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Social *investment funds* in Latin America

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This article deals with various aspects relating to social investment funds, especially their financing, the sustainability of the resulting projects, and the role of funds *vis-à-vis* ministries and the political authorities. The links between such funds and non-governmental organizations and the role played by external cooperation are also examined. Social investment funds were set up in order to relieve poverty and soften the effects of the adjustment policies of the 1980s. They have proved to be effective means of channelling flows of external finance and ensuring that they result in concrete projects. The main strategy used for transferring resources to the poor has been the creation of temporary jobs in connection with the execution of projects in the areas of social and economic infrastructure, as well as projects designed to satisfy basic needs. A smaller proportion of the financing obtained has been invested in direct production activities, usually through non-governmental organizations. Generally speaking, social investment funds have indeed served to relieve poverty. Although they were not conceived as a means of tackling the structural problems which lie at the root of poverty, they have made it possible to deal with acute economic and social problems.

I

How social investment funds came on the scene

Concerned about the rising poverty in their countries and the social impact of the stabilization and structural adjustment policies applied during the late 1980s, many Latin American governments were moved to establish emergency social investment funds, designed to alleviate poverty and cushion the impact of government austerity measures. These funds represent a new mechanism for government action in this field, incorporating under one roof the financing and promotion of projects and the securing of financial backing from external organizations and friendly countries. The first fund, Bolivia's Emergency Social Fund, was created in November 1986 and greatly influenced the institutional and operational structure of the funds subsequently established in other countries.

Social investment funds have shown themselves to be good channels for converting flows of external financing into tangible projects. The central strategy for transferring resources to the poor has been the creation of temporary employment through the execution and management of social and economic infrastructure and basic needs projects. In addition, the projects themselves –particularly infrastructure works– are designed to provide long-term benefits for poor communities. A small fraction of the available financing has been oriented toward direct production projects, generally utilizing NGOs as intermediaries.

The funds are autonomous institutions. Since they are freed by statute from most normal bureaucratic hiring and procurement constraints, they have been able to adopt more dynamic private-sector methods in their operating procedures, functioning alongside but independently of government ministries in the relevant sectors. Government bureaucracies are often viewed as being bogged down by red tape and incapable of mounting a large, efficient operation for the rapid disbursement of project financing. The funds have been fortunate in securing high-quality management and have built up qualified, results-oriented teams which have striven hard to meet objectives.

The social investment funds were conceived as financial intermediaries essentially limited to project evaluation and supervision. Project design and execution is left to the private sector and to the relevant ministries. The project portfolio is determined by requests from communities and NGOs or, in some cases, by government agencies. To foster the selection of projects that benefit the poor, as well as to secure transparency in fund operations, information and management systems based on eminently technical criteria have been instituted.

Although the funds were originally conceived as temporary ventures, there has been a tendency to extend their life, and several funds have already been converted into permanent investment institutions. A number of them are still in the initial stages of operation but are already striving to carve out permanent roles for themselves.

Responding to the needs and demands of the countries, external donors[1] and financial institutions have played a catalytic role in the establishment and orientation of the social investment funds and in providing resources for their operation. The extensive cooperation granted has been of a concessional nature. Financing by international development banks has been largely in the form of soft loans, while cooperation by donor countries and United Nations agencies has primarily consisted of grants.

The World Bank has been a leading financier and active promoter of these initiatives. Moreover, it is only fair to say that the original conceptual and operational framework, while devised by the

□ This article is based on a study prepared for the Swedish International Development Authority (SIDA). The opinions expressed in this paper are the exclusive responsibility of the author.

[1] Including Canada, the European Economic Community, Germany, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States Agency for International Development (USAID), to name only a few.

founders of Bolivia's Emergency Social Fund, was confirmed and developed in greater depth during the course of the initial dialogues with the World Bank. In addition, the Bank has been quite flexible in experimenting with new forms of project lending, such as providing funding for the creation of temporary employment and relaxing normal procurement procedures.

The Inter-American Development Bank has also been a major financier of social investment funds in Latin America, and the institution's influence has been felt in their design. Similarly, USAID has given substantial financial backing to a number of Latin American funds. In some cases, USAID has been highly instrumental in getting operations off the ground and in orienting their priorities. The United Nations Development Programme (UNDP) has provided technical cooperation financing for the funds in nearly all countries and has been very influential in the establishment of the Central American institutions.

