



Practitioner's Guide:

Development and Social Funds



Deutsche Gesellschaft für
Technische Zusammenarbeit
(GTZ) GmbH



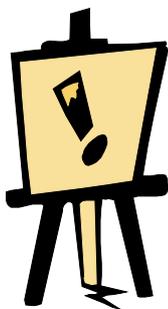
Bundesministerium für
wirtschaftliche Zusammenarbeit
und Entwicklung



FRCS
Food Security, Regional
Cooperation & Security
(Georgia, Armenia, Azerbaijan)

Development and Social Funds

Brief Description



Development & social funds have become increasingly popular instruments for many donor organisations to deliver safety nets. Funds originated as a response to the shocks that accompanied structural adjustment programmes and economic crisis in the 1990's.

Since then, the instrument has grown and evolved rapidly. Over time, emphasis has shifted from emergency relief to more general development-oriented programmes and projects, and objectives have shifted from short term to longer term, focusing on facilitating "community driven development". At present, social funds exist in over 50 countries world wide: in Latin America and the Caribbean, in at least 24 countries in Sub-Saharan Africa and about a dozen in Eastern Europe and Central Asia.

Social Funds are extremely diverse. There is a large variation in the kinds of activities that they can undertake or facilitate. The World Bank look at funds as "*quasi-financial intermediaries that channel resources according to pre-determined eligibility criteria, to small projects for poor and vulnerable groups, and implemented by public or private agencies...*" (Portfolio review by the World Bank Quality Assurance Group, 1998).

Though a variety of institutional models can be used, usually social funds are established as separate from traditional government line ministries. Intended to take quick, effective and targeted action, social funds typically use procedures that are not standard to government and other regulations.

Originated as an instrument for poverty alleviation, social funds are based on a conception of direct funding of poverty-reducing activities by local actors (local governments, community groups, local entrepreneurs). They are meant to support the poorest and the most vulnerable while promoting objectives such as participation and decentralisation.

The success of social funds is often dependent upon:

- ▶ Sensitivity of the funding design to politics based on an understanding that they are part of national and local level politics. Development of parallel structures can be temporarily important, but these structures must serve in the long term to have effects on governance outside local funds (strengthening local governance, influencing pro-poor politics, etc.).
- ▶ Participation is optimised and balanced throughout all stages of planning, implementation and monitoring. It should be seen as an end itself, not just as a means to efficiency in project implementation.
- ▶ Incorporation of a long term view of organisational and financial capacities: what is the local level capable of contributing?

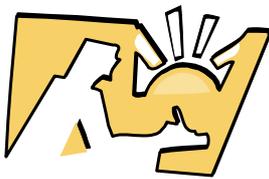
Development and Social Funds

Proposed Main Users

Development organisations, government agencies, private sector, local and regional governments, private donors and sponsors.



Purpose of the Method



A fund is a mechanism through which resources are channelled, according to pre-determined selection criteria, to demand driven sub-projects, proposed by public, private or voluntary organisations.

Social Funds are typically created as new agencies, often outside the realm of a ministry. Even in cases where they are set up within a ministry, they are still granted a relatively high degree of independence with regard to normal bureaucratic procedures. Social Funds can be viewed along a spectrum with varying degrees of being demand-driven, autonomy, execution responsibility, community participation, financing mechanism (loans or grants) and varying sectors and activities. A Social Fund is not a substitute for fundamental financial or institutional reforms in the economy.

Typical purposes of social funds are:

- ▶ to mitigate recession and adjustment-related social costs or to address emergencies such as natural disasters and wars;
- ▶ to improve living conditions of the poor through speedy provision of basic economic and social services;
- ▶ to strengthen decentralised delivery mechanisms by supporting local (governmental and non-governmental) organisations that are responsive to local needs and to build institutional capacity at the local levels

Development and Social Funds

Advantages



Funds that provide direct financing to communities and community groups contribute to:

- ▶ **Empower communities** by enabling them to plan activities, design proposals, implement projects, monitor and evaluate their success, report
- ▶ **Encourage decentralisation** – by channelling resources to community groups social funds can demonstrate feasibility of and potential for participatory planning.
- ▶ Help to restore **faith in the ability of public institutions** to provide essential services and helps communities to appreciate their own role in the process
- ▶ **Set standards** for transparency, accountability and quality on the governance outside the social funds.

