

# Social Fund and Poverty Reduction with Reference to the Ethiopian Social Rehabilitation and Development Fund (ESRDF)

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## **1: Introduction**

### **1.1. General**

International development experiences with “social funds” (SFs) or “social investment funds” have been changing dramatically since the SF mechanism emerged in mid 1980s.

“Social investment funds were created in Latin America and the Caribbean to alleviate the impact on the poor of the reduction in income and employment caused by the debt crisis and of the structural adjustment and reform measures taken to lay the basis for renewed growth. The traditional social sector ministries were ill prepared for this task. Social investment funds were seen as a means to re-establish the credibility of government and secure political support for the reforms” (Glaessner et al., 1994: xi).

In view of this, the first “social investment fund” (SIF) or “social fund” (SF) emerged in 1987<sup>1</sup> in Bolivia as an emergency response to a general economic downturn (WB, 2001:155). Originally, SFs were considered as social safety nets but they evolved to meet multiple objectives with more emphasis towards poverty reduction.

A social safety net addresses the needs of vulnerable groups and keeps them from falling into absolute poverty, while SFs aim to reduce poverty, reintegrate destitute groups into the economy and fund local organizations through a demand-driven approach (Marc et al.,

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<sup>1</sup> Data as regards the actual start-up year has to be considered with caution; other data indicates the year 1986 (Pscacharopouls and Nguyen, 1997:6) and another 1985 (Graham, 1992:1234; Klitgaard, 1997:1965).

1995:1). The so-called demand-driven nature of SFs imply co-financing<sup>2</sup> from beneficiaries to ensure that projects are not responding to need but to demand (Joregensen and Van Domelen, 1999:7), which makes them specifically different from conventional governmental and Non Governmental Organizations (NGOs) programmes.

Presently, SFs exist in over 50 countries, mostly in Latin America and Sub-Saharan Africa, and increasingly in other regions; and are likely remain a feature of the development landscape for the foreseeable future (Fumo et al. 2000:1).

Like many other SFs, the pilot SF in Ethiopia, i.e. Ethiopian Social Rehabilitation Fund (ESRF), had been initiated to assist in the reintegration of demobilised soldiers and dislocated civilians into the economy and society at the end of the civil war in 1991 (Hailemikael et al., 1993:2). It was also intended to serve as a pilot programme to test the applicability of the SF mechanism in the Ethiopian context.

In light of this, in 1996 the Government of Ethiopia (GOE) and donors reviewed the pilot ESRF and decided that it be extended as a countrywide project to serve as the institutional arm of the government to reduce poverty. Accordingly, the expanded project, i.e. Ethiopian Social Rehabilitation and Development Fund (ESRDF) has been charged with the task of helping the poor have access to basic social services and to raise their income generating potential through the provision of economic infrastructure and services (Federal democratic Republic of Ethiopia (FDRE), 1996: Proclamation No. 19/1996). The ESRDF was also identified as one of the potential component of Ethiopia's Interim Poverty Reduction Strategy Paper (EI-PRSP, 2000:22).

ESRDF was established to provide a "key" role in the alleviation of poverty through the SF mechanism, which includes the targeting of poor communities, "demand-driven" partial financing, community mobilization and empowerment, which is aimed at increasing popular participation and assisting grassroots organisations and communities to increase their technical and managerial capacity in all aspects of project processing, (see Figure 1), which makes it a people-centred project in reaching and engaging poor communities.

However, experience shows that issues like internalizing the SF principles, poverty targeting, community participation and empowerment have become serious challenges.

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<sup>2</sup> For instance, at least 10 percent of the investment in cash, labour and/or local materials (sand, stone, timber, water) in Ethiopia.

## **1.2. Objectives of the paper**

This general objective of this paper is to examine the efficiency and relevance of the SF mechanism in Ethiopia in bringing impact on PR on a sustainable basis.

Specifically, it aims to:

- Review the performance of the SF in the Ethiopian condition
- Identify major problems encountered, outstanding issues and critiques
- Propose measures to strengthen the capacity and momentum created by ESRDF
- Propose policy inputs for diversification and/or restructuring of the SF mechanism in Ethiopia.

## **1.3. Methodology**

The paper is mostly a “desk review” which is based on available data compiled by ESRDF and materials contributed on the subject. It was complemented by personal work experience in ESRDF over seven years.

## **1.4. Structure**

The paper is organised in six chapters. Chapter 1 gives the introduction. Chapter 2 presents the evolution of poverty targeted development strategies, i.e., a general outline of the dominant paradigms and the major intervention areas for PR over the last half-century. Chapter 3 highlights background information on the genesis of SFs. Chapter 4 analyses the SF experience in Ethiopia starting from the pilot phase to the expanded project. Chapter 5 discusses the major issues and critiques in the light of the Ethiopian experience. Chapter 6 concludes the paper.

## **2. Overview of Approaches to Poverty and Poverty Reduction**

Poverty has been one of the main challenges facing human kind since time immemorial. There has come a major shift in human thinking and policy on poverty in mid 20<sup>th</sup> century from a moralistic and ideological approach, like alms giving, charity support by the rich and the church, social insurance<sup>3</sup> and state support<sup>4</sup>, to the one foreshadowing the development agenda. Accordingly, the approach to poverty and PR in the developing countries has been evolving since the 1950s.

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<sup>3</sup> Including family support, kinship solidarity, self-help associations, etc.

<sup>4</sup> Like the Poor Laws in England in 1601 and 1834.

Following the Second World War and, which came to be known as the “modernization era”<sup>5</sup>, the development policy pursued in most of the developing countries placed greater emphasis on economic growth (Krueger, 1995:2501; Elson, 1997:50). Poverty was not specifically at the forefront of the modernization policy but the process of growth and industrialization were widely believed to have a “trickle down” effect on poverty.

The major concern was how to achieve high economic growth rates mainly through industrialization (Krueger, 1995: 2501; Hirschman, 1984:96). The role of agriculture was to take a back seat to industrialisation (Ramirez, 1991:85), which was to provide low cost food items and input materials and cheap labour to support industrialization.

The dominant argument was further strengthened by the fact that the first United Nations Development Decade in the 1960s had at its central thesis that poverty in the developing countries would be rapidly overcome by measures to accelerate economic growth (cited in ILO, 1977:1).

Streeten and others (1981:9-11) examined three justifications for the emphasis on growth to eradicate poverty, none of which turned out to be universally true. They indicate that there was no automatic tendency for income to be widely spread, nor did governments always take corrective action to reduce poverty. Also a period of enduring mass poverty was not needed to accumulate capital. Lipton and Ravallion (1995:2560) note that the early industrialization plans of the post-colonial era largely failed the poor.

However, modest attempts were made since the mid 60s to address poverty by increasing food production mainly through the “Green Revolution” which was based on the small farm approach. Another influential argument<sup>6</sup>, which was somehow linked with poverty reduction, came in support of the hypothesis of T.W Schultz (1964) that small farmers are rational in organizing their resources to respond to new opportunities. The view was that issues of growth and poverty could be simultaneously solved.

The “Green Revolution”, which some considered as “poverty mystery”, brought tremendous increase in yield; yet it still seems that there has been little change in the incidence of poverty (Harriss, 1992:130). Jazairy and others (1992:10) also note that the distribution of benefits from this growth in output was unevenly distributed and an increase in food production did not necessarily mean that hunger and poverty were commensurately reduced.

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<sup>5</sup> Mostly referred to as from the late 1940s through 1960s.

<sup>6</sup> The efficient small farmer argument, which postulates an inverse relationship between farm size and efficiency, i.e., the lesser the size the better the efficiency, with (family) labour being cheap and capital expensive. The “Boserup (1965) Thesis” also adds increased technological innovation in small-scale agriculture as land becomes scarcer relative to labour.

Also in the late 1960s a number of countries, what some call the “famous four” (Lal and Myint, 1996:200) and some as the “gang of four” (Ramirez, 1991:101; Bhagwati, 1985:546) East Asian countries<sup>7</sup> diverted from the then conventional development policy, although state intervention in the economy is still strongly advocated, towards export oriented development strategy and the nature of growth was somehow “egalitarian growth” (Ahluwalia, 1990:115-23; Perkins et al. 2001:143).

Accordingly, attention shifted from the “trickle down” effect of economic growth to issues relating to employment, income distribution and poverty targeted development interventions. In 1969 the ILO launched the World Employment Programme (Streeten et al. 1981:12; ILO, 1977:2). However, the concept confronted criticisms at its pilot phase and it was argued that the root problem is poverty, or low-productivity employment, not unemployment as is the case in industrialized countries (Streeten, 1981:12-13).

The other major themes in the 1970s were “redistribution with growth” and “basic human needs” (Perkins et al., 2001:141). The main objective of “redistribution with growth” (RWG) (Chenery et al. 1974) was on a “growth-cum-distribution” theory (Ahluwalia and Chenery, 1974:38-43) that brings out the linkages between the growth of different economic groups and defines the scope for policy intervention, among others, in tax financed transfers from the incremental income of the rich to the poor and the provision of public services to enhance the productivity and purchasing power of the poor.

The results of RWG were very modest, at any rate for low-income countries and the model excluded the human capital aspects of some form of consumption and the impact on labour utilization, which are stressed by the basic needs (BN) approach (Streeten et al. 1981:16). The potential for RWG is also affected by lack of wider tax base in most of the developing countries, the smallness of the public sector, which has less revenue generating capacity, and the distorted regulation of prices of agricultural output and urban bias.

Then came a question of priority as to which should come first, i.e. reduction in inequality or meeting BN; and it was argued that meeting BN is a more important objective than reducing inequality (Ibid. 17), e.g. removing malnutrition in children and eradicating disease are concrete, specific achievements that meet the basic human needs of deprived groups whereas reducing inequality is complex objective and operationally ambiguous. However, some objectives within BN it self are also tantamount to tackling inequality, e.g. educating girls.

