries committed to fighting poverty, these programmes absorbed considerable resources (2-5 per cent of GDP, excluding social insurance) and had a large impact on job creation, income support and nutrition: for instance, in 1983, Chile's public works programme absorbed 13 per cent of the labour force. Their ability to expand quickly depended on a permanent structure of experienced staff, good portfolios of projects, clear management rules, adequate allocation of domestic resources, supply-driven execution and, with the exception of food subsidies, fairly good targeting.

SFs is a broad term which refers to a variety of programmes—Social Emergency Funds (SEFs), Social Investment Funds (SIFs) and Social Action Programmes (SAPs)—that evolved during the last ten years at the initiative of the Bretton Woods Institutions (BWI) to offset the increase in poverty induced by adjustment. SFs distinguished themselves from traditional programmes because: they had a strong short term anticyclical character; were mostly multisectoral; emphasized employment generation and human capital formation and not so much food subsidies and social insurance; relied mostly on demand-driven schemes; were run by temporary autonomous bodies; had fairly high costs per capita for both wage and non-wage items; focused mainly on the social groups affected by adjustment; and counted on greater visibility and external support than normal government programmes. As of late, SIFs increasingly started shifting towards permanent community-based programmes often supported by local and foreign NGOs focussing on the creation of social infrastructure in regions where state services were absent or deficient.

SFs have been introduced in more than 70 countries. They have been extremely common in Latin America, very common in Africa, and rare but becoming more common in South Asia, the low-income economies in transition and, recently, South East Asia and East Asia. SFs counted on limited resources: 0.1-0.3 per cent of GDP (per programme year) in Africa, and 0.4-1.0 in Latin America. In 1997, the World Bank, the staunchest advocate of SFs, had a SF portfolio of only 1.3 US$ billion out of total commitments of 120 US$ billion. Preliminary 1998 data on South East Asia suggest higher amounts (between 2.5 and 7.5 per cent of GDP), though it is unclear over how many years these will be disbursed. In addition, SFs did not have an effect on the total social expenditure/GDP ratio, as in most cases the rise of the latter during the years of execution of the SFs was less than the drop that occurred during the years of crisis and adjustment.

Notwithstanding the visibility they enjoyed, but not surprising given their low resourcing, SFs played a minor role in reducing the number of adjustment- and chronic-

poor, and in reversing adverse shifts in income distribution. In most cases, the number of jobs added to the economy was less than 1.0 per cent of total employment. This was due partly to their limited funding, poor targeting and inadequate sequencing, as SFs were generally introduced after years of crisis and adjustment. While SFs were implemented more rapidly than government programmes, their unit costs were higher, making their replication at the national level impossible. Their sustainability improved with the introduction of SIFs which fostered low cost approaches to health and education with the help of village organizations, local governments, the private sector and foreign donors. Yet, while this approach has advantages in weak states and emergency situations, its effectiveness remains doubtful in countries where cost-effective social programmes exist or can be developed.

Despite years of social expenditure cuts, even moderate size SFs could have brought about important welfare gains had their expenditure been allocated to the poorest groups and to high-efficiency programmes. However, SFs rarely focused on activities with the highest social rates of return but rather on activities that required little programme preparation and had large demonstration effects. Indeed, the targeting precision of SFs has been lower than that of most pre-adjustment safety nets which, as noted, also covered a greater share of the poor. While SFs targeted by objective criteria (low-income areas, female-headed households, etc.) more effectively reached the poor, targeting imbalances by region and social class were frequent. One of the causes of this phenomenon was their 'demand-driven' nature, as many projects were selected among the proposals submitted by municipalities and NGOs. While this may lead to the selection of projects better responding to the needs of the populations affected, it often tends to short-circuit the very poor who have a limited capacity to articulate their demands and mobilize counterpart funds.

All in all, SFs have proven to be no panacea. Many of them were formulated with the political objective to reduce domestic opposition to the adjustment process, and in particular of mollifying the influential groups affected by adjustment. Greater impact on poverty would have required much larger resources, more permanent relief structures, improved planning and targeting and, especially, better coordination and sequencing with the fiscal cuts entailed by macroeconomic adjustment, a fact underscored once more by the recent Indonesian experience. Always, ex ante macro policy decisions have had a greater impact on employment, incomes and poverty than ex post SFs. The key question then is whether alternative macro policies with a less marked social impact can be followed. Among others, a recent external evaluation of IMF-sponsored ESAFs concluded that there is some room for manoeuvre in this area.

I INTRODUCTION AND HISTORICAL CONTEXT

From the political-economic perspective, the 1980s and 1990s can certainly be described as 'decades of policy reform'. The widespread balance of payments crises of 1981-84, the debt crisis of the mid 1980s, the simultaneous shift of the World Bank to structural adjustment lending, and the wave of stabilization, restructuring and privatization programmes introduced in the former socialist economies of Europe were the main factors leading to a rapid increase in stabilization and structural adjustment programmes. A rough idea of the intensity of this effort at policy reform can be grasped from the number of adjustment programmes carried out with the assistance of the Bretton Woods Institutions (BWI) during this period: while in the 1970s the number of countries initiating programmes with the support of the IMF averaged about 10 per year, it increased from 19 to 33 between 1980-85 (Cornia *et al.* 1987: 49). As a result, in the 1980s, the Latin American countries undertook an average of six adjustment programmes with the assistance of the BWI, while Jamaica, Mexico, and Costa Rica undertook between 9 and 14 each. Likewise, in the 1980s, the African nations initiated an average of seven adjustment programmes, with Senegal, Kenya, Mauritius and Cote d'Ivoire undertaking between 12 and 15 (Jespersen, Table 1.2). The effort at policy reform continued unabated in the 1990s with the onset of the transition to the market economy and, more recently, with the eruption of the 'Asian crisis'.

The poverty, distributive and growth impact of these reform programmes has been and remains the object of continuous debate. This debate has led to a gradual evolution in the policy stance of the World Bank and, more recently, of the IMF. During the first half of the 1980s, adjustment concentrated mainly on restoring macroeconomic balance, as the BWI expected that this would lead to a rapid resumption of growth, and that the interests of the poor were best served by the restoration of macroeconomic balance.

It soon became apparent, however, that the resumption of growth would take longer than initially expected, that adjustment caused at least a temporary increase in poverty and that, in the interim, measures were needed to offset the social costs imposed by adjustment on vulnerable groups and enhance the political viability of the reforms (World Bank 1986). In 1990, the World Bank (1990: 23) publicly acknowledged the need to develop special Social Funds (SFs) which were to accompany an unaltered approach to adjustment focusing on rapid macroeconomic stabilization and price reform. Indeed, starting from 1987, a few developing countries had started introducing semi-autonomous and fast-disbursing SFs aimed at compensating the 'adjustment poor' by means of anticyclical income maintenance and social expenditure programmes (with the persistence of economic stagnation, some of these programmes lost their anticyclical nature and became semi-permanent). This is the phase which saw the development of the first sizeable Social Emergency Funds (SEFs) of Ghana and Bolivia. At a later stage, the distinction between 'adjustment poor' and 'chronic poor' started to be deliberately blurred and the scope of SFs was gradually enlarged so as to address also the problems of the 'chronic poor' who, despite the adjustment reforms, were still being bypassed by growth and welfare programmes.

In a third phase, the SFs increasingly shifted from 'compensatory' to 'promotive' measures. They sought, in other words, to incorporate the poor into the production process by increasing their human and physical assets. It is during this period that one can trace the evolution of SEFs into Social Investment Funds (SIFs) which effected, by and large, a programmatic shift from income maintenance to community-based provision of social services.

It is difficult to assess the precise number of SFs introduced in the wake of, or (less frequently) concurrently with, adjustment programmes. The literature in this area indicates that almost every country in Africa and Latin America has since the late 1980s launched some kind of SFs (UNCTAD 1994; Glaessner *et al.* 1994; Marc *et al.* 1995; Reddy 1998; Bigio 1998). In addition, most transitional economies were engaged in a deep revision of their social insurance systems and established unemployment insurance and social assistance. SFs were less frequent, though activities in this area were initiated in some of the poorest countries.

The impact of the SFs is difficult to assess, not least because during their comparatively brief existence, their objectives, main activities, target population, funding patterns, administrative mechanisms and institutional set-up have continuously evolved. Their impact has also varied in relation to the strength of the social protection arrangements inherited from the pre-adjustment/transition era, and to the social impact of adjustment policies themselves which, in turn, have enjoyed varying degrees of success in different country settings. Even well-designed, -funded and -implemented SFs could not, in the end, compensate for the negative impact of large crises of ill-designed development or adjustment policies.

Despite these methodological difficulties, this paper argues that, notwithstanding the visibility and high level support they enjoyed, most SFs—particularly those of the first generation (SEFs) and those developed in sub-Saharan Africa—aroused misplaced expectations but played a minor role in reducing the number of unemployed and 'adjustment poor', let alone 'chronic poor'. This was due partly to their very limited funding and partly to their poor targeting. In addition, while SEFs were generally implemented more flexibly and rapidly than state welfare programmes, if account is taken of their higher unit costs per capita, their economic efficiency has not generally been greater than that of ordinary social programmes (Stewart and van der Geest 1995). Due to their limited duration and their more general inability to foster innovation in parallel branches of government, they have also not been able to foster the adoption of more flexible and decentralized approaches to the delivery of social services in social ministries. Finally, the emphasis placed during the last decade on short-term SFs may have also diverted the attention of policymakers from the extension and reform of existing formal social security arrangements, thus diverting attention and resources from building capacity in the core social ministries.

Second and third generation SFs have been less affected by some of these problems. The emphasis of SIFs on community participation and a multiplicity of private, NGO, and local/central government providers, may have promoted social objectives in national development, helped in mobilizing additional energies and resources from the communities, and helped in extending health and education services in areas not reached by governments. Also in this case, however, it is too soon to conclude that the approach to the provision of low-cost basic services followed by 'third generation SIFs' has shown to be consistently superior—even in countries with weak public institutions—to the standard state-centred approach.