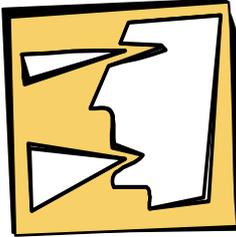
Limitations



- ▶ Social fund approach to local **participatory** planning is **limited**: there are usually pre-determined criteria concerning eligibility of participants or prioritised projects, making communities bind to a certain range of activities.
- ▶ Close scrutiny of **accountability mechanism** needed to prevent misuse and misdirection of resources for unintended purposes.
- ▶ **Sustainability** hinges on the capacity of local implementers to identify own sources of funding and provide skilled staff and undertake routine maintenance. Groups formed only to channel financial support often do not outlast the sub-projects.
- ▶ **Not to undermine decentralisation processes**: social funds are to be incorporated in local political decision making, but depending on the degree of decentralisation the opportunity of social funds to work with local governments are sometimes restricted.
- ▶ **Temporary solution**: Bypassing existing structures of governance may present an important temporary solution, but can do harm in the long run as they may displace other sources of funding, as they may side track from tackling tough issues such as accountable and transparent government structures.
- ▶ **Framework conditions** with regard to legislative settings (taxes, budgeting, involvement of the treasury, state procurement law, etc.) might pose restrictions.

Development and Social Funds

Principles & General Procedures



Principle steps for establishing the fund:

- ▶ Establish a project fund menu that defines eligibility, procedures, and criteria for acceptance of proposals and conditions for financing.
- ▶ Promotion and training.
- ▶ Project selection and application.
- ▶ Feasibility study and application selection.
- ▶ Contracting.
- ▶ Provision of the local grant.
- ▶ Monitoring of Project Implementation.
- ▶ Post Monitoring and Evaluation.

1. **Project fund menu:** The menu needs to define (i) who is qualified for assistance (eligibility) provided by the fund; (ii) what kind of assistance is available from the fund (type of activities that will be supported and those to be excluded) and, (iii) process for requesting support has is to be submitted.

Establishing specific criteria for accepting project proposals is an important instrument for determining the extent to which a Social Fund will meet its objectives. Depending objectives established for the Social Fund, *four general criteria* are of particular importance. *First*, the project should be designed to benefit the poor. *Second*, the implementing organization should be able to effectively deliver the intended benefits to the target groups. *Third*, that the project proposed is both technically sound and technologically simple. *Fourth*, the resulting maintenance costs incurred by the project upon completion can be effectively met by the communities.

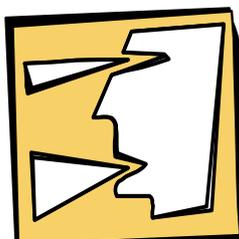
Furthermore, it will be necessary to ensure consistency of projects with national and sector priorities in cases where the Social Fund has developmental (rather than merely emergency) objectives.

Other project selection criteria could include: *involvement of beneficiary communities* in different aspects of project design, implementation, and monitoring; the use of labour-intensive techniques.

Co-financing from the beneficiaries: This is necessary to ensure that projects are responding to demand and that sub-projects will be sustainable after the fund financing has been completed. As a general principle the project-proposing agency or community will be required to make a funding contribution towards the financing of the project (possibly with an exemption for very poor communities). That contribution can be made in cash, kind (materials, land) or labour.