On balance, the social investment funds have definitely shown themselves to be a step in the right direction for alleviating poverty. While they do not squarely address the problem of structural poverty, they certainly represent a better approach than merely ignoring the countries' paramount economic and social problems. It should be recognized that the architects of the funds did not pretend to achieve an optimal solution, based on an analysis of the historical causes of poverty in the region, but rather adopted a pragmatic approach to see what good could be accomplished right away under the present circumstances in some of the poorest countries of Latin America.

Social investment funds can play a role as a link between external financial organizations, governments and communities. They can help to translate governmental development strategies and normative guidelines into concrete applications at the regional and local levels. Through their contacts with NGOs and other grassroots organizations, funds can elicit projects that reflect the real needs of the poor, and they have proven capable of establishing good working relationships with community organizations which are conducive to good projects. Funds also tend to be more attuned to the concerns of external donors and financiers and can allay fears that resources are not being used effectively by stressing transparency in financial operations. Although it is true that funds have not always played this pivotal role, they can at least represent the governments, country donors and international financial organizations *vis-à-vis* the community, and vice versa.

II

The most salient issues

1. Some shortcomings of the funds

Officially, the emergency funds were established to compensate the poor for the burden placed on them by stabilization and structural adjustment programmes. In practice, however, this objective has not been pursued, and the funds have simply served as schemes for giving temporary relief to some of the poor. Indeed, the effects that decreases in employment and real wages have had on the income of the poor have generally not even been identified. The compensation provided is not specific to the people affected or to their actual needs (employment, food, etc.).

This is not to imply that the resources have been squandered. In countries where the vast majority of the population is poor, all social programmes reach some people in need. Moreover, it is by no means evident that priority should have been given to the newly impoverished when there are large numbers of people who have been poor for generations.

In this respect, it is worth noting that there is no doubt that the adjustment process is not the main cause of poverty in the region and that the poor have not borne the entire burden of the austerity measures.[2] In the countries examined, more than half of the population was already below the poverty line before the economic crisis of the 1980s, although this

[2] Moreover, some effects of the stabilization and adjustment programmes have clearly benefited the poor, even in the short term. I refer particularly to the curbing of rampant inflation, which was perhaps the greatest scourge of the poor during the last decade and the most socially and politically destabilizing force.

added significantly to their ranks. The effects that the stabilization and adjustment programmes have had in terms of increasing the proportion of poor in these countries is marginal when viewed in the context of the countries' massive structural poverty.

Enthusiastic officials sometimes give the impression that much is being done for the poor and even, at times, that the funds are something like a panacea ("the country is in dire straits, but now we have the Fund"). Moreover, inasmuch as the funds become the centre of attention, they tend to supplant the broader policy dialogue on social issues, both domestically and with the international community. Undoubtedly, things are being done in a different way: the funds tend to be dynamic, well-staffed organizations housed in modern buildings which are a far cry from the dingy offices where social matters are traditionally handled. It is also true that substantial external cooperation has materialized that has been translated into expenditures and investments useful to the poor. Nonetheless, it is well to keep in mind that, at best, the funds have disbursed US$20-$30 million per year, or perhaps twice that much in some years in the case of Bolivia. For the larger funds this represents, in peak periods, about US$10 per year per poor person. These are not trivial sums, but they are not even enough to offset the cutbacks in per capita expenditures in the social sectors that occurred in many countries during the last decade or to compensate the working classes for the fall in real wages.

Moreover, the funds are not reaching the very poor, particularly those living in remote communities. This is partly because the indigent have little capacity to formulate projects or plead their merits. This is one of the weak points of "demand-driven" schemes for generating projects (quite apart from the fact that, at least conceptually, they are sub-optimal for project selection and sometimes generate spurious projects). In general, projects tend to be formulated by those who have experience in this area, and these often turn out to be the not-so-poor.

An evident weakness of the funds is that they concentrate on physical infrastructure projects whose employment-generating function tends to bypass women. This bias is very important, for women (together with children) constitute the poorest group in these societies, and a high proportion of households are headed by women. Various studies have shown that the pattern of household consumption depends on who brings in the income, and women tend to be more responsible administrators: that is, earnings that come into their hands are generally spent judiciously on satisfying the family's basic needs (largely food and clothing) and women also tend to be more provident. Moreover, women have proven to be good leaders and co-workers in grassroots ventures and communal financial organizations.