All in all, SFs are no panacea. Sustainable poverty reduction requires a complementary macroeconomic policy which takes into consideration its social impact, greater long-term investments in social capital, and the development of permanent social security systems which—while drawing on communities, the private sector and local administrations—are part of a nationwide framework. Indeed, unsurprisingly, the new SFs have worked better where such institutional framework already existed. This conclusion emphasizes the urgency of building, in normal times, permanent and cost-effective social security system, including the formal type, and, as the South Indian experience shows, including in low-income agrarian settings.

II SOCIAL PROTECTION SYSTEMS IN THE PRE-ADJUSTMENT ERA

2.1 Main formal and informal programmes

Prior to the introduction of SFs, many developing countries had built a variety of social safety nets comprising food subsidies, direct nutrition interventions, employment-based schemes and, in few cases, targeted social assistance transfers. Many middle-income countries had also introduced social insurance programmes which protected—to various degrees and with widely different coverage—against the risks of unemployment, old-age, injury, sickness, maternity and widowhood. Finally, in all countries traditional family- or community-based mechanisms provided, in normal times, relief against some of the worst forms of poverty or contingent risks (Ahmad *et al.* 1991). Though these programmes constituted efficient social protection systems in several countries which, regardless of their income level, had made social security a priority, most SFs did not take inspiration from these prior experiences. The main features of the pre-adjustment social protection arrangements are therefore reviewed hereafter with the purpose of providing a background against which the SFs introduced over the last 10 years can be assessed.

2.1.1 Informal social security arrangements

In most developing and some transition economies, such as those of the Caucasus and Central Asia, the extended family and the community played an important role in social insurance, income redistribution and poverty alleviation (see the chapters by Agarwal and Platteau in Ahmad *et al* 1991). The extended family was the main source of support of the elderly and poorer relatives. Community-level food security arrangements for the needy were common (often reflecting religious norms) and represented an efficient social assistance mechanism. Meanwhile, labour exchanges (ensuring that basic tasks were carried out during one's sickness) provided some form of informal insurance. In normal times, these arrangements worked relatively well. In particular, they are less affected than formal schemes by informational and adverse selection problems.

2.1.2 Formal, insurance-based, social security programmes

These existed in all European socialist economies, several countries of Latin America, and a few countries of South East and East Asia (Table 1). These programmes were mainly fashioned on those of the industrialized countries and provided insurance against the risks of unemployment, sickness, invalidity, old-age, and occupational injury. Already in 1975-80 in the Southern Cone, Costa Rica and Cuba, these schemes absorbed between 5–11 per cent of GDP (Table 1) and covered over two-thirds of the active population (Mesa Lago 1991). In Mexico, Paraguay and most Andean countries, coverage rates ranged between 18–50 per cent, and in Central America between 2–19 per cent. In turn, most (middle-income) socialist economies had achieved universal coverage for most risks, with the exception of unemployment and poverty, i.e. scourges that socialism was supposed to have eradicated (Table 1).

In contrast, in most 'Asian Tigers' (except Malaysia) social insurance programmes were well below the level predicted by their GDP per capita, urbanization rate and development of the formal sector (Table 1). South Korea only recently introduced unemployment insurance, which is still virtually absent in Indonesia and Thailand. In the latter, for instance, the Social Security Fund provides some health, disability and maternity benefits only to employees of large firms. This 'institutional underdevelopment' can be explained by the low unemployment experienced over three decades of fast growth, but which proved very costly during the crisis of 1997–99 (see later).

Several factors rendered the Western model of social security of little applicability to low-income countries with a small formal sector and a large share of the workforce in agriculture. To start with, the causes of poverty in these countries were (and remain) different from those of the industrialized countries, and were unlikely to be removed by insurance-based interventions. Secondly, private markets for risk insurance were underdeveloped. Thirdly, insurance-based schemes covered only the civil servants and the industrial 'labour elite', and bypassed the self-employed and employed in casual jobs. Finally, they entailed unit costs per capita which prevented their extension on a non-contributory basis because of the problems encountered in mobilizing adequate revenue for this purpose. The dominant view was, therefore, that without drastic modifications, Western-style insurance-based systems could not have protected much of the population of low-income countries from the economic shocks arising from the adoption of stabilization and structural adjustment programmes.

However, already in the pre-adjustment era, there were examples of formal arrangements in low-income rural settings that had overcome the limitations of the 'Western social insurance model' and had developed a low-cost, non-contributory, state-funded scheme providing coverage against key risks of immiseration. Indeed, also in low-income countries, contingent poverty arising from circumstances such as old age, sickness, disability, injury and widowhood is a main factor in chronic poverty that cannot be tackled by measures increasing access to assets or employment. The Kerala non-contributory pension scheme, for instance, covers almost all the elderly poor, while some form of social assistance is available to half the workers in the unorganized sector (Guhan 1995). The Tamil Nadu programme, in turn, includes social pensions for old age, agricultural labourers, widows and the physically handicapped, as well as survivor benefits, maternity assistance and accident relief. All the households below the poverty line are eligible—except in the case of pensions where the means-testing is more stringent. An estimated 17 per cent of poor households in Tamil Nadu are covered by this programme, and nearly 60 per cent of the beneficiaries are women. A detailed evaluation suggested that the targeting efficiency of the programme was high, moral hazard did not pose a problem (because of benefit level and design) and overheads were low (3–5 per cent). On all accounts, contingency-related social assistance had much better cost-benefit ratios than many other safety nets, including self-targeted employment programmes (ibid.). Guhan (1992) estimated that the extension of such a minimum social assistance package to all poor households of India with these characteristics would cost only 0.3 per cent of the national GDP.

TABLE 1

EXPENDITURE ON SOCIAL INSURANCE PROGRAMMES IN SELECTED COUNTRIES, 1975 AND 1989

	1975 Total (% of GDP)	1989 Total (% of GDP)	Pensions	Other social insurance [a]	Family allowance	Progr. for civil servants	Public assistance [b]	1989 Total social expend. per capita ($)
			(shares of 1989 total expenditure)					
Burkina Faso	1.1	0.8	42.2	37.5	20.3	-	-	2.0
Kenya	0.7	1.1	41.0	16.4	–	41.4	1.2	3.8
Senegal	1.2	1.0	–	9.3	24.1	66.6	–	7.4
Bangladesh	0.004	0.0	–	–	–	–	–	–
India	1.5	0.3	78.9	21.1	–	–	–	1.0
Sri Lanka	0.8	2.3	13.2	0.1	–	79.2	7.5	8.6
Thailand	0.02	0.02	–	100.0	–	–	–	0.2
Philippines	0.8	0.9	44.8	17.3	–	37.9	–	5.8
Malaysia	1.6	2.8	58.5	2.3	–	39.2	–	60.0
Brazil	5.7	5.4	77.0	13.9	1.3	7.8	–	41.4
Mexico	2.7	2.9	19.6	49.1	5.5	25.8	–	66.6
Argentina	6.5	3.9	80.1	2.1	17.8	–	–	94.8
Costa Rica	4.2	7.4	24.4	–	75.6	–	–	124.6
Chile	11.2	11.8	67.9	28.0	4.1	–	–	207.2
Poland	15.0	9.9	65.7	8.1	21.5	2.4	2.3	156.0 [e]
Bulgaria	12.9	15.2	56.0	33.0	11.0	–	–	311.6
USSR	13.6	10.8	80.1	17.7	2.2	–	–	401.6
Czechoslovakia	17.2	21.8	58.1	20.6	18.2	–	3.1	594.0
Memo item:								
USA	11.7	12.2	38.9	23.6	–	13.5	24.0	2535.0
W. Europe [c]	20.6	22.6	40.8	31.4	5.6	9.3	12.9	4056.5
Nordic countries [d]	19.8	26.7	38.2	31.0	6.6	2.4	21.8	6175.8

Source: Elaboration by the author on ILO (1996).

Notes: (a) insurance expenditure against sickness, maternity, injury and unemployment; (b) includes payments to war victims; (c) unweighted average of France, F.R. of Germany, Italy and the United Kingdom; (d) unweighted average of Denmark, Finland, Norway and Sweden; (e) 1988.

2.1.3 Employment-based safety nets

Where unemployment insurance was not available or too costly, several countries developed employment-based safety nets. For people of working age, several arguments justify the adoption of public work schemes over other transfer programmes. To start with, public work programmes not only permit the achievement of specific poverty alleviation objectives over the short run, but also contribute to the growth of productivity and poverty alleviation over the long term by speeding up capital formation, particularly if this benefits mostly the poor. In addition, they are less affected by the labour supply and adverse selection problems associated with direct transfer programmes. Four of the best known pre-adjustment public work schemes are briefly reviewed hereafter.

The Maharastra Employment Guarantee Scheme (MEGS) was launched on occasion of the crop failure of 1972-73 during which cereal production per capita had fallen to 49 per cent of its 1967-68 level (Drèze 1990). In 1983, the programme was replicated nationwide and was later merged in the *Jawahar Rozgar Yojana,* possibly the largest employment programme of this type in the world (Stewart and van der Geest 1995). Over 1972–73, MEGS created one billion person-days of employment (corresponding to year-round full-employment for almost five million people), with 20 per cent of the rural population of several districts taking part in the programme (Drèze 1990). As Drèze notes (p. 89), 'Even though real wages were very meagre, the contribution of relief works to total village income in 1972-73 was often enormous'. With the recovery of the rural economy, the programme was scaled back in subsequent years, but during 1988-93, it still created 80 to 120 million days of employment per year, thus helping to avert the most acute forms of transitory and chronic poverty (Guhan 1995). During this period, MEGS counted on important domestic resources (equal to 10 per cent of the state development expenditure) and absorbed around 3 per cent of the rural workforce.

