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Ideas for

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Development

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in the Americas

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Hidden in Plain Sight: Undocumented Citizens in Latin America



Inter-American Development Bank
Research Department

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Identity is an increasingly hot topic in today's world. Whether it's hunting for terrorists, searching for lost children, identifying casualties from the tsunami and Hurricane Katrina, or naming bodies in mass graves, identity is the point of departure. Even the more mundane activities of life—driving a car, getting on an airplane, going to school—are predicated on proof of identity. In this light, the fact that millions of Latin Americans have no official identity is shocking indeed.

In Latin America, lack of identity is a very tangible problem with very real consequences. Importantly, this is not a problem confined to immigrant populations. It also affects large numbers of citizens. Many undocumented citizens are denied access to services when they cannot produce the requisite documentation in their countries. Basic identity documents, including birth certificates and national ID cards, are critical for actively engaging in modern society. School enrollment, marriage, voting and other activities taken for granted by many citizens are simply not possible for the millions of Latin Americans who cannot prove who they are. Throughout the region, in urban as well as rural areas, these individuals are hidden in plain sight.

For the poor, programs designed specifically for them may be beyond their reach.

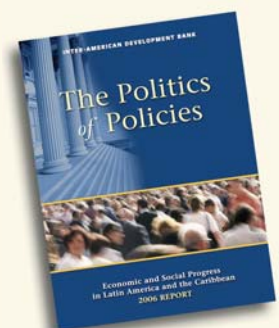
Lacking a birth certificate is often the first step of a lifetime of “invisibility” and exclusion.

Over the past few decades, the targeting of social programs has become increasingly sophisticated in the region. In an effort to reduce fraud and coverage of non-target groups, program eligibility often requires identity documents. Thus, a person who does not exist on paper cannot access these benefits. Persons who appear nowhere on official records are also difficult to trace and thus particularly vulnerable to exploitative labor practices and trafficking.

What does it mean for a person to go without identity documents in this day and age? While the right to identity can certainly be viewed from a human rights angle, it is also fundamentally an economic issue. In most countries, individuals cannot open a bank account, hold a formal sector job, apply for credit or inherit property without presenting a valid national identification card. According to UNICEF figures from 2001, approximately 15% of children under five years old in Latin America do not officially exist, as they do not appear in the civil registration system. Although reliable data are not available for many countries, results from recent demographic and health surveys demonstrate that registration rates vary widely across the region; for example, 8% of Peruvian chil-

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Who am I?

In the Lewis Carroll classic, *Alice in Wonderland*, the caterpillar asks Alice, “Who are you?” “I’m not myself, you see,” is Alice’s response. Alice’s dilemma is common for millions of children in Latin America, where one out of every six children under the age of five does not officially exist, according to estimates by UNICEF. But unlike Alice, whose confusion is temporary, most of these children suffer a lifelong identity crisis.

While reliable data do not exist for every country, the Demographic and Health Surveys provide relatively recent data for Bolivia, Brazil, Colombia, the Dominican Republic, Nicaragua and Peru. These household surveys ask the mother to describe the registration status of her children according to the procedures in each country. The question pertaining to birth certificate registration varies slightly from country to country. But regardless of the registration procedure or the question that is asked, the upshot is the same: millions of people go through life without an official identity.

What determines whether children are registered or not? A recent study by Duryea, Olgiati and Stone analyzed the determinants of underregistration in these six countries. Overall, the lack of birth registration varies from 8.4% in Peru to 25.8% in the Dominican Republic. But urban-rural variations within countries are dramatic. Figure 1 demonstrates the higher rates of underregistration in rural areas. While the magnitude is only 25 to 35% higher in rural areas in Bolivia and Peru than in urban areas, it is 200% higher in rural areas of Nicaragua.

Striking regional differences are also observed in the data. Figure 2

Figure 1. Underregistration of Births by Geographic Area



demonstrates that regional variation exists in Peru, even though the urban-rural difference is only 3 percentage points on average. The highest rates of underregistration in Peru are located in Loreto and Ucayali, the two departments that border Colombia and Brazil and are located in the Amazonian rainforest. In Figure 3, the geographic areas with the highest rates of underregistration in Nicaragua coincide with extremely high poverty rates in these areas. While underregistration is upwards of 35% in the autonomous regions of the RAAN and RAAS, (the largest areas in the eastern portion of the country), in the department in which Managua is located underregistration is of extremely low magnitude, measured at only 4%.

Poverty is a risk factor too. Econometric analysis confirms that

children from low socioeconomic backgrounds are the most likely to be undocumented from birth to age five. Lacking a refrigerator significantly predicts that the child’s birth will be unregistered in all five countries analyzed (data was insufficient for the Dominican Republic). The mother’s education has a larger effect than father’s education in four of the five countries, with the exception being Brazil. The sex of the child is not significantly related to the probability of the child’s birth being registered, except in Brazil where boys are 1 percentage point more likely to be registered. But this may reflect the older vintage of the Brazilian data (the only data set predating 2000) rather than a variation in parental behavior with respect to gender.

