



**Office of Evaluation and Oversight, OVE
Inter-American Development Bank**

1300 New York Ave. N.W., Washington, D.C. 20577

RE-288

***Poverty Reduction and the
IDB: An Evaluation of the
Bank's Strategy and Efforts***



Office of Evaluation and Oversight

Officially distributed to the Board of Executive Directors on November 5, 2003.

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	THE BANK'S 1997 STRATEGY FOR POVERTY REDUCTION	5
III.	WHAT IS A STRATEGY AND HOW TO EVALUATE IT.....	13
IV.	INCORPORATING POVERTY REDUCTION EFFORTS INTO BANK ACTIVITY.....	15
V.	CHANGES IN THE BANK'S OVERALL DIRECTION: DELIVERY AND EFFICIENCY OF DELIVERY	21
VI.	EVALUABILITY	25
VII.	RESULTS: OPPORTUNITIES AND CAPABILITIES.....	28
	A. Opportunities	29
	B. Capabilities	34
VIII.	OUTCOMES: POVERTY	38
IX.	FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	41
	A. Findings	41
	1. Development and Implementation	41
	2. Content and Results.....	41
	B. Conclusions and Recommendations.....	43
	C. Specific Recommendations	44

ANNEX

I. INTRODUCTION

- 1.1 This report¹ presents the evaluation conducted by the Office of Evaluation and Oversight (OVE), of the poverty reduction efforts carried out by the IDB since the mid 1990's.² Its purpose is to provide an account to the Bank's directors regarding the results achieved by the institution in terms of poverty reduction, and an input for reflection and lesson-learning regarding how to improve the effectiveness of its future poverty strategy.³
- 1.2 This report evaluates the Bank's poverty strategy and efforts through seven dimensions:
- The Bank's 1997 "Strategy for Poverty Reduction" (Document GN-1894-5), as a "strategy per se" (Chapter II);
 - The 1997 strategy with respect to what the Bank has defined as what a strategy "should be" (Chapter III);
 - The actions undertaken by the Bank in the poverty field subsequent to the preparation of the strategy, i.e. how has it impacted the overall direction of the Bank. This requires establishing the range of Bank actions which appear to have been informed and influenced by the strategy, and will also look at the question of whether the list of actions contemplated in the strategy were in fact carried out (Chapter IV);
 - The delivery and efficiency of delivery of pro-poor projects, i.e. focus on the project-level results of Bank action in achieving objectives related to poverty (Chapter V);
 - The evaluability of the Bank's pro-poor projects, i.e. whether the Bank can show through its project design and the information garnered in its monitoring and evaluation system the results of its pro-poor interventions (Chapter VI);
 - The implicit model underlying the poverty strategy and the evolution of its key components during the nineties (Chapter VII);
 - Finally, this evaluation will conclude with a look at recent broad trends in the evolution of poverty in the region and the policy challenges facing the countries and the Bank in order to address it. This is needed because the Bank's initiatives are only one part of a complex set of interactions that together contribute to progress on the poverty issue. While the Bank's

¹ ¹ This version of the Report includes OVE's response to the comments received by OVE from the Management's Review Group on an earlier version. See "Poverty reduction and the IDB; An evaluation of the Bank's strategy and efforts. Management's Consolidated Comments", 28th of October 2003.

² The Bank is currently engaged in developing a number, about seven so far in 2003, strategy documents. An evaluation of them, including the new Poverty Strategy, is beyond the scope of this evaluation. It hopefully provides inputs to the discussions surrounding them.

³ For other references see for instance the World Bank's Operations Evaluation Department (OED): "Poverty Reduction in the 1990s: an Evaluation of Strategy and Performance," 2000; UNCTAD's "Escaping the Poverty Trap," June 2002; and for a comprehensive study of the region Q. Wodon's "Poverty and Policy in Latin America and the Caribbean" World Bank, 2000.

actions alone may not be determinative of these outcomes, it is important that the Bank recognizes whether or not it is part of this process.

- 1.3 Before presenting the central findings, two sets of cautions should be noted. The first one refers to the intrinsic difficulty faced by the Bank in defining a formal explicit poverty strategy in light of the controversial nature of the issue and the substantial differences in approach pursued by the Bank's shareholders within their own countries. Indeed, it would be no exaggeration to say that poverty reduction policies are the focus of the most passionate debates in the whole of development economics. The controversy surrounding the World Bank's 2000 World Development Report illustrates this (see Box 1.1).

Box 1.1: Changes in the *World Development Report 2000: Attacking Poverty* Between Draft and Published Versions

The final version of the report, after one of the two editors resigned, shows three main substantial changes to the red cover draft:

- First, an upfront chapter was added to show that growth was good for poverty reduction.
- Second, the chapter on market reforms was given a more optimistic twist, the hazards of quick market reforms were softened and the emphasis on benefits strengthened.
- Third, the draft version section on world capital markets, which blamed the Asian crisis on the rapid opening of financial markets and spoke favourably of capital controls and advocated them as normal instruments of developing countries management, was cut to a fraction of the previous size. The message of "caution" to liberalizing financial markets and capital controls was watered down to be considered only as transitional measures *en route* to free capital markets.

The reviewers were also empowered to "*insert sentences throughout the draft which spun the message in the direction of growth, openness and optimism*". Further, "*What matters for policy messaging is the beginning and the end of sections and chapters, and this is where the critics revised the wording to give a bias to optimism... even at the cost of inconsistencies.*"

Source: R. Wade (2001) - "Making the World Development Report 2000: Attacking Poverty," *World Development*, Vol. 29, No 8, pp. 1435-1441.

- 1.4 Even the meaning of poverty generates considerable heat, with the apparently simple definition of "income shortfall" coming under particular criticism.⁴ Partly as a reflection of this complexity and disagreement, the statement that "poverty is multidimensional" is fast becoming the norm.⁵
- 1.5 Some authors have reacted to this debate arguing that the discussion is irrelevant in the sense there are high correlations between different definitions of poverty, and they tend to give the same approximate number of poor, and similar targeted sub-set of populations.⁶ Thus, according to this viewpoint, the assertion that poverty is multidimensional becomes an empty statement unless it is explicitly related to how different definitions imply different poverty reduction policies.

⁴ Income shortfall measure of poverty can be found in B. S. Rowntree's "Poverty: A Study of Town Life," Macmillan, 1910. The widely used one dollar-a-day – purchasing power adjusted – was proposed in the 1990 World Development Report.

⁵ For a review of the debate see "Economic Policy, Distribution and Poverty: the Nature of the Debate" R. Kanbur, Cornell University, 2001.

⁶ There is a growing literature that attempts to determine whether multidimensional poverty comparisons are robust to the aggregation of multiple indicators. See "Robust Multidimensional Poverty Comparisons" by J. Duclos, D. Sahn, and S. Younger, 2001.

- However, the broader the definition of poverty the more expanded the set of relevant policies and greater the emphasis on the results of the interaction amongst policies (i.e. total impact will be different from the sum of their individual parts). Then again, the broader the definition of poverty, the broader the set of intervention, the less distinct poverty policies become from development policy.
- 1.6 Another viewpoint argues that definitions do matter. According to this stance a given definition of poverty is a “... *different construction of reality, involving numerous judgments, which are often not transparent. The different methods have different implications for policy, and also, to the extent that they point to different people as being poor, for targeting.*”⁷ Invoking multidimensionality is fudging the issue.
 - 1.7 An example where the debate can be illustrated is in the areas of gender and indigenous populations. Two extreme positions can be discerned. The first viewpoint argues that these groups are picked up into targeted populations using income definition of poverty hence general poverty policy is applicable. The other extreme argues that special emphasis, because they are excluded, should be placed on these groups, as they require special group specific policies, and by doing so there will be higher poverty reduction pay-off.
 - 1.8 Such controversy, in a consensual institution like the IDB, enormously complicates the task of developing something like a formal poverty strategy. With conflicting outlooks and paradigms, a consensus-seeking institution is driven toward one of two logical structures during the process of constructing a policy or strategy: either to the intersection set of the different viewpoints (which may be empty or sparse), or to a long listing of “priorities” that attempts to maximize the inclusion of all viewpoints, including the “right phraseology”, be they mutually compatible or not.
 - 1.9 The second set of cautions relates to the scope and limitations of this evaluation. It must be noted that the report’s findings and conclusions are based essentially on a desk study. The evaluation draws mainly on IDB documents and its monitoring and evaluation system; no new independent evaluation was made of IDB projects or clusters of typical projects. Furthermore, even though structured interviews were made, these were limited to the operational staff of the Bank.⁸ No attempt was made, whether through surveys or through country focus groups, to obtain an evaluation of the perspective of the member countries on the Bank’s poverty

⁷ See “Does it matter that we don’t agree on the definition of poverty? A comparison of four approaches”, by C. Ruggeri, R. Saith, and F. Stewart, QEH Working Paper, QEHWPS107, Queen Elizabeth House, University of Oxford., 2003; The Debate on Globalization, Poverty and Inequality: why measurement measures” Ravillion, WB.

⁸ Structured interviews of randomly selected twenty-nine technical staff in the three operational regions. See “Las Voces Del Staff Técnico del Banco Sobre La Estrategia Para La Pobreza” by S. Dutrenit, OVE, 2002.

reduction efforts.⁹ Finally, the report does not systematically evaluate the Bank's pro-poor non-financial services other than programming documents related to its lending program.¹⁰

- 1.10 Finally, an observation on style. In order to limit the size of the main document and improve readability, tables and boxes were kept to a minimum and all charts are presented in the Annex, to which those interested in more detailed data can refer. Such a reference shows that the Reports generalizations regarding the Region's patterns has to be qualified as the patterns refer to less than the total number of countries in the Region.

⁹ Thus, this report relies mainly on quantitative as opposed to qualitative, and positive as opposed to normative, research, thus providing only a partial assessment. For combining quantitative and qualitative methods see "Measurement and Meaning: Combining Quantitative and Qualitative Methods for the Analysis of Poverty and Social Exclusion in Latin America" E. Gacitúa-Marió and Q. Wodon, WB, undated.

¹⁰ "Non-financial services" include dialogue and knowledge dissemination through conferences, forums, networks, seminars, workshops and studies. These are more difficult to tract regarding their results.

II. THE BANK'S 1997 STRATEGY FOR POVERTY REDUCTION

- 2.1 The objective of this chapter is to discuss the conceptual elements of the 1997 “Strategy for Poverty Reduction” (Document GN-1894-5), and identify the framework or model implicit in its formulation.
- 2.2 The first noticeable characteristic of the strategy document is the absence of a diagnostic section. The lack of an analytical discussion of the poverty issues facing the region calls into question whether the interventions proposed by the strategy are indeed the most appropriate and relevant for the region, or whether they reflect some general framework that has been applied to Latin America and the Caribbean (LAC). This problem is compounded by the following: a) the majority of the subsections do not contain extensive references to the region and its specificities; and b) whenever references are made, they relate to the reality of the countries of Latin America, which tend to be of little relevance to the conditions observed in the non-Latin countries of the region, which have very different institutional, cultural, political and social realities.
- 2.3 In its introductory chapter, the 1997 poverty reduction strategy defines poverty as the “*lack of access to or command over the basic requirements for a minimally acceptable standard of living*” (p. 1). Accordingly, it explicitly states that a person is to be considered poor if he or she does not have access to adequate food intake, or access to basic social services (water, sanitation, health, education etc.). The strategy also argues that income is the appropriate poverty indicator, for it provides a person with the means for attaining his or her basic necessities.
- 2.4 In its definition of the problem, the poverty strategy explicitly defines a dynamic tension between two competing approaches to addressing poverty: basic needs¹¹ and income adequacy. Examples of this conflict can be found throughout the document:
- “*In addition to providing a minimum safety net for the least fortunate, it [the government] can directly supply many of the basic necessities that define a minimum standard of living. Even when the private sector is unable to create enough good jobs to reduce the level of poverty as measured by income; the government can guarantee basic education and access to health services for the poor. It can also build safe water and sanitation systems and guarantee public safety in poor neighbourhoods. In short, the government, through the provision of public goods can directly improve the living conditions of the poor. This could go a long way toward reducing the social tension that results when the market economy fails to increase the income of the poor” (p. 2. Underlines added);*
 - “*While the [social investment] Funds were successful in building schools and health posts, and while this reduced the level of unsatisfied basic*

¹¹ See for instance P. Streeten et al. “First Things First: Meeting Basic Needs in Developing Countries,” 1981.

needs, it had little impact on either employment or income. But these projects did increase the welfare of the poor..." (p. 15); or

- *"Thus, for projects such as slum upgrading, water and sewage or provision of primary health care, it makes little sense to measure project impact by reductions in income-based poverty indices. Rather, for this sort of project, we should use measures of poverty based on lack of basic needs"* (p. 21).

- 2.5 A close reading of the document reveals, however, a strong bias in favour of the market-based approach to poverty reduction. The direct provision of basic needs by government is seen as a minor adjunct to a policy whose fundamental thrust is the enhancement of market-derived incomes for the poor.¹² The strategy argues forcefully that, *"the basic strategy of poverty elimination is to help the poor earn their way out of poverty. To do that the economy must generate an expansion in the number of jobs available to the poor and an increase in the productivity or earning power of the poor in these jobs"* (p. 2). Thus, a main feature of the 1997 strategy is its clear reflection of the pro-market consensus that emerged in the eighties, in which government interventions are necessary only as compensatory mechanisms and to ensure minimum standards of living.
- 2.6 Given that employment generation is the strategy's main focus, it is not surprising that the private sector is seen as the key economic agent and driving force behind a country's effort to generate income opportunities. However, the strategy assigns to the government a minimal or compensatory role that follows directly the "Washington Consensus" view that had been prevailing in the economic debate since the eighties.
- 2.7 The strategy's longest and more developed section discusses the options available to the countries of the region to increase the income opportunities of the poor. It argues that while economic growth is a necessary condition for poverty reduction, its impact on the poor can vary substantially depending on the number of unskilled jobs created by the market. Accordingly, the employment creation theme receives an important qualifier: *"when one speaks about job creation as a poverty strategy, what one really must mean is the substitution of good jobs for bad jobs or job growth significantly above the growth rate of the labour force"* (pp. 3-4).
- 2.8 The main policy instruments or actions presented by the strategy to increase the income generation opportunities of the poor are indeed consistent with its focus on promoting the private sector as the key source of employment generation: most of the actions discussed are directed at market expansion, increasing competition and improving regulatory frameworks. However, the reliance on the private sector and the market as promoters of the expansion of employment

¹² This can be clearly seen in the first quote presented in paragraph 2.5 by the introduction of the "conditionals" underlined in the text. The quote also ends with a statement that may give the reader the impression that such measures are to be implemented to reduce social tension when the economy does not perform well, and not for their intrinsic value.

- opportunities in the region was adopted somewhat uncritically without incorporating the specificities of countries that may not have markets large or dynamic enough to fulfil such expectations. It is also clear that the proposed instruments attempt to address a large range of problems: from increasing access to credit through strengthening non-governmental organizations (NGOs), to changes in tax and tariff regimes.
- 2.9 While all of these ideas seem plausible individually, they are presented without a discussion of the context in which they can (or should) be applied, or of how they can be complementary of (or substitutes to) each other. Given the trade-offs faced by policy makers, it is unfortunate that the strategy does not provide any guidance on how to set priorities among such a complex and diverse set of potential interventions, particularly considering that not all policies have the same impact in terms of job generation.
- 2.10 In terms of human capital development, the strategy is in line with the view that investments in health and education are essential to the fight against poverty because they improve the productivity of the poor, thus their income-earning capabilities, and therefore contributes to the overall growth of the economy. Accordingly, human capital policies are means to an end.^{13, 14}
- 2.11 It is, however, striking to note that the strategy seems to regard that the solution to the problem of human capital is “easy” to attain: *“There is no structural reason for allowing this waste of human lives and its high economic costs to society to continue. It is not that the task of providing children with basic health care and teaching them to read, write and compute is that difficult, nor in most cases, that the needed resources are unavailable. (...) What is missing is the political will to get the job done...”* (p. 8, emphasis added). This formulation both ignores the technical complexity in designing effective human capital programs, and provides neither an analytical understanding of why “will” is absent, nor operational guidance for encouraging the formation of the needed “will.”
- 2.12 The strategy generally lacks a discussion of the institutional context necessary to make the proposed interventions effective and an analysis of the relationship between the recommended interventions and the specific educational and health conditions of the countries. Such “generic” prescriptions have limited relevance in a region with the marked heterogeneity observed in Latin America and the Caribbean, and in this sense it does not provide guidance to decision makers, inside and outside the Bank, of when, and under what conditions, such shift should take place.¹⁵

¹³ For a discussion on means and ends see for, for instance Streeten, Paul (1994) – “Human Development: Means and Ends,” *American Economic Association Papers and Proceedings*, May, 84(2), pp. 232-237.

¹⁴ Among the main areas of intervention discussed by the strategy to foster human capital development in the region, special attention is given to improving the human capital of women as a means to increase the income of poor families.

¹⁵ For example, removing financial barriers to access to health care — as proposed by the strategy — may be a relatively less relevant issue in the many countries of the region that still face important supply shortages.

- 2.13 The strategy also presents a patchwork of issues and policy interventions such as transfer programs (e.g. nutrition, day care, etc.), social protection programs, pro-indigenous groups, programs to improve (mainly urban) living conditions, that share two main characteristics: firstly they are explicitly recognized by the strategy as government interventions; secondly they are seen as ends in themselves, actions generally aimed at improving the quality of life of the poor, independently of their impact on productivity. The fact that these issues are, to a large extent, treated independently of one another as specific topics, and without developing much further their interaction with the strategy's main line of argument, gives the reader the impression that these are "ad hoc" themes, incorporated into the strategy as an attempt to respond to particular queries, comments, and/or demands.
- 2.14 It is interesting to note that the 1997 poverty strategy does not seem to stress targeting as a major feature for social policies, even though compensatory policies through "targeted" social safety nets were widely proposed during the 90's as a response to the concern that stabilization policies were imposing an excessive burden on the poor, and due to the belief that they could adequately address the specific needs of the poor within the constraints of the fiscal budget. However, while the Bank's 1997 poverty strategy argued for compensatory policies, it did not promote, at least not vehemently, the widespread use of targeted social policies. In fact, the strategy seemed to be concerned with improving project target mechanisms in order to increase the proportion of project benefits that reach the poor — "*Project managers should attempt to build in mechanisms which will increase the proportion of project benefits that go to the poor*" (p. 20 and Action Plan) — a very different stance from proposing extensive targeted programs or targeted social policies.^{16,17}
- 2.15 It is also interesting to note that the Bank's strategy for Rural Poverty Reduction (GN-1995-5) approved only one year after the Bank's overall Strategy for Poverty Reduction, does seem to do a better job at addressing many of the issues raised in this chapter, particularly those related to prioritisation and policy context:
- The Rural Poverty Strategy presents in its initial sections a diagnostic of rural poverty phenomenon in the region, the actions taken by the Bank in this area and the lessons learned.
 - It distinctly defines five approaches that are considered central to the definition of a strategy for reducing rural poverty (favourable institutional and policy framework, affirmative action programs to assist the poor, sustainability, investments in human capital and greater community participation in the design and implementation of strategies).

Conversely, some countries have already surpassed the problem of school enrollment, and should re-direct the focus of their educational policies to school attendance instead.

¹⁶ It must be noted that the strategy also proposes a study to assess "*the targeting of social expenditures, particularly the social safety net, and ways to improve targeting*" (p. 18 and Action Plan).