Chile's Minimum Employment Programme (PEM) was instituted in 1975 in the face of a major recession. In 1976 it already covered 5.2 per cent of the labour force and reached its peak during the 1982-83 recession when the Occupational Scheme for Heads of Households (POJH) was also introduced. In 1983, no less than 13 per cent of the labour force (or 40 per cent of the jobless) participated in either of these two programmes (Raczynski 1988; World Bank 1990) at a total budgetary cost equal to 1.4 per cent of GDP. Both programmes were well targeted and appear to have played an important role in family survival despite the low value of the subsidy they provided.

Costa Rica's multisectoral FODESAF was introduced in 1975, well before the onset of the crisis, to develop 'supply-driven' programmes in a variety of areas (mortgage subsidies, water supply schemes, school feeding programmes, and so on) benefiting exclusively the poorest of the poor. Since its beginning, the programme was executed by the ordinary administration and received by law five per cent of the wage bill in both the private and public sectors as well as 20 per cent of the sale tax on most consumer goods. Altogether FODESAF absorbed substantial domestic resources (123 million US$ a year), and in the 1980s accounted for 5.0-7.8 per cent of government expenditure. With the exception of mortgage subsidies, the programme was highly progressive in reaching the poor, and provided an average subsidy per capita of about $ 80 to those below the poverty line.

Public works-based safety nets proved successful also in African countries such as Botswana and Cape Verde. In Botswana, the government adopted extensive measures to combat the collapse of diamond exports of 1981-82 and the droughts of 1981-82 and 1985-86 (Quinn *et al.* 1988). The government's response focused on supplementary feeding, nutritional treatment of malnourished children and a Labour-Based Relief Programme (LBRP). The latter comprised a series of labour intensive projects such as the building or rehabilitation of roads, dams, livestock wells and pit latrines. At two-thirds of the national minimum, the LBRP wage was considerably higher than the opportunity cost of labour in a drought year, and thus attracted a considerable supply of able-bodied workers, women in particular. At the peak, in 1985/6, LBRP provided 74,000 workplaces, a number almost equivalent to the jobs lost in the rural economy. In 1985 LBRP alone replaced 35 per cent of the income lost by households. The total cost of the relief programme in the peak year was 2 per cent of GDP. If food aid is factored in, the total value of the Drought Relief Programme doubled.

2.1.4 Consumer subsidies

Prior to the introduction of adjustment and transition programmes, many developing and all socialist economies counted on a variety of subsidy schemes aiming at guaranteeing access to food, fuel and other basic items. In urban South Asia the subsidy took the form of targeted rations sold to low-income people at 'fair price' shops. Generalized wheat or tortilla subsidies were available in Brazil, Egypt, Morocco and Mexico. In Sri Lanka the programme distributed food stamps to about half the population, mostly low-income groups. Generalized food subsidies on grains, cooking oil and sugar were the most common. In 1980, they absorbed between 0.5 per cent of GDP (in India) and 3.1 per cent (in Sri Lanka), with an average of about 1 per cent (Pinstrup Andersen 1987). In the extreme case of Egypt, food subsidies absorbed 7.2 per cent of GDP.

The literature has emphasized that even generalized food subsidies do help the poor: indeed, while the non-poor capture a larger share of the total subsidy, the transfer represents a greater share of the initial income of the poor than of that of the non-poor. In spite of this, these programmes were costly and poorly targeted, had a low transfer efficiency and caused large distortions in relative prices. Food subsidies targeted by broad criteria (inferior commodities, poor areas, schoolchildren, nursing mothers and so on) and direct nutritional interventions constituted, in contrast, cost-effective transfers that, once in place, could be expanded to protect the poor during periods of economic downturn or sharp price adjustments (Chu and Gupta 1998, chapter 2).

2.2 Strengths and weaknesses of pre-transition safety nets

In the countries clearly committed to social development, the good performance of the safety nets described above depended crucially on their ability to expand coverage rapidly and at acceptable costs during periods of rising stress; this, in turn, was due in large part to their *permanent institutional structure* (a stable core of experienced staff, established working procedures, clear eligibility and project selection criteria, a portfolio of projects, evaluation approaches and so on). Secondly, it depended on an adequate allocation of resources (between 2-4 per cent of GDP per year, excluding insurance based programmes). These were mainly provided from domestic sources, thus reflecting a genuine commitment to the objectives the programmes were set out to achieve. Thirdly, most activities were executed in a supply-driven manner, though the areas hit in particularly severe ways were often given priority in execution. Though with considerable variation from one programme to the other (and with the limitations discussed below for generalized food subsidies), these programmes were fairly well targeted, and their transfer efficiency was acceptable or good.

However, these social protection systems faced considerable problems, including in those countries committed to fighting poverty. To start with, community-based safety nets worked relatively well during normal times but had a modest protective capacity during periods of acute stress, particularly in the case of co-variant risks among members of the same community. In addition, informal mechanisms have likely eroded with the spread of urbanization, (though, as in Zimbabwe, sophisticated forms of two-way urban-rural transfers have developed). Second, in countries with low coverage, social insurance systems could expand only in line with the development of the formal sector, and were thus unable to protect large sections of the population during crisis periods. Other non-contributory programmes (food coupons, income transfer to the poor, etc.), were, in turn, often unable to increase their coverage rapidly because of red tape, bureaucratic inertia (due also to the low salaries of most civil servant) and limited political will.

Thirdly, the adjustment crises of the 1980s and 1990s were of a *multifaceted nature*, i.e. they simultaneously pushed up unemployment, triggered sharp rises in the prices of food and other basic items, reduced access to public health and education, rendered them more costly, worsened their quality, and so on. These crises required multisectoral responses and the coordinated interventions of various ministries which, in many cases, operated with unclear mandates, showed little inclination to cooperate and suffered from severe donor-induced fragmentation of social programmes. Finally, a few of the pre-existing subsidies—such as the generalized food subsidies—were largely captured by the middle class. Their mis-targeting and the large budgetary outlays they entailed impeded the expansion of such programmes in periods of spreading crises.

III THE SOCIAL FUNDS INTRODUCED DURING THE ADJUSTMENT-TRANSITION ERA

3.1 Types and distinguishing features of the Social Funds

'Social Funds' is a broad term which refers to a variety of programmes that have gradually evolved during the 1980s and 1990s in Latin America and Africa. In Eastern Europe the social cost of the transition was instead addressed through the establishment of state-sponsored social assistance offices, unemployment insurance and active labour market policies (Elster, Offe and Preuss 1998, chapter 6). At a later stage, SFs were launched, or are being developed, in the low-income transition countries of the Balkan, Caucasus and Central Asia (Bigio 1998). SFs can broadly be classified as follows (though the dividing lines are not always clear):

3.1.1 Social Emergency Funds (SEFs)

SEFs (such as the *Fondo de Emergencia Social* of Bolivia, and Ghana's PAMSCAD) were the first to be introduced in the wake of mounting criticism about the 'social cost of adjustment'. In general, SEFs were transitory and counter cyclical programmes targeted on the adjustment poor and, in some cases, the non-poor affected by adjustment. Their dominant goal was to transfer resources to these groups during the implementation of adjustment programmes, which they were meant to support. This was to be achieved through multisectoral programmes comprising employment generation (e.g., labour-intensive public work schemes), support to social services (e.g., through the distribution of medicines) and other emergency measures. SEFs were managed through a variety of non-traditional mechanisms—mainly autonomous or semi-autonomous bodies drawing on the private sector and civil society—independent from the public administration. To a considerable extent, they were funded externally (Table 2) and were implemented (with glaring exceptions, such as PAMSCAD) fairly rapidly. Most of them were demand-driven, i.e. projects were initiated upon the request of local communities, municipalities, private firms and NGOs.

3.1.2 Social Investment Funds (SIFs)

As economic recovery took hold, SEFs were to be replaced by SIFs, which were designed to accelerate economic growth through the development of human capital and other measures enhancing the access of the poor to productive activities. As in the case of SEFs, SIFs were mainly demand-driven and multisectoral. And also in this case, their administration was to bypass normal management and budgetary channels, particularly by relying on non-governmental organizations and private entities that were to be established to run the funds, and to avoid the wastage and delays typical of the public administration. SIFs operated over a longer-term horizon (some of them were given a permanent status) and aimed at the alleviation of poverty by means of activities aiming at expanding the supply and utilization of services in the field of health, education, training, water and sanitation. While they were often launched in the wake, or shortly after the completion, of adjustment programmes, their activities extended beyond this phase. In addition, these programmes were funded with domestic resources to a greater extent than the SEFs (Table 2).

3.1.3 Social Action Programmes (SAPs)

A third, less frequent, type of SFs consisted of Action Programmes. SAPs, however, are generally very flexible and less easy to characterize neatly. They are of multisectoral nature, include both protective and promotive measures, and are predominantly supply-driven. They are administered by line ministries and are, therefore, fully part of a country's institutional development machinery. While they are often part of a stabilization or structural adjustment programme, they tend to focus on both the 'adjustment poor' and the 'chronic poor'. This type of SF has never been prevalent, though one can cite important exceptions, such as Ghana's PAMSCAD and Pakistan's SAP.

All in all, SFs (especially SEFs and SIFs) distinguished themselves from traditional social programmes because they had a strong *short-term* anticyclical component; were mostly *multisectoral* (as opposed to the 'vertical programmes' of line ministries); emphasized *employment generation* through public works and *human capital formation* (and less food subsidies, and the expansion of social insurance and assistance); often exhibited *high cost per capita* for both wage and non-wage items (though this was less the case for SIFs) (see on this the literature reviewed in Stewart and van der Geest 1995); focused mainly on the *social groups affected by adjustment* and not on the structural poor; and counted on much *greater external support* than usual government programmes, and mostly relied on *demand-driven* (as opposed to state-initiated) schemes; were run by temporary *autonomous bodies* disposing of the administrative flexibility needed to ensure fast programme implementation. In this regard, the SFs were thought to be an effective way to earmark resources directly to the social sector, safeguard them from a possible political highjacking and avoid a slow and inefficient budgetary process.