Consequently, the ILO conference in Geneva in 1976 endorsed the BN approach to development (Emmerij and Ghai, 1976). The conference also stressed that national policies should include explicitly as a priority objective the satisfaction of the BN of the masses.

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<sup>7</sup> Taiwan, Singapore, South Korea and Hong Kong.

The BN strategy aims at “providing the poor with several basic commodities and services: staple foods, water and sanitation, health care, primary and non-formal education, and housing” (Perkins et al. 2001:144). Furthermore, the approach encompasses basic issues like redistribution of assets, especially land, employment, participation of the people, population growth, and an increase in investment to enhance the supply of infrastructure and amenities like roads and rural water supply schemes that improve the living conditions of the poor. The BN approach was more people-centred and focused towards PR although its appeal was affected by weak implementation in many countries due to lack of political commitment, especially for land-tenure reforms and shortage of investment and aid. Many countries also confronted adverse international terms of trade in 1970s including the two oil price shocks. This resulted in macro-economic destabilization in the poorer developing countries and general inflation problems.

This led to the dominance in the 1980s of neo-liberal thinking (Fine et al. 2001)<sup>8</sup> in the major donor countries (USA, UK and Germany) and was adopted by the Bretton Woods Institutions. The WB, which embraced PR as its agenda in the 70s became more concerned with policies consistent with the liberalization drive, i.e. structural adjustment programme (SAP) while the IMF was catering for the stabilization programme. The SAP and stabilization programmes pursued in many developing countries resulted in the retreat of the state from economic intervention, adoption of free market strategy, trade and exchange rate liberalization, and “getting prices right”.

There are divergent opinions on the outcomes (strength and weakness) of SAP and stabilization programmes in general and on poverty in particular. Although contested by some (cited in Kakawani et al. 1993:136), the reform or adjustment programmes induce short-term negative impacts on employment, social welfare programmes and food prices, which leads to a drop in living standards among the poor (Ibid. 135; Grootaert and Marchant, 1991:22). Subbarao and others (1997:1) note “Regardless of a country’s location, be it in Africa, Latin America, Asia, the former Soviet Union, or Eastern Europe, economic crisis and the adjustment or transition that follows have adverse short-term effects on the living standards of vulnerable groups. And shrinking budgets are severely restricting the amount of resources available for social assistance”. Furthermore, “If markets and economic efficiency were one dominant theme of the 1980s, poverty and deprivation formed another” (Mackintosh, 1992:6). For the poor in some countries of Latin America and in most Sub-Saharan Africa, the 1980s was a lost decade (WB, 1990: iii).

In view of this, the reform and adjustment process have given rise to issues like the increased role of NGOs, community-based development (CBD) and “adjustment with a human face” (Cornia et al. 1987) which is associated with UNICEF (Messkoub, 1992:194; Kakawani et al. 1993:136) which added a poverty alleviation dimension to adjustment. This set of ideas has

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<sup>8</sup>Which is cited as the “Washington consensus”.

had some influence on the WB's approach to human aspects of adjustment. Subsequently, the WB's adjustment lending embraced poverty concerns in the adjustment process. The SF mechanism was then considered as a safety net.

"In 1985 Bolivia launched one of the most aggressive free-market adjustment in the hemisphere, with radical stabilization and liberalization. Worried about the damaging short-run effects on the poor, various donors and the government decided to initiate an Emergency Social Fund. The idea was to fund public works based on applications from local communities. A key goal was massive job creation at the minimum wage in three pilot regions" (Klitgaard, 1997:1965).

Consequently, many countries implemented SFs as they proved to be an efficient mechanism for getting resources to the poor in emergency and non-emergency scenarios (Narayan and Ebbe, 1995:2).

In the 1990s the need for addressing poverty was clearly recognized. The WDR1990 introduced "advice" for PR based on labour-intensive growth, provision of social services, i.e. investments in human capital, and safety nets including SF. The UNDP's new approach (UNDP, 1990) to human development and poverty intensified the emphasis for poverty reduction. Likewise, International Fund for Agricultural Development (IFAD's) report (Jazairy et al., 1992) advocated a holistic and livelihood centred development approach. There was switch from the purely economic thinking into new views of complex issues, i.e. social, gender, participation, environment, etc.

In view of the concern for world poverty and the debt problem of Highly Indebted Countries (HICs), there has come a "dramatic policy shift" that led to the adoption of Poverty Reduction Strategy (PRS). In 1996, the WB and the IMF launched a debt relief process known as the Heavily Indebted Poor Countries (HIPC) Initiative for the low-income countries. The UN World Summit for Social Development held in Copenhagen in 1995 committed itself, among others, to reduce the proportion of people living in extreme poverty between 1990 and 2015.

In 1999 the international community agreed nationally-owned participatory PRSs should provide the basis of all WB and IMF concessional lending and for debt relief under the enhanced HIPC Initiative; and this approach, building on the principles of the CDF, was to be reflected in the development of PRSPs by country authorities (WB, 2000:1). However, one can only assess progress at this stage, as it is an ongoing process (WB, 2002:5).

At the turn of the century, PR is still at the centre-stage (WB, 2001:1) and there seems to be an intensification of the commitment towards the SF mechanism.

### **3. Characteristics and Experience with Social Funds**

#### **3.1. Background**

“Since the first internationally known social fund, the Fondo Social de Emergencia in Bolivia was established in 1987, the world has seen an explosion in the number of these institutions and a proliferation of objectives and modes of operation” (Jorgensen and Van Domelen, 1999:7). A number of factors have contributed to this trend.

Firstly, SFs complement and reinforce structural adjustment and reform policies (Glaessner et al. 1994:xiii). Following the debt crisis of the early 1980s, civil wars and the emergency measures, such as the drastic cuts in imports and public expenditures, many countries adopted comprehensive structural adjustment and reform measures to lay the basis for renewed and sustainable growth (Ibid.1). However, it was realized that promoting growth takes time and some groups of people may suffer in the transition whereby various safety net measures including SFs are necessary to protect the vulnerable (Psacharopoulos and Nguyen, 1997:ix).

Rapid employment generation was the major concern of many of the SFs established as an emergency response to reintegrate workers laid-off due to adjustment and the unemployed, e.g. Bolivia’s FSE generated a total of 731,000 man-months of employment and by mid-1987 almost 30,000 people, some 3% of the total labour force, were working at projects funded by the agency (Glassener et al. 1994:9).

Secondly, SFs were started as an alternative temporary institution to fill an “institutional gap”. In addition to their weak institutional capacities and top-down system of selecting projects with little, if any, input from beneficiaries, the traditional social sector ministries in many Latin American countries were weakened by the budgetary cutbacks and rapid inflation resulting from the economic crises of the 1980s (Glaessner et al. 1994:2). SFs were justified in terms of having a rapid impact or reaching the target group more efficiently where line ministries cannot use their structures to respond quickly to rapid deterioration in social conditions, nor in many cases to reach the needy group in a sustainable way (Marc et al. 1995:2).

Thirdly, political factors were important elements in the creation of SFs that take speedy and effective action to assist vulnerable and/or neglected groups and use participatory approach to secure government’s credibility and political support for the ongoing economic reform (Glaessner et al. 1994:3). SFs also facilitate decentralization efforts, which is not only new to many countries but is a politically sensitive area.

Fourthly, SFs have been effective in mobilizing grassroots communities and organizations. SFs are claimed to be not mere “welfare provision” mechanisms but promoters of alternative



development strategies in a participatory manner by creating an enabling and empowering environment. Traditional social welfare ministries did not effectively reach and engage the poor (Conning and Kevane, 2000:1).

In view of the shake-up of “top-down” planning and the collapse of centrally planned economies, the role of governments is also changing from an “all-doing entity” to be more a “facilitator and helper” leaving the private sector and the community “to do what they can do best”.

The genesis of SFs is therefore in response to changing circumstances in the 1980s. However, before the emergence of SFs some developing countries such as India had developed a variety of safety nets (Cornia, 1999:5) and several agencies, which share many operational characteristics with SFs (Jorgensen and Van Domelen, 1999:7). Experience also shows that the SF mechanism has shown greater flexibility and adaptability from emergency “compensatory” response to “promotive” measures.

Owing to the diversity of portfolios handled by SFs and the modifications to the original model, there is no one best definition of SF. Jorgensen and Van Domelen (1999:1) have suggested the following working definition of SFs:

“Agencies that finance small projects in several sectors targeted to benefit a country’s poor and vulnerable groups based on participatory manner of demand generated by local groups and screened against a set of eligibility criteria. Social funds operate as second tier agencies in that they appraise, finance and supervise implementation of social investments identified and executed by a wide range of actors, including local governments, NGOs, local offices of line ministries and community groups. Objectives of social funds can range from providing compensation to the poor during times of economic crisis and adjustment to long-term poverty alleviation and social capital creation in marginal areas and populations”.

In general, SFs are one component of the social protection or social risk management (SRM) system which includes: interventions to deal with risk, areas that are not related to human capital including infrastructure projects to reduce the effects of drought, economic policies to reduce macroeconomic shocks, etc. and measures to deal with the incapacitated poor (Ibid. 3). They further classify typology of risk management in three strategies: prevention strategies, mitigation strategies, and coping strategies. Although SFs could contribute under all three strategies, the important areas seem to be risk reduction/prevention and mitigation strategies, which encompass the medium-to-long term multi-sectoral interventions, rather than coping strategy where other short-term transfer programmes are better suited.