2. Are social investment funds the solution?

The funds were designed to bring quick relief to some of the poor, not to combat the countries' structural poverty. Thus, they cannot be blamed for their failure to address the broader problem –nor indeed are they well fitted to do so. A step forward has been taken in moving away from solutions based on the paternalistic distribution of food and medicines towards employment-creation schemes, but the idea of increasing the income and resources of the poor on a permanent basis has not been central to the agenda.

The very notion of utilizing low wages, equal to or even below the minimum wage (sometimes for the most menial jobs), as a way of screening jobs and targeting them towards low-income groups is, to say the least, hardly an acceptable development concept. It is obviously a survival strategy that may relieve social pressures but will not lift the poor out of the subsistence level. Furthermore, the employment thus created has, by design, been kept temporary and outside the government apparatus, so as not to increase the size of the bureaucracy. While this may be the best that can be done under the circumstances –and it is certainly better than doing nothing– it is not a programme for combatting poverty.

It is true that projects are generally selected on the basis of standardized technical criteria, and this has fostered competition for project preparation –and for project money– by the private sector and NGOs. However, too little stress has been placed on community development and self-sufficiency, which are indispensable for a genuine solution, and sometimes contributions have turned into outright patronage. Teaching communities, through their involvement in the identification, design, and execution of a project, that they can do things for themselves, while at the same time generating a sense of responsibility and the dignity that goes with it, is often the most important benefit that a project can provide. In this regard, the systems of self-help or food-for-work have been largely ignored in favour of work by contract, although labour is often the only tangible contribution that community members can make to a project. When communities regard a project as their own, they participate more readily in its execution, the project is implemented more rapidly, and there is a greater likelihood that it will be followed up by arrangements for maintenance and services.

The funds' investment programmes have concentrated primarily on economic and social infrastructure. Direct production activities have been ignored or given very low priority, thus turning the poor into passive beneficiaries rather than active participants in the productive process. In countries where the vast majority of the people are poor, a frontal attack on poverty must emphasize the generation of permanent employment and the production and productivity –and hence income– of the poor segment of the private sector. Important as they are, simply rationalizing macroeconomic policy and targeting social expenditures in basic needs will prove insufficient to address the mass poverty found in very poor countries. The stabilization measures called for by the large imbalances in these economies leave little room for manoeuvering, and social sector budgets are usually insignificant (often less than 5% of GDP) in relation to the vast majority of the population that is poor. In addition, the satisfaction of "basic needs" does not solve people's equally basic need to have a job and a steady income.

In this respect, little has been done to change the pattern of capital accumulation, which is still largely in the hands of the rich. With few exceptions, little attention has been paid to fostering capital formation by the poor and raising their productivity (e.g., by developing microenterprises, improving "minifundio" operations, modernizing informal-sector ventures, etc.). It should be noted that it is the small entrepreneurs who are often dealt a crippling blow by structural adjustment programmes, yet they are left out of the benefits of compensation programmes. If the social investment funds will not or cannot attend to the credit needs of microenterprises, then some type of financial vehicle must be created to do so.

It goes without saying that stimulating those aspects of production which are in the hands of the poor is a very difficult and complex task, but it lies at the very heart of the development process. The solution calls for emphasis on the individual –not just on broader social sectors– and the consideration of a number of extra-economic factors. More specifically, it requires a myriad of actions by government and non-governmental organizations, external cooperation agencies and financial institutions, together with direct efforts and tenacity in the pursuit of complex and often risky solutions. Moreover, the generation and follow-up of a wide variety of small production projects entails higher administrative costs. In an effort to achieve rapid results, the funds have generally taken the easiest way out, namely, financing mainly infrastructure and assistance projects.

3. Ensuring project sustainability

A major weak point of social investment fund operations is project sustainability. The crux of the matter is that the funds are temporary mechanisms, but the works they create aim to be permanent. Many projects have operational service components, and all require maintenance. In fact, it is often more urgent to maintain projects than to build new ones; maintenance operations typically have very high cost/benefit ratios.

By nature, however, the funds are doers, not planners, and they are not prone to giving adequate consideration to future recurrent costs. Moreover, maintenance operations are not very glamorous (there are no inauguration ceremonies with ribbons to cut). It is more expedient to get involved in clear-cut, tangible projects and leave the cumbersome task of providing for maintenance to someone else. Furthermore, maintenance costs are high; over the years they can add up to sums larger than the initial cost of the project.