3.2 Rationale for the introduction of the Social Funds

An assessment of the performance of SFs requires an understanding of the explicit or implicit motivations which led to their establishment. These can be summarized as follows.

3.2.1 Compensating the new poor (and 'non-poor affected') for the 'social cost of adjustment'

In the mid-late 1980s, the BWI and governments of adjusting countries started recognizing that the recovery to be triggered by adjustment would be preceded by a period of recession and rising poverty. SFs had therefore to be introduced to compensate for this temporary rise in poverty. As noted by UNCTAD (1994: 7), 'Two-thirds of the laws enacting ... [safety nets] in Latin America as well as those in Egypt and Ghana explicitly referred to social costs of economic reforms as a major reason to adopt emergency measures'.

3.2.2 Compensating the poor for the 'costs of non-adjustment'

Some World Bank analyses (Marc *et al.* 1995) have suggested that SFs were introduced to avoid a further fall in the living conditions of the poor following years of economic mismanagement. However, the information available about the timing of the introduction of the SFs invariably shows those started after structural adjustment had been in operation for a few or several years, pointing also in this way to the limited ability of the macroeconomists and social sector economists of the World Bank to work effectively together. Very seldom, genuine preoccupations about rising poverty led to the launch of externally-supported SFs in non-adjusting countries.

3.2.3 Political economic factors

Political reasons were often the most salient ones, as adjustment entailed unpopular corrective measures or was not likely to benefit the poor over the short term (or at all, as in economies with highly concentrated export sectors and land distribution). Without SFs, the reforms could have thus been opposed because of the asymmetric distribution of their costs and benefits. This was particularly the case when the interests of politically vocal groups working in the non-traded sector (traders, civil servants, and so on) were affected. As vividly noted in Marc *et al.* (1995: 19) with reference to Guinea:

> Despite the government's commitment to sustain the implementation of a SAP, the economic recovery programme is not likely to benefit, in the near term, the most vulnerable groups ... If unaddressed, these issues could generate considerable opposition to reforms and put the whole adjustment process at risk.

A less cynical version of this argument is that if a government was not able to generate enough popular support for the economic reforms, it would not have been able to sustain any adjustment programme, without which the poor would have suffered even more because of a likely return to unsound macro policies.

3.2.4 Surrogatory approach and institutional innovation

After years of economic decline and stringent structural adjustment, national bureaucracies were no longer able to respond to crisis situations and implement swiftly targeted actions in a multisectoral and coordinated way. In addition, in some areas affected by adjustment, where compensatory programmes were needed, the state administration was absent or deficient especially at the local level. And even under normal times, most branches of the public administration suffered from low efficiency and inertia, and were unable to develop autonomously 'new approaches to the delivery of social services' drawing on local governments, civil society and private sector. Another quote from Marc *et al.* (1995: 20) taken from the World Bank's Zambia Social Recovery Project illustrates this point:

> Several constraints make it difficult for traditional projects to provide immediate responses to pressing social problems...Further, the crisis has decimated many structures and systems that will otherwise provide social services and employment opportunities for these vulnerable groups. The traditional public sector entities' capacity is stretched to the limits ...

3.2.5 Removal of structural causes of poverty

As noted, SIFs focused on long-term poverty alleviation measures. In many developing countries, poverty is visibly related to lack of human capital (especially health and education) among large sections of the population. By itself, 'neutral growth' will not increase access to these services (especially in remote areas), because of the limited priority, budgetary funds and administrative resources assigned to these activities. SIFs tried, therefore, to fill, if in part, some of these gaps.

3.3 Scale of the intervention

3.3.1 Number and types of Social Funds

It is practically impossible to provide a full account of the SFs introduced from 1986 to date, as in some countries programmes have been of limited financing and duration, and as data for the economies in transition and the safety nets recently launched in South East and East Asia remains scant. Be as it may, it appears that SFs have been extremely common in Latin America, very common in sub-Saharan Africa, and rare, but becoming more common in South Asia, Southeast Asia and the low-income economies in transition.

In sub-Saharan Africa, at least 31 medium and small SFs, typically spreading over 3-5 years, were planned and implemented in 26 countries since 1987-88 (Marc *et al.* 1995; Reddy 1998). In Latin America 21 (and probably more) programmes have been launched since 1986 in 20 countries (Glaessner *et al.* 1994; Reddy 1998): their number rose exponentially over time (from one in 1987, to five in 1990, to ten in 1992) following the political success of the 1986 Bolivian SEF (Wurgarft 1992). SFs are fairly new in the economies in transition: the microcredit component of the Albanian Poverty Alleviation Programme was the first in the region followed by that of Armenia. In 1998, various types of SFs were in operation or under preparation also in Georgia, Moldova, Romania, Tajikistan and Uzbekistan (Bigio 1998). SFs were implemented also in Cambodia, India, Mongolia, Pakistan, Sri Lanka, as well as in Egypt, Jordan and Tunisia (Reddy 1998; Chu and Gupta 1998). Chu (1998) reports that various types of safety nets were created in 1998 in South Korea, Thailand and Indonesia.

All in all, more than 70 countries introduced some kind of SFs, with several countries (Bolivia, Egypt, Senegal, Peru and so on) launching more than one, thus underscoring the importance attached to these arrangements by national authorities, the BWI and UNDP. The distribution of SFs by type indicates that SEFs and SAPs dominate, especially in Africa, and that SIFs are common only in a few Latin American countries

(Reddy 1998). Recently, there has been, however, a clear shift to community-based SIFs focussing on the creation of social infrastructure: for instance, out of a portfolio of 1,500 projects for a total commitment of 120 billion US$, the World Bank supported in 1997 over 50 such funds with a total commitment of 1.3 billion US$ (Bigio 1998).

3.3.2 Volume and sources of funding

While there is sufficient information on allocations to SFs, less is known on real programme expenditures. These, furthermore, have frequently been staggered over longer periods than planned, possibly 'diluting' the impact of SFs. This said, it appears that the total resources allocated by donors and national institutions to SFs have varied substantially (Table 2). In Africa, SFs counted on resources oscillating between 6–85 million US$, though actual disbursements were often inferior (Marc *et al.* 1995: Annex 1, Table A.5). In Latin America, SFs absorbed greater external and domestic resources, ranging from 40 million to an exceptional two and a half billion US$ in the case of Mexico's Pronasol (Table 2). Even in this region, however, the scope of SFs remained small. In the words of Morley (1998: 46) ' Only one fund in the region, Nicaragua, spends as much as 1 per cent in its GDP...'. The information on Southeast and East Asia suggests much higher amounts for 1998 (see below), though it is unclear over how many years will these be disbursed.

Because of the little time available when they were set up, and because of the scepticism that sometimes accompanied them (Hutchful 1994), in low-to-medium income countries, especially in Africa, 78 to 94 per cent of SF resources were provided by international donors (particularly by the World Bank) in the form of budgetary support. An important part of the external support was in the form of concessional though it could be argued that countries should borrow for programmes in this area only on a temporary basis and where programmes are clearly targeted on the poor. In middle-income countries, in contrast, SFs were funded to a greater extent with domestic resources, either from national budgets or capital freed up through debt-for-development swaps. In second generation SIFs and SAPs, a greater share of total programme costs were funded from local budgets or community contributions.

Regional differences persist when standardizing SF expenditures by GDP or total social expenditure. While Africa's SFs absorbed on average between 0.1 and 0.3 per cent of their GDP *per programme year* (for, typically, 4–5 years), in Latin America this ratio was, especially among low-income countries, between 0.4 and 1.0 per cent (Table 2). In 1998, the Indonesian government allocated no less than 7.5 per cent of GDP (6 per cent to subsidize rice, soybeans, sugar, fuel, drugs and other basic items, and 1,5 per cent for public works schemes) as part of an IMF stabilization programme. The South Korean government, in turn, assigned 2.5 per cent of GDP, mainly for an extension of the eligibility and duration of the recently created unemployment insurance and social assistance. In Thailand in 1998, allocations for public works, job-creation programmes, training and broadening access to health and education reached 5.7 per cent of GDP (Chu 1998).

TABLE 2
EXPENDITURE ON SELECTED SOCIAL FUNDS (SF) AS PERCENTAGE OF GDP AND SOCIAL EXPENDITURE (SE), SOCIAL EXPENDITURE/GDP RATIO, REAL SOCIAL EXPENDITURE PER CAPITA

	Total amount of SF in $mn (& % of external funds)	SF per programme year, as % of GDP [a]	SF per programme year, as % of SE [a]	Social expenditure as % of GDP before and during SFs [b]	Real social expenditure before and during SFs [c]
Eight Latin American SFs					
Bolivia (SEF 1986-91)	191 (85) [d]	0.72	11.0	before 6.2 [e] during 6.6	before 96 during 98
Bolivia (FIS 1990-94)	96 (69) [d]	0.38	4.5	6.3 8.7	92 136
Chile (FOSIS 1990-94)	77 (43) [d]	0.04	0.3	13.1 13.1	52500 62300
Ecuador (Several, 1983-90)	180 (n.a.)	0.20	3.8	5.9 5.2	12300 10300
El Salvador (FIS 1990-93)	67 (67) [d]	0.31	9.3	3.7 3.4	158 156
Mexico (PRONASOL 1989-93)	2500 (0) [d]	0.17	2.7	5.1 6.5	126 171
Nicaragua (FISE 1990-94)	93 (n.a.)	–	–	n.a. 16.9	– –
Panama (FISE 1990-93)	32 (62) [d]	0.10	0.6	16.5 16.1	349 396

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

Notes:
(a Total value of SF (divided by the number of years of operations) and further divided by the average yearly GDP of the period considered;

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

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

(d Share of SFs funded with foreign, NGOs and other resources;

(e 1983-84.