The WDR 2000/2001 “tri-pillar framework” or “tri-partite strategy” on poverty proposes three important areas for PR, i.e. opportunity, empowerment and security. It also reviews SRM in terms of seven tools especially relevant for the poor people, of which the SF is one (WB,

2001:135). SRM or social protection including SFs falls under “security” which includes providing poor people with the means to cope with economic shocks and natural disasters. SRM also fits with important influences on voice (e.g. by helping communities organise to manage risk) and opportunity (e.g. helping the poor take on higher risk and higher return activities, or take advantage of opportunity); and the social protection interventions dealing with the incapacitated poor are like a safety net spanning all the three pillars or strategies to help those who have no voice and are unable to manage risk and take advantage of opportunities (Jorgensen and Van Domelen 1999: 3)

### **3.2. Approaches and features of SFs**

SFs are basically funding entities. They have subproject menus but they do not propose or identify projects, nor are they much supposed to engage in implementation activities, although they provide technical assistance for those who lack the capacity to implement projects.

SFs follow a decentralised structure and bottom-up planning process. In line with their “demand-driven” approach of funding, the portfolios of projects to be handled by SFs depend upon the requests coming from communities, local government, NGOs, civic societies, etc. The justification for SFs is that they support demand-based or community-driven, cost-effective and sustainable projects. As they support small-sized projects with community participation and cost sharing, they are expected to implement with speed, and quality.

Notwithstanding the differences in the design of SFs and the variety of their activities, there are certain recent features, which commonly describe them:

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- SFs targeting is towards the poorest of the poor (focus on women and vulnerable groups and in the backward and inaccessible regions) which are often not reached by traditional government and NGOs programmes
- Almost all SFs are under the purview and control of government, but management is usually private sector style and is more similar to NGOs. SFs have thin structures and operate with limited staff and project vehicles, but with relatively higher salaries and higher performance standards
- SFs operate as a “semi-autonomous” agency mostly outside line ministries. They are accountable to the head of government or a Board assigned by the head of government
- They follow a promotion focused and community centred sub-project processing cycle
- Although mostly started to provide short-term protection to vulnerable groups, most have evolved as more permanent components of a medium to long-term PR institutions. They handle multi-sectoral programmes to improve the living conditions of the poor

- Although some started operations to mitigate the unemployment effect of adjustment mostly in urban areas, SFs tend to have a rural orientation
- SFs have become to rely on a community-driven development (CDD) approach where participation and capacity building are explicit criteria for funding approval.

### 3.3. Programme contents

The SF portfolio is nowadays diverse and their modes of operation vary from country to country. The fact that the term “social fund” has been applied to a variety of activities could be seen from their names, (e.g. Emergency Social Investment Fund, Social Action Fund, Social Investment Fund, Community Development Fund, Development and Compensation Fund, Social Recovery Project).

SFs have demonstrated successful institutional replicability and adaptability in their short history of development; most incorporate objectives in improving infrastructure, employment, broader-based community development, delivery of social services and support for decentralization (Jorgensen and Van Domelen, 1999:9).

According to one survey (Narayan and Ebbe, 1997:2 -3) of 51 WB supported<sup>9</sup> SFs in 32 countries, most cover the provision of economic infrastructures<sup>10</sup>, investment<sup>11</sup> in education, health, sanitation, and water facilities, and equipment, administration. However, it is claimed that the most dramatic shift recently is towards demand orientation, community participation and sustainability of subprojects (ibid. 2).

**Table 1**  
**Project Components Financed with Social Funds**

<b>Component</b>	<b>No. of projects (51)</b>	<b>Percent</b>
Social Service Programmes	33	65
Social Service Infrastructure	30	59
Economic Infrastructure	45	89
Credit/Enterprise Development	12	23
Poverty Monitoring	11	22
Project Monitoring and evaluation	12	24
Studies, Information Campaigns	15	29
Training, Technical Assistance, Contractors, Consultants	27	33
Community Development, Grassroots Participation	14	27
Institutional Development	8	16
Equipment, Administration	37	73
Parallel Financed Works	10	20
Contingencies	19	37

Source: Narayan and Ebbe, 1997.

<sup>9</sup>With a commitment of about US\$1 Billion as of the end of fiscal 1996.

<sup>10</sup>Roads, civil works, irrigation, land reclamation and natural resource management and water supply.

<sup>11</sup>Infrastructure and non-infrastructure (social service programmes).

### 3.4. Achievement and weaknesses

In view of the innovations in the design of SFs and the variety of their applications, the experience with SFs varies from one country to another. Even within the same country the experience may vary where there are more than one SF like Egypt and Albania which have different lines of operation; variations are also likely between regions and within a region depending upon the areas of intervention, human resource, local infrastructure, political will and determination to properly implement its philosophy.

Therefore, the achievement and weakness of the SF is likely to vary in accordance with their programme objectives, local conditions and mandate entrusted to them. In addition there is no adequate data and information on impact assessments of SFs, as. impact assessment of SFs in the world was so far conducted only for three SFs<sup>12</sup> (WB, 2000:i).

The International Workshop on Social Funds in 1997 at the WB's headquarters in Washington reviewed the first ten years implementation of all SFs round the world; and reached a general consensus (Bigio, 1998:4-5) on the main achievements and weaknesses of SFs.

Accordingly, the major achievements include the piloting of successful innovations in emergency and development work, addressing the needs of marginalized groups, reaching the poor and those communities that, on account of physical isolation, social exclusion, or gender and ethnic barriers, were not benefiting from the national investment programs or from the state's ordinary social safety nets, if available, and have highlighted the importance of community-based development and partnership between the public and private sectors.

The major weaknesses identified include misplaced expectation that they will eradicate "structural poverty"<sup>13</sup>, difficulty of assessing their impact on the permanent welfare of beneficiaries due to the provisional nature of their intervention and to a general lack of baseline information on ex-ante incomes, inability to effectively reach the poorest of the poor, who are unable to express their needs, formulate requests, obtain a sense of ownership of the projects, and marshal the required participation, lack of coordination within the public sector, insufficient operation and maintenance of constructed infrastructures, and tendency to disregard cost recovery and user fee policies often the result of painful sector reform processes.

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<sup>12</sup> Bolivian, Honduran and Nicaraguan SFs.

<sup>13</sup> SFs's budgets account to small percentages of country's overall public spending and macroeconomic policies may be driven by growth objectives with no poverty reduction and income distribution goals.

## **4. The Ethiopian Experience**

### **4.1. General**

Over the last decade, Ethiopia has been implementing economic reform programmes aimed at transforming the war-devastated economy characterised by central planning, state control and ownership to a liberalised economy. It has also embarked on a decentralized form of federal government structure.

A multisectoral Emergency Recovery and Reconstruction Programme (ERRP) was launched in July 1992 and several additional measures were also taken:

- A strategy of Agriculture Development Led Industrialization (ADLI), which attaches due importance to the leading role of agriculture, which contributes about 50 percent of the GDP, and emphasizes improving the productivity of smallholder farmers, complementarities between agriculture and industrial development, and the production of exportable items.
- Macroeconomic stability and various adjustment programmes were implemented, including dismantling of price controls, substantial currency devaluation, privatisation and appropriate incentives given to the private sector.

Safety net programmes targeted at demobilised soldiers, retrenched workers, displaced civilians and returning refugees were also implemented (Mekonnen, 1999:13). The SF was one of such programmes.

However, poverty is still the main challenge in Ethiopia. According to the data from the Ministry of Economic Development and Cooperation (MEDaC)<sup>14</sup> (1999:11-17) about 50% of the population in Ethiopia cannot meet the minimum nutritional requirement, i.e., 2200 Kilo Calorie/day, and 46% of the population is reported to live below the absolute poverty line.

### **4.2. Pilot project**

The pilot ESRF operated mainly in three pilot regions, i.e. Tigray, Addis Ababa and South Shoa, which is now under Southern Nations Nationalities and People's Regional State (SNNPRS).

ESRF had received a total of 1026 proposals, of which 219 met appraisal standard and were approved for financing. Tables 2 and 3 show performance of ESRF and comparison (average cost and time) of ESRF financed subprojects with that of average public agency projects, respectively.

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<sup>14</sup> Which is now called Ministry of Finance and Economic Development (MoFED).

**Table 2**  
**Subproject Completion by Ethiopian Social Rehabilitation Fund (ESRF)**

Subproject Type	Implemented Subprojects (No.)	Total Cost* (Birr)	Community Contribution in Percent	No. of Beneficiaries
Health Infrastructure	33	10,061,439	14.0	369,000
Education	36	14,850,951	17.3	21,600
Literacy & Skills Training	12	6,575,867	48.6	387,231
Urban sanitation	22	7,761,780	9.8	233,701
Rural Water Supply (RWS)	9	3,231,616	12.1	66,859
Small-Scale Irrigation (SSI)	7	4,729,293	55.9	11,330
Feeder Road Rehabilitation	7	5,526,648	3.6	782,712
Drainage	7	3,825,497	9.8	74,590
Storage	4	724,711	7.5	145,500
Conservation	2	852,567	12.0	4,087
Income Generation	80	12,928,359	9.3	14,787
<b>Total</b>	<b>219</b>	<b>71,068,728</b>	<b>18.0</b>	<b>2,111,397</b>

*Source: Staff Appraisal Report on ESRDF (World Bank, 1996:11).*

*Note: ( \*) Total subproject cost includes cost sharing*

The data clearly indicate that the pilot ESRF has proved to be an effective way of implementing "community-based" subprojects. Compared to similar projects implemented by other public agencies, virtually all ESRF financed subprojects show substantial cost saving, the maximum and the minimum being 30 percent and 6.9 percent, respectively. Likewise all ESRF financed SPs show remarkable time saving, ranging from 33 percent to 67 percent.