Clearly, the provision of maintenance services and operational support often presents serious difficulties. Nevertheless, for projects to deliver the expected benefits –or even to survive– the problem must be squarely faced. The building of infrastructure should be considered merely the first phase of a project. This is even more obvious in the case of basic services such as health and education projects. Clearly, unless explicit arrangements can be made for the financing of the entire project –including its operational component– it should not be started at all.

In practice, many of the projects executed by the funds in the social sphere consist of the rehabilitation of existing facilities that already have State budgets assigned to them (e.g. an existing school). In this situation, the funds can go ahead with social infrastructure projects without relying on additional budget allocations. In some cases, parallel government programmes to institutionally strengthen and broaden education, health, or other welfare-type services have been established. Often, both domestic and external financing have been justified under the rationale that these are actually investments in human capital, and in the expectation that increases in fiscal revenues will eventually result and offset what are considered to be temporary budget shortfalls. The social investment funds can then fulfill the complementary functions of providing infrastructure for the expanded services.

In theory, it is appropriate to make beneficiaries responsible for the recurrent costs involved, through user fees that can be collected, for example, by the municipalities. This implies the design of a programme of levies and the provision of institutional support. In practice, user fee systems are hard to implement in the case of poor communities and are sometimes unreasonable.

It is relevant to note that all of these alternatives for ensuring an operational follow-through presuppose close interinstitutional coordination of the social investment funds with relevant ministries, municipalities, and other governmental agencies; clearly, projects should be integrated within the government's sectoral plans and budgets.

Finally, whenever possible, perhaps the best way of ensuring that the maintenance and operational components of projects are not abandoned is to involve the communities themselves in the projects. A town association or an NGO that has generated a project or participated in its implementation can be instrumental in ensuring its sustainability. However, making sure that communities take responsibility for projects takes considerable time and effort and has often been considered to be outside the purview of the funds.

4. Role of the funds in relation to relevant government ministries

A central justification for the creation of new instruments to combat poverty is the institutional deficiency of the relevant government ministries in carrying out projects and effectively managing large emergency programmes. It is no coincidence that this hypothesis falls well in line with the ideology currently in vogue that the government's sphere of action must be reduced in relation to that of the private sector and that the government planning function is counterproductive.

The argument is that the way to rapidly mount a major operation is through a pseudo-private-sector mechanism, rather than trying to reform inefficient and sometimes corrupt traditional bureaucracies. In practice, the solution has entailed the creation of novel government institutions that are largely free to act like private ventures –guided, however, not by the profit motive but by social objectives.

The idea is to guarantee a steady stream of financial resources by setting up systems to bypass the weak government apparatus. However, these new arteries have gradually come to be viewed not as emergency bypasses, but as formal solutions that distance themselves from the governments and may even further weaken normal avenues of action. Inasmuch as social funds replace regular channels, there is a tendency to undermine existing institutions and a temptation to usurp relevant ministry functions, such as the formulation of social policy.

There has also been some concern that the funds will syphon off resources from ministry budgets. This has not generally been the case, for funds have had ample financing from outside sources, and the governments' contribution has been used in most cases as seed money to get operations off the ground or to advance financing under negotiation. Moreover, up to now, it does not appear that resources are being syphoned from external financing that would otherwise have been available for other social projects. In other words, indications are that most of the external financing has been additional.

Although the operations of some funds have been constrained by delays in the availability of external financing, resources do not appear to be the binding constraint for the countries as a whole; rather it is the capacity of government agencies to absorb external funds and translate them into investments. Paradoxically, government ministries in the social sectors often have meagre operational budgets that sometimes barely cover salaries and inputs for basic needs.

Finally, it is pertinent to note that creating a separate unit to provide government services to the poor tends to set it apart from the rest of government action: one policy and programme for the poor, and one for the rest of the economy. However, government policy is necessarily one; there can be no dichotomy between social and economic policy, no subordination, no sequentiality. The old excuse, "First put the house in order, then move into a sustainable growth path, then attend to social needs" is not valid, and under the present circumstances, not viable. Focusing attention on the welfare and income of the poor must be an integral part of a *comprehensive* economic development policy.

Clearly, the State has a crucial role to play in designing and implementing this policy. Government, by definition, has an income redistributive function (which is particularly important in Latin America, where income distribution is extremely skewed), the authority to set wage and price policies, a duty to provide basic education and health services and establish a social safety net, a role to play in the creation of a climate for healthy and equitable private-sector development –all responsibilities that cannot be delegated. Obviously, the establishment of an institution that can efficiently channel external funds toward the poor does not relieve the State of its obligation to carry out urgent socioeconomic programmes; neither does it dispense with the need to reform the government apparatus itself.