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Characteristics of the mother’s pregnancy also influence whether or not a child is registered and may suggest promising areas for targeting interventions. The age of the mother is key; children born to teen mothers are significantly more likely to be unregistered in Bolivia, Colombia, and Peru. In Peru, the probability that a teenage mother will not register her child is 10 percentage points higher than that of an older woman. Mothers who receive no prenatal care are also less likely to register the birth of their children in all five countries (Bolivia, Brazil, Colombia, Peru and Nicaragua). Births that were not attended by a health specialist are significantly more likely to be unregistered in Colombia and Nicaragua.

The maternal profile that emerges from this data should spark the interest of policymakers who are beginning

to focus on reducing the region’s stubbornly high maternal mortality rates. These findings suggest that governments might get more bang for their buck by combining efforts to raise birth registration rates with initiatives to deliver pre-natal care and to provide health specialists at the time of birth. Disaggregated geographic maps could also help prioritize interventions by highlighting the geographic areas with the greatest need.

What is behind these low rates of registration? Barriers can be categorized as economic, legal, administrative, geographic and cultural. Although many countries have reduced or eliminated direct fees for registration, parents may have to incur indirect costs such as transportation expenses and travel time. Legal quagmires can be frustrating and costly. Procedures for late-registration (typically for children

over one month old) can be complicated and expensive, often requiring the services of a lawyer. To register a child who was not born in a hospital may require parents or two witnesses to present documentation, which they may not have. Cultural factors can also play important roles, as some groups may not perceive a benefit to including their children in the civil registry. For instance, if voting is not held in high regard and expectations of holding a formal sector job are low, parents will be less likely to incur the personal costs, including travel time, to register their children. Mothers are also averse to stigmatizing their children by formally declaring the child to be fatherless.

While there is some information regarding the magnitudes of birth registration, there is far less survey information

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Figure 2. Underregistration of Births in Peru, 2000

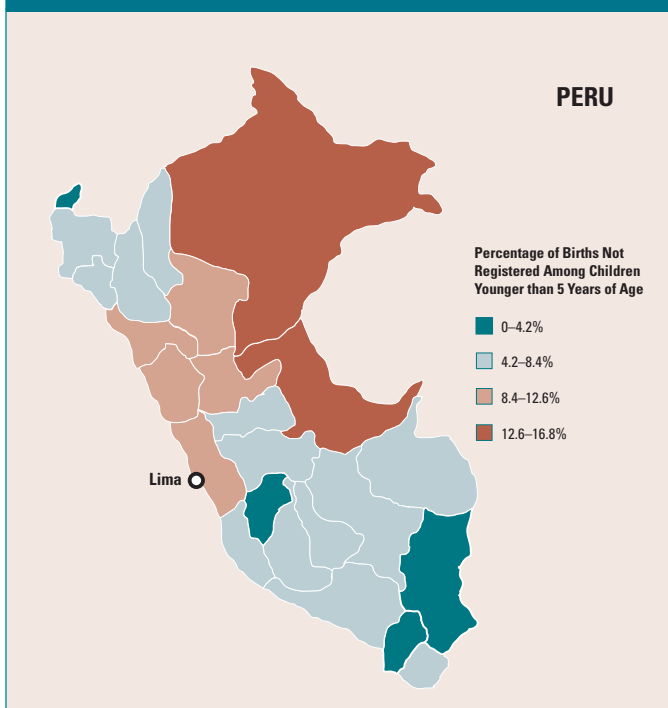
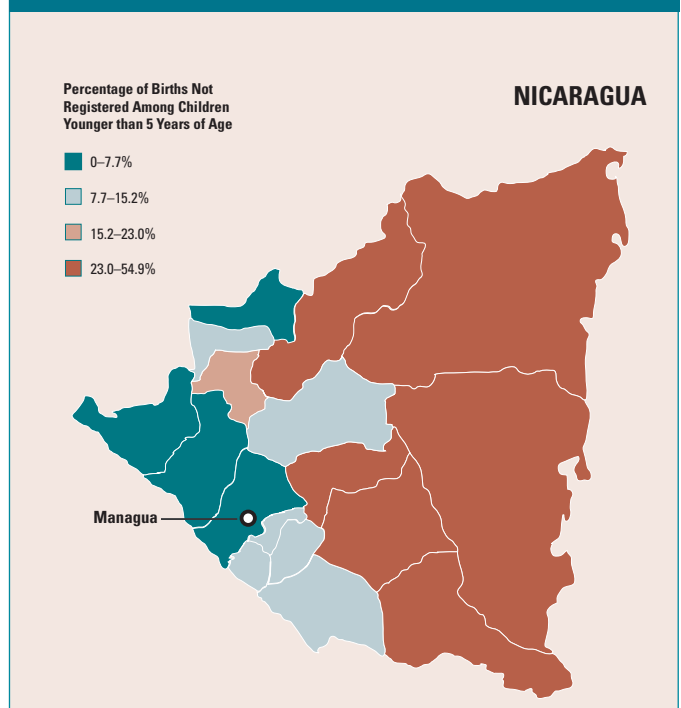