**Table 3**  
**Comparison of Costs (Birr) and Completion Time**

Project Sector	Average ESRF Cost	Average Public Agency Project cost	ESRF Cost Saving (%)	Avg. ESRF Completion Time	Avg. Public Agency Completion Time	Avg. ESRF Time Saving (%)
Small Scale Irrigation(per ha.)	29,500	40,000	27.5	10 months	30 months	66.7
Rural Water Supply						
Spring Development	27,000	30,000	10	N.S	N.S	
Hand Dug Well	12,400	15,000	17.3	N.S	N.S	
Shallow Well	70,000	100,000	30	7 months	18 months	61.1
Primary Village School	270,000	315,000	14.3	4 months	6 months	33.5
Health Center	1,250,000	1,500,000	16.7	12 months	24 months	50
Health Clininc/Stations	285,000	306,000	6.9	6 months	12 months	50

*Source: Staff Appraisal Report on ESRDF (World Bank, 1996:11)*

*Note: N.S means not specified; while the data for health centres refer to the cost and the time refers to health stations.only.*

An independent mid-term review of the pilot ESRF and six WB led supervision missions have also confirmed that the infrastructure built with ESRF support satisfied national sector standards and has been of good quality (WB, 1996:10).

However, a number of factors contributed to the quick disbursement and cost savings during the pilot phase.

- The pilot ESRF was “management intensive” rather than participatory and community-driven which shortcuts the heavy workload and time to be spent in sensitising and mobilizing communities
- According to earlier data from ESRDF, much of the reported “community contribution” was raised from public agencies and NGOs on behalf of communities
- Ethiopia just started stability and peace for the first time in its history, and memories of the civil war and military dictatorship were fresh among the society which have impacted the goodwill towards a new development oriented approach
- The enthusiasm and dedication of the staff and the relatively better remunerations offered by ESRF, including training and experience-sharing study-tours conducted in foreign countries have greatly stimulated the commitment of professionals
- ESRF mostly operated in few places where the infrastructure is relatively better developed and the subprojects were mainly simple
- While most of the beneficiaries in the case of IG subprojects were ex-service men who are literate and specialized in some occupations, e.g. all the beneficiaries of Dashen Electronics and Electro Mechanical in Addis Ababa were graduates, who also implemented the subprojects, the rest beneficiaries were also assisted by public agencies and NGOs
- The semi-autonomous nature of ESRF and relatively less interference by the regional states have enabled it to escape tight bureaucratic procedures and operate independently, thus taking prompt action on serious matters
- As it was a pilot project there was careful planning to demonstrate the Fund's credibility and win public image
- The authenticity of substantial savings by a newly set-up office raises some questions, i.e. whether it is at the expense of quality such as the case of “Achamo Belesa” access road under the Hosana sub-unit, which led to a quality problem legal case.

As regards the sustainability and impact of ESRF financed subprojects there is no official recorded data or impact assessment report. According to one survey (Melaku, 1996:5-6) of the 33 IG subprojects implemented through the Addis Ababa sub-unit, one did not start operation as of August 1996 and five were reported missing either by selling and/or renting the assets and premises acquired for the purpose of rehabilitating them. Twelve have more or less retained their members as originally planned, which have also diversified their operations, while the numbers of members has been drastically reduced in the case of six due to the unprofitable nature of the schemes forcing members to search for better opportunities elsewhere.

The subprojects were implemented and handed over to the beneficiaries in a rush; and the follow-up and support by ESRF was weak. Once the extended project was launched, there was a tendency to totally move out of the pilot subprojects despite the fact that there should

have been bi-annual post completion monitoring and evaluation as per the Operational Manual (OM).

Some contest the authenticity of substantial savings by a newly set-up office with all its new approach, i.e. whether it is at the expense of quality such as the case of “Achamo Belesa” access road under the Hosana sub-unit, which led to a quality problem legal case.

In addition, the lessons drawn during the pilot phase have shown the complicated nature of IG schemes. Some of the problems include:

- The securing of a plot of land to set-up the IG scheme in potential market areas,
- Viability assessment of IG projects require diagnostic study and cost-benefit appraisal,
- ESRDF is only mandated to provide grant financing of initial investment (up to 90%) and does not have a credit-financing role to cover recurrent costs and working capital components. Owing to the micro finance policy in Ethiopia this should be handled by a licensed financial intermediary.

#### **4.3. Extended project**

The design of ESRDF<sup>15</sup> has been based on the experience of the pilot ESRF and some 30 other WB supported SFs and social programmes in Latin America and Africa (WB, 1996:13).

Proclamation No. 19/1996 approved by the House of People's Representative established the ESRDF or “the Fund”. It is a five-year programme and started operation on a national scale in July 1996<sup>16</sup>.

The ESRDF follows decentralized organisational structures that follow:

- Federal Level
  - ❑ Board
  - ❑ Central Office (CO)
- Regional Level
  - ❑ Regional Steering Committee (RSC)
  - ❑ Regional Office (RO)

The ESRDF Board<sup>17</sup> guides and supervises the overall operation of the Fund. The role of the CO is rendering technical assistance and support to ROs, planning and managing financial

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<sup>15</sup> Which is an extension of the pilot project to other regions in Ethiopia.

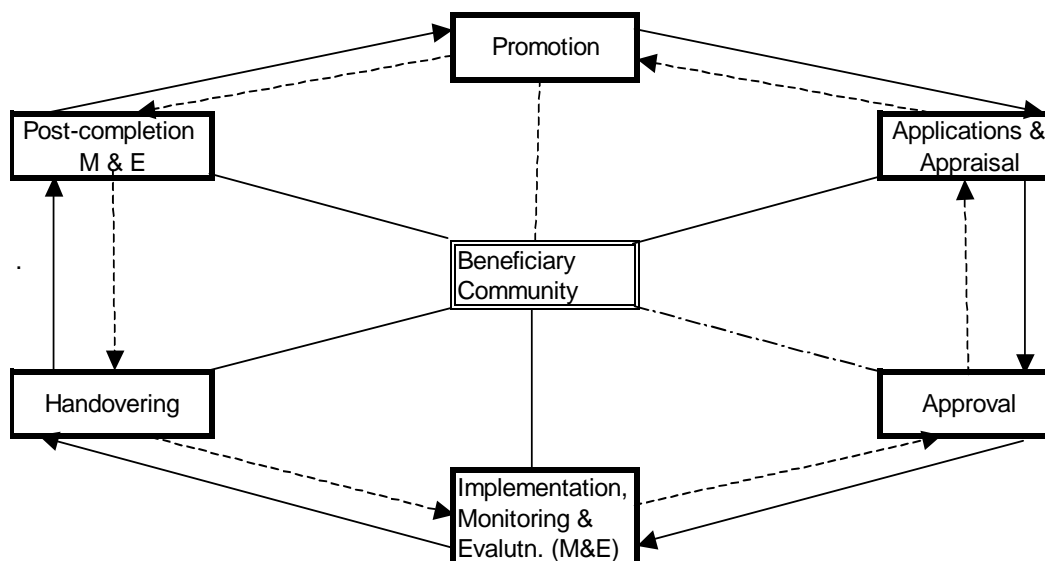
<sup>16</sup> The lead-time between the termination of the pilot project and the extended project was a preparatory phase to enable the three pilot regions to complete carried-over activities while for the newly set-up eight Regional Offices (ROs) it was intended to use this time to orient them with social fund principles and working procedures and fulfil their manpower and office facilities.

<sup>17</sup> Which is chaired by the Prime Minister or his representative and composed of five key ministers, is the highest policy level organ, which



transfers to ROs accounts, monitoring and evaluation of subprojects implementation, and managing the ESRDF capacity building, training and research programmes.

**Figure 1: ESRDF Subproject Processing Cycle**



**Source:** Developed by the author from the text version in ESRDF Operational Manual (1996:iii)

There are 11 ROs, of which the three bigger regions (Oromiya, Amhara and SNNPRS) have sub-regional offices (SROs). Regional Steering Committees (RSCs)<sup>18</sup> approve the implementation of subprojects appraised by their respective ROs.. Each RO promotes ESRDF activities throughout the region, disburses funds and follows-up implementation activities including monitoring and supervision.

The “beneficiary” of ESRDF is defined as “a community group to whom, or for whose benefits, a grant is made, or proposed to be made” (Development Credit Agreement (DCA), 1996:2). At grassroots level, ESRDF works with CPCs<sup>19</sup>, which are elected by the community for the purpose of subproject implementation and other partners and implementing agencies, which could be government agencies or NGOs. Notwithstanding the community dilemma, i.e. size and homogeneity, ESRDF’s OM elaborates “beneficiary community or community group” as a “group of people” residing in a defined “geographical area (rural or urban)” and “sharing a defined set of features” setting them apart from other communities. Narayan and Ebbe (1997:4-5) also indicate the domain of SFs as “community groups not communities”<sup>20</sup> and in

<sup>18</sup> Each RSC is chaired by the President of the region or his representative and composed of members from appropriate Sectoral Bureaux and civic organizations.

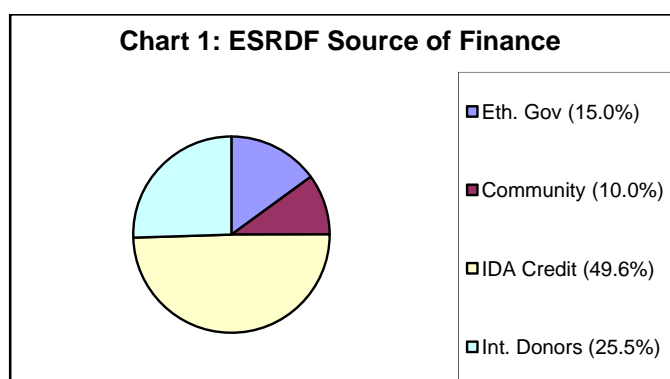
<sup>19</sup> CPCs, which are accountable to the beneficiary community, are expected to participate actively in subproject processing cycle and will be key party to contractual arrangements. They are also responsible to raise the minimum 10 percent contribution from the beneficiary.