¹⁷ For further discussion on the issue of targeting see Chapter VII.

- It explicitly recognizes that rural heterogeneity requires different sets of policies and therefore distinguishes the rural poor in two groups: the small-scale farmers with low agricultural potential, and the landless poor (or those with less agricultural potential). A set of policy intervention alternatives is then presented for each of these two scenarios.
- The Rural Poverty Strategy takes a clear position in favour of targeting health, education and basic rural infrastructure programs

2.16 In summary, it could be argued that the 1997 strategy proposes to achieve its goal of poverty reduction through a set of core policies and actions built upon two major themes: the improvement of the human capital of the poor, and, mostly importantly, the increase of their employment and income generating opportunities. Accordingly, the policies proposed by the strategy can be seen as aiming at:

- Generating income-earning *capabilities*, through investment in human capital;¹⁸ and
- Creating the *opportunities* for using them productively in the market.

In this sense, the set of *capabilities and opportunities* owned by and available to an individual determine his or her level of income.

2.17 The absence of an explicit discussion of trade-offs and priority setting criteria for the many alternative policies presented, represents an important limitation that is compounded by a general lack of discussion of the context in which the policy recommendations can (or should) be applied.¹⁹ Thus, while the strategy is internally consistent, its relevance for the Bank and for the countries of the region may be questionable, since it doesn't seem to fulfil the goal of providing "clearer guidance to managers, staff, borrowers and the Board of Executive Directors on how the Bank intends to implement its institutional agenda." (Institutional Strategy p. vi).

2.18 A few final observations might be useful in concluding this chapter. The first one relates to the internal process by which the strategy was developed. While specialists in operational departments can develop strategies, thereby exploiting acquired knowledge from past interventions and minimizing the problem of buy-in, the poverty strategy was developed, between 1995-1997, by a small team of experts from the central departments. A process normally associated in an area where an institution lacks a significant operational history.

¹⁸ It must be noted that this interpretation of capabilities, defined as the ownership of income-earning assets, is distinct from Sen's concept of human capability, which relates to people's abilities and opportunities to have a full life; not only in terms of being healthy and literate, but also to be able to participate freely in society. In this sense, both concepts of capabilities and opportunities are simultaneously present in Sen's model. Furthermore, in Sen's framework, poverty is measured in terms of outcomes (i.e., ends), as opposed to income.

¹⁹ In the 1997 strategy document it is possible to identify 47 different policy actions.

- 2.19 The second observation refers to the location of the development framework ideas underlying the strategy in relation to the common wisdom at the time it was developed and approved. Even at the risk of oversimplification and misrepresentation, Box II.1 may present a convenient summary of the changes in economic development ideas.²⁰ Shaded areas indicate those features found in the strategy. While the box shows that there was a shift in the development paradigm between the eighties and nineties, the poverty strategy reflected a mix of ideas from the seventies and eighties.
- 2.20 The third observation relates to the definition of poverty and its consistency across a number of dimensions invoked by the poverty strategy. Box II.2²¹ provides another convenient consistency checklist, with shaded areas indicating dimensions found in the strategy. Again noting the risks of oversimplification and misrepresentation, the box reveals that the poverty strategy was not consistent in terms of definition, and that it's associated dimensions and also had specification gaps in key dimensions.

²⁰ Originally from G.M. Meier and J. Stiglitz "Frontiers of Development Economics" Oxford University Press, 2001.

²¹ From "Does it matter that we don't agree on the definition of poverty? A comparison of four approaches", by C. Ruggeri, R. Saith, and F. Stewart, QEJ Working Paper, QEHWPS107, Queen Elizabeth House, University of Oxford. 2003.

Box II.1. Emphasis on Poverty and Distribution in Development Economics²²

	1970s	1980s	1990s
DEVELOPMENT GOALS	→ Growth of Per Capita GDP and Poverty Alleviation	→ Rise of Non Monetary indicators (Human Development Index) and Protect the Environment	→ “Freedom” indicators and Sustainable Development
MACROECONOMIC GROWTH THEORY	→ Growth Accounting → Empirical work and puzzles	→ New Growth Theory → Knowledge capital (Technology, Education)	→ Role of Institution, of externalities → Social Capital (Networks, Institutions)
FUNCTIONNING OF MARKETS	→ Government Failures, Get Prices Right	→ Coordination and information problems	→ Asymmetries, Multiple Equilibria and Development Traps
INEQUALITY & POVERTY	→ Cross-country analysis → Representative Agents	→ Poverty Mapping → Benefice and Tax Incidence Analysis, Public Expenditure Reviews	→ Modelling Household Behaviour (Micro Simulations)
MODELS & TOOLS	→ Macroeconometric and CGE Models	→ Augmented CGE Models w/Representative Agents	→ New generation of micro-macro linkage models
POLICY CONTEXT	→ Liberal Agenda (Trade & Price Liberalization)	→ Washington Consensus Agenda (Macro stability, Privatisation, External Sector)	→ Post Washington Consensus Agenda
	→ Minimalist Government	→ Complementarily between Government and Markets	→ Political economy Institutional Transition investment climate

²² Adapted from Table 1 in Evaluations the Impact of Economic Policies by F. Bourguignon et al, 2002.

Box II.2. A Comparison of the Four Approaches to Poverty				
	Monetary poverty	Capability approach	Social exclusion	Participatory approach
Unit of analysis	Ideally: the individual, de facto the household	The individual	Individuals or groups relative to others in their community/society	Groups and individuals within them
Required of minimum standard identified by	Reference to “external” information (defined outside the unit); central element food requirements	Reference to “lists” of dimensions normally assumed to be objectively definable	Reference to those prevailing in society and state obligations	Local people’s own perceptions of well-being and ill being
Sensitivity to social institutions	None, but assessments can be broken down by group	Emphasis on adequacy rather than sufficiency leaves space for (non modelled) variations	Central element	Reflected in the way poor people analyse their own reality
Importance of processes	Not essential. Increasing emphasis	Not clear	One of the main thrusts of the approach	Critical for achievement of satisfactory methods
Major weaknesses conceptually	Utility is not an adequate measure of well-being; and poverty is not an economic category	Elements of arbitrariness in choice of basic capabilities; problems of adding up	Broad framework, susceptible to many interpretations; difficult to compare across countries	Whose perceptions are being elicited, and how representative or consistent are the? How does one deal with disagreements?
Problems for cross-country comparisons	Comparability of surveys; of price indices; of drawing poverty lines	Less problems if basic capabilities are defined externally; but adding up difficulties make comparisons difficult with inconsistencies according to adding up methodology	Lines of social exclusion essentially society-specific; also an adding up problem	Cultural differences can make appropriate processes differ across societies; results may not be comparable
Data availability	Household surveys regularly conducted; omitted observations can be important. Use of national income data – but requires assumptions about distribution	Data less regularly collected, but could easily be improved	Currently have to rely on data collected for other purposes. If agreed on basic dimensions, data could be regularly collected	Generally only small purposive samples. Never available nationally, would be difficult to extend method for regular national data collection
Major weaknesses for measurement	Needs to be anchored to external elements. Arbitrary	Impossibility of set evaluation. How to deal with multidimensionality even if only of basic functioning	Problems with multidimensionality Challenge of capturing processes	How comparable? How representative?
Interpreted by policy makers as requiring	Emphasis on economic growth and distribution of monetary income	Investment in extending basic capabilities/basic needs via monetary incomes and public services	Foster processes of inclusion, inclusion in markets and social process, with particular emphasis on formal labour market	Empowerment of the poor

III. WHAT IS A STRATEGY AND HOW TO EVALUATE IT

- 3.1 The task of evaluating strategies in the IDB is complicated by the inherent breadth and complexity of the term “strategy,” and by the lack of a clear understanding within the institution of which specific meanings should be attached to the term.
- 3.2 For guidance on the nature and meaning of “strategy” in the IDB, it is necessary to turn to the Institutional Strategy document (GN-2077-1) approved by the Board in 1999. This document not only provided a definition of strategy for the institution, it also provided guidance as to what a strategy should contain and how it should be evaluated.
- 3.3 The Institutional Strategy (IS) provides quite specific guidance as to what sector strategies ought to contain:
- “Sector strategies should be concise plans of action created to help accomplish key institutional goals set in response to the mandates of the Board of Governors. Such plans of action must be designed recognizing and exploiting the Bank’s institutional uniqueness, and identify: (i) a set of achievable goals; (ii) actions to be undertaken; (iii) instruments and resources required; (iv) assignment of responsibilities; and (v) a timeframe for implementation and evaluation. Sector strategies should be endorsed by the Board of Executive Directors.”* (paragraph 6.16)
- 3.4 Note that this subset of evaluative criteria refer to a strategy as a document rather than the strategy per se,²³ and even though the 1997 poverty reduction strategy was written before the Institutional Strategy, the standards set in the later document still provide a useful framework of analysis. Furthermore, these criteria are essentially the same as those offered by the Bank to the Board in GN-1910-2, 1996, which set out the relative hierarchy of different documents sent to the Board, and their purpose.
- 3.5 Using the criteria set out by the IS, the following findings can be asserted:
- The strategy did not specify achievable goals. The strategy had virtually no empirical data regarding the nature, extent, and characteristics of poverty in the region. Thus missing was the connection between diagnostic and action. In addition, no benchmarks were defined to provide guidance to countries on achievable goals.
 - The strategy did propose a list of actions to be undertaken, such as studies, training, information gathering, evaluations for lesson learning etc. All directed at incorporating poverty in Bank’s activities and improving the effectiveness of the Bank’s interventions regarding poverty reduction.
 - With respect to instruments and resources required, the only “instrument” specifically mentioned was country-specific poverty assessments. These

²³ Therefore it does not consider the process under which the strategy is developed, processed and implemented.

had also been mandated in IDB-8. No resources were specifically assigned for implementation of the strategy.

- No assignment of responsibilities, both hierarchal and horizontal, between and within different entities of the Bank, was given; hence no appropriate accountability mechanism was established.
- The strategy did not provide a timeframe for implementation, and no evaluation of the strategy as a whole was contemplated in the strategy document. At the project level, no evaluation expectations were established.

3.6 Accordingly, the 1997 poverty reduction strategy document satisfies few of the reference criteria established in the Institutional Strategy. Further it evidenced the problem of developing a “one-size-fits-all” strategy document and the problem of setting poverty as a priority in the Bank.

3.7 It must be noted, though, that in 1999 the Bank did formally shift to a pro-poor biased stance in its Institutional Strategy. This strategy resolved the priority issue by providing a hierarchy of the institution’s objectives: its two overarching goals, poverty reduction and sustainable development, would be supported by four institutional pillars — governance; competition; integration; and social development — oriented towards implementing the two overarching goals.²⁴

3.8 Finally, the Institutional Strategy also directed that strategies should be carefully evaluated, along the following lines:

“The purpose of their evaluation should be threefold:

- *to show the connection — or lack of it — between the actions undertaken pursuant to the strategy and the attainment of its intended goals;*
- *to assess the impact that the implementation has had in the overall direction of the Bank and on the attainment of institutional goals;*
- *to determine how the Bank’s decision making process has changed as a result of the strategy (i.e., to assess that the Bank would have done differently in the absence of the strategy, and what — if any — is the value added by the new way of doing things)”* (paragraph 6.19).

3.9 These evaluative criteria are re-grouped in this report and discussed in the following three chapters.

²⁴ It should be noted that earlier versions of the Institutional Strategy did not have these overarching goals, which were added only in its later versions prior to Board presentations.

IV. INCORPORATING POVERTY REDUCTION EFFORTS INTO BANK ACTIVITY

- 4.1 The objective of this chapter is to evaluate the degree in which the specific elements and actions recommended by the poverty strategy were integrated into IDB activity, i.e. to understand the extent in which the poverty strategy was taken into account in all activities and at all organizational levels of the institution.²⁵ In the terms of the IS it will try to *determine how the Bank's decision-making process has changed as a result of the strategy.*
- 4.2 Although there is no single “right way” to carry out such task, four factors can be identified whose presence would enhance the impact of poverty reduction efforts within the Bank.²⁶
- 4.3 The first factor is the extent in which the Bank internally “rewards” efforts to promote poverty reduction. The presence of net positive incentives for poverty-oriented interventions, hence for the staff working on them, is particularly important, as these actions are often characterized as being riskier, more time consuming, as well as more complex and data intensive.²⁷
- 4.4 Other than the goals set by IDB-8 that 50% of the number of loans and 40% of the dollar value of total lending should be social-equity enhancing (SEQ), the Bank does not have an explicit *internal* incentive mechanism for poverty-oriented interventions. In fact, the pressures for fast approval and rapid disbursement felt by the Bank's technical staff may act as counter-incentives for the promotion of poverty-targeted projects, since such projects are often more demanding in terms of design input than other alternatives.²⁸ The 10% reduction in counterpart requirement allowed in poverty-targeted (PTI) operations can be seen as an incentive (particularly for the countries) for pro-poor projects. However, projects that aim at PTI classification have to demonstrate their pro-poor targeting, which can represent an additional load to the project team and additional preparation time. As a result, pro-poor projects may end up not being classified as PTI if the borrowing country does not want (or the project structure cannot afford) the 10% reduction in counterpart financing.
- 4.5 The second factor is the degree in which the Bank was reorganized for poverty reduction efforts after the approval of the strategy. Even though specialized units exist for poverty, gender and indigenous peoples, they already existed prior to the 1997 strategy. Absent an explicit budgetary proposal in the 1997's Strategy it is

²⁵ We do not evaluate whether poverty reduction has been incorporated in the borrowing countries' policies.

²⁶ See Chapter 2 of “DAC Scoping Study of Donor Poverty Reduction Policies and Practices”, OECD, 1999.

²⁷ There is some evidence that tends to support this characterization, for example: the time taken between Profile I and loan approval is higher for projects classified as promoters of social-equity (SEQ) in comparison to non-SEQ projects. The percentage of the SEQ portfolio on alert in 2001 was also slightly higher than non-SEQ.

²⁸ These pressures were related during the anonymous interviews conducted by OVE.

difficult to judge whether there was an adequate resource re-allocation towards the poverty agenda. The strategy did not lead to a significant increase in resources to the Poverty Unit, which remains significantly smaller (staff and budget) than the equivalent unit for LAC in the World Bank. Furthermore, the IDB does not have an integrated approach towards poverty. For example, the World Bank has a joint Poverty Reduction and Economic Management (PREM) Network, plus a reliance on matrix management to mainstream poverty.²⁹ Furthermore, while the World Bank has operational directives for poverty reduction as well as for gender, the IDB has none. The Bank does not have an obligatory or generalized training system for mainstreaming its pro-poor institutional objective among its staff. Nor does the Bank have “poverty specialists” located in its Operational Departments as it does for environment. It must be noted, however, that these organizational features may or may not lead to improved poverty reduction efforts or to greater effectiveness in the fight against poverty, this question must be answered empirically.³⁰

- 4.6 Within this point is the issue of the adequacy of the IDB’s human capital with respect to its poverty agenda. This issue has been raised by the Administration: “... technical expertise in poverty analysis is scarce in the regional departments and throughout the Bank. Moreover, the declining number of staff with relevant expertise throughout the Bank (...) is of growing concern regarding this overarching goal of the Bank.”³¹ Without people to effectively carry out a strategy it has a high risk that it may remain merely a pure public relation exercises.
- 4.7 The third factor is the capacity of the Bank to monitor and evaluate poverty-oriented actions. With respect to *inputs*, the Bank has currently three formal indicators to monitor the pro-poor bias of its lending program: social equity enhancing (SEQ) projects, poverty targeted investments, PTI (which is a subset of the SEQ category), and gender (GER).³² No ranking is systematically made regarding indigenous populations. However, with its new Institutional Strategy that specifies poverty as an overarching goal, a question arises whether the existing classification needs to be replaced or complemented by new poverty tagging systems to be contemplated in each of the four pillars (and their strategies): governance, competition, integration, and social development.
- 4.8 The fourth factor is the importance given by the Bank to poverty reduction in its country programming exercise. The enhancement of the poverty reduction focus

²⁹ The PREM Network is one of four thematic networks established in the late nineties. It brings together staff working on countrywide economic policy and cross-cutting issues organized in four sector boards: economic policy, gender and development, poverty reduction, and public sector.

³⁰ Accordingly, this report is not suggesting, for example, that the Bank should have “poverty specialists” in every Operational Department, it is only presenting evidence that suggests that the concern with poverty seems to have had a greater impact on the organizational structure of the World Bank than the IDB.

³¹ . See “Poverty reduction and the IDB; An evaluation of the Bank’s strategy and efforts. Management’s Consolidated Comments”, 28th of October 2003.

³² PTI projects are those that are directly pro-poor biased, i.e. beneficiaries are identified as poor through means testing or geographical targeting. The SEQ classification relates to activities assumed to benefit the poor disproportionately.

in Country Papers (CP) involves:³³ an explicit poverty orientation; a high-level scrutiny mechanism as a guarantor of actual poverty content of the CP; a participatory process involving systematic consultations with governments and civil society; and a mandated poverty assessments prior to the preparation of the CS.

4.9 It can be seen from Table 4.1, prior to the introduction of the new Country Paper Guidelines in 2002 (GN-2020-6), the IDB was falling short in practically all of these factors relative to the United Nations Development Program and the World Bank. The only systematic consultation done by the Bank is with country Government.

TABLE 4.1: MANDATED MAINSTREAMING IN COUNTRY PROGRAMMING					
Institution	Poverty Reduction Required in CP	Senior HQ Approval/Screening of CP by Poverty Reduction Criteria	Government Participation in CP	Civil Society Participation in CP	Poverty Assessment Required Prior to CP
IDB*	No	No	Yes	No	No
WB	Yes	Yes	Yes	Yes	Yes
UNDP	Yes	Yes	Yes	Yes	Yes

*Pre 2003.

4.10 In fact, a review of a sample of CPs produced prior to 2003 reveals that (see Charts 4.1 and 4.2 in the Annex):³⁴

- Almost all CPs stated poverty reduction as a strategic programming goal, normally one out of four goals rather than as an overarching goal.
- Minimum information on poverty and poverty-related information: baselines (to indicate the gravity of the problem) and targets (what results are expected from the country program) were generally absent.
- Little to no information was provided regarding progress between one programming cycle and the next.
- The project pipeline presented in CPs did not attempt to tag PTI-SEQ projects.

4.11 The sample also suggests that the Bank did not conduct its own poverty assessments, as stated in the poverty strategy, nor did the Bank systematically draw on external sources of poverty data, which implies that the Bank's country programming did not rely (systematically) on poverty assessment data. The

³³ Country Strategy in the Bank's new nomenclature.