5. Politicization of the funds

One of the principal strengths of the funds has been the strong political backing that they have received. However, close ties to political authorities at the highest levels have often created growing pressures to politicize fund operations in favour of the party in power.

All social investment funds claim to steer clear of partisan politics –that is, in distributing project funds, they try to stress efficiency considerations and not to favour any particular constituency. However, inasmuch as they alleviate social pressures and cushion the negative impact of stabilization and adjustment programmes, they cannot help but engender political gains for the incumbent President and the party he represents.

In an effort to make austerity programmes palatable, funds have stressed quick, visible results that can show that something is being done for the poor. Thus, a rapidly disbursing fund is understandably a highly tempting political plum at election time. However, for a fund to succumb to the pressure to become a cog in the partisan political machine and shift to a pattern of patronage would be a most damaging blow to its operational effectiveness and its image in the eyes of foreign donors –and possibly, the "kiss of death" if the administration in power loses elections. In theory, one way to ensure that funds are less tempted to stray from their service function and can survive beyond an electoral cycle is for them to be administered by bipartisan directorates. Another practical step that could be taken to depoliticize the funds' image would be to limit propaganda about their accomplishments to simple information bulletins and full disclosure of their financial operations. These suggestions, however, are obviously naive; governments by nature take political actions that have political payoffs. Perhaps the most that can be expected is that the social investment funds be kept under the direction of non-partisan leaders of such personal prestige that they can withstand the pressures from their own governments to politicize fund operations and say "no" to ministries when a project is unjustified.

The active involvement of communities in fund projects can often counter politically-motivated patronage. A community that has awakened to the realization of its own civic potential will not be easily manipulated. However, there is a fine line between promoting community participation and fostering paternalistic control of the community. For example, in an effort to gain effectiveness, social investment funds have attempted to decentralize decision-making to the local government level and make resources available to the municipalities. This is clearly a positive step, as long as it is not aimed at reinforcing the mayors' political control of municipalities and discouraging the emergence of natural community leaders and independent community organizations.

6. Funds' linkages with NGOs

There is a long tradition among charitable organizations and other NGOs of assistance to poor communities to improve their welfare. Church groups in particular reach isolated areas that government ministries do not or cannot. Similarly, much international "people-to-people" cooperation in a variety of areas has been accomplished through NGOs. By definition, these organizations operate in the realm of civic action and thus have a different focus on social problems –and they play by different rules– than governments. NGOs generally stress the structural nature of poverty and the social injustice that gives rise to it. Closer to local communities, they are acutely sensitive to the costs of the stabilization and adjustment policies borne by the poor and view with apprehension the overtures of a mushrooming government investment fund of uncertain duration that is moving into a turf previously abandoned to them. Conversely, some government officials regard the NGOs' institutional and financial autonomy and growing sphere of action with suspicion and even hostility. It is relevant to note, however, that it is precisely their independence from government control and their overt bias toward the cause of the poor that has made the NGOs attractive to external donors, whose interests lie more in helping the poor than in aiding the governments.

It is true that NGOs' natural resistance to government control often results in uncoordinated action and uneven effectiveness. However, the best of them have proven to be good intermediaries in conceiving and executing small projects and ensuring that resources reach the neediest, and this has been an important discovery of the social investment funds. In particular, the funds have profited from tapping the experience of NGOs in small health services projects. Their operations emphasize flexibility and pragmatism and are catalytic in stirring grassroots participation by the communities that are being benefited. This mode of operation is not, however, very conducive to a rapid expansion of activities, and there is a limit to how much resources NGOs can absorb. Moreover, there is a danger that overly abundant financing could render NGOs dependent on or even subservient to government authorities and other interests or corrupt their traditional altruism, turning them into simple profit-making ventures.

While NGOs have been successfully used to execute projects, they have not been allowed to participate in conceptual or organizational aspects of the funds, which has led to their common complaint that they do not feel represented. Clearly, the NGOs have a role to play in the formulation of projects and something to say about the priorities that are set, but the definition of government economic or social policy is obviously outside their purview, as is partisan politics or the furthering of foreign interests. Their legitimate function lies in the sphere of civic action, a domain outside that of the State. On the other hand, governments can and should create the conditions and provide a stimulus for the development of civic action but should not attempt to control communities or demand subordination. In dealing with civic issues and community organizations, government must necessarily curb its political nature. However, both governments and NGOs have much to gain by establishing a permanent dialogue to coordinate actions, and the social investment funds have begun to bridge this gap.