TABLE 2 (cont'd)

	Total amount of SF in $mn (& % of external funds)	SF per programme year, as % of GDP [a]	SF per programme year, as % of SE [a]	Social expenditure as % of GDP before and during SFs [b]	Real social expenditure before and during SFs [c]
SIX AFRICAN SFs					
Cameroon (SDA 1991-95)	49 (78) [d]	0.11	1.8	before 6.0 during 7.7	before 18100 during 19100
Egypt (SFD 1991-95)	613 (n.a.) [d]	0.36	2.7	12.8 13.7	144 159
Ghana (PAMSCAD 1987-92)	80 (94) [d]	0.22	3.8	5.3 6.4	2850 3650
Madagascar (SIRP 1989-93)	41 (88) [d]	0.28	7.5	3.5 3.8	8930 9310
Zambia (SRP 1989-93)	49 (94) [d]	0.28	5.7	5.4 4.9	166 140
Zambia (MPI 1991-95)	20 (n.a.) [d]	0.12	2.2	4.8 6.5	142 151

For sources and notes see previous page.

In terms of total social expenditure (which includes the outlays through SFs and other extrabudgetary mechanisms), allocations to SFs in Africa have ranged between 1.7 and 7.4 per cent *for every year of SF programme*. In Latin America, the same figure was 2.3 and 13.7 per cent, with the exception of small 'demonstration programmes' such as those of Chile and Panama. The point to be noted here (compare columns 3 and 5 in Table 2) is that during the SFs years, social expenditure (as a percentage of GDP or on a per capita basis) declined in 4 cases (Panama, Ecuador, El Salvador and Zambia) out of the 12 in Table 2, rose by less or equal than the expenditure on SFs in two (Bolivia and Madagascar where some kind of diversion from the regular social expenditure to SF might have occurred), and rose in the remaining six.

TABLE 3
SOCIAL EXPENDITURE/GDP RATIO AND SOCIAL EXPENDITURE PER CAPITA IN CONSTANT PRICES PRE CRISIS/ADJUSTMENT, 2 YEARS BEFORE THE LAUNCH OF SFS AND DURING THE SFS

Country SFs and years	SE/GDP pre-crisis and adjustment [a]	SE/GDP 2 years prior SFs [a]	SE/GDP during SFs [a]	SE per capita pre-crisis & adjustment [b]	SE per capita 2 years prior SFs [b]	SE per capita during SFs [b]
Bolivia FSE, 1986-91	6.0 (1978-80)	6.2 (1983-84)	6.6 (1986-91)	111 (1978-80)	96 (1983-84)	98 (1986-91)
Bolivia FIS, 1990-94	6.0 (1978-80)	6.3 (1988-89)	8.7 (1990-94)	111 (1978-80)	92 (1983-84)	136 (1990-94)
Chile FOSIS, 1990-94	19.3 (1980-82)	13.1 (1988-89)	13.1 (1990-94)	65800 (1980-82)	52500 (1988-89)	62300 (1990-94)
Ecuador Several, 1983-90	5.9 (1980-82)	5.7 (1981-82)	5.2 (1983-90)	12300 (1980-82)	12000 (1981-82)	10300 (1983-90)
El Salvador FIS, 1990-93	6.1 (1980-82)	3.7 (1988-89)	3.4 (1990-93)	284 (1980-82)	158 (1988-89)	156 (1990-93)
Mexico Pronasol, 1989-93	7.5 (1980-82)	5.1 (1987-88)	6.5 (1989-93)	208 (1980-82)	126 (1987-88)	171 (1989-93)
Nicaragua [c] FISE, 1990-94	3.9 (1978-80)	–	16.9 (1990-94)	– (1978-80)	–	– (1990-94)
Panama FSE, 1990-93	14.8 (1985-87)	16.5 (1988-89)	16.1 (1990-93)	377 (1985-87)	349 (1988-89)	396 (1990-93)
Cameroon SDA, 1991-95	6.8 (1985-87)	6.0 (1989-90)	7.7 (1991-95)	25700 (1985-87)	18100 (1989-90)	19100 (1991-95)
Egypt SFD, 1991-94	16.7 (1981-83)	12.8 (1989-90)	13.7 (1991-94)	156 (1981-83)	144 (1989-90)	159 (1991-94)
Ghana Pamscad, 1987-92	6.4 (1977-78)	5.3 (1985-86)	6.4 (1987-92)	4130 (1977-78)	2850 (1985-86)	3650 (1987-92)
Madagascar SIRP, 1989-93	–	3.5 (1988)	3.8 (1989-93)	–	8930 (1988)	9310 (1989-93)
Zambia SRP, 1989-93	9.5 (1976-82)	5.4 (1987-88)	4.9 (1989-93)	358 (1976-82)	166 (1987-88)	140 (1989-93)
Zambia MPI, 1991-95	9.5 (1976-82)	4.8 (1989-90)	5.8 (1991-95)	358 (1976-82)	142 (1989-90)	151 (1991-95)

Source: Author's calculation on IMF GFS 1987, 1991, 1997; IMF IFS 1997; WB World Development Indicators 1998.

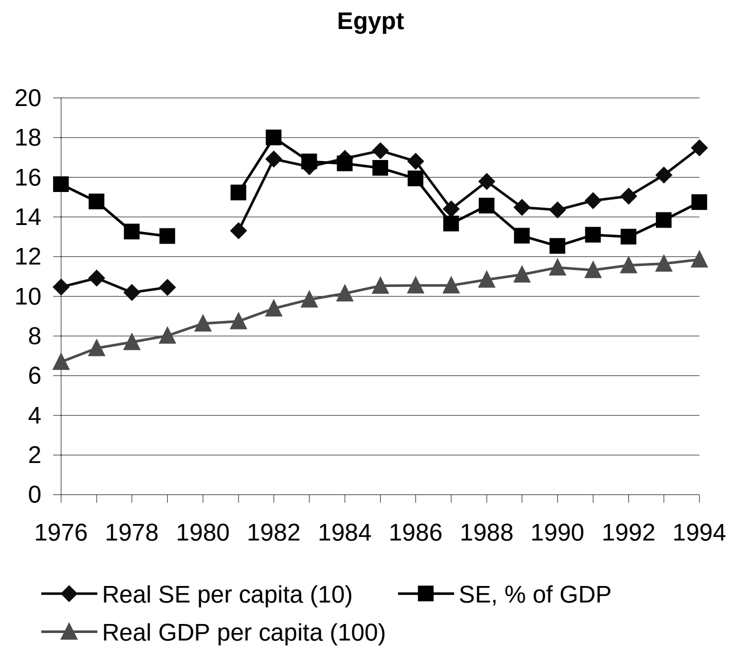
Notes: [a] In percentages;

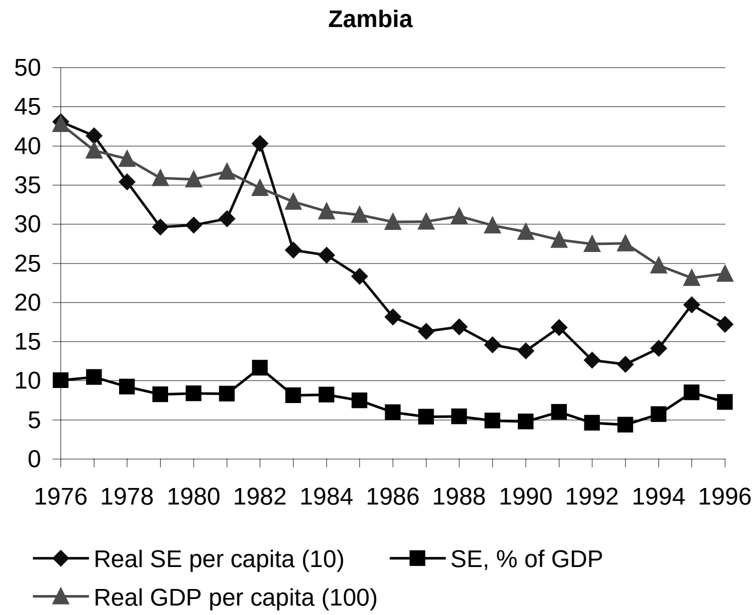
[b] Social Expenditure per capita in constant 1987 local currency units;

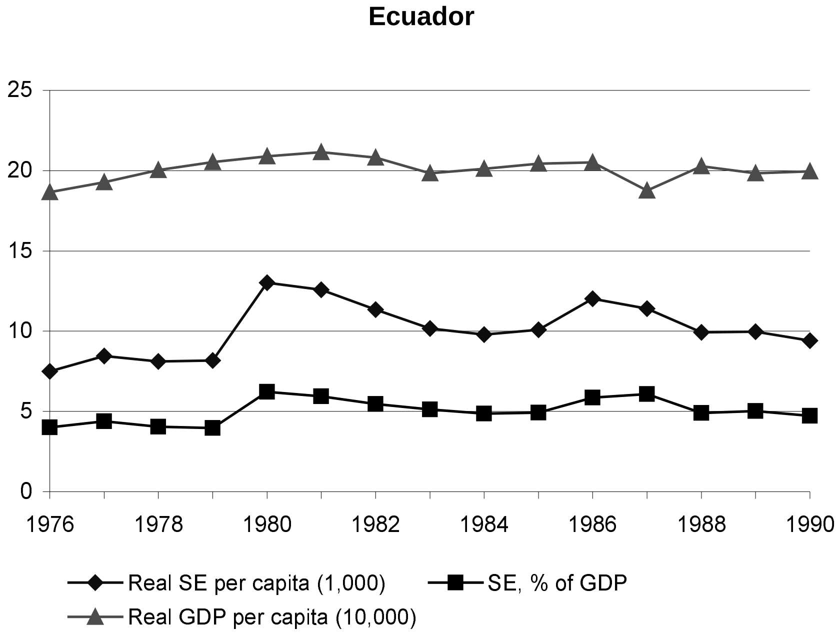
[c] For Nicaragua comparisons are made difficult as in 1990-91 a new currency and a large devaluation were introduced, and the war ended.