³⁴ The CPs included were: Argentina (1997, 2001), Bolivia (1996, 1998), Jamaica (1995, 1998), Peru (1998, 2002) Colombia (1995, 1999), and Nicaragua (1996, 2002 preliminary not Board Approved, in the Board approved version poverty was an overarching objective).

absence of targets and information on progress suggests that Bank’s country programming was almost impossible to evaluate regarding poverty reduction.³⁵

- 4.12 The case of the poorest borrowing members of the IDB was, however, different. Both initiatives identified below are strongly based on verifiable results indicators and emphasize monitoring and evaluation. First, most of the countries (Bolivia, Guyana, Honduras, and Nicaragua) are subject to the Highly Indebted Poor Countries (HIPC) process, which involves the preparation of a Poverty Reduction Strategy Paper (PRSP). The PRSP is developed, unlike Bank country strategy documents, with consultation with civil society. Even though the IDB is not formally involved in the HIPC approval process, it gives its opinions, supports it through non-reimbursable technical assistance (including the financing of the PRSP process), and is/will be the major single donor both for debt relief and subsequent concessional lending. The entire process, however, has come under increasing criticism. Critics raise issues like whether the debt relief is sufficient, whether the strategies are “owned” by the countries, whether earmarking “saved” revenue is appropriately distributed, or just that it promises too much.³⁶
- 4.13 Second, these countries are the only ones eligible to receive resources from the Fund for Special Operations (FSO), which is moving toward an explicit results focus in allocating resources among countries.³⁷ The new FSO allocation rule is not without controversy³⁸, particularly derived from the fact that it is an explicit statement of what the Bank considers a “just” means of allocation between countries (of FSO funds) and if one speculates of the ramifications of such a rule being applied to Ordinary Capital financed operations. A recent ex ante evaluation of the new procedures found the following: First, an unintended bias, i.e. the new allocation method has an unintended bias against (relatively) lower-income and/or

³⁵ Even if such targets were set, evaluating the impact of Bank’s operations on poverty would not be straightforward, as poverty outcomes depend not only on directly pro-poor interventions but also on a host of other factors, which raises the issue of attribution. For a survey of different techniques see: “Evaluating the Poverty Impact of Economic Policies: Some Analytical Challenges,” WB, 2002, by F. Bourguignon et al.

³⁶ See Debt Relief for the poorest: an OED review of the HIPC Initiative”, WB, 2003; the least developed Countries Report”, UNCTAD, 2002, See “The Least Developed Countries Report 2002,” UNCTAD, June 2002. For civil society views see “Many Dollars, Any Change?” EURDAD 2001; “Are PRSPs Working?” OXFAM International, 2001; and “World Vision Submission to Comprehensive Review of the PRSP Approach,” World Bank, 2001. For a recognition that more needs to be known on key design issues, see “The IMF Research Program in Low-Income Countries, IMF, May 2003.

³⁷ During the nineties FSO allocation was based on “needs” but is currently shifting to a “needs cum performance” based allocation, as summerised in the following table.

FSO Allocation Criteria: Weight Distribution of Major Groups of Indicators			
Need		Performance	
40%		60%	
Population	GNP per capita	Portfolio performance	Economic performance (CIPE)
22%	18%	18%	42%
<i>Source: GN-1856-31 and GN-1856-33</i>			

³⁸ See “Oversight Note on Performance Based Criteria for the Allocation of Concessional Resources”, RE-279, OVE, 2003.

more populous countries, i.e. countries that would present relatively high need indicators. Second, the new methodology may have a perverse incentive effect, i.e. a country has to improve its “score” relative to other countries not relative to its own past. This feature stems from a level based rule instead of a change-based rule that would be more in line with the essentially dynamic logic of development. Third, there is a high degree of subjectivity as the ratings used are not uniformly data based. Fourth, the new methodology’s development relevance may be limited as it places emphasis on efforts-inputs rather than outcome-performance. It remains unclear, given the failure of these policies to deliver in terms of outcomes why they are still being forced upon FSO countries. By invoking output indicators whose connections to outcomes (growth, poverty reduction) has been shown to be weak or even perverse seems odd. Fifth, it fails to incorporate external shocks, a factor largely outside the direct control of countries. In addition, the information that is generated and used in the rule is not available to the public, a lack of transparency and hence accountability difficult to sustain.³⁹

4.14 The new Country Paper guidelines developed by the Bank moves in the direction of correcting many of the problems noted. According to the guidelines, future Country Strategies should:

- Be firmly grounded in country and sector analytic work.
- Involve government and other stakeholders (e.g. private sector, labour, civil society and academia) during the preparation process.
- Be disclosed to the public after Board approval.
- Include performance indicators to monitor strategy implementation and assess outcomes and facilitate the assessment of the Bank’s contribution to the development process.
- Ensure the full integration of poverty reduction and social equity issues;
- For each strategic area, highlight how the proposed activities would contribute to social development and poverty reduction.

4.15 Further, many key issues identified in this report are, according to the Administration, being tackled:

- *“Incorporating poverty reduction objectives into programming – country poverty assessments that include an analysis of the current state of poverty and its determinants have been included as an input to Bank Country Strategies, in order to provide country-specific Bank action priorities. One condition set for this activity, not yet implemented, is to add poverty expertise to the regional department country divisions. Management also welcomes the recommendation to tag operations as SEQ or PTI in the countries strategies.*
- *Providing support to Poverty Reduction Strategies (PRS) – In the last several years, the Bank has been working with countries to establish clear and measurable indicators for country-led Poverty Reduction Strategies,*

³⁹ For an agnostic view regarding arguments favoring secrecy see J. Stiglitz, “on Liberty, the Right to Know, and Public Disclosure: the Role of Transparency in Public Life”, WB, 1999.

using both sector loans and technical support to the PRSP process in all HIPC countries and the World Bank, to assess the effectiveness of social expenditure protection and its impact on poverty during periods of economic recession.

- *Tracking social and poverty alleviation expenditure – As part of the programming process and building on poverty assessments, public expenditure reviews have been launched, in cooperation with several countries and the World Bank, to assess the effectiveness of social expenditure protection and its impact on poverty during periods of economic recession.*⁴⁰

4.16 These laudable efforts are, however, too recent to evaluate their pay-off hence to determine the degree these efforts are addressing adequately the issues raised in this Report.

⁴⁰ From, “Poverty reduction and the IDB; An evaluation of the Bank’s strategy and efforts. Management’s Consolidated Comments”, 28th of October 2003..

V. CHANGES IN THE BANK'S OVERALL DIRECTION: DELIVERY AND EFFICIENCY OF DELIVERY

- 5.1 The objective of this chapter is to assess the changes in the Bank's overall direction brought by the poverty reduction strategy, which can be gauged from three dimensions: (i) the degree in which the strategy's action plan was implemented; (ii) the increase in pro-poor lending (i.e. loans generated by the Bank to support the strategy of poverty reduction); and (iii) the efficiency of disbursement delivery of the pro-poor lending. The latter is concerned with "how well" the Bank is disbursing those inputs.
- 5.2 In relation to the degree in which the 1997 strategy proposed actions were realized, Table 5.1 shows that other than studies, most key actions were not implemented, such as: training for programming staff; country specific poverty assessments; pro-poor country programming; tracking poverty targeted government expenditure; and a methodology for impact evaluation.
- 5.3 An exception was the proposed action to establish a collection of household surveys to track poverty levels. This was done, and led to the highly valuable MECOVI program. However, a case could be made that it has been under-funded given that information can lead to better policy, project design etc., and to the fact household and individual characteristics can account for almost one third of poverty changes. Furthermore, since the political and economic environment could account for the other two-thirds, there is need for improving the region's overall statistical systems, not just household surveys. Finally, the failure to track poverty targeted government expenditure, as proposed in the 1997 strategy, has left an important lacuna in the Bank's knowledge. To the extent that informed policy is better than an uninformed one, the Bank, jointly with its borrowing countries, need to make a special effort to fill this lacuna.

TABLE 5.1: 1997 POVERTY STRATEGY ACTION PLAN AND IMPLEMENTATION STATUS	
Proposed Action Plan	Status in 2002
Pro-poor projects	
<u>Loans and Technical Assistance:</u> (1) "The Bank will continue its recent efforts to expand the number of projects which benefit the poor or reduce poverty"	Yes. Using the IDB's SEQ definition as a proxy this was complied with.
<u>Improving targeting mechanisms within projects:</u> (2) "Project managers should attempt to build in mechanisms which will increase the proportion of projects benefits that go to the poor."	No. If PTI is used as a proxy for targeted projects, then there has not been a systematic increase in the proportion of projects whose benefits go to the poor. There is specially room for improvement in non-social sector operations (in the areas of infrastructure, productive sectors and modernization of the State).
<u>Impact measurement:</u> (3) "A methodology should be developed to measure the impact of Bank projects." Final report of pilot study to be presented by mid 1998.	No methodology as reflected in guidelines or operational manual has been produced.
Pro-poor training and reorganization of IDB staff	
<u>Training workshops:</u> (4) "Training workshops should be developed for project staff to present best practice examples of poverty-targeted projects." To be attended by all project staff by 1998.	No. There are no regular training courses either for project teams or for programmers with a systematic pro-poor bias.
(5) "Training workshops will be presented for the staff responsible for country paper and country programming to help sharpen and deepen the analysis of poverty related policies." Two workshops in 1997.	No.
(6) INDES "will continue with its training courses for government officials in the Line Ministries, NGO's and Social Investment Funds."	Yes.
<u>Country Programming:</u> (7) "The Bank is considering a reorganization of its poverty-related staff to produce more in-depth country level analysis for the programming process."	No.
Supporting pro-poor activities and Policy Research	
<u>Monitoring:</u> (8) Establish a collection of household surveys to be used to track poverty levels	Yes. A set of household surveys, due to the efforts of MECOVI/SDS has been set-up and is available to IDB staff. RES also has a data set and offers through its SIS system analysis to other entities of the Bank.
(9) "The Bank will define and begin to track poverty targeted government expenditure. This expenditure tracking system will be put in place in 1997"	No such definition was made, nor was a tracking system put in place.

Source: Document GN-1894-5. Box 5.1 does not include proposed studies, most of which were realized.

5.4 Changes in the overall direction of the Bank can also be judged by the increasing pro-poor biasness of its lending, as measured by the percentage importance of SEQ and within it PTI classified operations in total operations⁴¹. The following delivery findings can be listed:

- SEQ portfolio appears, see Chart 5.1 in the Annex, to have been steadily increasing as a percentage of annual approvals since 1997 (particularly in dollar amounts), which suggests that the Bank delivered on its aim of increasing pro-poor lending, note that the different trends between number and dollar value is largely accounted for by PBLs classified as SEQ;⁴²
- The PTI portfolio shows, see 5.2 in the Annex high variability and no discernable positive time trend in terms of annual dollar approvals, thus the projects with the clearest direct pro-poor biased characteristics do not seem to have risen;
- SEQ projects remain concentrated in few sectors, see Chart 5.3 in the Annex, with insignificant presence in some sectors, see 5.4 in the Annex, which implies that the incorporation of poverty reduction goals remains a challenge beyond traditional social sectors and agriculture;⁴³
- The women in development (WID) portfolio has fallen from 27% in 1994 to 10% in 2001, in terms of number of projects, see 5.5 in the Annex;⁴⁴
- The indigenous population portfolio shows a sharp positive trend, although from a small initial base of 0.8% in 1990 to 11% in 2001 of annual (dollar) approvals see 5.6 in the Annex;
- The Bank's PTI interventions have emphasized "capabilities" rather than "opportunities," in contrast to the message of the 1997 Poverty Reduction Strategy;⁴⁵
- Finally, it is difficult to state unambiguously whether the IDB-8 mandated of 50% of the number of loans and 40% of the dollar value of total lending were SEQ. Even taking the post 1997 data, i.e. with the same operational definition, the cumulative figures are ambiguous: the dollar value of SEQ

⁴¹ Note the figures used in this report are based on information contained in the Bank's data warehouse, but using current value of approvals (i.e. taking into account partial or full cancellations, and removal of extraneous projects (for example the emergency loan to Brazil, which by the Bank's own rule cannot be classified as SEQ/PTI). Thus the figures differ from the "official figures" used by the Bank.

⁴² PTI and SEQ comparisons are only valid between 1997 and 2001 because the criteria to define PTI-SEQ projects have changed repeatedly since the IDB-8 approval in 1994. The data available have not been made compatible across definitions, making it difficult to tell if a rising trend was reflecting actual change in activity or only changes in categorization. The current classification was introduced in April of 1997.

⁴³ The importance of SEQ projects, measured as percentage of dollar approvals between 1997 and 2001, within each sector is: agriculture (60%); urban development & housing (79%); education (98%); energy (2%); social investment (89%); micro enterprises (30%); water and sanitation (94%); environmental protection (47%); reform and modernization of the state (11%); health (100%); and transportation (25%). It must be noted that these numbers also reflect the criteria used to classify SEQ projects, thus while health and education projects are automatically classified as SEQ, projects of other sectors have to claim *and justify* SEQ classification, which might be a disincentive for project teams.

⁴⁴ See "Mainstreaming WID in IDB Lending: A Statistical Analysis," WP/SDS/WID, June 2000, by Kirsten Majgaard.

⁴⁵ 46% of the policies and actions present in a sample of 25% of PTI projects approved between 1995 and 2001 were related to capabilities and 34% to opportunities.

operations ranges from 41% to 45% and the number of projects from 35% to 45%. Furthermore, the IDB-8 mandate is in itself ambiguous, suggesting that compliance would be judged if and when there is another replenishment.

5.5 With respect to the “efficiency of delivery” the following facts stand out:

- SEQ projects have a lower than Bank-wide average disbursement performance, see Chart 5.7 and Chart 5.8 in the Annex:⁴⁶ the incidence of underperformance of SEQ projects (number of SEQ projects below average Bank project performance) is twice as high, while the severity of underperformance of SEQ projects (the degree of underperformance of a project) is more than twice of the average Bank project; as is the depth of underperformance (distribution of under-performance) of non-SEQ projects, see Chart 5.9 in the Annex;
- The number of SEQ projects classified by the Bank as “at risk” is increasing over time, while the number of non-SEQ projects so classified is falling.

5.6 These results suggest that the delivery of pro-poor projects relatively to non-SEQ projects is inefficient. Furthermore, the observed rise in risk classification of pro-poor projects may indicate future problems regarding the achievement of the development objectives of these projects. Poor performing pro-poor projects has been recognized as a problem by the Administration: “... *Management is finalizing the preparation of an Action Plan to address the weakness in the execution of the most vulnerable sectors in its social portfolio.... The implementation of the Action Plan should improve the probability that these projects achieve their development objectives.*” And point out that “... *the current fiscal restrictions at the country –level have also had an important impact on the distribution rhythm of SEQ and PTI loans.*” Such an Action Plan when it is finalized will presumably have a more detailed diagnostic of the “whys” of the poor performance, including whether the problem lies in their design, relatively weak institutional structure of social sectors, or lack of relative priority during fiscal problems⁴⁷

⁴⁶ Average disbursement performance is obtained from the “S” shaped efficiency delivery curve, i.e. the relation between disbursement percentages vs. execution time (ratio of actual to originally programmed execution profile). The numerical values of incidence, depth, severity mimic the concepts used in the poverty literature.

⁴⁷ ⁴⁷ From “Poverty reduction and the IDB; An evaluation of the Bank’s strategy and efforts. Management’s Consolidated Comments”, 28th of October 2003..

VI. EVALUABILITY

- 6.1 The objective of this chapter is to examine the extent in which IDB interventions are *designed* to demonstrate their results, i.e. their ex-ante “evaluability,” and the degree in which the IDB produces information regarding the results or impact of those interventions, i.e. their ex-post “evaluability.” The evaluative criteria show whether “*the connection between the actions undertaken pursuant to the strategy and the attainment of its intended goals*” (as stated by the IS) can be judged, and whether the Bank can show, through its project design and the information garnered in its monitoring and evaluation system, the results of its interventions. It must be noted that the demand for a results-oriented system is not new in the Bank: in 1993 this concern led to the clamour “*Things must change (...) concern for results should be paramount.*”⁴⁸ The IDB embraced the results focus noting “*Measuring project results means (...) establishing good indicators to measure whether or not project objectives are being attained.*”⁴⁹ Performance indicators “*cannot simply refer to outputs resulting from the execution of project components.*”⁵⁰
- 6.2 OVE assesses the ex ante evaluability of a given project from a results framework matrix composed of cells containing the indicator (if any), baseline (if any), milestone (if any) and target (if any) present *in the project documentation* for each of the project’s goals (outcomes) and specific objectives (outputs) – i.e. no assumption or interpretation is made. The matrix is then used to calculate the ex ante evaluability index, defined as the ratio of the sum of the cells with an entry to the sum of total cells of the matrix. The lower the index the less susceptible to evaluation is the project’s intent.⁵¹
- 6.3 Based on this methodology, a review of a sample of PTI projects shows that:⁵²
- The ex ante evaluability (verifiability) of Bank projects is low: the average evaluability value of projects as a whole (outputs and outcomes) is 43%, while the evaluability of project outcomes is even lower, 39%. The distribution of the ex ante evaluability index for outcomes is biased

⁴⁸ See “Managing For Effective Development,” report of the Task Force on Portfolio Management for the Inter-American Development Bank”, October 1993.

⁴⁹ See “Proposed Project Performance Monitoring Report (PPMR) System, Guidelines And Procedures For Project Completion Reports (PCRs), And Procedures For Loan Administration Missions,” CP-1283, 1997.

⁵⁰ CP-1283, Annex 1.

⁵¹ A progress information index is also calculated and is based on the information gathered by the Bank’s system regarding progress towards the project’s goals. The index displays the relation between the sum of cells with an entry to the total sum of the cells in the progress column. The lower the number the less the Bank can demonstrate progress towards goals.

⁵² The sample size was set at 25% of all PTI projects approved between 1995 and 2001. In selecting the projects, preference was given to projects with greater disbursement rates and it was ensured that each operational sector had 25% of their operations included in the sample (with a minimum of two projects from each sector). This selection process resulted in a sample of 43 projects distributed in the following manner between sectors: agriculture (3); housing and basic services (8, with 3 in urban development and 5 in water and sanitation); education (6); infrastructure (3); social investment (14); microenterprise (2), environment (2); governance (2); and health (3).

towards zero, i.e. towards “impossible to evaluate” (see Charts 6.1 and 6.2).

- The demonstrability indexes that capture the degree the Bank collects information of progress towards a project’s goals and objectives follow the same pattern described above but have even lower values see Charts 6.3 and 6.4 in the Annex: the average demonstrability of projects as a whole is 27%, while of project outcomes is 11%. The distribution of the evaluability index for outcomes is biased towards zero, i.e. no information is available, from the Bank’s Monitoring and evaluation system, regarding progress towards the goals set by a project.

6.4 With respect to impact/ex post evaluations, the following findings stand out:

- There has been a precipitous decline in the number of SEQ projects that propose an ex post evaluation, see Chart 6.5 in the Annex: 40% in 1995 to 6% in 2001.⁵³
- Of the SEQ projects approved in 2001 that propose an impact evaluation, only 59% identify its financing source (Chart 6.6 in the Annex).
- No resources from non-financial services appear to have been allocated to impact evaluation.
- The four non-operational IDB entities (RES, ROS, SDS and OVE) whose mission statements include – to a greater or lesser extent – the role of evaluation, hence lesson learning, of Bank’s actions, have neither produced nor reported on evaluations, impact or otherwise, of IDB projects (as evidenced in their web pages).⁵⁴

6.5 It is, therefore, almost impossible for the Bank to show, using the information contained in projects and in the Bank’s monitoring and evaluation system, the connection between the actions undertaken related to the strategy and the attainment of intended goals. In general, the way in which Bank’s projects are designed and the way in which its monitoring and evaluation system collects information does not allow for the demonstration of impact.

6.6 However, important qualitative changes are occurring in the Bank’s de facto evaluation of its projects. Recently the Bank has begun to evaluate the impact (with techniques ranging from experimental to quasi-experimental one) of its interventions as opposed to simple reflexive evaluations. According to the most recent Report of Activities⁵⁵ regarding poverty and social equity the Bank is increasingly proposing impact evaluations of its SEQ projects. Almost all are to

⁵³ See Chart 6.5. This finding should not come as a surprise since while the IDB was attempting to strengthen its ex-ante and ex-post monitoring and evaluation systems, it simultaneously shifted from a mandatory to a voluntary ex-post evaluation of projects in 1991.