<sup>20</sup> Communities are not homogenous entities; great differences exist within most communities, in power and interest, and by wealth, gender, and ethnicity.

community-driven initiatives the focus is on groups in a community that come together to take action.

The major categories of subprojects considered for ESRDF financing include basic education and health, rural water supply (RWS), small-scale irrigation (SSI) schemes, training and capacity building (TCB), small IG activities and support of micro financing institutions (MFIs), and urban sanitation, which is sometimes categorized under RWS and sometimes under health. Requests for funding are submitted in the form of project proposals, which are available at all regional or sub-regional offices.

The total five-year budget estimated is about US\$ 242 million (WB, 1996:19), of which SDR 80.80 million or US\$ 120 million<sup>21</sup> equivalent is credit from International Development Association (IDA) of WB.



**Source:** *Elaborated by the author from the SAR on ESRDF (World Bank, 1996:36).*

Although the portfolio of a demand-driven Fund is to be determined by the requests it receives for funding mostly after its promotional campaign, “projections have been made of the likely scope of ESRDF activities based on the pilot ESRF, the regional studies, and extensive Government surveys of community needs” (Ibid.19).

The ESRDF budget allocation to the regions is done in line with the Federal Budget Allocation Criteria (FBAC), which has been evolving and as at 2001 is based on factors like population (60% weight), level of development (25%) and revenue generating capacity (15%) of regions.

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<sup>21</sup> Actually IDA credit, which is concessional, is in Special Drawing Right (SDR), i.e. SDR 80.80 million, and its equivalent amount in US\$ and Ethiopian Birr will vary as per applicable exchange rates, e.g. the initial US\$ 120 million equivalent amount has changed to US\$ 108 million in 2001.

**Table 4**  
**Projected Costs (US\$ millions) and Number of Subprojects and Beneficiaries**

Component	Year 1	Year 2	Year 3	Year 4	Year 5	Total		
						Cost US\$	Subproj. (No.)	Benef.(No.)
RWS	9.12	15.01	22.95	18.32	9.64	75.04	13,053	3,381,500
SSI	4.46	23.11	26.77	13.58	7.03	74.95	18715ha	439,220
Health	2.95	5.74	8.03	7.75	4.38	28.85	357.00	3,000,000
Education	2.74	5.33	7.46	7.19	4.08	26.80	340.00	108,000
Urban Sanitation	0.22	0.43	0.61	0.59	0.33	2.18	68.00	147,000
Study Fund	0.16	0.16	0.16	0.16	0.16	0.80	NS	NS
TCB	4.07	3.30	2.70	2.17	0.10	12.34	NS	NS
Welfare Monitoring	1.33	0.53	0.52	0.41	0.34	3.13	NS	NS
Equipment Vehicles	2.63	1.19	1.33	0.01	-	5.16	NS	NS
Operating Costs	2.19	2.68	2.76	2.76	2.76	13.15	-	-
<b>Total</b>	<b>29.87</b>	<b>57.48</b>	<b>73.29</b>	<b>52.94</b>	<b>28.82</b>	<b>242.40</b>	<b>32,515</b>	<b>7,075,720</b>

*Source: Staff Appraisal Report on ESRDF, World Bank 1996.*

*Notes: NS means not specified*

*The no. of beneficiaries in the case of education subprojects shows the enrollment per year.*

*Ha means hectare*

On the basis of the projections, the economic rate of return (ERR) of ESRDF project components and the package as a whole were calculated (Ibid. 20 – 25). A health centre, on average efficiency rate of 50 percent, would yield an ERR of 46 percent and the education component shows an ERR of 16 percent. The overall ERR for the RWSS and urban sanitation components will be 24 percent and 37 percent, respectively, and the ERR for SSI component will have a median value of 13.5 percent. The ERR of the ESRDF package as a whole will be 22.6 percent.

With regard to actual performance, the Fund's initial operation has been geared mainly towards commissioning of infrastructural facilities and services and financing of TCB subprojects rather than investments in IG schemes, except for small grants to capacitate the micro-financing institution (MFIs). This was due to various reasons including the withholding of US\$10 million IDA fund pledged to the sector.

Although the five-year programme of ESRDF was expected to end in July 08, 2001, the GOE and the WB have agreed to extend the Phase I period till December 2002 in order to utilise the remaining budget balance and prepare the second phase.

Table 5 shows the physical performance of ESRDF. During the Fund's 5-year operation<sup>22</sup>, the number of subproject applications was 8,435. As the Fund did not encourage the receipt of IG subprojects most ROs used to outright reject IG applications, despite the strong demand for IG subprojects.

<sup>22</sup> As regards data on physical and financial performance of ESRDF, the reported figures are mostly variable due to the inability to reconcile the MIS output and the manual data of the Planning and Programming Service (P&PS).

Out of the total applications, 4612 subprojects or 55 % were appraised by ROs. As per the OM, appraisal will be conducted at desk level and field level where they will be located, but the field level appraisal might sometimes be disregarded to avoid delay and infrastructure problems. Of the total appraised, 4102 subprojects were recommended for approval by the RSCs and 4043 or 99% were approved, showing the high acceptance rate of appraised subprojects since the appraisal is a formality as most subprojects are already incorporated in the regional capital budget.

**Table 5**  
**Summary of Five-year Subproject Performance by Ethiopian Social Rehabilitation and Development Fund (ESRDF)**

Particulars	Number of total SPs	Sectoral Distribution of SPs as Percent of Total				
		Education	H & S	RWS	SSI	Others
Applications received	8435	29.0	20.0	36.0	6.0	9.0
Appraised	4612	25.0	19.0	44.0	4.0	7.0
Recommended for approval	4102	23.0	18.0	48.0	4.0	7.0
Approved by RSCs	4043	23.0	18.0	48.0	4.0	7.0
Transferred to implementation	3195	24.0	18.0	47.0	4.0	7.0
Completed	2557	19.0	23.0	50.0	3.0	5.0

*Source: CO of ESRDF, complied from report for Ethio-Forum 2002 Conference*

Of those approved, 3195 were transferred to implementation, of which 2557 or 80% were completed. Throughout the cycle, RWS subprojects, mostly small-size subprojects (spring development and hand pumps), account for the major share, e.g.. 50% of the total completion followed by H&N and education, which accounted for 23% and 19%, respectively.

The number of beneficiaries is calculated by accounting the standard capacity rates and does not include construction workers deployed during construction. However, the data on beneficiary show inconsistency as it is calculated by accounting 2613 completed subprojects, which gives a total of 17,857,902 beneficiaries.

In addition to the physical construction commissioned by ESRDF, a number of TCB subprojects were supported. The major types of TCB subprojects implemented include general awareness creation training aimed at promoting the SF mechanism and community sensitisation on participatory development; staff training (foreign and local); community facilitators (CFs) training in the regions where CFs have been deployed to serve as link between ESRDF and communities in inaccessible areas; subproject related trainings; institutional TCB to strengthen the efficiency and outreach capacity of MFIs and other implementing agencies; and basic skills training which is very pro-poor and has quick rate of return on improving the living standards of beneficiaries. It includes construction skill upgrading in plumbing, masonry, carpentry, electricity, construction supervision, map reading and bill of quantity (BOQ) preparation and business management skills.

Although there is no detailed impact assessment, ESRDF's effort in sponsoring TCB subprojects is commendable. Most of the TCB subprojects when properly planned and implemented are progressive and have modestly impacted beneficiaries especially in bringing attitudinal change in minimizing abduction and rape, natural forest destruction and traditional cultural practises. They have also capacitated MFIs and other IAs to expand their outreaches and enabled unemployed youth and women family heads acquire marketable skills.

Tables 6 and 7 show ESRDF's financial performance. The total collection<sup>23</sup> in the five-year period amounted to 67.5% of the actual pledged (committed) from donors and Ethiopian Government, i.e. US\$ 189.2 million.

**Table 6**  
**Amount Collected (08/07/96 - 07/07/01) by Source of Fund ('000 US\$)**

Source of finance	Pledged Amount	Total Collection	Balance	Loss on Exchange Rate	Remaining Balance
	1	2	3=2-1	4	5=3-4
IDA Credit	108,420	59,884	48,536	14,308	34,228
Donors					0
Dutch	16,946	14,326	2,620	836	1,784
Italy	9,535	9,155	380		380
Belgium	5,465	5,465	0		0
UNDP, NORAD	9,848	9,848	0		0
Norwegian	2,591	2,362	229	226	3
Ethiopian Gov.	36,350	26,654	9,696		9,696
<b>Total</b>	<b>189,155</b>	<b>127,694</b>	<b>61,461</b>	<b>15,370</b>	<b>46,091</b>

*Source: CO of ESRDF, compiled from data reported for Ethio-Forum 2002 Conference*

*Notes: i) Out of the free IDA fund US\$ 17,500,000 has been transferred to another project, I.e. emergency reconstruction programme (ERP) which was launched after the recent Ethio-Eritrean war.*

*ii) NORAD means Norwegian Agency for Development Cooperation*

Out of the total collected amount, Birr 749.6 million was transferred to the ROs to finance the physical subproject implementation and the amount utilized for TCB was Birr 68.5 million while Birr 89.8 million was utilized for administrative (recurrent and capital expenditures) through the CO and ROs.

<sup>23</sup> During the five-year period, the exchange value of Ethiopian currency has been declining from US\$1= Birr 6.3 to about US\$1=Birr 8.3, which has impacted the collection.