7. External cooperation: a stimulus or a substitute for domestic effort?

Bypassing traditional government channels, external financing provided to the social investment funds has rapidly managed to translate a great number of deeply-felt needs into concrete realities. This arrangement has been effective in that it can actually reach the poor and be reasonably efficient; the donors are pleased, the recipient governments get some relief from social pressures –and much of the credit for any achievements. However, external cooperation has in some cases compensated for a lack of domestic effort and even for the absence of political will. How long can governments continue to rely almost exclusively on external handouts to alleviate critical social conditions, without fully assuming their responsibility for combating poverty and fostering equitable development? Undoubtedly, a number of fund operations would come to a screeching halt if external resources were not available. The excuse that "the treasury lacks funds to invest in social projects" is a reflection of the degree of external dependency that some countries have acquired– a dependency that was exacerbated over the course of the long recession of the 1980s. To depend on foreign intervention in such a very internal problem as critical poverty is obviously not a desirable state of affairs and can only be tolerated as an emergency measure.

8. Emergency funds versus permanent investment institutions

There is considerable debate as to whether the funds should remain temporary instruments designed to have a quick impact at a critical juncture or evolve into permanent bodies with long-term attributes and functions.

To begin with, it must be recognized that the life-span usually assigned to an emergency fund (3-4 years) is too short. It takes a year or more to get a fund institutionally and operationally off the ground, and external financial agencies often take even longer to approve a financial package.

There are other practical arguments for prolonging the life of the funds. It is certainly true that competent staff teams have been organized and that it would be a pity to disband them. Similarly, the emergency funds are doing good things for the poor, and this line of action cannot simply be abandoned. The funds have proven to be good channels for foreign aid and technical cooperation, and their output orientation has allayed donor fears that they are simply being used to finance or expand State payrolls.

Furthermore, the macro-objectives that gave rise to the creation of compensatory mechanisms have not been met. Structural adjustment is far from over, a firm growth path has not been established, and the stabilization process is fragile in a number of countries. There is abundant justification now as there was a few years ago to attend to the needs of the poor and ease social pressures. Likewise, ministries that traditionally handle social matters have not been restructured, and it is not clear that their capacity to assist the various social sectors or perform their legitimate income-distribution functions has improved.

On the other hand, there are negative tendencies that argue against extending the life of the funds. As funds mature, their original drive and mystique wears thin, and they tend to become just one more bureaucracy. In addition, given their exemption from normal civil service and procurement controls, there is always the danger of cronyism and even corruption creeping in. Moreover, as the political benefits that a fund can provide become evident, politicization pressures tend to build up.

In any case, regardless of conceptual considerations, once these organizations are well established, there is a natural tendency toward self-perpetuation, as in all bureaucracies. All indications are that the funds are here to stay.

Assuming that emergency funds are to be converted to permanent institutions, there is a need to find an appropriate niche for them. Social investment funds could broaden their horizons and focus squarely on poverty alleviation. If the decision were made to mount a broad development effort centred on combating poverty, permanent institutions would obviously be required. Clearly, temporary mechanisms are not well suited to handle structural poverty, nor can they be held responsible on this account. Ultimately, the role of the funds will hinge on decisions made regarding national socioeconomic policy.

9. Some macro issues

In the financing provided to the social investment funds of the countries examined, wages absorb roughly one-third of the total cost of the projects and local materials more than one-half. Only a small part of the external financing is absorbed directly by imports. Thus, in the first instance, the foreign exchange provided by the external financing serves mainly to support the countries' balance of payments.

However, as the foreign exchange is converted into local currency and used to purchase goods and services, successive rounds of income and expenditures are generated, and they in turn give rise to additional imports. Moreover, successful projects eventually generate a stream of production and income –and that also induces a corresponding stream of imports. These additional imports tend to have a negative effect on the balance of payments, because the projects carried out by the social investment funds are not the type that generate exports.

In sum, although over 90% of the initial round of external financing may be going to balance of payments support, estimates of the effects that the original expenditures have as they work their way through the economy indicate that the imports that are generated in the process rapidly absorb a large proportion of the available foreign exchange.