⁵⁴ An exception is “Reducción de Pobreza y promoción de la equidad social: Informe de actividades en el año 2002”, September 2003, by SDS/POV.

⁵⁵ “Reducción de Pobreza y promoción de la equidad social: Informe de actividades en el año 2002”, September 2003, by SDS/POV

be financed from the loan itself; a problem if one accepts the argument that evaluative results are a public good. The average cost of the evaluations is about \$2 million. The process in gathering the information presented in the report, indicates an important gap in the Bank's centralized information system regarding proposed impact evaluations. It does not exist. A number of impact evaluations have already been done or are expected to come on stream this year. None are available to the public. The latter indicates a potential problem of public accountability of the impact of IDB's projects.

- 6.7 However, the Bank is recently increasingly engaged in attempting to address the evaluability and demonstrability problems. The Management Review Group asserts that: “ *At the project level, evaluability of Bank projects is gradually being improved, monitoring tools are being adjusted to capture and report on outcomes and lessons learnt, and impact and sustainability of operations will be measured through final and ex post evaluations*”⁵⁶ Significant new and/or modified Monitoring and Evaluative instruments have yet to come significantly on stream, thus it is premature to attempt to determine the pay-offs of these efforts.

⁵⁶ ⁵⁶ From “ Poverty reduction and the IDB; An evaluation of the Bank's strategy and efforts. Management's Consolidated Comments”, 28th of October 2003.

VII. RESULTS: OPPORTUNITIES AND CAPABILITIES

- 7.1 As noted in Chapter II, the conceptual model underlying the 1997 Poverty Reduction Strategy was one which stressed increasing productive opportunities for the poor on one hand, and increasing their capacities to fill productive roles on the other.⁵⁷ This model presented the following characteristics: (i) favoured an income-earning opportunities approach to the reduction of poverty over basic needs approach; (ii) assigned priority to private actions (job creation) rather than public actions to increase opportunities but provided no specific guidance on Bank action to promote these actions; and (iii) emphasized capabilities as the ownership of income-earning assets, particularly education.
- 7.2 This strategy was consistent with, and had underlying it, the many changes that were driving the Bank and most of its borrowing countries regarding development and social policy. The Bank, de facto, based its development policy on two guiding principles:
- Pro-market reform to increase opportunities through economic growth and creation of jobs; and
 - Targeting, rather than universality as an approach to building capabilities. The concern for maximum efficiency in the use of scarce public resources led to an emphasis on precise targeting of the poor for social interventions, rather than supporting universal programs available to all citizens.⁵⁸
- 7.3 Whatever the virtues of these two principles individually, they resulted in a divorce between growth and social policies. The oil crisis of the late seventies and the debt crisis of the early eighties led to the prioritisation of policies aimed at fiscal deficit reduction and macroeconomic stabilization as means for restoring countries to the path of growth. These measures generally meant the dismantling of existing social development policies. However, the increasing concern with an excessive burden on the poor reduced the support for their continuation and led to the introduction of compensatory policies through targeted social safety nets. As a result, these targeted social programs were perceived as “threats” to budgetary control and therefore to the macroeconomic stability necessary to restore growth: *“Social policies and a country’s growth strategy became two separate things; they were opponents challenging each other for public resources.”*⁵⁹ Furthermore, because targeted programs tend to isolate the poor in terms of political alliances, policies that do not benefit those with political power are likely

⁵⁷ For a formal exposition of this approach see “Equality of Opportunities” by J. Roemer. For a call to take on this approach for the region see: M. Székely’s “Where to From Here? Generating Capabilities and Creating Opportunities for the Poor,” IDB 2001.

⁵⁸ Targeting seems to make sense. Given a budget constraint, transferring only to the poor means greater poverty reduction for dollar spent. However, in practice targeting efforts focused on reducing slippage (i.e., type I error: non-poor receiving benefits), while little emphasis was placed on coverage (i.e., type II error: “missing” some eligible poor). Furthermore, they entailed additional administrative costs to find the targeted poor and ensuring that non-poor did not receive benefits.

⁵⁹ M. Székely “Where to From Here? Generating Capabilities and Creating Opportunities for the Poor,” IDB 2001.

to be eliminated: more for the poor initially could imply less for the poor over the longer run.⁶⁰

- 7.4 The conceptual model underlying the strategy and the two guiding principles that defined the Bank's actions provide convenient framework with which to judge the impact of the Bank's intervention in the region and progress regarding opportunities and capabilities.
- 7.5 Accordingly, the main concern of the following two sections is to marshal together evidence of whether opportunities and capabilities increased during the nineties and the degree in which these changes favoured the poor.⁶¹ Ideally, these dimensions should be related directly to IDB's intervention, but this cannot be done satisfactorily for two reasons. First, as demonstrated in the previous chapter, the IDB's monitoring and evaluation system does not facilitate such a connection, a problem that is compounded by the fact that the Bank has not evaluated the impact of its interventions on a systematic basis. Second, there is the problem of attribution; opportunities and capabilities are the outcomes of a host of factors, many outside the direct control of the Bank and the Governments. Thus, the following review of opportunities and capabilities is carried out without attempting an attribution of the outcomes.
- 7.6 It must be noted that the discussion of this chapter and the next is couched on general-average patterns derived from a sample of countries. Strong and significant cross-country and within country differences are not brought out in the presented findings, nor, in general, are indicators of identifiable sub groups of the poor who are subject to social and economic exclusion.

A. Opportunities

- 7.7 In this section we discuss the availability of economic opportunities to put income-earning assets to work (rate of use and prices) either directly or indirectly through influencing policy. This availability of opportunities can be gauged from three broad measures: the rate of real GDP growth (and its volatility); labour market indicators, and governance. Movements in aggregate variables can be taken as general measures of changes in opportunities, while the degree in which aggregate changes of indicators were pro-poor can be "proxied" by their distribution between quintiles of income, where the lowest quintile is used loosely as a proxy for the poor.

⁶⁰ Gelbach and Pritchett (1995) invoking a median voter model, show that, in equilibrium, a targeted program will have zero budget allocated to it, a conclusion that holds for certain parameter values even if altruism is assumed on the part of agents.

⁶¹ Opportunities and capabilities levels and changes are viewed by quintile, while pro-poor biasness is gauged from whether the lowest quintile gained more than proportionately.

7.8 With respect to real GDP growth, the following findings (see Charts 7.1 and 7.2 in the Annex, and Table 7.1, below) can be noted regarding average patterns:⁶²

- The reforms undertaken with the encouragement of the IDB and other multilateral agencies have not yet resulted in a sustained acceleration of economic growth relative to the sixties and seventies. Such acceleration was expected, given the implementation of structural reform measures and the improvements in traditional growth explanatory variables. Patterns of the nineties compared to the seventies remain a puzzle given that with reforms a better policy environment has been obtained and most of the host of variables identified as contributing to growth have improved relative to their values in the seventies.
- There has not been necessarily a strong pro-poor bias in recent economic growth. The average pattern is “U-shaped,” with the highest quintile and, to a lesser extent, the poorest quintile experiencing increasing real household per capita income. A more detailed desegregation, however, shows, with marked cross-country differences, that the poorest 25% of the poor had generally a negative change in their real household per capita income during the nineties. In Argentina, Bolivia and Peru, for example, while the average per capita household income showed a positive trend during the nineties, the per capita income of the poorest 25% of the poor experienced declines, particularly in Argentina (-7%) and Peru (-10%).⁶³
- Real GDP growth is volatile thus the region remains gripped with a high level of economic insecurity.⁶⁴

7.9 These results and the economic “*stagnation seems to represent a disappointing outcome to the movement towards the ‘Washington Consensus’ by developing countries.*”⁶⁵ An earlier assessment had already cautioned against expecting too much from structural reforms: “*the real economic performance of countries that had recently adopted Washington Consensus policies...was distinctly disappointing.*”⁶⁶ This conclusion has been corroborated for the region by a recent study: “*the reforms did not have a significant direct impact on the growth rate. (...) because different individual components of the reform package have offsetting effects.*” However, “*the speed of reforms matters a lot (...) the more rapid the process of reform the slower the growth rate.*”⁶⁷

⁶² These average patterns hide very distinct experiences between countries of the region. These differences are not drawn out explicitly in this report.

⁶³ See “Measuring Pro-poor Growth” by M. Ravallion and S. Chen, WB, undated.

⁶⁴ There were 74 episodes of per capita GDP decline during the 1991-2000 period among IDB member countries. Approximately 20% of these could be considered “severe” (per capita GDP decline greater than 4%).

⁶⁵ See W. Easterly: “The Lost Decades: Developing Countries’ Stagnation In Spite of Policy Reform 1980-1998” *Journal of Economic Growth*, 6, pp135-157, June 2001. Although not specifically directed to Latin America and the Caribbean, a case can be made that these conclusions may also hold for the region.

⁶⁶ See P. Krugman, “Dutch Tulips and Emerging Markets,” *Foreign Affairs*, 74, pp. 23-44, 1995.

⁶⁷ Both quotes from H.Escaith and S. Morley “The Impact of Structural Reform On Growth in Latin America and the Caribbean: An Empirical Estimation,” ECLAC.

7.10 In an evaluation, which attempted to measure directly the impact of adjustment loans (of the WB and IMF) on poverty concluded that such loans “reduces the growth elasticity of poverty reduction,” i.e. “the poor benefit less from output expansions in countries with many adjustment loans than in countries with few adjustment loans. By the same token, the poor suffer less from an output contraction in countries with many adjustment loans than in countries with few adjustment loans.”⁶⁸

TABLE 7.1: PRO –POOR BIASNESS OF ECONOMIC GROWTH						
	Argentina ⁷ 1992-1998	Bolivia ⁸ 1989-2000	Colombia ⁷ 1989-1998	México ⁸ 1992-2000	Nicaragua ⁷ 1993-2001	Peru ⁷ 1994-1999
Coverage of household survey	Urban	Urban	Urban	National	National	National
Real per capita GDP Growth rate ^{1,2}	2.99	1.43	1.63	1.74	1.83	1.93
Real per capita household income Growth rate ^{1,3,4}	1.84	3.34	1.87	1.81	3.96	2.40
Initial head count ratio ^{5,6}	10.58	44.37	16.16	18.75	48.16	32.25
Ending head count ratio	6.59	27.21	8.92	13.03	42.04	28.50
Mean growth rate for the poorest (% below the poverty line)						
25%	-7.10	-0.07	6.61	2.84	1.78	-10.08
100%	-4.28	1.37	3.80	1.92	2.68	-7.57
Notes: 1 Annualised; 2 World Development Indicators, Nicaragua: Banco Central de Nicaragua, ECLAC; 3 Household Surveys, IDB; 4 Real local currency (1995); 5 FGT (0) using the household income. Poverty line = 30US\$ monthly (PPP of 1995); 6 Zero and non-declared income household are excluded. No under-reporting adjustments; 7 Total household labour income; 8 Total household incomes.						

7.11 It must also be noted that the nexus between economic growth and poverty still remains as an issue. While during the nineties it was common to assume that the elasticity of poverty to growth was greater than unity,⁶⁹ recent evidence suggests that it may not be so: although growth does raise the income of the poor this relation seems to be less than one to one.⁷⁰

⁶⁸ See W. Easterly, “The Effects of IMF and the World Bank programs on Poverty”, World Bank, 2000. Although this study did not include IDB policy based loans, these conclusions may also hold for the Bank since it has essentially accompanied IMF and WB adjustment loans (see paragraph 7.15).

⁶⁹ In fact, the 1997 strategy stated (p. 2): “Recent evidence suggests that, on average, countries can expect poverty to fall by between 1 and 2 percent for each 1 percent growth in per capita income.”

⁷⁰ “Is Growth Enough? Macroeconomic Policy and Poverty Reduction” WP/02/118, 2002, IMF by D. Ghura et al, and “Is Economic Growth Good for the Poor?” IDB, 2001 by J. Foster and M. Szekely, and “Poverty Reduction and Economic Growth: a two-way causality” by N. Lustig et al, IDB, 2002.

- 7.12 The availability of economic opportunities for the poor is also affected by the volatility of the economy. The Region has one of the highest levels of volatility of main economic variables. It could be argued that pro-market reforms – particularly through the unilateral liberalizations of trade and capital accounts, and by the pro-cyclicality of fiscal policies – may have resulted in an increase in the region’s *sensitivity* to external shocks and in a rise in the volatility of its main macroeconomic variables or increased downturn risk, hence also possibly increasing the vulnerability of the population to covariate shocks.⁷¹
- 7.13 The 1997 Poverty Strategy assigned priority to job creation and labour income as means for increasing opportunities. In this respect, the evidence from the nineties indicates:
- Labour problems are the main source of concern of the region’s population: 40% list unemployment, employment instability or low wages as the main problem they face.
 - There has been a significant increase in unemployment rates in LAC during the last decade (see Chart 7.3 in the Annex). The incidence of unemployment is regressive, with the lower income quintile showing a higher incidence of unemployment (with women showing uniformly higher incidences. Chart 7.4).
 - There has also been an upward jump in “unprotected” employment during the nineties: the informality rate has consistently increased during the period and self-employment has grown particularly among those in the lowest quintiles. (Charts 7.5 and 7.6).
 - Real labour income, which had fallen sharply during the eighties have increased during the nineties, albeit glacially (Chart 7.7). It must be noted, however, that underlying this labour income pattern there is a sharp increase in net participation rates, particularly of female participation rates in the lowest quintile (Charts 7.8, 7.9, 7.10), furthermore, the number of hours worked by household shows a strong increase in the lower quintiles, with the lowest quintile showing the largest increase. These results indicate that the marginal gains in real labour income obtained by the poor were mainly due to increases in participation rates and “efforts” rather than increases in the average remuneration received by the poor.
 - “Discrimination,” be it gender or race-based remains a clear problem in the labour market. Indicative is the high proportion of blacks and indigenous populations in the lower quintiles (see Chart 7.11).⁷² Surveys also suggest that the perception of discrimination against indigenous populations is significantly higher than those against the poor in general,

⁷¹ See “Macroeconomic Volatility in Latin America: A Conceptual Framework and Three Case Studies,” by R. Caballero, see also “Overcoming Volatility” IDB 1995, and “Shaked and Stirred” explaining growth volatility” by W. Easterly, R. Islam, and J. Stiglitz, WB, 2000.

⁷² See “Social Exclusion in Latin America: introduction and overview” by J. Behrman, A. Gaviria, and M. Szekely, WP R-445, RES/IDB 2002.

thus indicating possible social and economic exclusion in labour markets.⁷³

- 7.14 Thus the 1997 strategy goal of helping the poor earn their way out of poverty through the expansion of the number of jobs available to the poor and increase the earning power of the poor in those jobs does not appear to have been achieved. Furthermore, even though the region's poor have always been excluded and vulnerable, the reform has increased that vulnerability to covariate shocks, thus increasing risk for workers and households. The ensuing "transitory" poverty thus is an increasing challenge faced by the region and the Bank.⁷⁴
- 7.15 In fact, the Bank's strategy was largely silent on the issue of "transitory poverty", and it is only recently that large emergency loans have taken up the issue of protecting social expenditures in times of crisis.⁷⁵ For the most part, therefore, Bank policy-based loans have followed largely the same precepts as "adjustment lending" from the World Bank and IMF.
- 7.16 The nexus between governance and poverty can be analysed in two dimensions. The first one relates governance and public goods, i.e. public services (interpreted in a wide sense). It can be argued that the poor suffer disproportionately from bad governance as the latter compromises the delivery of public services because these services have a greater impact on the (disposable) income of the poor, and/or tend to be more vulnerable to macroeconomic covariate shocks through reductions in social expenditure. The problem is not just income, "*vulnerability to crime, violence, and corruption is a major dimension of poverty and is often the concern most forcefully expressed by the poor.*"⁷⁶ Accordingly, improved governance will result in "*improving coverage, efficiency and sustainability of basic services; increasing access to markets, providing security from economic shocks and from corruption, crime and violence.*"⁷⁷ Such improvements should benefit the poor disproportionately to the extent they are more dependent on public services and have less capacity to use non-public services.⁷⁸

⁷³ See "Indigenous Peoples and Sustainable Development" by A. Deruyttere, IDB, 1997 and J Behrman, A. Gaviria, M. Szekely; "Social Exclusion in Latin America: Introduction and Overview" WP R-445, RES/IDB 2002.

⁷⁴ The distinction between transitory vs. structural poverty is not clear-cut. Partial evidence suggests that a shock that pushes people below the poverty line might result in they being caught there, and even if not, actions taken during temporary poverty state, such as pulling children out of school, can have long run (permanent) negative ramifications.

⁷⁵ Essentially the conditionality of these operations includes a floor on appropriations for identified pro-poor expenditure, including many items in the budget that are partially financed by the Bank. For the inadequacy of "floor" conditionality see Chapter 5 of "Poverty and Policy in Latin America and the Caribbean" by Q. Wodon, WB, 2000.

⁷⁶ See "Governance and Poverty Reduction" draft, WB 2001.

⁷⁷ Ibid.

⁷⁸ See R. Baqir "Social Sector Spending in a Panel of Countries" IMF WP/02/35, 2002 who estimates that "*a one standard deviation increase in the index of democracy is associated with a 0.09 standard deviation increase in social spending as a share of GDP, and a 0.16 standard deviation increase in the share of total government expenditure.*"

- 7.17 The second dimension of the governance-poverty nexus is the assertion that improved governance should result in a shift towards redistribution of income and assets – including land – towards the poorer members of society, thus ensuring that the impact of economic growth is broad and/or that the distribution of resources generated by growth has a pro-poor bias.
- 7.18 Poverty can, in a statistical sense, be attributed to the inequalities in the distribution of resources rather than insufficiency of resources.⁷⁹ The traditional focus on inequality has emphasized individual and household characteristics as the accounting factor. It could be hypothesized, however, that the main factor accounting for inequality is not personal or household characteristics, but the economic and political environment surrounding them. Indeed there is a very high correlation between national and sub-geographical levels of inequality within a country, i.e. countries with high inequality at the aggregate level also tend to have large inequalities in each region, state, municipality or city. This suggests that inequality and poverty are entrenched in the economic and the political system. There is however, little to no empirical evidence that improved governance results in a higher redistribution of “private goods.” Thus improved governance may not directly ensure a greater pro-poor bias.

B. Capabilities

- 7.19 In the poverty strategy’s implicit model, the capabilities of the poor were to be augmented through improved access to social services, particularly education and health: healthier and better educated people should perform better in productive roles and earn more. Neither the Bank nor the countries, however, have reliable and consistent data on the actual capabilities of the poor.
- 7.20 For this evaluation, OVE has utilized available data on three topics: basic services (water, sanitation and electricity), health and education. In so doing, it has to accept the assumption that access to services is reliably and consistently associated with improved outcome measures of capability. Access in each area is measured by: (i) the change in LAC average values of the access variables over the decade, (ii) the distribution of that change by quintile, and (iii) the “access gap” between lowest and highest income quintiles and between rural and urban areas.⁸⁰ It must be noted that the regional figures and quintile distribution figures are based on a sample of countries – thus may not perfectly reflect the region as a whole – and mean regional figures hide significant different patterns.