**Table 7**  
**Status of Budget and Utilisation By ESRDF ROs and CO**  
('000 Birr)

Region	Pledged amount	Utilisation (08/07/96 - 07/07/01)				Utilisation rate	Remaining Balance
		SPs	TCB	Admin.	Total		
	1	2	3	4	5=(2+3+4)	6=5/1*100	7=1-5
Addis Ababa	100,061	44,545	2,681	4,486	51,712	52	48,349
Afar	68,636	30,236	3,011	5,626	38,873	57	29,763
Amhara	261,538	186,003	11,578	13,479	211,060	81	50,478
Benishangul	49,517	25,249	3,196	4,419	32,864	66	16,653
Dire Dawa	51,551	17,025	1,859	3,700	22,584	44	28,967
Gambella	38,141	30,484	2,556	5,220	38,260	100	-119
Harari	24,291	8,383	1,537	2,384	12,304	51	11,987
Oromiya	344,556	203,722	10,662	12,269	226,653	66	117,903
SNNPRS	216,698	98,081	5,635	10,154	113,870	53	102,828
Somali	103,154	27,595	2,689	5,040	35,324	34	67,830
Tigray	104,380	78,238	9,024	6,447	93,709	90	10,671
<b>Sub-total</b>	<b>1,362,523</b>	<b>749,561</b>	<b>54,428</b>	<b>73,224</b>	<b>877,213</b>	<b>64</b>	<b>485,310</b>
Central Office	56,772	0	14,088	16,582	30,670	54	26,102
<b>Total</b>	<b>1,419,295</b>	<b>749,561</b>	<b>68,516</b>	<b>89,806</b>	<b>907,883</b>	<b>64</b>	<b>511,412</b>

*Source: CO of ESRDF*

*Note: Since Gambella RO exhausted its five year budget, the negative balance shows the additional amount to cover its administration expenses and for subproject completion.*

As regards the impact of ESRDF financed subprojects, various consultancy services have been commissioned during the mid-term review (MTR) of ESRDF in mid 1999 and in late 2001 most of which did attempt to give generalizations and broad impacts and lessons drawn.

## **5. Issues and Critiques Regarding the ESRDF Performance**

The points discussed below reflect those mostly discussed at ESRDF management meeting every quarter, issues identified for Ethio-Forum 2002 Conference (ESRDF, 2002:1-3) and personal observations.

### **5.1. Internalizing the concept and approach of SF philosophy**

The SF approach with all its new modality (community participation and contribution, “demand-driven” funding, empowerment,) was for the first time tested at national scale in Ethiopia. Although ESRDF has been promoting its programme objectives and working procedures, there is not only an acute gap in properly conceiving the SF approach but also low level of interest and support to properly implement the SF mechanism. Even more worrisome is the low level of loyalty to the philosophy within the ESRDF itself.

The various development partners do not properly adhere to the Fund's transparent OM<sup>24</sup>, and there is low level of commitment to put in practise the SF approach in the Ethiopian context. For instance, the ESRDF has acquired special MIS and software, but the pace and speed of project implementation has tended to short-circuit the MIS requirement and the stages identified in the project cycle.

### **5.2. Poverty targeting**

In principle, the ESRDF claims to reach the un-reached communities and/or the poorest of the poor, which seem to suggest that the target group for ESRDF's intervention should be those in “abject poverty”.

Further, the recent tendency as regards the general domain of SFs seems to be towards reaching the “poorest of the poor” and/or “poorest segments of a country's population” (WB, 2000:i-x). SFs seek to identify the groups most vulnerable to deprivation and which merit priority attention in poverty-alleviation (World Bank Institute (WBI), 1999:3). This includes “poor community” in “poor geographic areas” or “households” and/or poor individuals.

However, the term “poor/poorest segment” has a variety of meanings (see Figure 2). It is also claimed that SFs have a role to play in addressing “social exclusion” which can be a cause and consequence of (extreme) poverty (Ibid. 2).

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<sup>24</sup> Which clearly elucidates all the necessary procedures starting from subproject mobilization (appraisal, approval and financing agreement (FA) signing, which will be a tri-partite agreement between ESRDF, a CPC and an IA, if there is any) to eventual implementation including contracting, which is between a CPC and a contractor or supplier. The OM is available for circulation at the CO, ROs and SROs.

In addition, the ESRDF does not have either poverty mapping to support this or comprehensive targeting and selection criteria. Also one has to be careful not to undermine the “co-financing” requirement in the selection and funding award criteria, which implies the targeting of poor communities that have some economic potential to meet the desired level of contribution.

In fact, the truth is that the big success of SF intervention involving IG schemes has been mainly with the “active poor” or “the entrepreneurial poor”- i.e., those who are near the poverty line and have some economic opportunities to take advantage of, if only they can get some financing. And this may engender interventions in an urban oriented economy or cash crop producing areas.

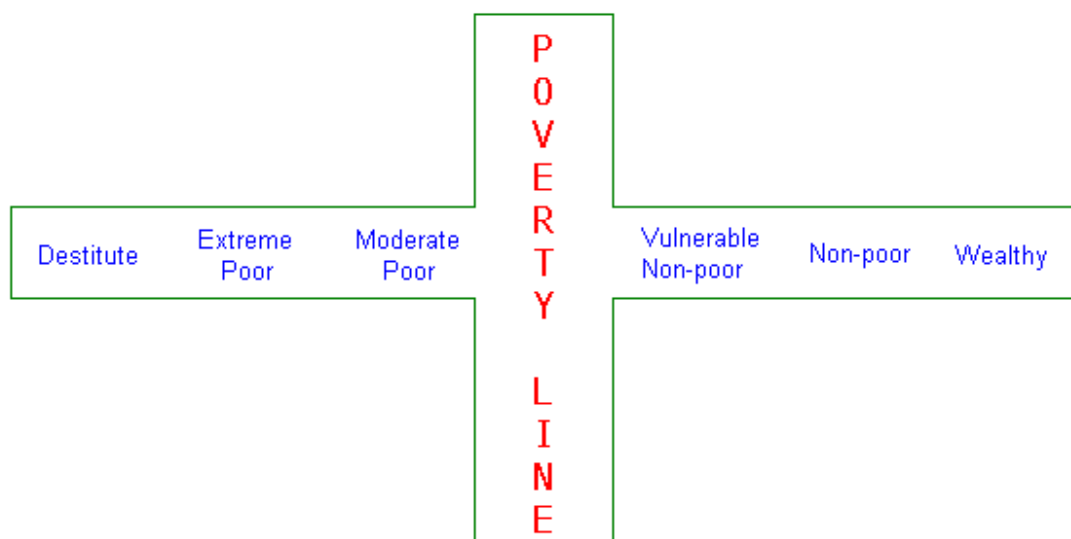
SFs’s intervention could be “regressive”<sup>25</sup> or “progressive or very pro-poor” such as latrine investments directly targeting poor beneficiaries or “neutral” such as water investments distributed evenly across the population, favouring neither the rich nor the poor (WB, 2000:iv). Due to non-excludability and user fees, if any, the “wealthy” might even benefit more in the case of education and health sub-projects

Figure 2: Defining the Poor

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<sup>25</sup> When targeting becomes “pro-rich” such as Nicaragua’s SF sewerage projects, which require households to finance both the cost of connecting to the sewerage system and the purchase of toilet, further excluding poorer household.





Source: Cohen, M., 2000

### 5.1. Areas of intervention

On the main, the objectives of ESRDF encompass PR and empowerment of grassroots communities with a view to mobilize them for releasing their potential in the development process and build local self-reliance.

In actual practice, the development concern of SFs transcends other wide-ranging issues including demand orientation, job creation, decentralization, gender sensitivity, sustainable development, HIV/AIDS, institutional/sectoral gap filling, and any other community-based requests. However, there is no clear-cut demarcation or checklist as to which objective or area of intervention must be accorded top priority.

In addition, when one considers the diversity of ESRDF financed projects, they tend to spearhead or replace sector development programmes, i.e. basic education and primary health care. This runs across the gap filling nature of the Fund in the case of the sectors, which suffer from lack of minimum budget allocation and the declared objective of meeting demand generated by community groups in a participatory manner.

### 5.4. Practicality of community-driven development (CDD)<sup>26</sup> approach

The ESRDF is supposed to promote and use community-based approach in the identification, preparation, implementation and management of SPs. Furthermore, Article 89 No.6 of the Ethiopian constitution stipulates that “Government shall at all times promote the participation of

<sup>26</sup> Is defined as the exercise of community control over decisions and resources directed at poverty reduction and development (Alkire et al., 2001:1)

the People in the formulation of national development policies and programmes: it shall also have the duty to support the initiatives of the People in their development endeavours” (Proclamation No. 1/1995)

Despite the traditional cooperative networks in Ethiopia like “Idir”, “Mahiber”, and “Iquib”, Ethiopian people have been accustomed to “top-down” planning and the legacy of the military dictatorship has eroded the sense of community participation and trust in society.

Furthermore, meaningful participation is a challenge<sup>27</sup>, time consuming and expensive as opposed to the requirement for speedy project implementation.

In principle, the ESRDF should organise training, among other topics, on concepts of participatory development, procurement, financial management, project monitoring and supervision for every project it finances. However, giving training to each SP has not been a simple task. Public awareness creation where there is a low level of literacy and deeply embedded traditional culture, such as gender bias, is also a challenge. Some communities especially in the less developed regions do not exercise their duties and responsibilities to the expected degree. Rather they delegate ESRDF itself or sectoral bureaux/line departments to act on their behalf in important aspects of the project cycle, which is particularly meant to empower them<sup>28</sup>. Due to this the key principles of the SF could not be disseminated to communities as intended in the OM.

“People’s participation in government-sponsored development programs cannot be achieved just by emotional exhortations. Nor can it be brought about only by intellectual arguments about its usefulness. In the instance, participation depends on social arrangements and political relations. It also depends on economic incentives and on administrative approaches” (Cernea, 1992:1)

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### **5.5. Lack of up-front contribution**

The SF mechanism requires co-financing from beneficiaries to inculcate sense of ownership and ensure that its funding is not a mere transfer but an investment fund backed by willingness to pay, which again is a new approach to the community. Cost sharing arrangements are also intended to mobilize additional resources and improve sustainability.