At the same time, the expanded monetary financing created by the transfer of external funds will stimulate demand and very likely put pressure on prices. Its effect on income and imports tends to be short-lived; most of it will exhaust itself within a year because of the high propensity to import. [3]

[3] It is relevant to note that the macro-effects of social investment funds on the whole economy of each country turn out to be negligible, except in the case of Bolivia's Emergency Social Fund. In this case, disbursements represented about 16% of total public investments during its four years of operation. Temporary employment was directly provided for an average of 19,000 workers; and further employment was also generated in line with the induced growth of the economy (an additional 21,500 work posts). Fund estimates indicate that GDP increased during that period by an average of 0.6%. According to a UNDP estimate, GDP rose by more than 1% during 1990 as a result of Fund activities, but the boost to the economy was short-lived, for the increase in GDP in 1991 fell to just 0.3%. Various estimates indicate that inflation increased by less than 2%.

An interesting question is, "What proportion of the income generated by the funds accrues to the poor?". Even under the generous assumption that one-third of the new income generated by all these transactions goes to hire poor workers, more than two-thirds of the total income generated by the social investment funds will wind up in the hands of importers, businessmen, and salaried staff –few of them poor. Thus, paradoxically, in countries with extremely skewed income distribution, the major proportion of the benefits derived from any income-generating schemes –even direct handouts– will tend to accrue to the upper echelon earners (although not in a proportion large enough to further concentrate income).

10. Can an emergency safety net for a few lead to a broad strategy to combat critical poverty?

In the aftermath of a long recession –the deepest since the 1930's– Latin American governments have had to introduce painful adjustment programmes to "put their houses in order" and achieve some degree of stability. In addition, they have adopted structural adjustment policies based on greater market orientation, private-sector activity, and openness to the outside world.

In the process of implementing this common course of economic policy, it has become evident that, in a democratic political framework, the market-oriented model is incompatible with mass poverty. In any case, "stabilization amidst poverty" and "elections amidst misery" are certainly not desirable goals.

Economic considerations and political pressures-exacerbated in fact by the emergence of democratic regimes –have shaken traditional apathy concerning the plight of the poor and led governments to search for ways to ease social tensions. The focus of government attention is changing from economic efficiency policies to poverty issues. At the same time, international financial organizations and some donor countries, increasingly aware of Latin America's critical social problems and concerned about the survival of the structural adjustment programmes that they are sponsoring, have also recognized the urgency of improving the situation of those sectors of the population that have been hardest hit by the crisis and by the adjustment process itself. Indeed, their influence has been catalytic in setting up and getting poverty alleviation schemes off the ground. Thus, the coincidence of domestic and external concerns, coupled with the possibility of obtaining donations and soft financing in foreign exchange, has been conducive to the establishment of emergency social investment funds in a number of poor countries in the region.

Perhaps their main accomplishment has been to show how much can be done –and how rapidly– when there is the political will to do so. A corollary to this would appear to be that poverty is more a consequence of a want of political will than of a shortage of resources, and that the vicious cycle of lack of donor trust and bureaucratic incapacity can be broken.

Undoubtedly, bringing the issue of poverty to the forefront and showing that governments are beginning to do something about it represents a significant step forward. However, if political will and foreign aid can trigger such a rapid response, is it not possible to broaden the scope of the emergency funds or create new schemes that can focus on the whole of the countries' abysmal poverty? Conditions appear ripe for the governments to advance in this direction by introducing broad, long-term programmes to combat poverty, not only for the sake of social justice and political expediency but as a requisite for the countries' economic viability and growth.

The ideology and cobwebs of the East-West confrontation have been swept away. At the core remains not a capitalist system to be perfected but the age-old social and economic dilemma of most Latin American nations: large, impoverished masses that participate little and benefit less in their countries' economic growth. The solution to this enormous problem requires first of all, the participation of the poor themselves. The State will also have to play a leading role. It cannot be bypassed. Thus, resolute measures will have to be introduced to modernize the State and make it "leaner and meaner". Finally, a broad programme for combatting structural poverty in extremely poor countries will necessarily require a strong infusion of external financial aid and the political backing of the international community.

Notwithstanding their many shortcomings, the social investment funds are creating technology in the sphere of social action. Their very existence can be used to pave the way for the adoption of broader social policies and programmes and institutional reforms.

(Original: English)