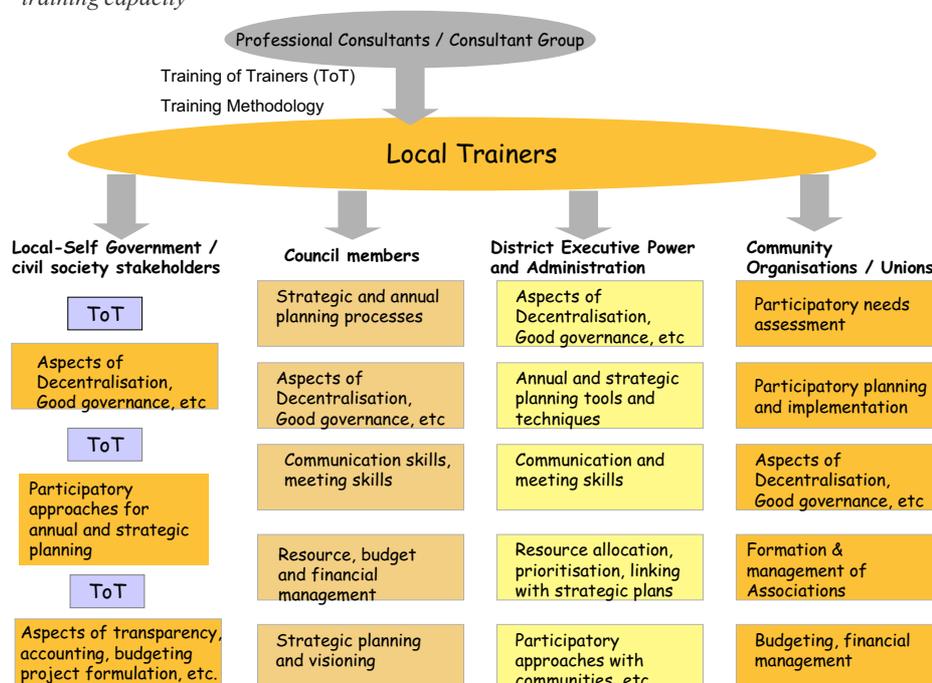
Development and Social Funds

Principles & General Procedures



2. **Training:** to build the capacity of the community that they can articulate their needs and to acquire skills to prepare and manage projects. Depending on local needs, training could cover marketing (choosing the product, pricing, marketing techniques), financial management (bookkeeping, monitoring, calculating profits, valuing stock), and human resource development (organising teams, managing people and activities, interpersonal skills). Training can be very important for ensuring that technically sound projects are forthcoming from local groups and that they are effectively implemented. Intermediary NGOs, where they exist, could be enlisted to perform this function.

Figure 1: Approach for developing training capacity



3. **Project selection and application:** Before project selection can take place information about the fund in form of a simple brochure or mass media (newspaper, radio, television) must be disseminated to the intended target group. The information provided will define how the beneficiaries can request projects, the selection criteria to be used, and conditions for financing.

Projects are to be identified by the final beneficiaries. Selection is to be a joint process between beneficiaries and local or regional authorities to ensure consistency with the overall development planning.