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<sup>27</sup> Due to the poorly developed infrastructure and communication facilities, lack of effective institutions, local capacity and experience in participatory development (not only at the grassroots level but also at the government, civil society, NGO and private sector level) and existence of many languages/dialects spoken locally (e.g. more than 80) which affect attempts at raising public awareness about the SF mechanism.

<sup>28</sup> For instance, bid processing of the SPs financed by ESRDF in SNNPRS up to 1998 was done at the RO level in Awassa, the regional capital city, when it should have been either at nearby zonal or district levels at least to encourage participation.

Among the major development alternatives in Ethiopia are government line agencies, NGOs and ESRDF, of which only the latter insist on cost sharing from communities. If there are 3 projects handled by the 3 actors in nearby areas it is easily realized how difficult is raising the community contribution for ESRDF when the rest do not impose any contribution. Table 8 presents planned and achieved community contribution by ESRDF ROs.

Where there is willingness to contribute at least 10% of any project cost in cash, labour or local materials (sand, stone, timber, water, etc), there is a problem of valuation and recording, due to lack of value assessors and community contribution is not made part of the contractual agreement. It is raised spontaneously. Also contractors insist on the valuation to be done at cheap rates rather than the market rates or prices quoted in the contractual agreement. Some contribution like access road construction is not accounted for as there is no provision for it in the FA and is also believed to escalate project costs.

**Table 8**  
**Planned and Achieved Community Contribution By ESRDF ROs**  
**(08/07/96 –07/07/01)**

Region	Target Plan (Eth. Birr)	Achievement (Eth. Birr)	Acht. as Percent of total SP Cost
Tigray	9,811,054	10,345,187	10.5
Afar	5,540,556	1,032,376	1.9
Amhara	19,204,874	11,845,112	6.2
Oromiya	23,498,650	13,510,667	5.9
Somali	5,019,993	3,016,822	6.0
Benishangul	2,302,293	1,323,735	5.8
SNNPRS	25,011,546	7,151,062	2.8
Dire Dawa	1,462,901	1,476,471	10.1
Gambella	2,890,587	184,752	0.6
Harari	680,798	693,212	10.2
Addis Ababa	12,615,360	12,615,356	10.0
Total	108,038,612	63,194,752	5.8

**Source:** Adapted from the report on Issues identified from ESRDF phase one and reported on the 2<sup>nd</sup> phase (ESRDF, 2002: 13).

The total contribution amounts to 58% percent of the target or 5.8% of the total SPs investment. Regional achievement ranges from 6% to 105%. Only four ROs have raised the required community contribution, of which three are city administrations where there is better literacy<sup>29</sup>, social communication and development orientation, and in Tigray there is better

<sup>29</sup> Even there are PhD holders of CPC members.

community mobilization. Where there is low functional links and consultation with beneficiary communities<sup>30</sup> and lack of attention to contribution, there is very low contribution rate.

In addition, the minimum 10% contribution across the board requirement by the Fund discourages intervention in vulnerable areas (drought-affected and pastoralists) and most needy communities.

Despite the Government's declared intention of community participation, there is no comprehensive policy or applicable guideline on community participation and contribution. This negatively affects the performance of the Fund.

#### **5.6. Decentralization and budget allocation**

The devolving of authority to regions based on ethnicity has raised the issue of equity within and among regions. The poverty alleviation fund handled through ESRDF is distributed to the regions on the basis of the Government's FBAC, which has acquired a greater equity concern. Of all criteria, the level of development criterion appears to directly benefit the poorest regions.

Poverty in Ethiopia varies from region to region. Even within the same region, the spread, depth and severity of poverty may vary between zones and/or districts depending upon "spatial consideration", "the determinants of welfare", "social capital dimensions", cultural attitudes, etc.

Within each region, budget allocation to the zones, the next administrative level in the regions, is mostly done on equity basis to enable each zone benefit from the SF equitably whereas some zones might even be food surplus and/or cash crop growing areas. Many cash crop growing areas or food surplus areas are also densely populated, again becoming beneficiaries from the allocation done through the FBAC.

This allocation not only affects poor area targeting but also violates the demand-driven nature of the Fund, as the Fund from ESRDF is eventually rationed as part of the region's capital budget in line with the region's service coverage plan.

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#### **5.7. Subproject approach vs. packaged programme intervention**

The ESRDF follows a piecemeal project approach. In fact it has stretched itself all over Ethiopia, as there is no Woreda<sup>31</sup> that has not benefited from ESRDF. If a school or a health or

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<sup>30</sup> Due to infrastructure problem, physical and social isolation, and nomadic culture.

<sup>31</sup> Which refers to the low-level administrative unit in Ethiopia.

RWS SP is constructed in a given area it is not strengthened by another infrastructure or skills trainings or IG schemes.

There has been debate as regards the efficiency of the sub-project approach being followed by ESRDF. During the MTR, it was realized that an isolated piecemeal approach would not bring a meaningful impact in fighting poverty; and the Fund should adopt a packaged programme intervention in the areas it operates. There was also a consensus that ESRDF should concentrate in selected operations areas rather than a dispersed intervention as a form rationing all over the country. But none was implemented.

### **5.8. Sector integration**

The challenges faced by ESRDF include its institutional isolation and lack of effective sector integration with other interventions. Institutionally it is established as a public agency but it is often considered as an NGO within the public sector. In the regions there is a tendency in not considering ESRDF as part of the government structure with all due benefits as public institution. Sectorally, it appears to be an “enclave” which is not well integrated with other poverty focussed interventions.

Taking an isolated piecemeal approach cannot reduce poverty. It requires a comprehensive approach that integrates the actions of the various institutions mandated to assist in PR. Even within the public domain, the various actors like food security programme and ESRDF are not well-coordinated let alone strong partnership with NGOs. ESRDF has partnership with some regional affiliated NGOs, but this is mostly limited to commissioning them and using them as implementing agencies (IAs).

### **5.9. Social fund vs. Poverty Reduction Strategy (PRS)**

The current development paradigm, i.e. PRS, clearly implies the design of appropriate policy measures to benefit the poor and their involvement in the design of PRS. In this regard, the SF is one of the major institutional arms of the Government for poverty reduction.

However, it is not clear what the current development of PRS and PRSP would explicitly imply on the future direction of ESRDF's intervention in terms of volume of budget, organizational structure, working procedures and poverty targeting. It needs also to address the issue of sector integration with other poverty alleviation endeavours so as to attain meaningful impact on poverty.

### **5.10. Operational issues**

#### **5.10.1. Motto of “reaching the un-reached”**

Due to its motto of reaching the un-reached and the backward and peripheral regions, projects in the inaccessible areas are mostly assigned to ESRDF. When projects are located in remote and inaccessible areas, contractors are either totally unavailable or very few respond to the bid invitations, often forcing the re-bidding of advertisements for second and even third times which affects the time frame set for the project implementation and service delivery to communities. This has, among others, cost implications on the initial project bid prices, which are mostly quoted over and above the engineering estimates and time over-runs. Lack of contractors and transport inaccessibility also force labour-based contracts awarding even to juniors who just completed “basic construction skill training” commissioned by ESRDF. While a commendable pro-poor arrangement its cost and quality implications have to be considered.

There is also extra workload on ESRDF staff in the supervision and follow-up of subprojects located in inaccessible areas. The initial understanding was that sector bureaux would assist in the supervision of such subprojects but the actual collaboration is minimal. Yet, there is ambitiousness of the SF programme; and it is still expected to commission quality and cost-effective infrastructures.

#### **5.10.2. On-going supervision and follow-up**

It goes without saying that one of the share of duties of ESRDF ROs is to conduct regular monitoring and supervision; and meet reporting requirements as per the OM which specifies that every project under implementation be visited at least by a PO.

Unless in the case of the ROs that exceptionally become far too occupied with crisis management, it has been practically difficult to conduct the usual monitoring and supervision activities. Various factors contribute to the lack of scheduled monitoring and supervision including the diversity of SPs handled by Pos and lack of sufficient vehicles.

#### **5.10.3. Overhead costs**

One of the efficiency indicators of SFs is the percentage rate of overhead costs to project costs, mostly below 10% of the project cost. As a result, SFs operate with few project staff and vehicles.

However, ESRDF's OM specifies a number of preconditions such as monthly supervision of SPs under implementation by ESRDF project officers (POs), frequent guidance and technical assistance to communities, bi-annual post-completion M&E, reaching the backward and inaccessible areas, etc. which all create burden on its performance. Considering the location distance, inaccessibility of project sites, e.g. sites accessible only two months in a year due to heavy rain and flooding in Gambella region, it appears that the operational requirements are fictitious.

#### **5.10.4. Support of income generation (IG) and micro finance (MF)**

The support of IG/MF was not properly considered as a potential area of intervention by ESRDF despite the fact that requests have been coming at an unprecedented rate. The experience during the pilot phase has created a dim attitude towards IGs but as the study on the financing of IGs commissioned by ESRDF has shown it is manageable and a pilot programme has commenced in early 2000. Notwithstanding the fact that a number of schemes have shown failures, the completed irrigation infrastructures did not result the desired agricultural output, due to lack of mechanism to link them with IGs.

#### **5.10.5. Insufficient study and design standards of sub projects**

As a funding agency, the Fund adopts applicable national and/or regional design standards. Designs are mostly not to the expected standard especially those applicable in the low land areas and special zones. The SSI and RWS components suffer from insufficient study and design as well as water supply monitoring capacity, lack of tools and spare parts and inadequate distribution and referral capacity building efforts, low operating and maintenance (O&M) and lack of cost recovery.

#### **5.10.6. Administrative autonomy**

Although the ESRDF was not attached to any line ministry or regional sector bureau until late 2001, its autonomy was without power. Decisions as regards fund allocation to projects or choosing operational areas are all sanctioned by the RSCs.