Figure 3. Underregistration of Births in Nicaragua, 2001



Hidden in Plain Sight: Undocumented Citizens in Latin America

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children are unregistered compared to over 20% of Bolivian children. Lacking a birth certificate is often the first step of a lifetime of “invisibility” and exclusion. Estimates of rates of undocumented among adults are less available, since these questions are not standard in household surveys or census questionnaires, but no less daunting. A UK Department for International Development (DFID) study estimated between 750,000 and 2 million Bolivian citizens were “functionally undocumented” in 2002. In some areas of Bolivia, 90% of the population lacked a valid form of identification, and the majority were not included in the civil registry at all. A recent survey related to the design of an IDB project in Argentina found that 14% of potential beneficiaries lacked national ID cards in one municipality and 17% in another municipality.

Governments and donor institutions must also bear the economic cost of addressing the social fragmentation caused by underregistration. How can officials hope to meet the basic needs of a population when the government does not even know the true size of that population, let alone its composition? Targeting and budgeting for vaccination or healthy mother and child campaigns is like a shot in the dark when birth and death information is biased by the underreporting of vulnerable groups. And monitoring progress toward the Millennium Development Goals of reducing infant and maternal mortality rates is severely compromised by inaccurate baselines and reporting errors.

The costs and implications of underdocumentation are beginning to

be examined rigorously with quantitative and qualitative methodologies. The Norwegian Fund for Innovation in Social Programs sponsored a research project over the past year that examined underregistration in five countries. The studies will be available in an edited volume and DFID is sponsoring a conference on the topic. This issue of IDEA pres-

ents some of the background material prepared for these initiatives and explores some of the social and economic ramifications of having so many people living in the shadows. Inclusive civil registration is fundamental to improving the ability of the poor to exercise their rights, as well as their responsibilities, as citizens.

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mation available regarding the reasons given for not registering. The exception is the DHS survey for Colombia which asks why children were not registered. The Colombian data demonstrates the considerable intergenerational component to the process. In urban areas, 27% of mothers reported their children were not registered because they themselves were not registered. (Parental documentation is typically necessary even if the child is born in a hospital.) Geography was also a factor: in rural areas 13% reported that the registry place was too far away. However, some barriers are surprisingly basic and fall into the category of bureaucratic incompetence: Ten percent of mothers reported that their child was not registered because the registry lacked proper stationary.

Most of these undocumented children grow up to be undocumented adults, with all that this implies in terms of economic and social participation. But an informed analysis can-

not be performed for the next phase of the documentation problem because individual level data on the registration status of adults is largely unavailable for Latin America. It is standard for household surveys in Latin America to collect information on whether individuals participate in the formal labor market, hold savings accounts, and own homes. However, the link to documentation is not measured in the surveys; the researcher can only speculate how the lack of valid identification documents relates to successful engagement in society. Household surveys are often tediously extensive but still have gaping holes that reveal some curious priorities. Surveys commonly include detailed questions ranging from whether the household is connected to the internet, to the types of building materials in the walls and the amount of household income spent on entertainment. Interestingly, they fail to ask whether the respondents officially exist!

Slipping between the Cracks of the Social Service System

Are poor quality schools and health clinics better than none? Certainly the people denied access to these facilities might say so. But how can people be left out when every country in Latin America has legislation guaranteeing universal access to basic social services such as education and health care? One major problem is identification. Undocumented citizens do not exist in the eyes of the government and are therefore vulnerable to exclusion from basic social services.

Education: A Poor Grade for Schools

A recent study by Dwight Ordóñez and Patricia Bracamonte found that access to school for children lacking documentation varies by country and is often at the discretion of the school leadership. National laws and educational guidelines guaranteeing access to education were found to be insufficient since school directors may ignore or twist the provision, often to ration scarce spaces.

In the case of Honduras, the study found that children may be granted permission to provisionally attend school for one year but are not allowed to progress to the next grade level if they have not acquired a birth certificate. In many cases, particularly in geographically distant areas where getting to public registry offices may be both costly and time-consuming to the parent, the child simply drops out of the school system completely. In Nicaragua, children attend primary school at the discretion

of the director, but without documentation they do not receive a diploma and are not allowed to enter secondary school.

A study by Duryea, Olgiati and Stone analyzed the 2001 household survey for Brazil. Of the nearly 300,000 seven-to-nine year olds who did not matriculate, the main reason cited for not enrolling was the lack of documentation. That amounts to approximately 8% of those who did not enroll. A child labor eradication program supported by the International Programme on the Elimination of Child Labour -International Labour Organization (IPEC-ILO) found that 50% of children living in a predominantly indigenous municipality of Velleda Morales in Honduras did not attend school because they lacked a birth certificate.