Development and Social Funds

Principles & General Procedures

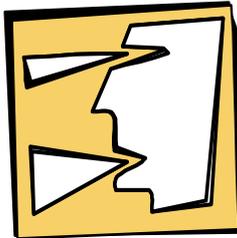
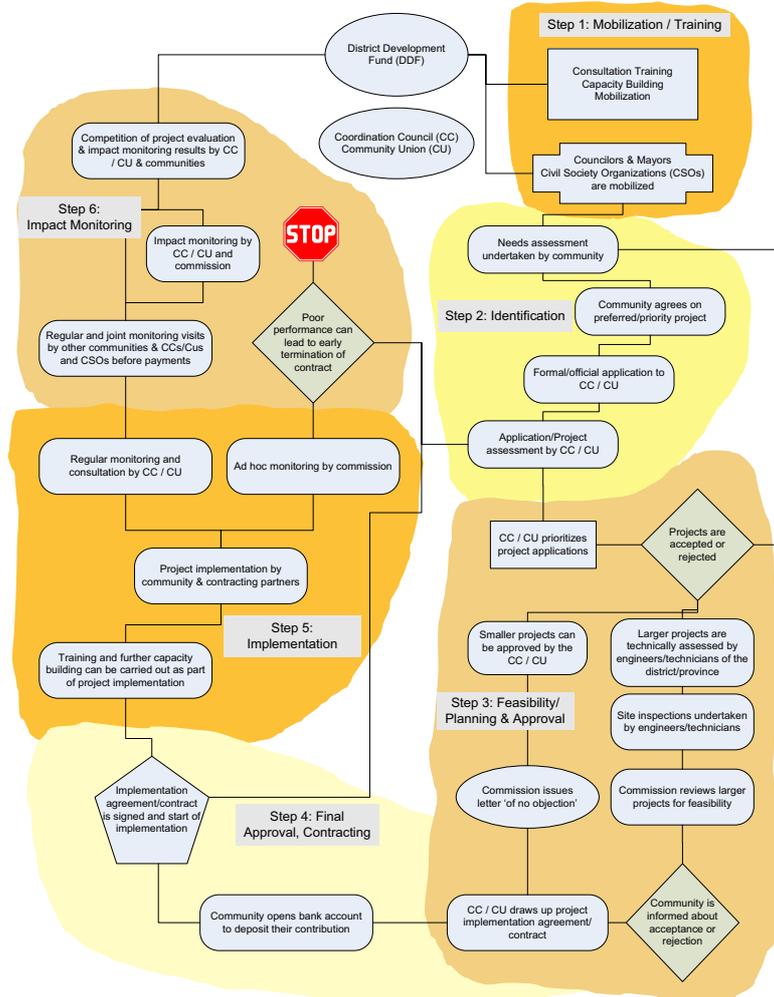


Figure 2: Suggested approach for the communities to access the development fund

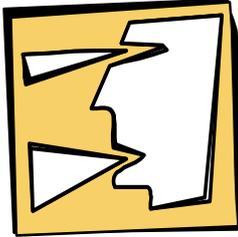


4. Feasibility study and application selection: The application or proposal is evaluated according to the above mentioned criteria:

- ▶ The project is designed to benefit the poor.
- ▶ The implementing organisation can effectively deliver the intended benefits to the target groups.
- ▶ The project is technically sound and technologically simple.
- ▶ The estimated budget is appropriate for the type of project proposed
- ▶ The maintenance costs implied by the project can be effectively met (sustainability).
- ▶ The project is consistent with national and sector priorities in cases where the Social Fund has developmental (rather than merely emergency) objectives.
- ▶ Beneficiary communities are involved in project design, implementation, and monitoring.
- ▶ Beneficiary communities can make a contribution (in cash or kind) towards project costs.

Development and Social Funds

Principles & General Procedures



The responsibility for application selection should be allocated to a team rather than an individual. Members of the team should include representatives of the different types of organisations eligible for proposing projects, and individuals who are highly respected for their integrity.

5. **Contracting:** After project approval, a contract between the parties will be concluded which states the conditions of the grant provision according to regulations of the funding agency and laws of the country. A clear set of implementation rules, accompanied by a public monitoring and auditing system, will protect the fund related spending from corruption. The contract states arrangements for maintenance and includes an operation plan.
6. **Provision of the Local Grant:** After the contract is signed the grant is provided in number of instalments, depending on the size of the contract. The first instalment is provided after signing the contract, later instalments after submission of respective monitoring reports, and the last instalment is provided after the project is completed and satisfactorily evaluated.
7. **Project implementation monitoring:** During the project implementation external actors periodically monitor the implementation process. This includes assessing of the output produced, the progress on achieving the main objectives set and the impact on the wider environment in which the beneficiaries live. The periodic assessment also forms the basis for project steering and plan updating. In case of unforeseen impacts and changes in the framework conditions adaptations of the implementation plan can be made.
8. **Post – Monitoring and Evaluation:** After the project is complete, an external party summarises within a final report the entire promotion provided.

Development and Social Funds

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