Assessment of “need” is made by Regional bureaux, which also determine where to expand sector coverage. Then ESRDF will allocate budget. This in itself is a bottleneck not to properly raise community contribution. It also affects speed and efficiency of implementation. Where all project approvals and verifications of tender documents go through batch processing at zonal and regional levels, it has become time-consuming and unnecessary bureaucratic procedure.

#### **5.10.7. Staff turnover**

The ESRDF was undoubtedly one of the most attractive institutions to high caliber and qualified professionals in Ethiopia during its initial years due to, among others, its transparent employment procedures, attractive OM for professionals interested to pursue their careers in grassroots development and the assignment of key positions especially at department and service heads levels more or less on merits both at the CO and RO levels.

However, its tantalizing days did not last long and probably the ESRDF has become the most sick organization in this regard. The Fund has been suffering from its high staff-turnover rate, a trend that developed since late 1997. It has been losing its “top-talent staff” while it also attracts new recruits. This is another factor affecting its momentum and capacity.

#### **5.10.8. Post completion activities**

As is usual with development projects, one of the major stages that ESRDF financed sub-projects pass through is post completion monitoring and evaluation (PCM&E). And according to the OM, PCM&E is supposed to be conducted once every six months to check on whether infrastructures are rendering planned services, long term and sustainable changes are occurring in the way the infrastructures and services operate, and identify needs to introduce other forms of support.

In practice, however, the major development concern of almost all ROs has been the financing and handovering of sub-projects. ROs concentrate on following-up new project implementation activities partly because there seems to be a foregone conclusion that acquisition of infrastructures is an end in itself and partly because there appears to be an overlooking of PCM&E. It is also true that the nature of PCM&E activity demands stakeholders mobilization which involves, among others, having detailed checklists and formats, adequate budget and logistics, and forging collaborative relationships with sector bureaux, local administration, beneficiaries, etc. Some ROs also indicate that several sub-project types like small-scale irrigation were mostly started lately and hence more of completion works rather than PCM&E.

In its recent final years, however, there has come a shift of emphasis by ESRDF management with regard to the planning of PCM&E whereby almost all ROs are considering PCM&E although it is still considered either as a campaign activity, rather than in its continuity as routine activity to insure sustainability, or on select project basis

#### **5.10.9. Lack of exit strategy**

When it was launched, the ESRDF was indicated to be a five-year project and indicative target figures to be achieved were set which were later on revised based on the initial two years actual performance and brought down due to the ambitiousness of the SAR figures.

However, planning issues like when and how to exit, i.e., formalizing publicly ESRDF's exit at least ½ - 1 year in advance, identifying the most crucial gaps to tie-up in the next ½-1 year period, and how to take up new activities and delivering to the right institution are still not properly treated

At the time of the original completion year of ESRDF, i.e., June 2001, some ROs did exhaust their budget while some did not. It was then granted about 2 years extension period to windup



ongoing activities. As of today, however, there is no clear-cut information as regards the fate of ESRDF. Some sources indicate that either it will be terminated all together or it may continue with in the food security programme.

#### 5.10.10. **Institutional bottleneck**

The ESRDF has a Board and RSCs system of administrative set-up that preside over important decisions and management of ESRDF, both of which are composed of key officials in the center and in the regions. These officials hold ministerial or regional executive committee posts and are also key actors on important national matters. While few RSCs notably in Tigray are committed to sacrifice their busy schedule, getting quick decisions and making close follow-up are common problems<sup>32</sup>.

Earlier the ERRP was directly accountable to the Prime Minister's office which enabled it to disburse about US\$ 650 million "effectively" in three years as per the schedule.

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<sup>32</sup> For instance, the 10% salary increment approval has taken almost a year in several regions.

## 6. Conclusion

Poverty is a multi-dimensional phenomenon. Its eradication is widely associated with the raising of income/consumption, infrastructural facilities and provision of basic needs such as health, nutrition, housing and educational services. In addition, people's participation in decision-making and undertaking of development-oriented activities has become indispensable to poverty reduction.

The concern for addressing poverty has led to a renewed interest in SFs. Almost everywhere SFs were started due to their active role in emergencies to mitigate the short-term effects of economic readjustment. SFs are nowadays designed in great variety and number. They have evolved into more general, broader-based, programmes but still with poverty alleviation a primary objective (Schroeder, 2000:424).

There is hardly a uniform trend as to where SFs are going, except in a general sense they are becoming more permanent, paying more attention to popular participation, supporting decentralization, and are seriously faced with increasing demand for IG schemes, although experience so far has been mixed (Jorgensen and Van Domelen, 1999:10). SFs have also proved to be promoters of alternative development approach by reaching the un-reached; mobilizing poor communities, if implemented on felt demands of communities, to unlock their potential in the development process; and filling institutional gaps which governmental agencies and NGOs do not cover. It is also claimed that SFs work best where social capital is high and utilisation of existing social institutions is better (cited in White, 2002:6).

However, there appears to be an exaggerated description of SFs. They are not a panacea to poverty. SFs represent small component of the broader poverty alleviation process. For instance, only one SF<sup>33</sup> spent more than one percent of the country's GDP (Ibid. 9), showing their limited contribution in relation to the challenges of poverty.

The SF implementation in Ethiopia has been learning by doing process both for the Fund and the country as a whole. The ESRDF has introduced the CDD approach and facilitated the decentralisation effort by strengthening regional capacities. It has attempted to reach isolated groups and has made modest contributions in community sensitisation and empowerment. However, a major breakthrough in poverty reduction cannot be expected with its limited budget<sup>34</sup>, piecemeal or haphazard intervention and at its present infancy stage with all the challenges and inconsistencies pointed out earlier.

Even the ESRDF itself concurs that the efficiency of the sub-project approach, i.e., implemented on piecemeal basis only once in one area, it hitherto followed is very minimal on

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<sup>33</sup> Nicaragua' FISE in Latin America.

<sup>34</sup> Its total five-year budget utilization accounted for 2 % of Ethiopia's GDP in 1998/99 (Central Statistical authority (CSA), 2000:237).

PR. It did advocate for sometime implementing packaged programme intervention. There was also a consensus that ESRDF should concentrate in selected operations areas/sectors rather than a dispersed intervention as a form rationing all over the country. But none was implemented..

The impact the ESRDF has brought on PR is not well researched, and this paper also lacks quantitative assessments using the conventional poverty indices. Its impact is mostly analysed by accounting the number of beneficiaries on the basis of standard capacity rates of the constructed infrastructures. However not all infrastructures become operational as there is service delay because some school and health projects become idle for some time due to shortage of skilled manpower and some RWS and SSI subprojects operate below capacity or totally fail after construction due to design and construction quality problems.

The requirement for post-implementation M&E is also hardly fulfilled, which makes it difficult to ascertain how many of the completed subprojects are effectively functioning. Nor are all ESRDF's interventions "very pro-poor" or "mildly progressive", as some tend to be regressive and/or neutral. Within community groups the "enlightened" tend to benefit more unless the intervention is directly targeted at poor household or individuals.

ESRDF aimed to "maximize community involvement and responsibility, ensure adequate quality, and implement cost-effective sub-projects" (ESRDF OM, 1996:1v). In a country dominated by the legacy of military dictatorship, low level of literacy, poorly developed infrastructure, language diversity, targeting mostly done through sector bureaux and for a young institution aspiring to work with least-cost in remote areas with "weak" communities, it appears to be wishful thinking if not impossible.

Although it has been filling institutional gap, its hitherto intervention has tended to unnecessarily subsidize the SDPs, where "beneficiary" are regarded as the "target of poverty reduction" rather than "resources on which to build as partners who can be trusted" (Alkire et al., 2001:1) and where there is risk of duplication of efforts by public agencies and NGOs.

It has become a "fund pump" where "supply creates its own demand" whether with promotion or without promotion rather than "demand-led" supply response to community priorities. Also the object of "appraisal" process appears to justify subprojects favored by sector bureaux rather than properly scrutinize whether a given request is justified or not. In fact, some ROs even come to know about sub-projects at the time of bidding projects through sector bureaux, which supersede the promotion stage as per ESRDF project cycle.

So much so that, the demand-driven process becomes need based financing which has negatively impacted the raising of 10% community contribution. Where communities submit requests directly to ESRDF ROs their request must be endorsed by the concerned sector

bureau and if not it creates discouraging situation on communities even who are willing to commit the necessary contribution.

Both internal and external factors affect the SF implementation in Ethiopia. The major problems internal to ESRDF include ambitiousness of the programme, lack of effective poverty targeting mechanism and poverty mapping, budget allocation on equity grounds<sup>35</sup> rather than on poverty indices, lack of autonomy, implication of small overhead budgets (limited project staff and vehicles) on quality of disbursement especially quality of constructed infrastructures, a piece meal subproject approach rather than a packaged intervention, and high staff turnover. Those external to ESRDF include lack of support and attention to effectively implement CDD approach, misconception of the SF mechanism, lack of coordination with other poverty focused interventions and in the overall development effort, administrative bottlenecks, lack of comprehensive policy or guidelines on community participation and contribution, and biased attitudes towards ESRDF especially by public agencies such as considering ESRDF as NGO.

Although the GOE attaches high priority to community participation, enough attention and support is not given to mainstreaming the SF mechanism. .

However it has to be noted that this essay has only attempted to make modest contribution by relying on secondary data and personal observations in the sector.

It would, therefore, be worthwhile to undertake further empirical studies or an independent ex-post impact assessment to verify ESRDF's impact on PR and identify appropriate and feasible policy measures. It would also be helpful to debate on the issues uncovered in this essay for further research and theory development.

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<sup>35</sup> ESRDF ROs were notified about their five-year total budget share from the very beginning.

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