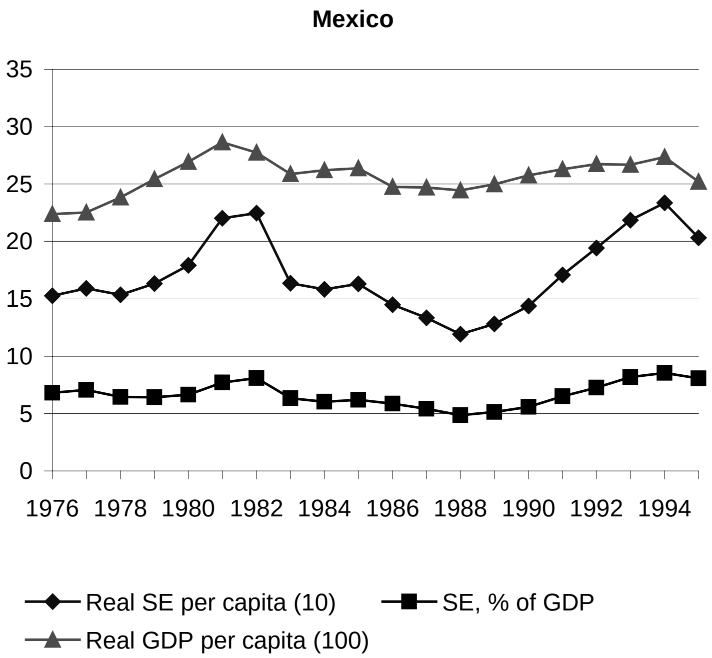
FIGURE 1
CHANGES IN SOCIAL EXPENDITURE (SE) PER CAPITA, SOCIAL EXPENDITURE/GDP RATIO, AND REAL GDP PER CAPITA

(IN UNITS OF NATIONAL CURRENCY)









These figures would suggest that in half of the cases considered in Table 2, SFs have been accompanied by an overall rise in social expenditure in relation to the two years preceding their launch. This result, however, is mainly due to the choice of the baseline, i.e. the relatively depressed years of 1987-89. When the comparison is carried out in relation to the pre-crisis/adjustment years (broadly 1979-81; the crisis hit the hardest in 1982-84 and the rise in the number of adjustment programmes followed suit), it appears that the SFs have not been capable of offsetting the fall in Social Expenditure/GDP ratios and in Social Expenditure per capita which occurred between 1979-81 and 1987-89 (Table 3 and Figure 1). Indeed, in 10 cases out of the 14 included in Table 3, the additional outlays on SFs and the autonomous recovery of social expenditure during these years less than compensated the initial fall in social expenditure or were not able to stop its declining trend, despite that the needs of the populations were often heightened by large falls in income per capita.

IV ASSESSMENT OF THE IMPACT OF SOCIAL FUNDS (FSS)

4.1 Macro impact on employment creation, poverty alleviation, access to services

In only a few cases (e.g., countries such as Peru, Bolivia and Mexico which absorbed substantial resources), SFs have had a temporary and localized effect in containing the drop in standards of living of the population. Even in the case of large programmes, their impact on employment and incomes was generally negligible. In commenting about the impact of IADB-sponsored SFs, Morley (1998: 46) argues that while these were at times useful in providing simple low cost social infrastructure to communities that never had access to them before, their employment and income effect was very modest. In his words:

> ... only the first emergency fund of Bolivia added more than 1 per cent per year to the total number of jobs in the economy ... and three added more than 0.5 per cent ... In other words, the funds did not have a major impact on the supply of jobs ... Most of the jobs created were temporary... and for unskilled labour at wages equal or below the minimum wage in the region, not an above-poverty wage.

Stewart and van der Geest (1995) confirm that SFs generally played a minor role in raising employment and incomes among the poor, and in offsetting the adverse shifts in income distribution induced by the adjustment programmes. In their view, this was partly due to their limited coverage and partly to poor targeting. As they note (p.21), 'this double failure was even true of the 'star' performer, Bolivia, which had substantially more resources devoted to it than later schemes such as those of Honduras and Senegal'.

Indeed, the adjustment-related SFs have not been large, effective and *timely* enough to offset the deterioration imposed by years of economic decline and adjustment, especially in countries such as Ecuador, Venezuela and Zambia which in the 1980s registered declines of GDP of 15-35 per cent and large cuts in social spending. In SSA, resource limitation was a key factor: many SFs could count only on 10 to 20 million US$ (Marc *et al.* 1995: Annex Table A.2), a modest amount even in very small economies. As noted in Section 2, pre-adjustment programmes like MEGS, PEM-POHJ, LBRP, FODESAF and so on, as well as insurance-based and food subsidies schemes counted on substantially larger resources than those allocated recently to SFs in most African and Latin American countries.

SIFs and SAPs often showed design improvements over SEFs, but also suffered from under-funding (Table 2), and the resources allocated to them were not such to warrant a perceptible impact outside some limited areas. In addition, while SIFs-SAPs reflected a more genuine concern for the plight of the poor, were better coordinated with the adjustment programmes, and were often institutionalized within the national bureaucracies, they were not able to alter the orthodox position on key adjustment decisions such as the extent of deflation, speed of removal of subsides, interest rate rises, extent of the devaluation and liberalization of portfolio flows, i.e. decisions which are now being criticized for their potential impact on growth, poverty and distribution. Despite growing evidence of the social impact of adjustment and mounting theoretical criticism, the basic adjustment paradigm has remained unchanged (Stiglitz 1998a).

Greater impact on poverty would have thus required much larger resources, better forward planning (a portfolio of project investments, well-tested administrative mechanisms, early identification of funding sources) and, especially, greater attention to the poverty impact of the fiscal contraction entailed by macroeconomic adjustment, and the extent-sequencing of cuts in food subsidies. In Indonesia, for instance, an initial drastic reduction in public expenditure was replaced—when its nutritional and poverty impact became evident—by a much more flexible policy 'tolerating' a fiscal deficit of 10 per cent of GDP so as to accommodate food subsidies to the tune of 6 per cent of GDP. Almost always, *ex ante macro policy decisions* have had a greater impact on employment, incomes and poverty than *ex post* SFs. The question then is whether alternative macro policies can be followed. A recent external evaluation of IMF-sponsored ESAFs concluded for instance that there is room for manoeuvre and that:

> ... the traditional Fund concern with fiscal deficits needs modification. While the Fund is correct to emphasize that domestic deficit financing should always be avoided, the attempt to reduce current account and aid-exclusive fiscal deficits further (or indeed to run a surplus) has no bearing upon the control of inflation, while it is damaging for growth [and poverty alleviation]' (IMF 1998: 31).

4.2 Impact on income distribution

In the 1960s and 1970s, the IMF's main distributive preoccupation concerned the impact of stabilization on the rural-urban income gap. As for the size distribution of income, the Fund view was that, while stabilization necessarily had distributional repercussions, '... domestic political considerations will largely determine who bears the burden of reducing and restructuring aggregate demand' (Johnson and Salop 1980: 23), that stabilization may entail changes in factor payments that were undesirable from an egalitarian perspective, and that '... real wage rates may have to fall and real profit rates increase so as to encourage increased foreign capital inflow'.

The theoretical debate of the 1990s about the distributive impact of adjustment points to different outcomes depending on initial conditions in terms of institutions, human and physical infrastructure; size, export-orientation and labour-intensity of the tradable sector; and policy mixes (Kanbur 1998). Empirical evidence, however, shows that income inequality increased in the 1980s and 1990s in about two-thirds of the developed, developing and transitional countries with data spanning at least these two decades, and that such increase is explained in part by the polices introduced over this period (UNCTAD 1997; Cornia 1999). Adjustment policies affect inequality in at least two ways. First, the over-deflation and recessions (IMF 1998) which often characterize them, tend to depress the wage share in total income. In industrialized countries, recessions have a greater impact on profits than wages because of the stickiness of the latter, and because well developed social safety nets cushion most of the loss of wage income. In contrast, in developing countries—where wages are downwardly flexible and social safety nets much weaker—the labour share in total income falls and income concentration rises (Pastor 1987). Second, even with a robust recovery of output over the medium term, distribution may deteriorate because of the impact of structural reforms promoting greater wage flexibility, reduced regulation, erosion of the minimum wage, reduced unionization, reduced tax progressivity and privatization (Tanzi 1996; Cornia 1999). As Tanzi (1996: 11) notes, 'There is a real possibility that the implementation of (structural) reform measures has negative effects on employment and income distribution'.

Within this context, given their minuscule size, the impact of SFs on the nationwide distribution of income has certainly been negligible, with the possible exception of the new East Asian SFs. At the local level, changes in inequality might have been, in principle, more perceptible, though SFs were instituted for the purpose of reducing the number of the adjustment poor, and distributive objectives were not dominant. By raising the share of labour income in the local economy, however, SFs—and especially SIFs—may contribute to a lasting improvement in local level distribution. Much depends, however, on the precision of the targeting of the subsidies they provide, and on who will benefit over the longer term from the assets created by the public work scheme components of the SFs.

4.3 Microeconomic efficiency and sustainability

The unit costs of goods and services produced by the first wave of (mostly foreign-sponsored, see Table 2) SFs were as high or higher than those provided by the ordinary public administration. Wages and salaries in SEFs—as in the Bolivian programme—were generally much larger than those paid in the civil service (which were generally very low), while the expensive cost pattern of (foreign-funded) investment in administrative infrastructure (vehicles, computers and so on) could not be easily replicated at the national level (UNCTAD 1994; Stewart and Van der Geest 1995). The SEFs, in other words, gained in flexibility and rapidity of execution, but could not be sustained or replicated on a national scale. This contrasts, for instance, with the low-cost, high-efficiency approaches promoted by UNICEF since the 1980s in the field of basic services (Cornia 1989).