⁷⁹ “Statistical” in the sense that for practically all the countries in the region a redistribution of existing GDP and perfectly targeted transfers will lift all households above the poverty line.

⁸⁰ Note that no stochastic dominance tests were carried out to determine the ambiguity or not of the changes, nor are “differences” checked regarding statistical significance.

- 7.21 Access to clean water and sewerage systems are critical to improving living standards and reducing the risk of illnesses (particularly in children) and infant mortality. The findings regarding access to basic services – water, sanitation and electricity – are:
- On average, access to potable water, measured by the percentage of households with piped water, increased by 6% during the 90's. Even though access to potable water still remains regressive, this observed change in access to potable water was pro poor, with a progressive distribution of the gains: 12% for poorest quintile versus 1% for richest quintile, (see Charts 7.12 and 7.13 in the Annex).
 - Access to sanitation, measured by the percentage of household with sewerage connected to a public network, has marginally improved by 2% and remains not only more limited than water, (one in four households do not have access to sanitation), but also the coverage for the poorest quintile decreased during the decade. The access gap between poor and rich and, between urban and rural, is the highest of the three services analysed, (see Charts 7.14 and 7.15 in the Annex).
 - Average access to electricity, measured by the percentage of households with connection to the public network, increased less than 1% during the decade. The coverage is extensive, though: less than one household in ten has no access to electricity. However, the slow growth implied that the gap between urban and rural areas and, between poor and rich, did not improve during the 90's(see Charts 7.16 to 7.17 in the Annex).
- 7.22 In line with the pro-market policy stance that prevailed during the nineties, the Bank changed its utilities operations (water, sewerage, electricity, etc) to emphasize financial and economic sustainability, including divestiture, in opposition to emphasizing other objectives such as poverty reduction. While water and sanitation projects represented, on average, 10% of the amount of resources approved by the Bank in the 1980-1995 period, since 1996 this proportion has been consistently declining reaching 1% by 2001.⁸¹
- 7.23 In relation to health, even though LAC has experienced improvements in key indicators, the large income and social disparities that characterize the region are reflected in the health sector by important health inequities, which imply that region-wide indicators can hide important variations that exist between (and within) countries.^{82, 83} With those caveats in mind, the following findings can be

⁸¹ This pattern may underestimate the Bank's involvement in water as it has financed water projects (rehabilitation and increase in access with pro-poor bias) through its Social Investment Funds projects.

⁸² See Health System Inequalities in Latin America and the Caribbean: Findings and Policy Implications" by R. Suarez-Berenguela, 2000, and "Annotated Bibliography on Equity in Health, 1980-2001" by J. Macinko and B. Starfield, International Journal For Equity in Health, 2002.

⁸³ See "Health Situation in the Americas," Pan-American Health Organization, Washington, DC, 1998.

noted with respect to access to health care (see Charts 7.18 to 7.23 in the Annex).⁸⁴

- Public and private health expenditure has steadily risen during the decade of the 90's. However, the benefit incidence of public expenditure has not been pro-poor, thus the rise in expenditure did little to correct health care expenditure inequalities associated with private consumption and income inequalities. The health sector reform efforts implemented throughout the region, many of them with direct Bank support, have, despite all the claims to the contrary, focused on issues related to the provision of individual care, as opposed to general public health expenditures that could “*disproportionately benefit the poor,*” as envisaged by the poverty strategy (p. 11).
- Access, measured by attendance rates in private and public health facilities in urban areas, increased during the 90's: by 70% for public and 57% for private facilities. The change in the use of public facilities was pro poor: the poorest quintile increased the use of public facilities by four times during the decade. Although the use of public health facilities is pro-poor biased and private facilities is rich biased, the use of private facilities by the poor also increased (64%) more than by the rich (10%).
- Access to immunization, measured by the percentage of infants 0-2 years with DPT immunization, decreased by 12% in the 90's, furthermore the differences between the first and fifth quintiles remains substantive: 73% for poorest quintile versus 84% for the richest quintile.
- Infant mortality decreased 27% and institutional assisted birth delivery increased by 6% during the last decade. However, assisted births by income levels remains regressive.

7.24 During the nineties, Bank's health operations have to some extent followed the health section of the Bank's social services strategy that focused almost exclusively on efficiency issues, and which made almost no reference to the impact of the proposed measures on health condition. Accordingly, most Bank health projects had important “reform” components aimed at the reorganization of the sector and at improving the efficiency in the delivery of health care.

7.25 The 1997 Poverty Reduction Strategy viewed education as a key factor in increasing the income-generating capabilities of the poor.⁸⁵ The available data suggests that during the nineties the Region experienced the following ((see Charts 7.23 to 7.33 in the Annex):

- While there was a steady increase (by 15%) in public expenditure with education, real public per capita expenditure on pre-school to secondary

⁸⁴ If no major barriers to access good health care exist, large differentials should not be observed across income groups within any given country.

⁸⁵ “Education helps [reduce poverty] in at least three ways. First, it gives tomorrow's workers the skills they need to escape the low wage-unskilled labor trap. Second, a more skilled labor force improves competitiveness and the prospects for both exports and higher rates of growth. Third, improving the basic education level of the labor force will improve the distribution of income” (p. 9).

education, relative to tertiary level has not increased between 1990 and 1997. Furthermore, this relative average expenditure ratio (around 30%) sharply contrasts with developed countries, where the ratio of per capita current public expenditure in pre-primary to secondary levels per unit spent at the tertiary level is between 70% and 90%.

- Gross enrolment rates have increased by 11% approximating universal coverage and an almost eradication of gender differentiations.
- School attendance increased by 5% during the nineties. The increase was sharply pro-poor in rural areas and neutral to regressive in urban areas. Attendance rates approximate 100%, but there are significant gaps by income quintile in both rural and urban areas, and between rural and urban areas independently of income.
- Information on the quality of education, measured by scores on standardized tests is sparse, and the Bank does not appear to have consolidated country data. Based on a recent study carried out by UNESCO, comparable test scores show a sharp gap between urban and rural areas and significant variance among the countries of the region.
- 81% of the poorest 40% complete primary education, i.e. fourteen to sixteen years old with at least six years of education, compared to 97% for the richest 20%. High differences in completion rates still exist between countries.

7.26 During the nineties the Bank focused its lending program on secondary education. However, through its Social Funds it supported ad hoc mechanisms for pre-school; through PROGRESA-type of projects (cash transfers conditional on school attendance) on primary education; and through its Science and Technology loans indirectly supported university education. It also has typical youth training projects modelled on Chile's "*Programa Joven*." In its direct education programs it not only continued to invest in "traditional" areas such as infrastructure, books and materials, but also introduced reforms (including school autonomy) and teacher training.

7.27 However, despite these efforts, the promise of increased capability raising productivity, does not seem to be occurring, as pointed out in a recent study by Duryea and Pages, investments in education alone are not enough to increase productivity and thus reduce poverty in the region:⁸⁶ "*a policy based solely on education investments is not likely to reduce poverty sufficiently. To boost the effects of education reforms, Latin American policymakers should also promote an economic and institutional environment conducive to productivity growth,*" i.e. opportunities-enhancing policies. However, as noted throughout this document, the policies followed by the region (and the Bank) in this area have not been successful, to say the least. In short there has been some progress in improving capabilities and obtaining a pro-poor bias in that increase. There has been little to no progress regarding opportunities.

⁸⁶ "Human Capital Policies: What they Can and Cannot Do for Productivity and Poverty Reduction in Latin America," IDB, Research Department Working Paper Series, 468, April 2002.

VIII. OUTCOMES: POVERTY

- 8.1 The “de facto” development strategy pursued by the Bank during the nineties was anchored on two main principles: pro-market reform to increase opportunities through economic growth and creation of jobs, and targeting as an approach to building capabilities. The pro-market reforms have not yet resulted in an acceleration of economic growth, nor in a pattern of growth that albeit not high would have a strong pro-poor bias. Furthermore, the relative progress obtained during the decade in terms of improved capabilities (even if not consistently pro-poor) were, at least partially, offset by a failure to increase the “*number of jobs available to the poor and increase the productivity or earning power of the poor in those jobs*” as envisaged by the strategy (p.1).
- 8.2 As a result, the region’s outcomes in terms of equity and poverty reduction were lacklustre (see Charts 8.1 to 8.6 in the Annex).⁸⁷
- Latin America and the Caribbean achieved a modest reduction in the incidence of extreme poverty during the 1990s, from 19% to 13%, using the benchmark of one purchasing power adjusted dollar per day. Of seventeen countries for which data are available, poverty rose in four.
 - The absolute number of extreme poor decreased by slightly less than 14%. Thus, more than 77 million people still live in indigence. Absolute number of poor people increased in seven countries. About half of them live in two countries Brazil and Mexico.⁸⁸

⁸⁷ The controversy regarding the definition of poverty already discussed in the first chapter must be noted. The acceptance of poverty as a multidimensional phenomenon leads most studies to complement the conventional yardstick, income shortfall, with more indicators and comparisons are made for each indicator independently of others. However, there is a growing literature that attempts to determine whether multidimensional poverty comparisons are robust to the aggregation of multiple indicators. See “Robust Multidimensional Poverty Comparisons” by J. Duclos, D. Sahn, and S. Younger, 2001, which develops and applies a methodology to check whether comparisons are robust or not.

⁸⁸ This raises the issue of whether IDB’s allocation of funds inter-country is *just*. Normally –implicitly or explicitly- thinking is dominated by the Bentham-utilitarian approach, alternatives are Rawlsian and Equal Opportunity.⁸⁸⁸⁸ Each gives very different normative rules regarding allocation of resources. According to the Bentham view the resources should be allocated to maximize some average of the benefit (reduction of poverty say). For a Rawls approach, resources should be allocated such that the maximum level of poverty should be minimized. The Equal Opportunity approach suggests that outcomes (poverty) should be equalized taking into account their effort, and discounting circumstances beyond their control. In all, the unit used is important, and has ramification for the Millennium Goals, that is whether it is the country level or LAC level of interpretation. For a utilitarian approach, the regional level implies allocating resources to the poorest country, if the average is country level it dictates against lending to the poorest country (only one of many countries over which averaging is done) For Rawlsian approach is adopted than resources are allocated to the poorest country until it reaches the level of the second poorest country, than allocate resources to the two till their levels reach the third poorest country and so on. For the Equality of Opportunities approach if the country level is taken than the goal is equalize opportunities for countries. If individuals were taken as the unit of discussion then more weight would be given to areas where the largest number of poor are concentrated, not average country poverty rates. For an attempt to determine aid allocation using equality of opportunity approach see H.Llavador and J. Roemer, “ An equal-opportunity approach to the allocation of aid” Journal of Development Economics, Vol. 64, 2001.

- Income inequality, measured by the Gini index of per capita household income, rose around 3%. However there is a high dispersion on the results, and some countries of the region have the worst levels of inequality in the world, partially eliminating the poverty reduction impact of economic growth. Income inequality rose in nine of seventeen countries.
 - The UN Human Development Index, a more general indicator of welfare, shows a marked increase, although it still remains below that implied by the region's GDP per capita, and actually fell in five countries.
 - An extreme indicator is hunger. Under-nourishment has generally fallen in the Region, although in four countries it has risen. About 55 million people in the Region are hungry. The percentage of population under-nourished varies significantly between countries.
- 8.3 Note that although most countries had positive real GDP growth during the nineties, eight countries still have not recovered the per capita GDP they lost during the eighties. They are also, generally, countries that show an increase in income inequality and poverty (see Charts 8.7 and 8.8 in the Annex).
- 8.4 The modest improvements in poverty also bode ill for realizing the poverty-related Millennium Development Goals. In general, the existing data indicate that these goals will be difficult to achieve if the trends observed during the nineties continues, in fact (see Charts 9.9 to 9.12 in the Annex):⁸⁹
- Only nine of eighteen countries in the region would meet their Millennium Poverty targets, and five would record increases in extreme poverty.
 - Even small targets require a lot of growth at constant inequality levels, but small reductions in inequality would buy substantial reductions in poverty.
 - Six of thirteen countries will reach the potable water goal.
 - Twelve of eighteen countries will reach the illiteracy goal.
 - Eleven of eighteen countries will reach the infant mortality goal.
- 8.5 The above assertions are based on information up to 1999. A recent report of ECLAC⁹⁰ shows for the post 1999 period that poverty has begun to once again rise as economic growth has declined, and in some countries a sharp economic crisis has not only wiped out the gains in poverty reduction of the earlier period but has significantly increased poverty. Thus by 2002 no country in the Region had achieved the implied target of that year regarding the reduction of poverty by half.

⁸⁹ Halving 2001 levels of indigence, illiteracy, infant mortality and households without piped water using the historical path growth observed between 1990 and 1999. Based on social variables growth elasticity, and using the GDP growth of the period 1990-1999. Results for countries with negative historical path growth, as Venezuela, Jamaica and Ecuador are shown as infinite.

⁹⁰ Panorama Social de América Latina 2002-2003, ECLAC/UN, 2003.

- 8.6 It is therefore clear from these results that a serious decline in the region's poverty will require the countries to follow a different path: more of the same policies and trends observed during the nineties will result in small reductions in poverty, far from the Millennium Poverty Goals.

IX. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. Findings

9.1 This evaluation has found important limitations in the 1997 Poverty Reduction Strategy. These findings can be grouped into two sets: development and implementation, and content and results.

1. Development and Implementation

9.2 A small team from the Central Departments produced the 1997 Poverty Strategy with little to no involvement of staff in the Regional Departments. This process resulted in little buy-in by operational staff and possibly did not capitalize on the Bank's knowledge gained from pro-poor interventions in the past. Little buy-in by the operational staff implied that the strategy was not necessarily raised at two critical points in the interface with the borrowing countries: programming and project design. This divorce from the design and approval process also limited the capacity of the Poverty Unit to influence Bank's operations: staffs of the Unit were able to exert influence as members of project teams, but not on the authority of the written strategy document. As a result, the strategy was never a central element in the dialogue with borrowing countries.

9.3 Also absent in the strategy were comprehensive recommendations regarding institutional mechanisms and budgetary re-allocations to mainstream the strategy into the Bank. Thus, capacity was not enhanced nor accountability increased and limited the likelihood of committing the entire institution. Under funding of the unit may have hindered the effectiveness of this channel of influence. Further, accentuating the limited relevance of the strategy to the Bank and its member countries was an insufficient dissemination given to it: awareness of the simple existence of the strategy was low and awareness of its explicit content was even lower.

9.4 Finally, the strategy provided virtually no process or indicators for monitoring its execution, neither for the organizational entities that created it, nor for the Regional Departments implementing it.

2. Content and Results

9.5 The strategy had an excessive degree of generality: normative and directional setting statements were worded so as to have presumed equal applicability to all countries in the Region. The strategy was based on a "best practice" approach, reflecting the prevalent, but increasingly questioned, common wisdom of that time, rather than breaking new ground. By the time it was approved, the common wisdom was already shifting away from Washington Consensus towards more comprehensive approaches. This best practice approach biased the strategy towards a "one size fits all" focus that provided neither prioritised actions within the universe of options, nor guidance to staff or borrowing countries on how to

- turn the general principles into the practical task of choosing among competing tactical approaches for the same strategic goal.
- 9.6 Such an approach focused on what was known rather than what remained to be learnt. The tone of certainty of knowledge not only underemphasized but also fudged competing and possibly mutually exclusive definitions of poverty, differences in their related targeted populations, and different implied policies. As a consequence of this, the strategy ignored the inherent risks associated with it. In addition, it presumed that learning had already taken place rather than that operations are themselves an opportunity for learning. Finally, the strategy did not raise the issue of institutional requirements of borrowing countries in which a subject like poverty cuts across the typical institutional structures.
 - 9.7 The strategy did not define an explicit set of outcome targets. On the other hand its Action Plan contained nine output goals, of which three were accomplished. One important achievement was MECOVI and the collection of household surveys, which potentially enhanced the Bank's and countries' poverty diagnostic capacity. However, the failure of completing the task of collecting and consolidating social and poverty targeted public expenditure has left an important information lacuna.
 - 9.8 IDB-8 also had set measurable output goals directed at increasing the pro-poor bias of the Bank's lending. The evidence available indicates a positive trend in SEQ annual approvals, suggesting that the Bank is delivering on its aim of increasing pro-poor lending. Unfortunately, however, the PTI portfolio, a subset of SEQ that is more easily identified by targeted pro-poor biasness, shows a high variability and no discernable positive time trend to reinforce this observation. Furthermore, the Bank's pro-poor operations have a lower than Bank-wide average disbursement performance and are more likely to be at risk of not achieving their development objectives.
 - 9.9 In the absence of outcome targets in the strategy, OVE took a bottom-up approach, i.e. aggregated individual operations. OVE found a low level of evaluability (i.e. little empirical anchors to the outcome objectives, baselines, milestones and targets) at the design stage, and low level of collection of information on outcomes. Thus the Bank has a low level of reflexive (before-after) evaluation of the outcomes of its intervention. It must be noted, however, that project teams have begun to incorporate impact evaluations at the project design stage, with a limited number already completed or expected to come on-stream. This innovation is increasing both the accountability and lesson learning capability of the Bank regarding its pro-poor operations.
 - 9.10 Without an empirical anchor for the strategic outcome goals of the strategy, and without any implications regarding attribution, the second approach taken by OVE was to study the Region's patterns of growth, inequality and their associated opportunities and capabilities. There has been some progress in the pro-poor bias of improvements in capabilities; there has been none in terms of opportunities.

The patterns suggest that a serious decline in the Region's poverty will require the countries and the Bank to follow a different path from that of the nineties: more of the same policies and trends observed during the nineties will result in small reductions in poverty, far from the Millennium Poverty Goals.

B. Conclusions and Recommendations

- 9.11 The shortcomings of the poverty strategy identified in this report may, however, be the unavoidable result of the Bank's institutional structure. If, on the one hand, the Bank structure makes strategic purpose setting, even if the identified shortcomings were to be removed, problematic, on the other hand it generates a set of conditions that, ultimately, might be beneficial for the institution. The absence of a "command and control" strategy contributes to a culture in which responsiveness to country needs is seen as essential while the formal strategic vision is rendered peripheral. Second, it does not deter the evolution of thought. Bank's operational staff is professionally motivated and well trained with a desire to keep up in their fields of expertise. Their project work deepens their knowledge hence the Bank's approach to poverty. Absent, however, are mechanisms to institutionalise their knowledge. Furthermore, today much of the development and poverty literature is preoccupied with the question of why the approach of the past has not led to significant gains for the Region. In such a climate, both countries and Bank staff are probably justifiably sceptical regarding placing too much faith in "yesterday's common wisdom."
- 9.12 OVE thus recommends a complementary approach to strategic thinking regarding poverty. Since strategies are recommendations for the best way to achieve given objectives in a given context, they tend to be best done at the level of a given country or identified cluster of countries rather than Region-wide. However, publicly available country specific economic and sector work done by both Regional and Central Departments will be a major impediment to the development of effective strategies if they fail to capitalize on the Bank's comparative advantage of lesson-learning through country and project specific experience. Such an approach will require, therefore, that Central Departments establish comparative information-databases related to indicators and benchmarks for measuring performance, thus providing inputs for strategies and specific projects. The Regional departments in turn could provide key lessons learnt; thus the Bank could obtain a dynamic virtuous cycle regarding its poverty agenda.
- 9.13 Armed with enhanced information the Bank should be able to work with borrowing countries to establish clear and measurable goals for future interventions. Simultaneously it would allow the Bank to shift its focus from descriptions of generalized best practices — already broadly available to both the Bank and borrowing countries — to an examination of the results of past interventions. Lessons learned from success and failures, combined with a recognition and identification of knowledge gaps, are likely to be of greater value to both borrowers and project teams than generalized best practices.