Health Services: When Exclusion is a Life or Death Matter

While the denial of access to educational services may have long-run implications, in the case of health services, delays or denials can be grave, even fatal. Fortunately, Ordóñez and Bracamonte found that problems with respect to access in emergency situations are rare, and access to general health services in most cases fared better than education.

Honduras was found to have one of the most inclusive health service systems in the region, since no birth certificate or other formal identification is required for seeking treatment or preventative services. Access to

health services was also found to be relatively unfettered in Nicaragua and Peru.

A child may encounter barriers in education due to the lack of a birth certificate, but will nonetheless be vaccinated and attended to in the health service system.

Chile and Colombia use national information systems to target scarce resources to the poor. Also, both of these countries require strict proof of identity before healthcare institutions will be reimbursed for their services. In Colombia, public healthcare institutions require the SISBEN (national targeting system) card as well as national ID cards before providing services. Although special provisions are supposed to be made for people displaced by the internal conflict, this population was not spared problems of access.

Although Chile uses the same system, fewer people are excluded because coverage of the civil registry is nearly universal in Chile. Errors of exclusion for citizens are rare.

Conditional Cash Transfer Programs

Conditional Cash Transfer Programs (CT programs) are anti-poverty programs which stress the co-responsibility of participating families. Families receive cash subsidies if they meet certain conditions such as attendance rates for school age children and vaccination schedules and growth monitoring for younger children. Two of the earliest conditional cash trans-

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Reaching the Majority: Promising Steps, Future Actions

Social programs have at worst downplayed the interactions between program requirements and rates of underdocumentation, or at best fashioned awkward solutions to get around these problems (such as inventing a new identification code for each family in each project). However, there are some promising trends in the region as private, public and international entities take steps to reach those who have been invisible to the system.

Programa Puente, an important intervention in the umbrella program, Chile Solidario, is one such government project that has incorporated identity into its program objectives. Identity is a major pillar of the program along with health, education, family dynamics, housing, work and income. Beneficiaries are required to acquire certain registration documents (according to age) as part of the co-responsibilities of program participation. It is critical that these conditions are complemented with services to facilitate compliance. Programa Puente provides personalized support to help families resolve registration problems.

IDB-supported projects are also taking a more proactive role with respect to underregistration. In the case of PAININ, a project aimed at providing comprehensive childcare for young children in Nicaragua through improved health and nutrition, it was estimated that 1/4 of the children lacked birth certificates. A new phase of the project, which is presently under design, will provide legal assistance to families so that children who were not registered on time or otherwise require legal assistance, can receive birth certificates. The recently approved Plan Familias, a conditional cash transfer program in Argentina, emphasizes removing barriers to enhance the human develop-

ment potential of beneficiaries, and as such incorporated procedures for the beneficiaries and their families to obtain national identity documents. While identification may not be the primary aim of the programs, the program designs recognize the critical role played by identification in achieving the objectives of productivity and welfare.

There have also been important steps toward diagnosing the extent of the under-registration problem in Latin America and the Caribbean. In addition to the DHS surveys, the Multi-cluster Indicator Surveys by UNICEF also include questions on birth registration. Regarding the huge knowledge gap with respect to adults, the Nicaraguan DHS for 2001 included a question on identity cards. Some 17% of persons over 15 reported that they lacked a national ID card. The 2001 Bolivian census also included a question about whether adults were included in the civil registry.

However, the knowledge gap regarding basic information on underdocumentation remains tremendously deep. In 2000, the initiative Everybody Counts (Todos Contamos) was launched with Statistical Institutes in the region with the aim of improving the measurement of race and ethnicity in census collection. This initiative sought the input of civil society as well as survey experts to design improved questions. A similar initiative could be undertaken to better measure the extent of underdocumentation in the region.

What actions are being undertaken to achieve universal coverage of births in the region? Promising initiatives have been launched, often with the help of NGOs, bilateral donor agencies or UNICEF, which have addressed some of

the economic, geographic, and cultural barriers to registration. In terms of economic barriers, numerous countries have reduced or eliminated fees for on-time birth registration, including Brazil, Bolivia, Colombia, Chile, Honduras, Nicaragua and Peru. Mobile registration drives are increasingly common and have brought the registration process to geographically isolated areas. (See box for a particularly innovative mobile drive in Brazil). With the aim of reducing social and cultural barriers to birth registration, UNICEF and other organizations have sponsored awareness campaigns which aim to educate families about the benefits of registration.

While late-registration initiatives can be successful there are high returns to registering births and issuing subsequent forms of identification at the prescribed ages. Good policies from the start can minimize the population vulnerable to manipulation in elections, as political campaigns commonly distribute national IDs or voter registrations. The temptation to mischaracterize one's age to qualify for a pension is higher if one is registering for the first time at age 55 than at age 1.

Although often successful in the short-run in localized areas, many of the initiatives have failed to be institutionalized such that the structural problems in the civil registration system are adequately addressed. Lessons learned with initiatives launched after natural disasters or civil wars have not been incorporated into longer-run strategies.