In particular, the performance of SEFs with public work schemes was mixed. Partly because of their recent creation, in only a few cases were these programmes able to create durable assets. Indeed, the success of such schemes depends on the existence of a well-analysed portfolio of projects which promise a satisfactory return on investments, entail a modest cost per job created, have a wage bill to total programme expenditure ratio above 0.7, offer wages which will not attract workers already employed but which nonetheless can assure the livelihoods of hired workers, and can be financed by the government budget, foreign grants and fees for the use of the newly created infrastructure. Most SEFs were unable to satisfy most of these criteria, especially those relating to unit costs, wage rates and targeting.

The problems of financial and institutional sustainability of SEFs were lessened with the introduction of SIFs and SAPs. These programmes generally counted on greater domestic commitment and funding, were open-ended, and better integrated with the national administrations. In addition, they focused on activities (creating human capital and social infrastructure in areas not reached by government services) which have a longer-lasting effect on poverty alleviation and inequality than short-term income maintenance programmes. Finally, they adopted a community-based development philosophy, in which village organizations cooperate with the local government, private sector and foreign donors in the choice, design and implementation of projects (schools, health clinics, roads) responsive to their immediate needs. As long advocated by UNICEF and other institutions (Cornia 1989: 183):

> …. greater reliance on community participation and social mobilization in the design, delivery and monitoring of these activities has ensured, in the first instance, a greater internalization of the programmes' benefits by the poor. Secondly, the introduction of less skill-intensive approaches, leads to substantial cost containment ... Thirdly, community participation facilitates the mobilization of additional resources such as labour and locally available materials which have a low opportunity cost but intrinsic productive value.

However, as noted by Stiglitz (1998b), while the participatory, low-cost approach has some intrinsic advantages, especially in emergency situations, the jury is still out on its general applicability and effectiveness. So far, it has taken hold in only a relatively small number of countries and communities. Within these, problems of potential capture by local interest groups can be a problem. In addition, this policy of 'let one thousand flowers bloom' is potentially fraught with coordination problems, and can work effectively only within a solid regulatory framework with strong accountability mechanisms put into place (Mwabu, Ugaz and White 1999). For instance, recent theoretical literature in the field of asymmetric information and incomplete contracting (Hart, Shleifer and Vishny 1996) would suggest that social services whose delivery is easily standardized and their quality easily monitored (e.g in the case of a tube well installation) could be more easily contracted out to the private sector than activities (such as those in the health sector) where requirement changes and standard of service are difficult to observe. Finally, SIFs and SAPs, are not viable in all types of countries, such as those where cost-effective social institutions for the delivery of social services and income maintenance already exist. In those countries where such institutions exist, but are not functioning effectively, attention would be better focused on their improvement rather than on the creation of new SFs.

4.4 Institutional and design problems

Like most other public policies and programmes, SFs have not escaped a number of design problems which, in some cases, call into question their logic and existence.

4.4.1 Sequencing of SFs

The first generation of 'compensatory' SFs were set up a few years after the introduction of stabilization and adjustment programmes. While a big increase in the number of the latter took place right at the beginning of the 1980s and lasted the decade, the number of SFs started rising only in the late 1980s and early 1990s. In addition, several of the initial SFs, such as PAMSCAD, required several years after their approval before they started operating effectively (Hutchful 1994). A delay between macroeconomic stabilization and the introduction of SFs was also observed on occasion of the IMF-led adjustment programmes introduced over the last two years in Southeast Asia. As already noted in an earlier evaluation of the World Bank's lending to the social sector sponsored by the G-24 (Emmerij 1995), macroeconomic stability and concern for growth continue to take precedence over social sector concerns. Because of such delays, the ability of SFs to shelter the poor from the costs of adjustment is therefore reduced, as SFs often started operating when substantial rises in poverty and unemployment, and falls in the access to social services had already occurred, thus highlighting in this way their 'curative' rather than 'preventative' function.

4.4.2 Congruence with macroeconomic objectives

Even a cursory review of SFs points to contradictions between their targets and the macroeconomic objectives of adjustment. Except in the cases in which new outlays on SFs are financed through equivalent declines in 'less-efficient' ordinary expenditure (the data in Table 2, however, show little evidence of such 'substitution effect'), the increase in public spending implicit in SEF-SIFs contradicts the expenditure reduction drive of most adjustment programmes. Large SFs financed with domestic resources (as Mexico's PRONASOL, or those under implementation in Southeast Asia) may enlarge fiscal deficits and increase the size of the public debt, just after drastic expenditure compressions had taken place. Their effects on the balance of payments and price level depends on the import content of the demand of the poor, on whether food and other basics are imported, and on whether the economy operates within its production possibility frontier. In addition—as noted by Stewart and van der Geest (1995)—SFs increase the supply of non-tradable goods (e.g. public infrastructure) right when structural adjustment attempts to shift resources towards the tradable sector (however, in many developing countries affected by surplus labour an increase in social infrastructure achieved without diverting resources, labour in particular, from the traded goods sector would not be harmful). Finally, those SFs which encompass sizeable food-for-work programmes can have a negative effect on local food prices and production, thus possibly increase poverty among the rural poor. One wonders, therefore, about the wisdom of large expenditure cuts, when these are followed shortly thereafter by some expenditure increases.

4.4.3 Demand- versus supply-driven approaches

One of the innovations introduced by all SFs was to target the programmes exclusively on those communities which explicitly requested to take part into them. In fact, many of the projects financed by SEFs and SIFs alike were selected from the proposals submitted by municipalities, NGOs and other entities. While this approach may lead to the selection of projects better responding to the needs of the populations affected, it often tends to short-circuit the very poor who have a limited capacity to organize and articulate their demands effectively and to mobilize the counterpart funds needed for project implementation (Hutchful 1994). In this way, SFs do not reach the poorest of the poor who are unable to express their needs, acquire a sense of ownership of the projects, or to marshal the required participation. A demand-driven approach needs to be complemented therefore by supply-driven interventions, as well as efforts at social outreach, focused on the poorest areas and groups. An explicit gender focus may often be required in these complementary supply-driven programmes as a strong gender bias often impedes women's groups from bidding successfully for demand-driven programmes. For instance, in the supposedly successful Bolivian SEF, only 1 per cent of the programme participants were women (Stewart and van der Geest 1995).

4.4.4 Limited institutional innovation in the delivery of social services

SFs were mainly administered by autonomous bodies, as it was felt that cumbersome government procedures were ill-suited for dealing with emergency situations. A potential long-term benefit of SFs was, therefore, the transfer of institutional and managerial innovation to a sclerotic public administration; this could have helped to lessen the usual efficiency problems of state-run social programmes over the long-term. SEFs adopted more flexible recruitment procedures and pay scales, less unwieldy approaches to project design and cost planning and relied frequently on subcontractors and a multiplicity of public, private and non-profit welfare providers. As noted, these attempts were in line with recent efforts to develop more flexible approaches to the delivery of social services (Mwabu, Ugaz and White 1999). However, the 'short-termism' of many SEFs represented an obstacle to the transfer of this innovative approach: most of them were of a highly temporary nature, implemented by bodies not only extraneous to but also disconnected from line ministries, while the institutional arrangements adopted for their administration were discontinued at the end of their operation.

Only more recently have SIFs started to be gradually integrated into, or at least coordinated with, government programmes, and in only a few cases the relationships established with local governments and communities were maintained by the successor development administration. Even in these cases, however, the relative independence of SFs (which focus on the creation of physical infrastructure) can create conflicts with the line ministries (which have to ensure the current running of the facilities thus created and might be faced with hard choices when having to allocate scarce recurrent budgets between core social programmes and SFs). While it is too soon to conclude whether this approach is workable over the longer term, there is a suggestion that the benefits of the decentralized, multi-provider, community-based approach accrue more easily where state organizations provide a clear planning framework and adequate supervision.

4.4.5 Unclear relation with pre-existing social security arrangements

A country's ability to manage social costs during crises crucially depends on the existence of well-established institutions. While better than nothing, ad hoc SFs hastily developed during social emergencies lacked the structures (staff, rules and procedures) to start operating efficiently and on a scale to provide effective protection at affordable costs. A brief comparison illustrates this point.

Over 1989-92, the Czech Republic, Slovenia, Hungary and Poland experienced a contraction of real wages of 15-25 per cent, unemployment surges of up to 14 per cent, and a jump in the price of basic commodities. While childcare deteriorated and poverty rates moved upward somewhat, a much greater crisis was averted, thanks to reliance on the (reformed) social security system inherited from the socialist era and to the rapid establishment of unemployment insurance and social assistance. In these countries, SFs played a limited role (UNICEF 1995). In contrast, despite the rapid establishment of SFs, the Asian economies affected by the 1997-99 financial meltdown incurred higher social costs (including sharp rises in uncompensated unemployment, malnutrition and mortality) than their income levels and the state of their public finances would have predicted. By 1998 unemployment affected 15 million persons in Indonesia, 1.6 million in South Korea, and over 2.5 million in Thailand (Chu 1998) and contributed to a rapid spread of poverty which could not be offset through community-based interventions and useful but of limited impact SFs. The main problem in this case was the weakness of the social security systems, especially in the field of unemployment compensation and social assistance (Table 1). The 'institutional underdevelopment' which gradually evolved over time in the areas of social insurance and assistance in these countries proved very detrimental when the 1997 crisis erupted.

This comparison underscores that the preservation and reform of existing social security arrangements (by reducing costs, expanding coverage, reforming benefit generosity and duration, and introducing benefits for new risks) and their extension during normal times, are more efficient and equitable in containing the costs of severe crises than hastily arranged, temporary SFs in both middle-income countries and low-income countries with strong public administrations. Improving these arrangements should thus form the basis of the recommendations of the IMF, World Bank and ILO during normal times. In this regard, it is possible that the emphasis placed during the last 10-12 years on the creation of high visibility, short-term SFs—even in countries with formal social security systems—diverted resources and attention from their strengthening. As noted in section 2, such arrangements need not to be very expensive and could be funded in part with savings on other expenditures such as, for instance, generalized food subsidies.