9.14 Such an approach may lead the Bank to a *de facto* redefinition of its poverty strategy, as it may lead to a reflection on the guiding principles of the Bank's actions, and the policy framework it promotes. Perhaps a greater emphasis on income and asset inequality, as well as the problems of market and governance failures needs to be raised. Then the Bank may rise to the challenge of developing a *de facto* poverty strategy that has a "*vision of how social cohesion can be maintained in the face of large inequalities and volatile incomes, both of which are being aggravated by the growing reliance on market forces.*" If the Bank is to be relevant to the Region it needs to help countries "*develop an alternative vision that articulates how tensions between market forces and the yearning for economic security can be eased.*"⁹¹

C. Specific Recommendations

9.15 This Report has identified a series of shortcomings in the Bank's strategy and its efforts in regard to its poverty agenda. However, OVE believes that tackling three shortcomings should be given priority:

9.16 First, Management should address the mismatch between objectives and resources in the poverty reduction effort. OVE's report noted relatively weak institutionalisation of the 1997 poverty strategy, (see paragraphs 4.5 and 9.3 above). In commenting on the evaluation, Management's review group noted the risk that this may continue to be true at the present time: "*It is important to note that given the current head-count and budget restrictions for the Bank, the recently approved poverty strategy will likely face many of the challenges faced by the previous strategy.*"⁹² Furthermore, Management raised the problem of the "... declining number of staff with relevant expertise throughout the Bank...", on top of the fact that "... technical expertise in poverty analysis is scarce...".

9.17 In light of these concerns, OVE recommends that Management should conduct a review of the budgetary, institutional, and human resource provisions made for carrying out the Bank's poverty reduction efforts to determine if they are adequate to achieve the goals established in the July, 2003, strategy for Poverty Reduction and Promotion of Social Equity. A hard budget constraint should be assumed in the assessment thus the report should address such re-allocations of resources as may be needed.⁹³ This report should be submitted to the Board within three months of approval of this recommendation.

9.18 Second, Management should develop information on targeted social expenditure programs as part of the country programming process. The evaluation noted that the failure of the Bank to follow through on the 1997 objective of tracking

⁹¹ See D. Roderick "Why is there so Much Insecurity in Latin America" 1999, Harvard University.

⁹² Management's consolidated comments on Poverty reduction and the IDB: An evaluation of the Bank's strategy and efforts, Audit and Evaluation Committee, October 28, 2003

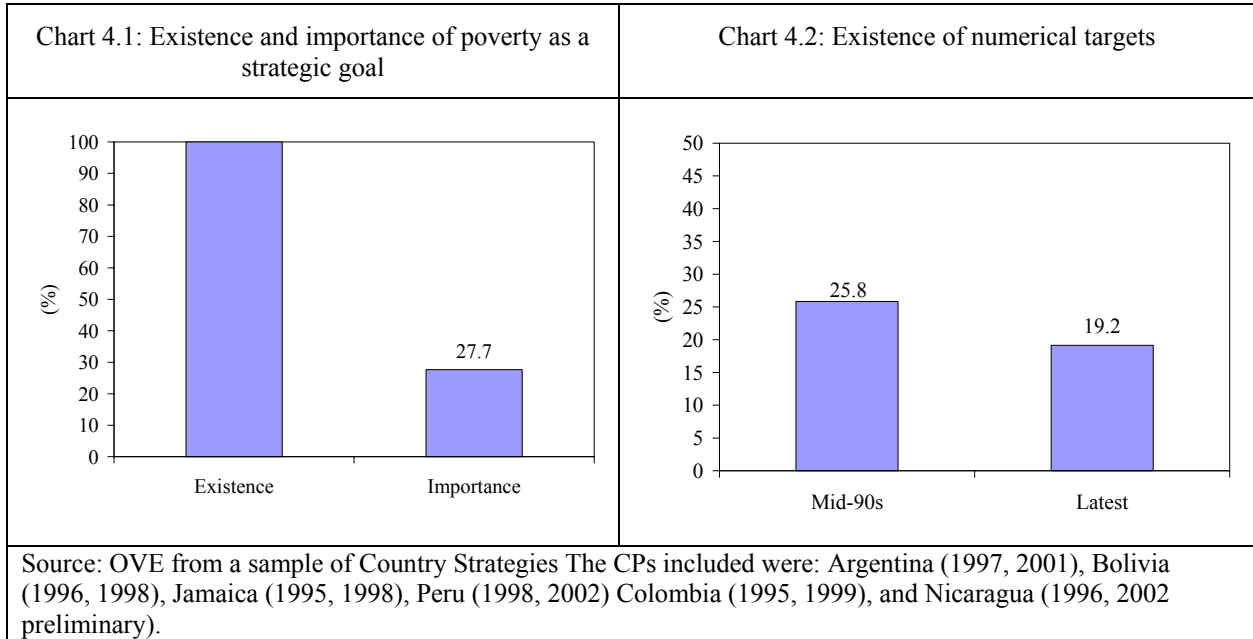
⁹³ Budgetary and human resource requirements for carrying out the following two recommendations should be also included in the report.

poverty-targeted social expenditures in borrowing countries creates an important information gap regarding the nature and extent of poverty reducing efforts in the region. (see paragraph 5.3 above). To address this gap, Management should conduct, by country, a social and targeted public expenditure and social institutions assessment, and maintain, for each borrowing country, an up to date inventory of poverty targeted expenditure programs, along with an institutional assessments of the public entities responsible for such programs. Management should not classify projects as poverty targeted investment (PTI) unless it is preceded by and reflects the findings of such an inventory and assessment.

- 9.19 Third, Management should formally raise the issue of poor labour market performance in its annual country updates. Over the past decade, there has been significantly more progress on improving the capabilities of the poor than on improving their opportunities for productive engagement in the economy (See Chapter VII above). This imbalance warrants additional attention from the Bank. Annual country strategy updates should contain a country specific diagnosis of the situation regarding unemployment and wages, along with an action plan for future Bank intervention to improve the situation if the diagnostic reveals significant problems with respect to the labour market performance of the poor.

ANNEX

A. Chapter IV



B. Chapter V

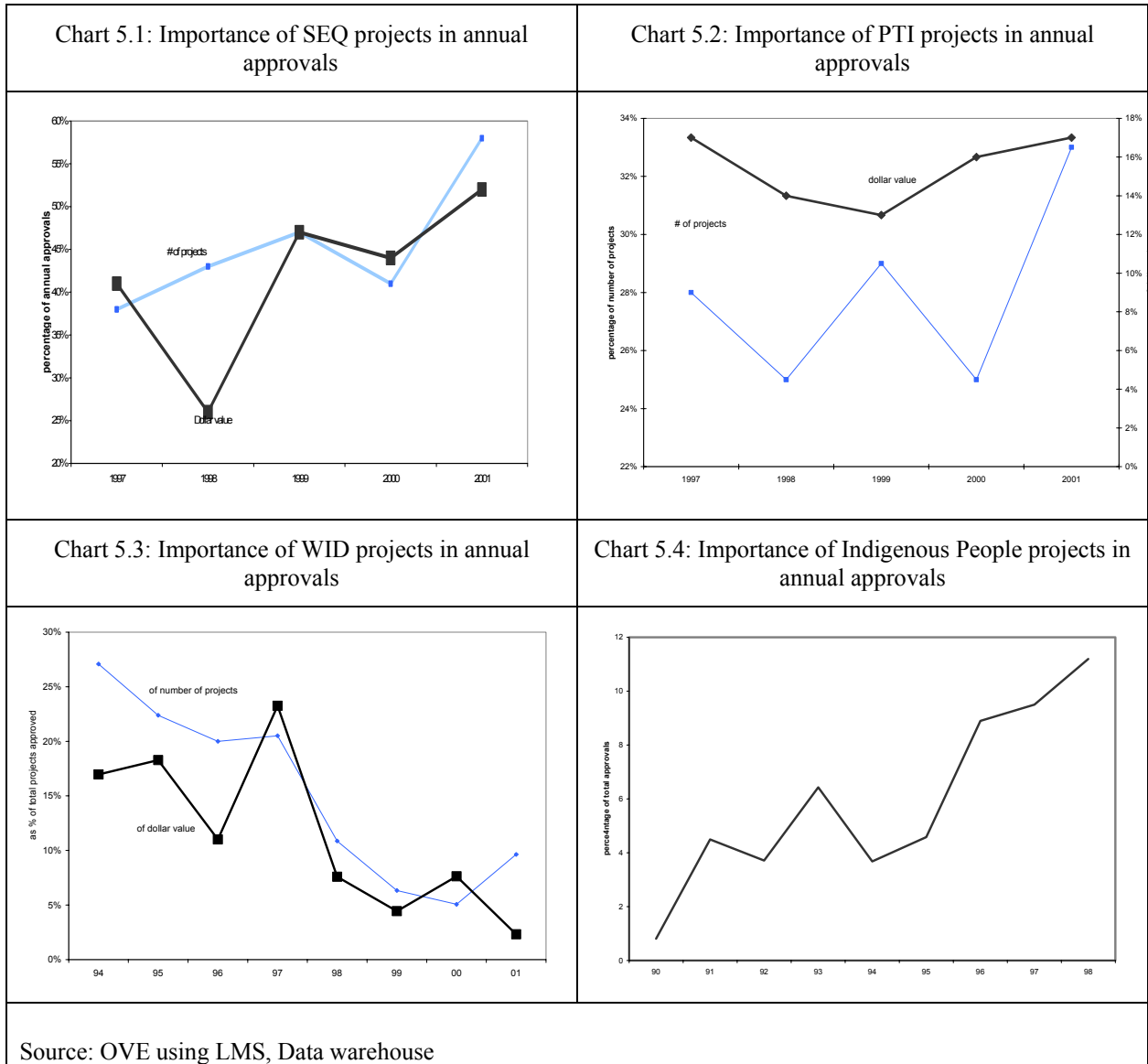


Chart 5.5: SEQ distribution across sectors

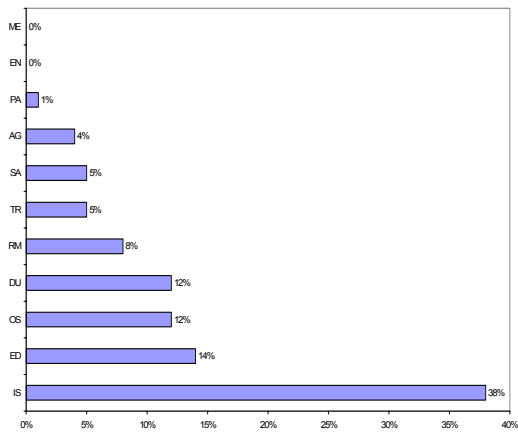
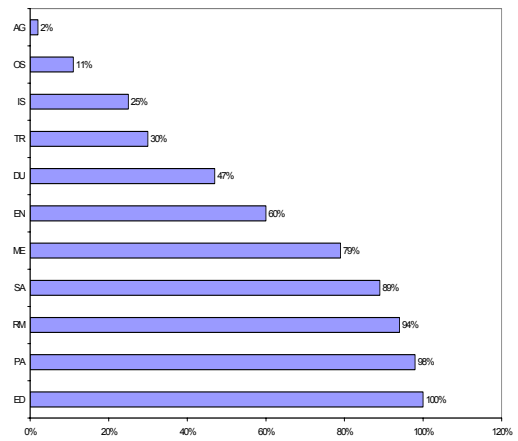
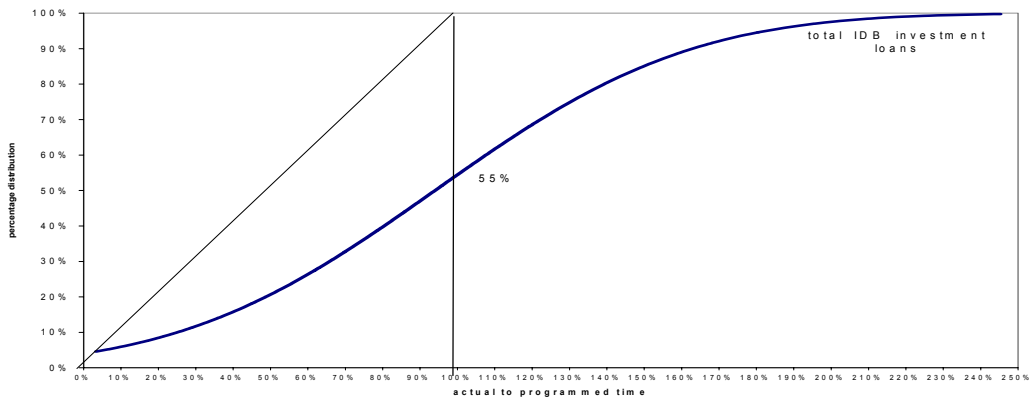


Chart 5.6: SEQ importance within a sector



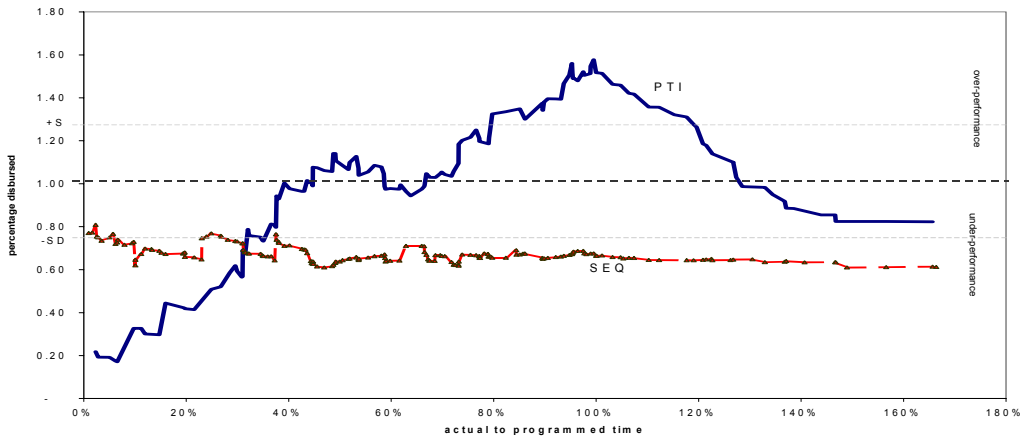
Source: OVE using LMS, Data warehouse

Chart 5.7: Efficiency delivery curve for total investment portfolio (2001)



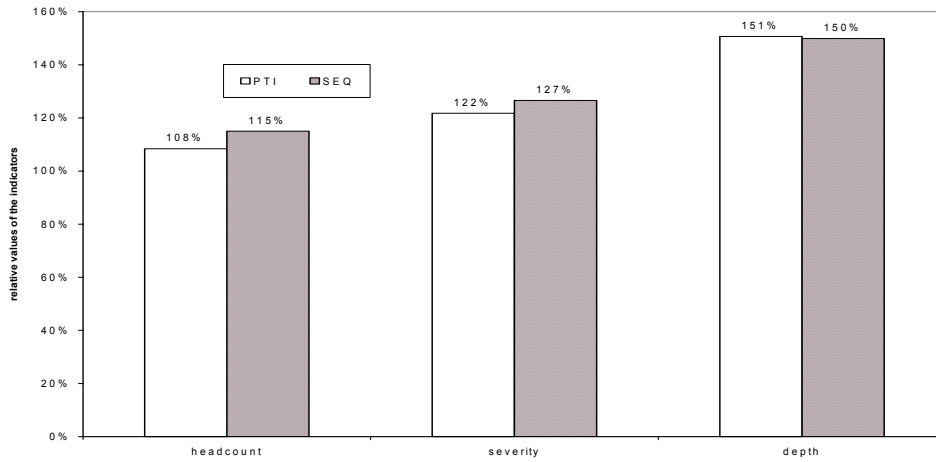
Source: OVE using information from LMS and Data warehouse

Chart 5.8: PTI and SEQ efficiency delivery curves relative to the total efficiency delivery curve (2001)



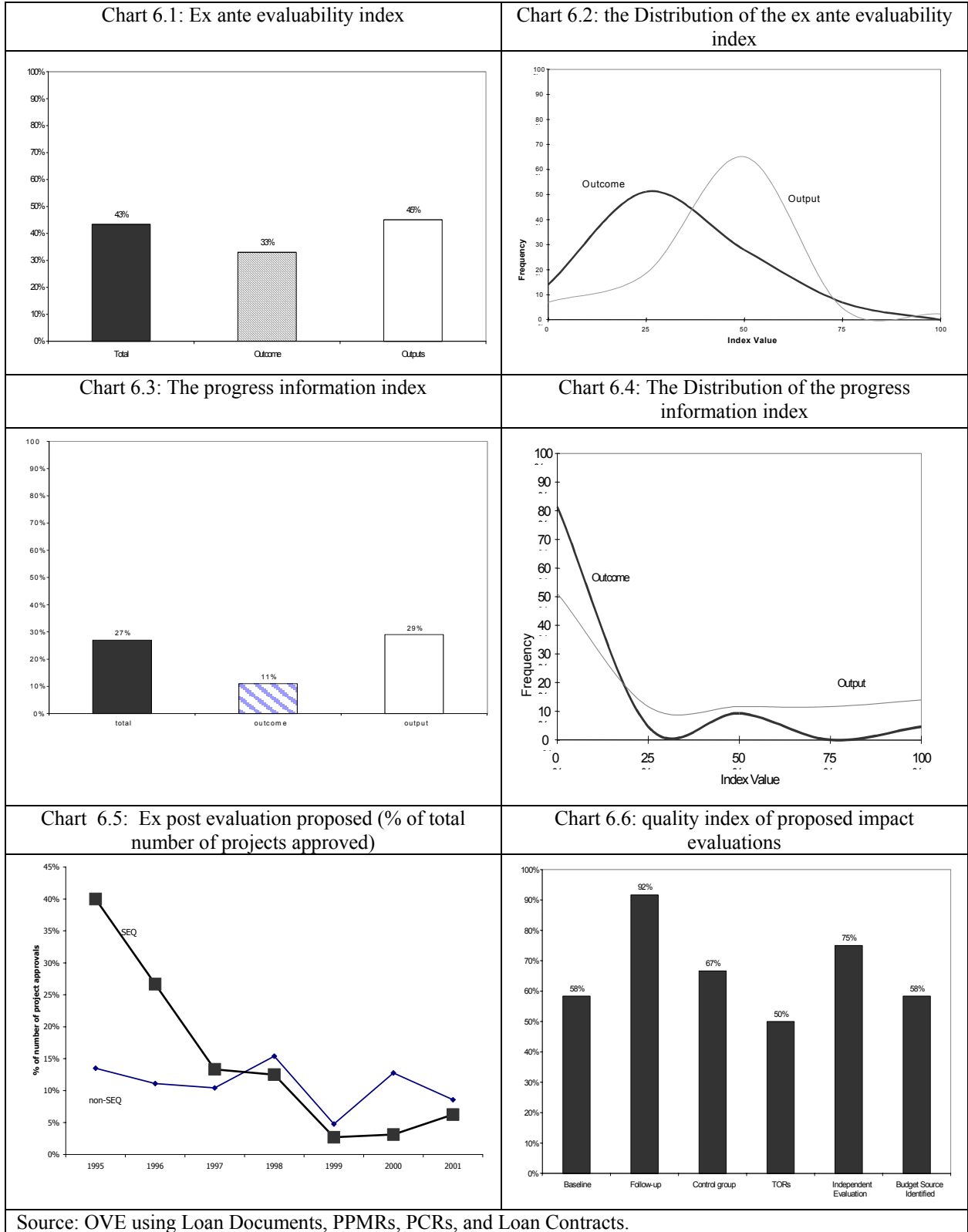
Source: OVE using information from LMS and Data warehouse