Chile is an important exception. According to the Office of Civil Registry and Identification, 99% of births are registered. Even in the most remote areas of the country such as Tierra del Fuego,

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Slipping between the Cracks of the Social Service System

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fer programs were initiated in Mexico (Oportunidades) and Brazil (Bolsa Escola). Requirements for identification vary widely across CT programs, as do the consequences for lacking identification. The programs in Chile (Chile Solidario) and Colombia (Familias en Acción) rely on nationwide targeting systems that use national identity numbers as beneficiary IDs. In both Chile and Colombia, targeted beneficiaries were required to present valid identification before receiving subsidies. In both programs this led to delays of targeted beneficiaries accessing the subsidy. To reduce potential exclusion in their programs, Familias en Acción promotes civil registration activities in targeted municipalities. Long-term exclusion problems were found to be relatively rare in both these programs.

The Red de Protección Social (RPS) in Nicaragua and the Programa de Asignación Familiar (PRAF) in Honduras did not use national systems for beneficiary identification but instead generated unique identi-

fiers within their programs. Although the problem in the target population was considerable, with approximately 11% of main beneficiaries (typically mothers) lacking a national ID in 2005, RPS had the lowest rate of exclusion since program participants were not required to show official documentation. Participation in the program was based on a pre-program census as well as poverty targeting. Although increasing the registration of children and family members was not an original objective of the RPS, the program did incorporate this as a secondary objective and facilitated the registration of beneficiary families, including by hiring the services of a lawyer.

The PRAF in Honduras did not originally require identity documents until concerns arose that families were listing neighbors' children as their own in order to increase their subsidies. To reduce the potential for program leakage and fraud, program administrators began to require birth certificates for all children. The requirement was announced on the radio along with the other requirements for participation.

Unequal access to basic social services due to lack of identity documents is at once a cause and a consequence of exclusion. This is particular true for children. It sets them off on a dead-end street of low productivity and income-earning potential from which it is difficult to escape. Even if they secure documentation and gain access to services later in life, their chances of catching up are slim. And if they remain anonymous to the system, they are certainly destined to live on the margins of society.

Bringing the Mountain to Mohammed

Paraphrasing an age-old adage, if you can't get the people to the bureaucracy, then bring the bureaucracy to the people. That's exactly what the Brazilian government did when it sent three boats out to sail the maze of waterways that are the only means of reaching about a million and half people who live in the Brazilian state of Amazonas. These floating government offices offer one-stop shopping for more than 50 services that would otherwise be, very literally, beyond the reach of most of these Brazilians.

Larry Rohter of The New York Times describes the myriad of services available on one particular boat, the Zona Franca Verde or Green Free Trade Zone. The range of services is as vast as the territory the boat covers, including medical and dental care, civil service weddings, birth registration, military inscription and voter registration. Most of the people who board these ships have essentially been phantom citizens who lacked even the most basic identity documents. This has left them on the margin of Brazilian society, unable to even own property without proper identification. One river dweller, Jhonnes Tereira da Silva, summed up his plight, and that of so many others, very aptly: "A man without documents is nothing, a nobody. He's no more than a beast in the jungle."

The Prompt Itinerant Assistance program, referred to by its Portuguese acronym PAI, aims to change that. Now three years old, PAI offers these forgotten Brazilians a chance to stand up and be counted, and in doing so opens up for them a world of rights, benefits and opportunities. This is the kind of innovative program that other countries in the region would do well to study as they seek solutions to the same problem of underserved, undocumented citizens.

Unequal access to basic social services due to lack of identity documents is at once a cause and a consequence of exclusion.

New Publications

BOOKS



Direito, Economia e Mercados

Armando Castelar Pinheiro and Jairo Saddi.
Editora Campus/Elsevier.
2006.

(available only in Portuguese)

This book is the product of an innovative Latin American Research Network project, "The Preparation of Basic Textbooks on Economics in Latin America and the Caribbean." The purpose of this project is to fill the gap in domestically written textbooks in a region where economics is taught largely with foreign texts. Researched, written and published in Brazil, this book covers both law and economics and is the first of six textbooks financed by the Research Network in six different countries.

RESEARCH DEPARTMENT WORKING PAPERS

Innovation Shortfalls

(WP-543)

By William Maloney and Andrés Rodríguez-Clare

When does a country suffer from an innovation shortfall above and beyond the ones that should be expected given its specialization and accumulation patterns? This is the question tackled in this paper. First, it shows a simple way to estimate the R&D gap that can be explained by a country's specialization pattern, and illustrates this with the case of Chile. The analysis finds that although Chile's specialization in natural-resource-intensive

sectors explains part of its R&D gap, a significant shortfall remains. Second, it shows how a calibrated model can be used to determine the R&D gap that should be expected given a country's investment in physical and human capital. If the actual R&D gap is above this expected gap, the country suffers from a true innovation shortfall.