4.5 Allocative and targeting gains

As shown in Table 3, the resources mobilized by the SFs were generally a fraction of those available in, or retrenched from, social budgets on occasion of the crises

TABLE 4
POVERTY TRANSITION MATRIX BETWEEN BEFORE AND AFTER ADJUSTMENT

After adjustment / Before adjustment	Poor	Non-poor	Total population
Poor	(i) unaffected 'structural poor', without: • human capital (low-skilled underemployed) • land and credit • access to market (lack of infrastructure) • public services (health/education/water/R&D) (ii) poor 'getting poorer' • urban poor in the NT sector hit by T-NT terms of trade changes • landless rural workers and food deficient farmers	(iv) former poor exiting poverty small-scale market producers of tradable (if T/NT tot are effectively modified) newly employed workers in T sector	
Non-Poor	(iii) non-poor 'getting poor' • low-income workers in the NT sector (hit by T-NT terms of trade changes • low-income employees in the T sector if wage/employment increases < increase in prices of traded wage goods • people surviving on transfers	(v) non-poor getting richer • medium- and large-scale entrepreneurs of T goods • people with rare types of human capital (vi) impoverished but not poor • upper layers of the bureaucracy • medium-high-income people in the NT sector	

Source: Author's compilation.

Notes: T and NT refer to the traded and non-traded sectors of the economy.

and adjustment programmes which preceded the launch of the SFs. The partial replacement of prior cuts would not have been a cause for concern, had the efficiency and targeting of the new SFs been substantially greater than that of the retrenched programmes. Indeed, vast literature produced, among others, by UNICEF and the World Bank has long argued that welfare gains can be achieved in a period of declining budgets if public expenditure is reallocated to the poorest groups or to low-cost, high-efficiency programmes such as immunization programmes, rural education, and so on.

There is, however, little evidence that the introduction of SFs led to allocative or targeting gains. Though SFs resources were, as a rule, disbursed faster and more flexibly than in most public programmes, these were seldom allocated on a priority basis to activities which had the highest social rates of return (such as primary education, vaccination programmes or female literacy) but rather to activities which were quick-disbursing, required little programme preparation and had considerable demonstration effects.

As for their targeting, though the stated objective of SEFs was to *compensate* the 'new poor', or the 'poor getting poorer' because of adjustment (i.e., groups (ii) and (iii) in Table 4), the evidence on the *targeting* of SFs is mixed. The percentage of poor among the beneficiary of the SFs varied substantially. SFs targeted by some objective criteria (poor areas, female-headed households, and so on) have more effectively reached the poor. Programme leakage, for instance, has been low in the Zambia PUSH programme focusing on female-headed households. This has not been the case, however, where such an approach was not followed, or where self-selection mechanisms (e.g. appropriately low wages in public works programmes) were not in operation. The Bolivian SEF (which paid wages well above the minimum wage) is a good case in point. While this programme benefited 1.2 million people (or 14 per cent of the population), it did not reach the poorest. Stewart and van der Geest (1995) found, for instance, that only 13.5 per cent of SEF workers were drawn from the bottom two deciles of the population, but that 63 per cent belonged to the third and fourth income deciles. In addition, only one per cent of the beneficiaries were women.

Targeting imbalances by region were observed also in the case of PAMSCAD, where 78 per cent of the civil servant redeployed as part of the programme were above the poverty line. The redeployment of civil servants, furthermore, absorbed many more funds than the programmes for nutrition, women, water wells, etc. (Hutchful 1994; UNCTAD 1994). And in the Honduran SIF according to Reddy (1998: 49), 'municipalities with a higher poverty incidence received only 5.40 US$ per head, whereas those with lowest incidence received 56.40 US$ (see also UNCTAD 1994: 20). Both Senegal's DIRE and AGETIP ... were also significantly urban-biased'. Some of these programmes were explicitly meant to pacify those vocal groups (such as retrenched middle civil servants) who though not poor had been affected by adjustment (group (vi) in) could have opposed the overall adjustment programme.

The targeting precision of adjustment-related SFs has been considerably lower than that of the pre-adjustment, employment-based safety nets illustrated in Section 2

(Maharastra's EGS, Chile's PEM-POJH and Botswana's LBRP). In addition, such programmes were better funded and thus could cover a much greater share of the poor than the adjustment-related SFs—which thus excluded many poor from their programmes.

One of the causes of the relatively poor targeting of SFs was their 'demand-driven' nature. As noted, this approach, often bypassed the poorest who had a limited capacity to organize and articulate their demands effectively and, in some cases, mobilize the counterpart funds needed for project implementation. Another cause was that the wages paid in public work schemes were above the national average and in this way attracted people already employed.

Some recent literature argues that while ineffective in creating employment and income for the 'new poor', the new wave of community-based SIFs has been relatively successful in providing social services to the 'old poor' living in areas not reached by public services, i.e. to the group (i) in Table 4. (Morley 1998, p.47) argues that 'The funds deliver government services to poor communities that never had them before ... and they build simple social infrastructure quite efficiently at low cost. They improve the living conditions of the poor even if the measured incomes of the poor does not go up very much'.

4.6 Political economic considerations

As noted in Section 3, many SFs (such as the Egyptian and Ghanaian ones) were formulated with clear and dominant political objectives at the forefront, including the desire to reduce domestic opposition to the adjustment process. This was achieved by compensating the economic losses of influential groups of non-poor (such as the upper layer of the bureaucracy and university students) who, though not poor or severely impoverished, could have disrupted the orderly implementation of the adjustment process. For these reasons, SFs were highly publicized, had considerable visibility and, as argued by some critics, focused more on 'face saving' rather than on giving a 'human face' to the adjustment process (Hutchful 1994). According to others (Graham 1993), SFs were 'instruments to build new coalitions' in favour of structural adjustment. The composition of such coalitions varied from one country to another and included different mixes of 'new poor', 'old poor' and 'non-poor'.

In addition, though SFs have been managed according to transparent management criteria, they have not been immune from political interference and were frequently manipulated, for instance to give preference to friends and those who favoured the adjustment process (ibid.). Indeed, SFs have created a new coalition of stakeholders who have sufficient personal incentives to support the adjustment process. This coalition includes the poor—old and new—benefiting from compensatory programmes, as well as the NGOs, local governments and other constituents of the civil society—which act as SFs intermediaries and acquire, in this way, greater weight when dealing with the central government.

In many cases, SEFs benefited from limited political commitment by the national authorities. In Ghana, the government accepted the launch of the once path-breaking PAMSCAD only grudgingly, and on the condition that it would not entail additional aid, cause no diversion from ongoing projects and not impose unsustainable future recurrent costs on the public administration (Hutchful 1994). The same author notes that 'Ghanaian officials did not take the programme seriously, and among the public there was the perception that PAMSCAD was a 'cheap' palliative intended largely for demonstration effects'.

V POLICY RECOMMENDATIONS

In light of the record reviewed in this paper, we recommend that further efforts to address poverty and distributional concerns in future adjustment programmes take into consideration the following points.

1. Sustainable poverty reduction requires a series of measures, including a macroeconomic policy attentive to its social impact, sustained investments in social programmes, and the development of permanent social safety nets which, while drawing on all components of society, are well integrated in a nationwide social protection and development framework.

2. Adjustment programmes should strive to avoid too large initial social expenditure cuts and foster a greater congruence between the objectives of macroeconomic stability and social protection. The experience reviewed in this paper is that large initial cuts in social expenditure were only in part reversed by the launch, years later, of SFs. The BWIs are not immune from criticism in this regard. As already noted in an earlier evaluation of the World Bank's policy towards poverty alleviation prepared for the G-24 (Emmerij 1995), its strong rhetoric on poverty alleviation was not able to change sufficiently its internal organization to meet this new challenge, mobilize adequate domestic and international funds or to alter the orthodox position on key adjustment decisions (such as the extent of budgetary contraction, speed of removal of subsides, surge in interest rates and so on) which have been shown to have a large and immediate social impact.

3. It is essential and urgent to overhaul and develop *during normal times* permanent and cost-effective social security system, including of the social insurance type and, as the Indian experience shows, including in low-income rural settings. Reformed, cost-efficient permanent social arrangements are likely to be more efficient in containing the social costs of severe crises than hastily arranged, temporary SFs. Creating permanent, and yet flexible and cost-effective, social safety nets (including against natural disasters such as droughts and floods) should thus be a priority of the IMF, World Bank and ILO. *Ad hoc* SFs should be established mainly in the case of unpredictable contingencies, or whenever an overly rapid expansion of existing social institutions and arrangements would risk to cripple their overall functioning.

4. During periods of crisis and adjustment, the anticynclical components of the social safety nets need to be allocated adequate domestic (and, if needed, external) resources. While the specific funding level and activity mix of these anticyclical components depends on the intensity of the crisis at hand and on the population groups affected, it will be virtually impossible to achieve nationwide

social protection objectives with the level of resources allocated to SFs during the last 10 years.

5. The sequencing and administration of SFs also requires attention. Anticyclical safety nets need in fact to be introduced concurrently with adjustment programmes or prior to their launch (because of the time it takes to set them up)— and not years after these have been in operation—as the increases in poverty and unemployment which may occur immediately after adjustment could became permanent, deeply rooted and difficult to deal with. One way to minimize response times is to entrust the responsibility for these interventions to permanent institutional structures which can count on well-tested response procedures and infrastructure. While such infrastructure should be scaled back during normal years, it should not be closed nor folded down. Indeed, during normal years, the SFs (e.g. an employment fund) could accumulate resources which could later help setting up employment schemes during years of recession. In this way, these arrangements would facilitate an intertemporal redistribution of resources which could help sustaining living standards during difficult years.

6. Finally, the targeting of the social protection programmes should also be considered. First of all, targeting should aim not only at reducing programme leakage (i.e. the inclusion of non-poor into programme activities) but also at minimizing the exclusion of deserving poor from the same. Second, in this regard, the priority assigned to demand-driven programmes should be combined with complementary efforts aiming at reaching in a state-initiated mode— supported by adequate social outreach -those regions where the poorest of the poor, unable to express their needs and marshal even minimal resources, live.

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