Chart 5.9: Relative incidence, depth, and severity of SEQ and PTI investment projects to all projects (2001)



Source: OVE using information from LMS and Data warehouse

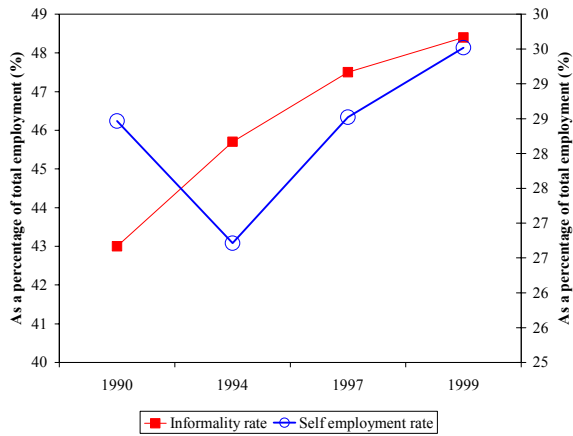
C. Chapter VI



D. Chapter VII

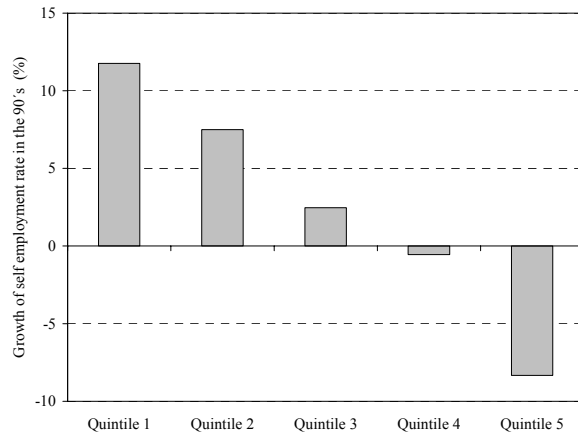
<p>Chart 7.1: The Regions economic growth</p>	<p>Chart 7.2: Growth of real household per capita income by quintile</p>																								
	<p>Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by total population (6 countries). Argentina (1992-1998), Bolivia (1989-2000), Colombia (1989-1998), México (1992-2000), Nicaragua (1993-2001), and Perú (1994-1999). Households with zero, missing and not declared income were excluded. No underreporting adjustment was made.</p>																								
<p>Chart 7.3: Unemployment rates</p>	<p>Chart 7.4: Unemployment rates by quintile and gender</p> <table border="1"> <thead> <tr> <th>Quintile</th> <th>Total (%)</th> <th>Male (%)</th> <th>Female (%)</th> </tr> </thead> <tbody> <tr> <td>Quintile 1</td> <td>~26</td> <td>~24</td> <td>~27</td> </tr> <tr> <td>Quintile 2</td> <td>~15</td> <td>~10</td> <td>~21</td> </tr> <tr> <td>Quintile 3</td> <td>~11</td> <td>~3</td> <td>~26</td> </tr> <tr> <td>Quintile 4</td> <td>~3</td> <td>~1</td> <td>~7</td> </tr> <tr> <td>Quintile 5</td> <td>~4</td> <td>~2</td> <td>~8</td> </tr> </tbody> </table>	Quintile	Total (%)	Male (%)	Female (%)	Quintile 1	~26	~24	~27	Quintile 2	~15	~10	~21	Quintile 3	~11	~3	~26	Quintile 4	~3	~1	~7	Quintile 5	~4	~2	~8
Quintile	Total (%)	Male (%)	Female (%)																						
Quintile 1	~26	~24	~27																						
Quintile 2	~15	~10	~21																						
Quintile 3	~11	~3	~26																						
Quintile 4	~3	~1	~7																						
Quintile 5	~4	~2	~8																						
<p>Source: ECLAC. Average for urban areas of 22 countries of Latin America and the Caribbean. 1992 does not include Caribbean Countries. 1999 does not include Guatemala, 2000 does not include Guatemala and Honduras and 2001 does not include Barbados, Bolivia, Guatemala, Jamaica, Paraguay and Trinidad & Tobago.</p>	<p>Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by total population (6 countries). Argentina (1992-1998), Bolivia (1989-2000), Colombia (1989-1998), México (1992-2000), Nicaragua (1993-2001) and Perú (1994-1999). Households with zero, missing and not declared income were excluded. No underreporting adjustment was made. (3)</p>																								

Chart 7.5: Self-employment and informality rates



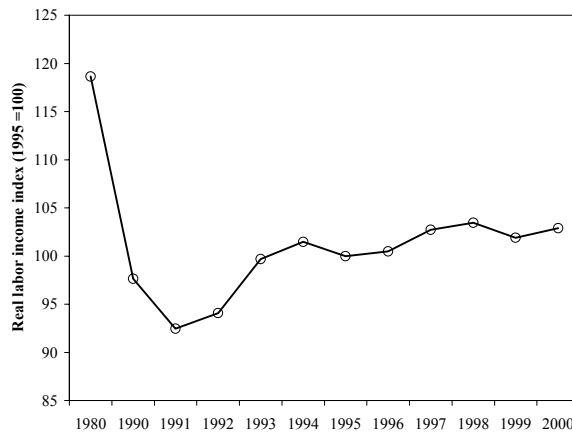
Source: ECLAC. Simple average based on 17 countries. Informal sector includes micro enterprise workers, family workers and unskilled self-employees.

Chart 7.6: Self-employment rates by quintile



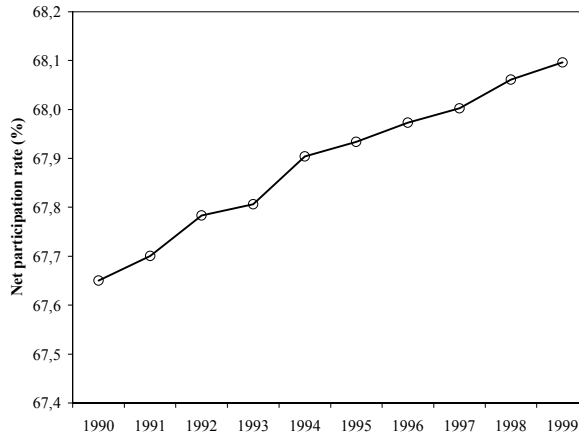
Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by labor force (5 countries). Argentina (1992-1998), Bolivia (1989-2000), Colombia (1989-1998), Nicaragua (1993-2001) and Peru (1994-1999). Informal sector includes micro enterprise workers, family workers and unskilled self-employees. Households with zero, missing and not declared income were excluded. No underreporting adjustment was made.

Chart 7.7: Real wages



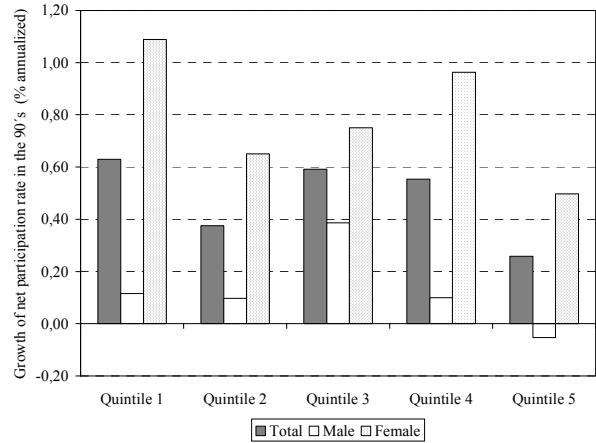
Source: ECLAC. Average for urban areas of 14 countries of Latin America and the Caribbean (weighted by labor force).

Chart 7.8: Net participation rates



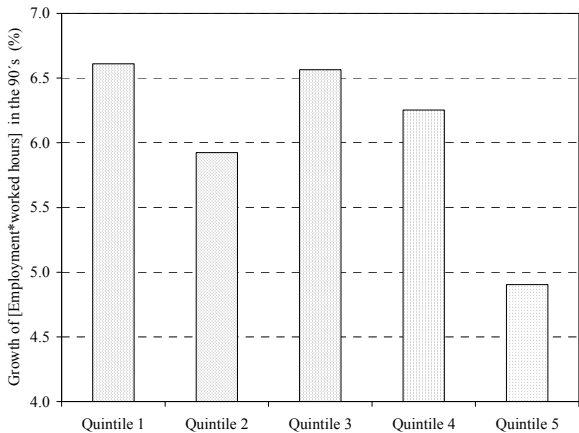
Source: World Bank, World Development Indicators. Average weighted by total population of 26 countries

Chart 7.9: Participation rates by quintile and gender



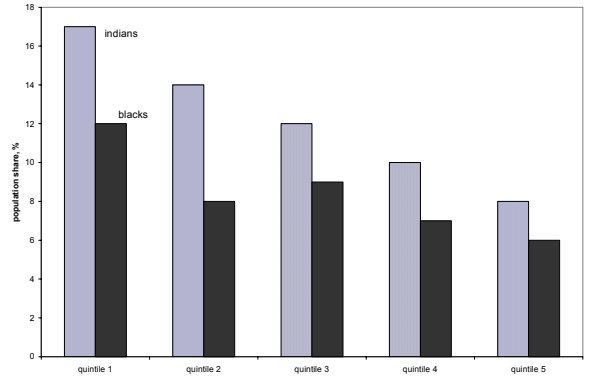
Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by labor force (5 countries). Argentina (1992-1998), Bolivia (1989-2000), Colombia (1989-1998), Nicaragua (1993-2001) and Peru (1994-1999). Informal sector includes micro enterprise workers, family workers and unskilled self-employees. Households with zero, missing and not declared income were excluded. No underreporting adjustment was made.

Chart 7.10: Change in total hours worked by household by quintile



Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by total labor force (6 countries). Argentina (1992-1998), Bolivia (1989-2000), Colombia (1989-1998), Mexico (1992-2000), Nicaragua (1993-2001) and Peru (1994-1999) Households with zero, missing and not declared income were excluded. No underreporting adjustment was made.

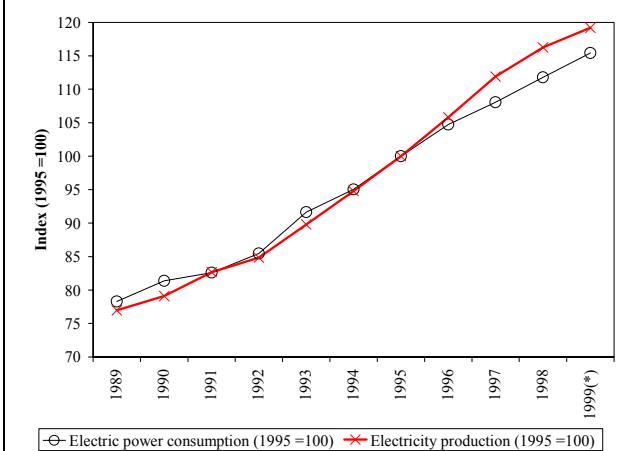
Chart 7.11: Population shares by income quintile and race



Source: WP/R-445, RES/IDB, 2002.

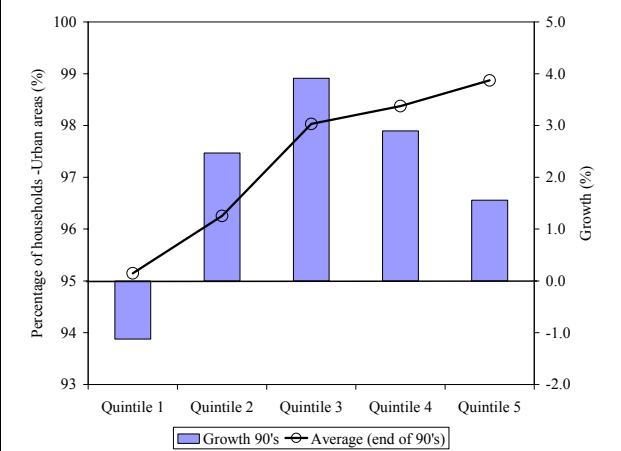
<p>Chart 7.12: Water and sanitation coverage</p>	<p>Chart 7.13: Households with piped water in urban areas</p>																																				
<table border="1"> <thead> <tr> <th>Year</th> <th>Water supply coverage (%)</th> <th>Sanitation coverage (%)</th> </tr> </thead> <tbody> <tr> <td>1990</td> <td>81.0</td> <td>71.9</td> </tr> <tr> <td>2000</td> <td>85.0</td> <td>77.5</td> </tr> </tbody> </table>	Year	Water supply coverage (%)	Sanitation coverage (%)	1990	81.0	71.9	2000	85.0	77.5	<table border="1"> <thead> <tr> <th>Quintile</th> <th>Percentage of households - Urban areas (%)</th> <th>Growth 90's (%)</th> <th>Average (end of 90's) (%)</th> </tr> </thead> <tbody> <tr> <td>Quintile 1</td> <td>~97</td> <td>~4.5</td> <td>~4.5</td> </tr> <tr> <td>Quintile 2</td> <td>~91</td> <td>~8.0</td> <td>~8.0</td> </tr> <tr> <td>Quintile 3</td> <td>~87</td> <td>~10.0</td> <td>~10.0</td> </tr> <tr> <td>Quintile 4</td> <td>~86</td> <td>~12.0</td> <td>~12.0</td> </tr> <tr> <td>Quintile 5</td> <td>~81</td> <td>~13.0</td> <td>~13.0</td> </tr> </tbody> </table>	Quintile	Percentage of households - Urban areas (%)	Growth 90's (%)	Average (end of 90's) (%)	Quintile 1	~97	~4.5	~4.5	Quintile 2	~91	~8.0	~8.0	Quintile 3	~87	~10.0	~10.0	Quintile 4	~86	~12.0	~12.0	Quintile 5	~81	~13.0	~13.0			
Year	Water supply coverage (%)	Sanitation coverage (%)																																			
1990	81.0	71.9																																			
2000	85.0	77.5																																			
Quintile	Percentage of households - Urban areas (%)	Growth 90's (%)	Average (end of 90's) (%)																																		
Quintile 1	~97	~4.5	~4.5																																		
Quintile 2	~91	~8.0	~8.0																																		
Quintile 3	~87	~10.0	~10.0																																		
Quintile 4	~86	~12.0	~12.0																																		
Quintile 5	~81	~13.0	~13.0																																		
<p>Source: World Health Organization. Global Water Supply and Sanitation Assessment 2000 report. Average of Latin America and The Caribbean.</p>	<p>Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by total population (4 countries). Bolivia (1989-2000), Colombia (1989-1998), Mexico (1992-2000) and Nicaragua (1993-2001)</p>																																				
<p>Chart 7.14: Households with sewerage access in urban areas</p>	<p>Chart 7.15: Coverage of basic services in urban and rural areas end of 90's</p>																																				
<table border="1"> <thead> <tr> <th>Quintile</th> <th>Percentage of households - Urban areas (%)</th> <th>Growth 90's (%)</th> <th>Average (end of 90's) (%)</th> </tr> </thead> <tbody> <tr> <td>Quintile 1</td> <td>~75</td> <td>~0.0</td> <td>~0.0</td> </tr> <tr> <td>Quintile 2</td> <td>~91</td> <td>~1.0</td> <td>~1.0</td> </tr> <tr> <td>Quintile 3</td> <td>~82</td> <td>~2.0</td> <td>~2.0</td> </tr> <tr> <td>Quintile 4</td> <td>~83</td> <td>~3.0</td> <td>~3.0</td> </tr> <tr> <td>Quintile 5</td> <td>~77</td> <td>~4.0</td> <td>~4.0</td> </tr> </tbody> </table>	Quintile	Percentage of households - Urban areas (%)	Growth 90's (%)	Average (end of 90's) (%)	Quintile 1	~75	~0.0	~0.0	Quintile 2	~91	~1.0	~1.0	Quintile 3	~82	~2.0	~2.0	Quintile 4	~83	~3.0	~3.0	Quintile 5	~77	~4.0	~4.0	<table border="1"> <thead> <tr> <th>Service</th> <th>Urban (%)</th> <th>Rural (%)</th> </tr> </thead> <tbody> <tr> <td>With piped water</td> <td>~95</td> <td>~58</td> </tr> <tr> <td>With electricity</td> <td>~98</td> <td>~80</td> </tr> <tr> <td>With sewerage access</td> <td>~80</td> <td>~15</td> </tr> </tbody> </table>	Service	Urban (%)	Rural (%)	With piped water	~95	~58	With electricity	~98	~80	With sewerage access	~80	~15
Quintile	Percentage of households - Urban areas (%)	Growth 90's (%)	Average (end of 90's) (%)																																		
Quintile 1	~75	~0.0	~0.0																																		
Quintile 2	~91	~1.0	~1.0																																		
Quintile 3	~82	~2.0	~2.0																																		
Quintile 4	~83	~3.0	~3.0																																		
Quintile 5	~77	~4.0	~4.0																																		
Service	Urban (%)	Rural (%)																																			
With piped water	~95	~58																																			
With electricity	~98	~80																																			
With sewerage access	~80	~15																																			
<p>Charts 7.14 and 7.15: Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by total population (4 countries). Bolivia (1989-2000), Colombia (1989-1998), Mexico (1992-2000) and Nicaragua (1993-2001)</p>																																					

Chart 7.16: Production and consumption of electricity



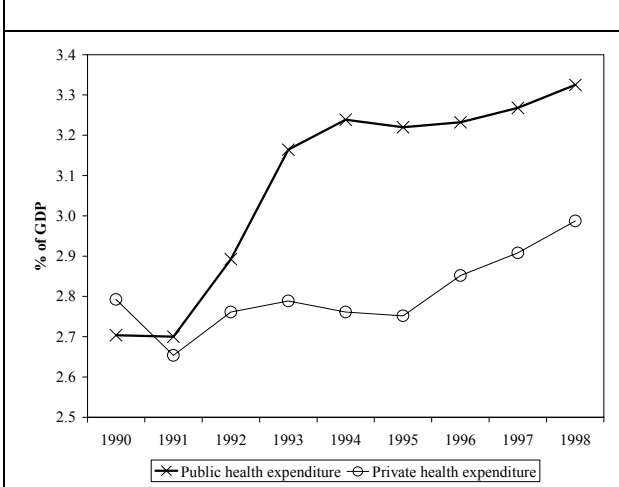
Source: World Bank, World Development Indicators. Simple average of 26 countries. (12).

Chart 7.17 Households with electricity in urban areas



Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by total population (5 countries). Bolivia (1989-2000), Colombia (1989-1998), Mexico (1992-2000), Nicaragua (1993-2001) and Peru (1994-1999)

Chart 7.18: Public and private expenditure in health



Source: World Bank, World Development Indicators, and is a simple average of 26 countries.