Coordination Failures, Clusters and Microeconomic Interventions (WP-544)

By Andrés Rodríguez-Clare

This paper discusses coordination failures, their relevance to developing countries, and the circumstances under which they occur, arguing that clusters can be seen as agglomerations of firms and organizations in related economic activities among which coordination failures are likely to arise. In other words, innovation clusters provide opportunities for microeconomic interventions that promote coordination and collective action to improve productivity. Policy should foster cooperation in sectors where the economy already shows comparative advantage.

Rent Seeking and Democracy in Latin America: What Drives What? WP-546

By César Calderón and Alberto Chong

This paper provides evidence for the causal link between rent-seeking behavior and democracy in Uruguay, a country where both rent-seeking behavior and political shifts have varied widely in the last 80 years, but where ethnolinguistic heterogeneity and income inequality have remained historically low. The latter helps better identify some "pure" political interac-

tions and how they are linked with rent-seeking outcomes. The paper finds that the presence and duration of democratic regimes appear to have been conducive to a decrease in rent-seeking actions in Uruguay, although the reduction in rent seeking does not appear to have had a bearing on the quality of democratic regime in the country. While the duration of democratic regime may impact rent-seeking behavior, rent seeking also displays a causal link with democratic duration.

RESEARCH NETWORK WORKING PAPERS

Political Institutions, Policymaking Processes, and Policy Outcomes in Venezuela

(R-507)

Francisco Monaldi,
Rosa Amelia González,
Richard Obuchi and Michael Penfold

This case study shows that the political institutions that established Venezuela's democracy in the 1960s were deliberately set up to generate a cooperative equilibrium with low stakes of power. Constitutionally weak presidents and strong centralized political parties characterized this institutional framework. Cooperation induced a relatively effective policymaking process and good policy outcomes. However, an oil boom and its aftermath, in the 1970s and 1980s, unraveled the cooperative framework and induced rapid economic decay. The political reforms implemented in the late 1980s to improve the democratic process, although in themselves desirable, further weakened the party system and induced a highly uncooperative and volatile policy-

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New Publications

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making process. The recent political reforms, increasing the stakes of power, have stimulated a complete breakdown in cooperation and a highly polarized political system.

CEO and Director Turnover in Venezuela

(R-517)

By *Urbi Garay and Maximiliano González*

This study aims to achieve a better understanding of corporate governance structures and mechanisms in Venezuela. It first builds a corporate governance practices index for publicly listed companies; the overall results indicate that Venezuela exhibits relatively low corporate governance scores. Using this limited sample, we find a positive relation between this corporate governance index and its sub-components and alternative measures of value (Tobin's q , price-to-book ratio, and dividend payout). After controlling for characteristics related to CEO, board, ownership, firms, and time periods, we find that poor financial performance significantly increases the likelihood of CEO and director turnover and that directors in Venezuela play mainly an advisory role and not a monitoring role of the CEO.

Corporate Valuation and Governance: Evidence from Colombia

(R-518)

By *Luis H. Gutiérrez and Carlos Pombo*

This paper examines the association of different ownership and control measures and separation ratios with a firm's value and performance for 108 non-financial firms that traded their stock between 1998 and 2002.

Large blockholders were found to exert a positive influence on a firm's valuation and performance, which validates the positive monitoring approach of large shareholders, but this relationship is not monotonic. This paper also reports the first estimates of a survey of corporate governance practices conducted in 2004 for 43 Colombian non-financial companies. The corporate governance index's (CGI) scores suggest that implementation of good governance in Colombian firms has been slow and poor, as measured by an index average that is below half the maximum attainable value.

Corporate Governance in Costa Rica

(R-519)

By *Gilberto Arce and Edgar Robles*

This paper examines corporate governance practices in Costa Rica. First, it estimates corporate governance charter measures using firm-level data for 87 Costa Rican firms and studies their impact on firms' performance; here, the mean of corporate governance charters for publicly traded firms is equal to 56.14. Second, it presents new evidence that *de facto* corporate governance is better than *de jure* corporate governance. These results suggest that firms must implement additional measures to compensate for a weak legal environment. Also, better corporate governance and charter measures are associated with superior firm performance. Third, the final controllers of publicly and non-publicly traded firms are linked with their dividend policies. Family firms are common in Costa Rica and are not necessarily linked to better firm performance. Fourth, the ownership evolution of Costa Rican firms is

studied. Finally, changes in the Commercial Code are examined from a good corporate governance practices view.

OTHER PUBLICATIONS

Assessing Early Warning Systems: How Have They Worked in Practice?

Andrew Berg, Eduardo Borensztein and Catherine Pattillo.

IMF Staff Papers. Vol.52, No.3. 2005.

Since 1999, IMF staff have been tracking several early warning system (EWS) models of currency crisis. The results have been mixed. One of the long-horizon models has performed well relative to pure guesswork and to available non-model-based forecasts, such as agency ratings and private analysts' currency crisis risk scores. The data do not speak clearly on the other long-horizon EWS model. The two short-horizon private sector models generally performed poorly.

Corporate Governance and Private Capital Flows to Emerging Market Countries.

Alberto Chong, Alejandro Izquierdo, Alejandro Micco and Ugo Panizza.

International Finance. Summer, 2005.

According to recent research, external factors are key determinants of capital flows to emerging market countries. They are among the causes of high capital flow volatility that, in turn, lead to high levels of macroeconomic volatility. We postulate that, along with political governance, corporate governance can play an important role in mitigating the effect of external factors and in reducing capital flow volatility. In particular, we

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New Publications

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show that by implementing better corporate governance, emerging market countries could reduce the sensitivity of capital flows to external shocks and, hence, reduce the volatility of their economies.

Public Sector Premium and Gender Gap in Latin America: Spoiled Bureaucrats and Exploited Women.

Ugo Panizza and C.Z. Qiang. Journal of Socio Economics. December, 2005.

This paper uses a rich collection of household surveys to investigate the wage differential between the public and private sectors in 13 Latin American countries. It also studies how employment affects the gender wage gap. Contrary to what is commonly thought, in the majority of Latin American countries, there is a premium associated with working in the public sector. It is also found that the premium is often higher for women than for men but that this difference does not compensate for the wide gender gap.

Original Sin and Monetary Cooperation. *Ugo Panizza in New Issues in Regional Monetary Coordination - Understanding North-South and South-South Arrangements, B. Fritz and M. Metzger (eds.). Palgrave Macmillan. 2005.*

This paper describes the main findings of the research agenda on original sin and discusses their implications for the desirability of monetary cooperation both between industrial and developing countries (north-south monetary cooperation) and among developing countries (south-south monetary cooperation).

Reforming Bank Capital Requirements: Implications of Basel II for Latin American Countries.

Andrew Powell and Giovanni Majnoni. Economia. 2005. Vol. 5, No 2.

The controversial proposal to overhaul the international accord on regulation of bank capital was completed in 2004, and the 13 Basel Committee member countries are set to implement the new Basel II accord by 2007. We develop a Basel II decision tree to guide policymakers facing the issue of whether to adopt the new accord. We also estimate credit risk in banks across three Latin American countries and find that the region falls between the two main Basel II alternatives. Non-G10 countries may wish to recalibrate Basel II's internal ratings-based (IRB) approach. Alternatively, an intermediate centralized ratings-based approach (CRB) may be made compatible with Basel II by developing an integrated policy for provisions and capital. We perceive a danger that Basel II may be adopted inappropriately and represent the end of a standard rather than the establishment of a new one. We suggest that a Basel II-compatible CRB approach with homogeneous definitions would enhance true comparability.

Banking on Foreigners: The Behavior of International Bank Claims on Latin America 1985-2000.

Andrew Powell, Soledad Martínez Peria and Ivanna Vladkova. IMF Staff Papers. Vol. 52, No 3. 2005.

Rising international bank financing to developing countries has motivated a

debate on the behavior of these claims. We analyze claims from seven home (lender) countries on ten host (borrower) countries in Latin America. We find that banks transmit shocks from their home countries and changes in their claims on other countries spill over to individual hosts. However, lending has become less "indiscriminate" and more responsive to host conditions over time. Responsiveness to the latter becomes less "pro-cyclical" as exposure increases. Finally, foreign bank lending reacts more to positive than to negative host shocks and is not significantly curtailed during crises.

Prudential Responses to de facto Dollarization.

Andrew Powell. The Journal of Policy Reform. Vol. 8, No. 4 Dec. 2005. pp 241-262.

We present a model that encompasses three distinct motives for dollarization (price volatility, credit risk, and moral hazard) and discuss when risk-based prudential policy responses are called for and the form they should take. We argue that the overall policy response must be tailored to the nature of the dollarization the economy is facing. However, prudential policies should be formulated irrespective of the roots of dollarization. Their aim should be to enhance financial stability by ensuring that banks internalize credit risk within acceptable risk tolerance levels, taking dollarization and the current monetary policy environment as given.



Look Who's Talking

This section of the newsletter spotlights presentations or events sponsored by RES in recent months.

Guillermo Calvo addressed the IDB Board of Directors on January 11, 2006.

Speaking before the IDB Board of Directors on January 11, Chief Economist Guillermo Calvo presented a largely positive assessment of the recent economic performance and 2006 prospects of Latin America and the Caribbean. The region has particularly benefited from positive terms of trade for both oil and non-oil commodities including copper, coffee and soybeans. The effects of rising oil prices, however, have differed across countries. While the region's net oil exporters benefit from this change, other countries—particularly in Central America and the Caribbean—have experienced both higher inflation and lower growth.

Regardless of the differential impacts of oil prices, however, financial conditions remain largely favorable. Spreads on emerging-market debt are continuing to decline, and capital flows to the LAC-7 countries as a percentage of GDP continue a recovery that began in late 2002. When these flows are adjusted for terms of trade, they approach levels not seen since the financial crises of the late 1990s. In addition, asset prices have notably increased in the LAC-7 countries, along with domestic bank credit. On the other hand, domestic bank credit has registered much smaller overall increases in Central America and the Caribbean, including declines in several countries.

The region's macroeconomic indicators remain largely favorable, although 2006 growth rates have slowed from the previous year's levels. Also noteworthy is that unemployment

in the LAC-7 countries has declined to an estimated 9.9 percent at the end of 2005, well below the 12.4 percent peak of mid-2002, while overall poverty and its crucial component of indigence both dropped slightly in 2005. Real wages, though, have performed poorly. Although Argentina, Uruguay and Chile recorded gains well above the regional average of 0.8%, other countries experienced either modest gains or declines. A more encouraging development is that the LAC-7 countries have improved their fiscal balances, with the lowest deficits as percentage of GDP since 1996. This development, facilitated by favorable commodity prices and a particularly favorable real exchange rate for metals, coincides with a substantial increase in LAC-7 international reserves. Central America and the Caribbean, however, have benefited far less from these developments because of their different export profile.

Two additional issues called for special attention. The first of these was the recent repayment of IMF debts by both Brazil and Argentina. Taking into account the stock of reserves left over after repayment, Argentina is in a stronger position than Brazil. However, Brazil has largely complied with Fund guidelines and, thus, is likely to have ready access to financing in the future. Argentina faces somewhat different prospects, as the country's policymakers did not follow all of the Fund's advice on fiscal management.

A second current issue of interest is the dilemma of downward pressures on the real exchange rate, as the limited menu of policy options available in most countries of the region does not appear adequate to address this problem. No foreign exchange intervention

would result in an instant real appreciation of the domestic currency. On the other hand if authorities intervene in the foreign exchange market and stabilize the nominal exchange rate, the forces calling for a real currency appreciation would bring about higher inflation. In theory, capital controls and/or price controls could be used to escape this dilemma, but their undistinguished history in practice makes these options unpalatable. A larger implication of the present currency and exchange rate dilemma is that it may be necessary to reconsider whether several countries' Central Banks should have Inflation Targeting as their exclusive or even primary objective.

Although Latin America and the Caribbean are facing a wide variety of challenges at the moment, most countries in the region are enjoying ready access to domestic and international credit. This means that disbursements from multilateral development banks (MDBs), including the IDB, currently represent only 2 percent of investment in the region. MDBs must therefore find ways to maximize the impact of their relatively small share of investment flows.

Fortunately, MDBs' comparative advantages open up other approaches that other lenders may be unwilling or unable to attempt. The first of these is the leveraging of private investment through public-private partnerships (PPPs) and loan guarantees. Second, MDBs can focus on pro-poor growth through social sector reform and State modernization. Third, lending by MDBs can target the creation of regional public goods. Finally, MDBs can engage in research and analysis to create and disseminate development knowledge.



Network News

Latin American Research Network

Project Seminar Does Society Win or Lose as a Result of Privatization? Provision of Public Services and Welfare of the Poor.

The kick-off seminar for this study will feature presentations by project participants on Argentina, Bolivia, Colombia, Ecuador and Peru. February 8-9, 2006 at IDB Headquarters in Washington, DC.

Projects Selected Discrimination and Economic Outcomes

The following institutes/projects were selected to participate in this study:

- Magíster en Economía, Facultad de Ciencias Económicas, Universidad de Tucumán, Argentina: “*Discrimination and Economic Outcomes in Argentina.*”
- Centro Microdatos, Universidad de Chile: “*Gender Discrimination and Economic Outcomes in Chile.*”
- Departamento de Economía, Universidad de Chile: “*The Role of Social Networks in the Economic Opportunities of Bolivian Women.*”
- Centro de Estudios sobre Desarrollo Económico (CEDE), Universidad de los Andes, Colombia: “*Discrimination in the Provision of Social Services to the Poor: A Field Experimental Study.*”
- Fundación Sur (Cuenca-Ecuador) & Departamento de Economía, Universidad de la República Montevideo, Uruguay: “*What Emigration Leaves Behind. The Situation of Emigrants' Families in Ecuador.*”
- Grupo de Análisis para el Desarrollo (GRADE), Perú: “*Experiments Studying the Extent and Nature of Discrimination in Urban Peru.*”
- Universidad ORT-Uruguay: “*Gender Discrimination in Housing Markets: The Market and the Law.*”

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Promising Steps, Future Actions

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families do not have to wait years for a new mobile registration drive to be launched by a new government or NGO. These regions receive regular visits, by civil registry officials in rowboats, or vans that are equipped with computers linked to the national registry through satellites. Chile has demonstrated that high coverage is feasible by adopting a comprehensive approach to registration, supported by interconnectivity and institutionalization. Ultimately, strengthening civil registry institutions throughout the region is a prerequisite for solving the identity crisis faced by millions of Latin Americans.

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