Chart 7.19: Distribution of the benefits of government expenditure on health

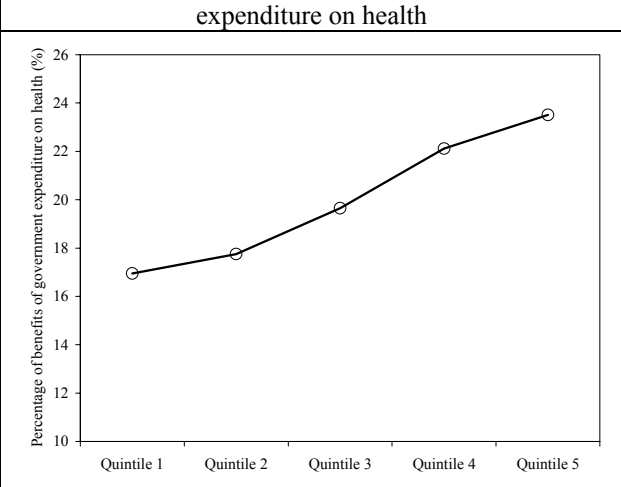


Chart 7.19: Source: OVE, based on Suárez-Bernguela, Rubén M. Working Document prepared for the Health and Human Development Division of the Pan American Organisation-World Health Organisation. “Health System Inequalities in Latin America and the Caribbean: Findings and Policy Implications”, 2000. Weighted average by total population of 4 countries: Ecuador, Guatemala, Jamaica and Peru.

Chart 7.20: People with health problem attending to public and private institutions

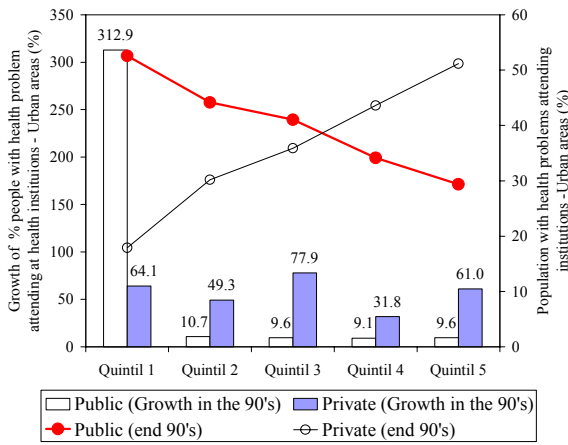
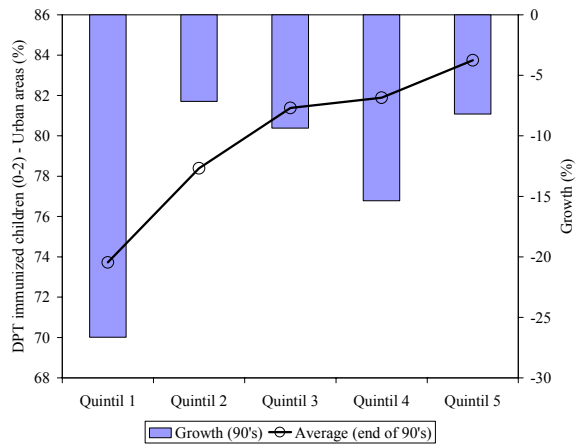
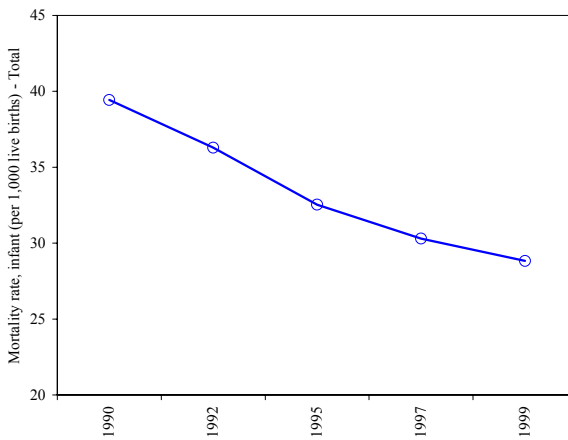


Chart 7.21: DPT immunized children (0-2 years old)



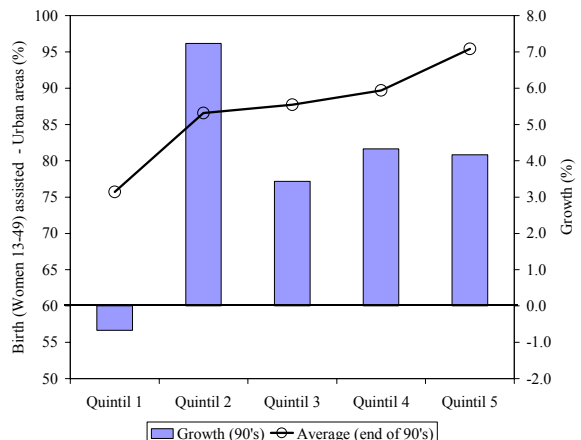
For charts 7.20 and 7.21. Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by urban population (3 countries). Bolivia (1989-2000), Nicaragua (1993-2001) and Peru (1994-1999).

Chart 7.22: Infant mortality



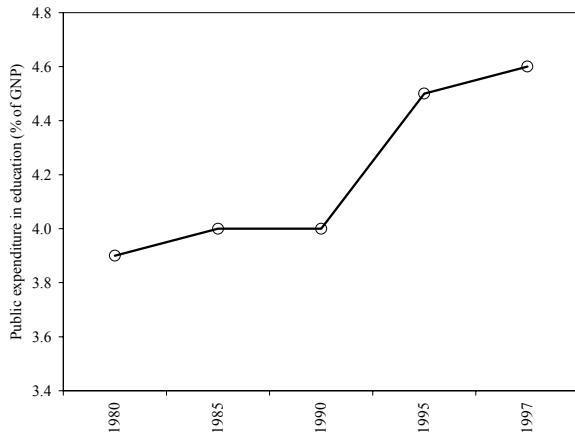
Source: World Bank, World Development Indicators, and is a simple average of 26 countries.

Chart 7.23: Assisted births by medical staff



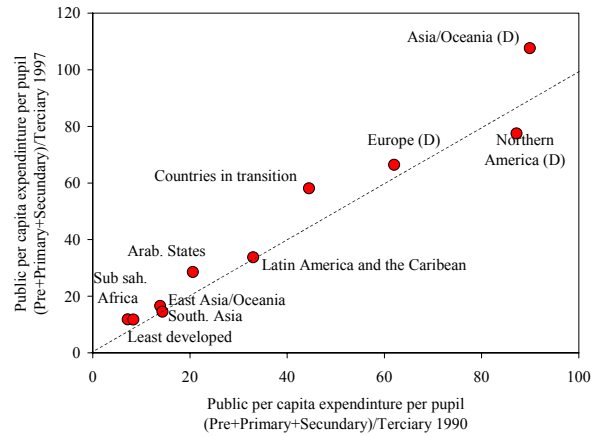
Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by urban population (3 countries). Bolivia (1989-2000), Nicaragua (1993-2001) and Peru (1994-1999).

Chart 7.24: Current public expenditure in education



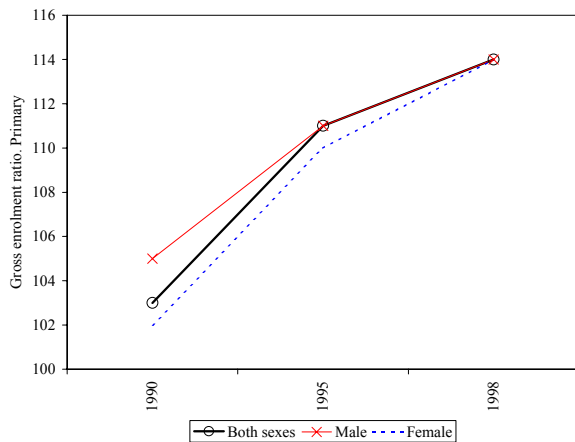
Source: World Bank, World Development Indicators. Simple average of 26 countries.

Chart 7.25: Non tertiary to tertiary public expenditure ratio



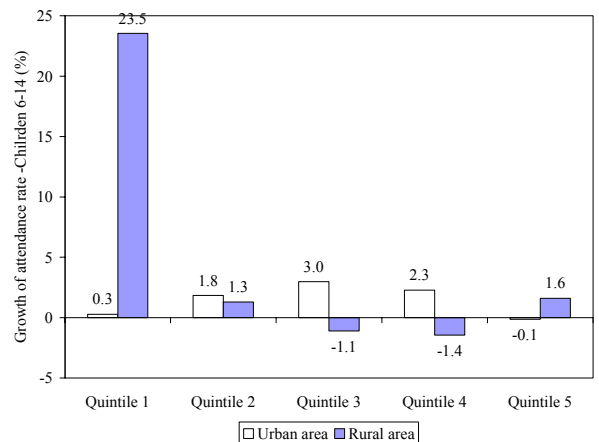
Source: UNESCO, World education reports 2000. (D) More developed countries.

Chart 7.26: Gross enrolment ratio in Latin America



Source: UNESCO, World education reports 2000. Latin America and the Caribbean.

Chart 7.27: Growth of attendance rate by residence area



Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by total population (4 countries). Bolivia (1989-2000), Colombia (1989-1998), México (1992-2000) and Nicaragua (1993-2001).

Chart 7.28: Education growth of attendance rate by gender in urban areas

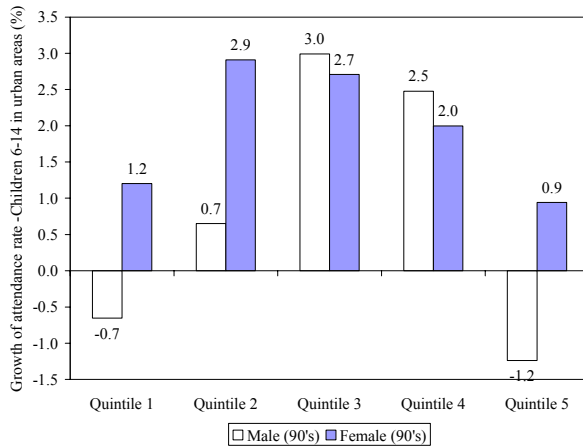
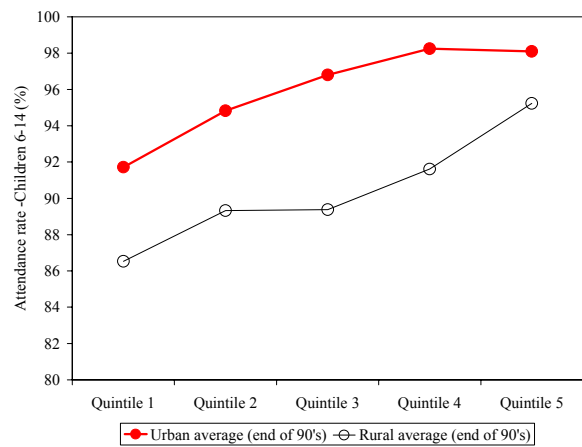


Chart 7.29: Attendance rate in urban and rural areas



Charts 7.28 y 7.29: Source: OVE, based on Special Processing of Household Surveys. Countries and years of surveys: Average growth weighted by total population (4 countries). Bolivia (1989-2000), Colombia (1989-1998), México (1992-2000) and Nicaragua (1993-2001).

Chart 7.30: Mean of score in urban and rural areas

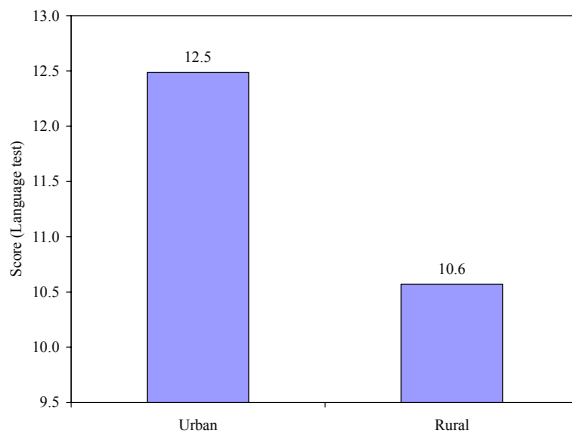
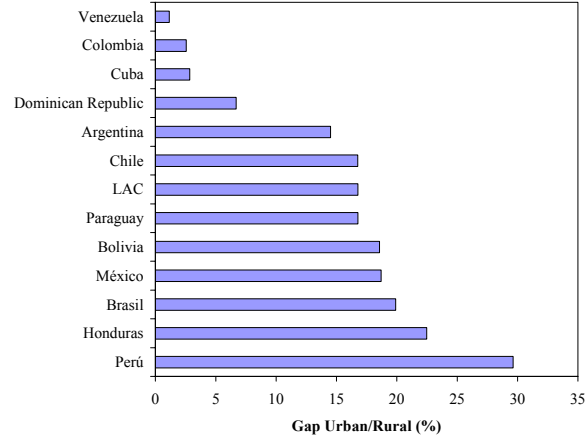
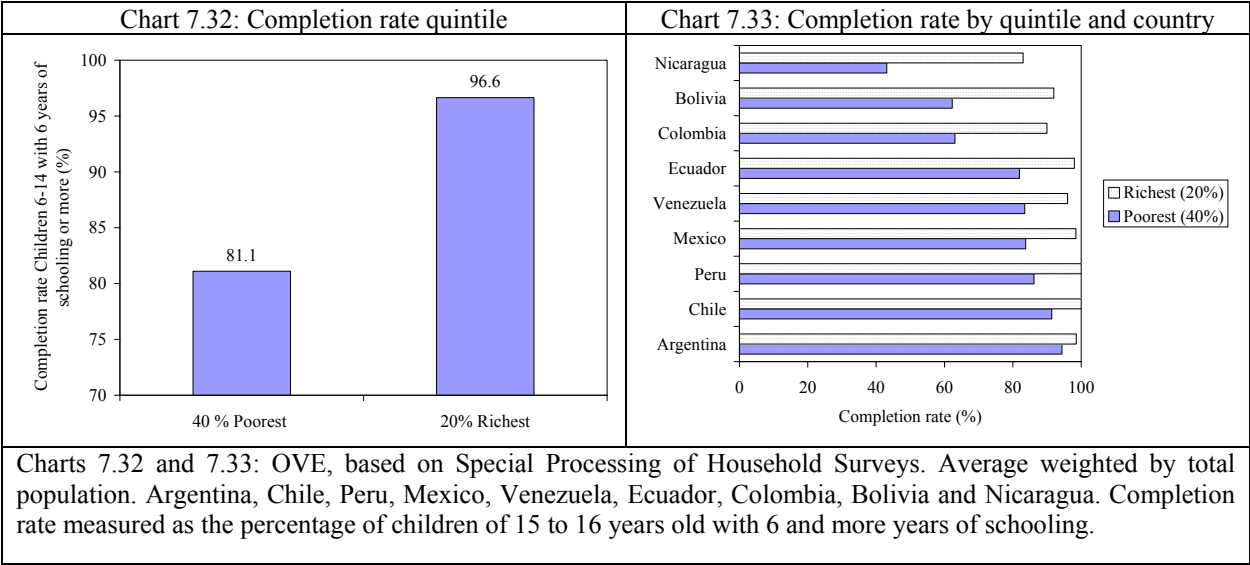


Chart 7.31: Gap between urban and rural areas



Charts 7.30 and 7.31: OVE based on "Primer Estudio Internacional Comparativo sobre Lenguaje, Matemáticas y Factores Asociados en Tercero y Cuarto Grado", UNESCO-OREALC, 1998. Average weighted by urban and rural population (13 countries). Argentina, Bolivia, Brazil, Chile, Colombia, Honduras, Mexico, Paraguay, Dominican Republic, Venezuela and Peru.



E. Chapter VIII

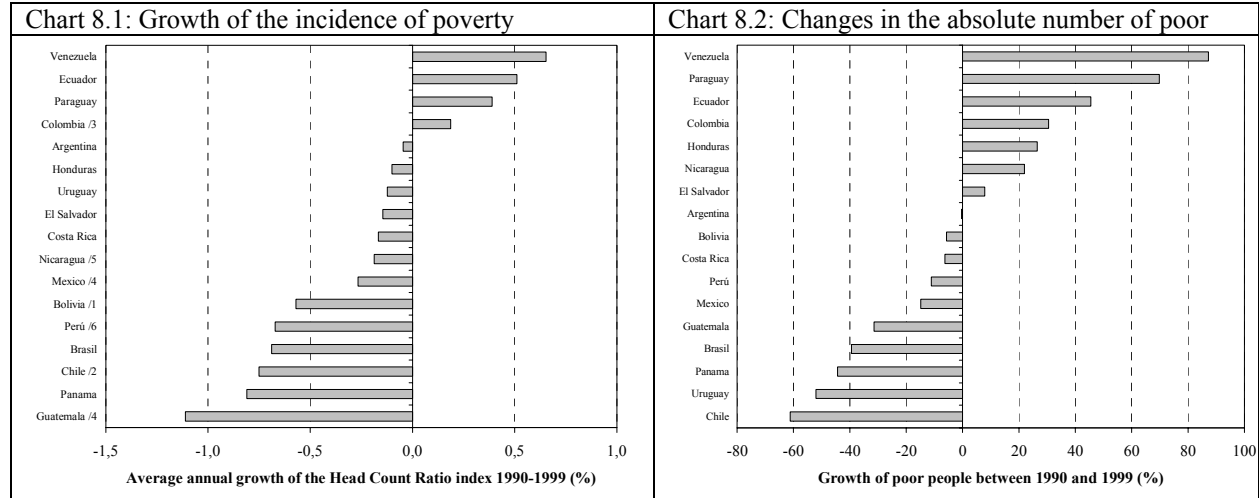
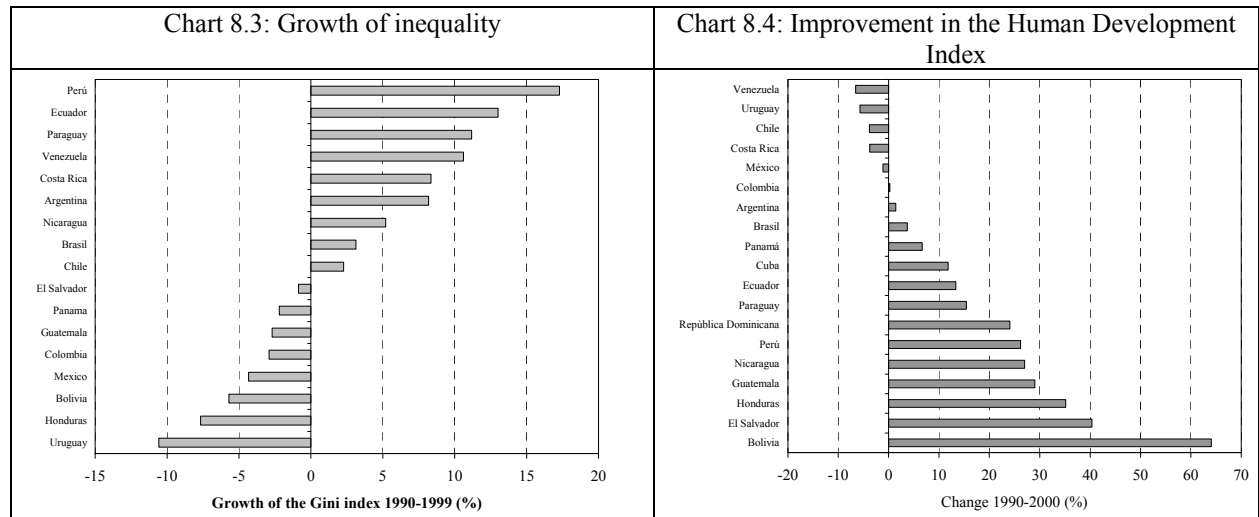
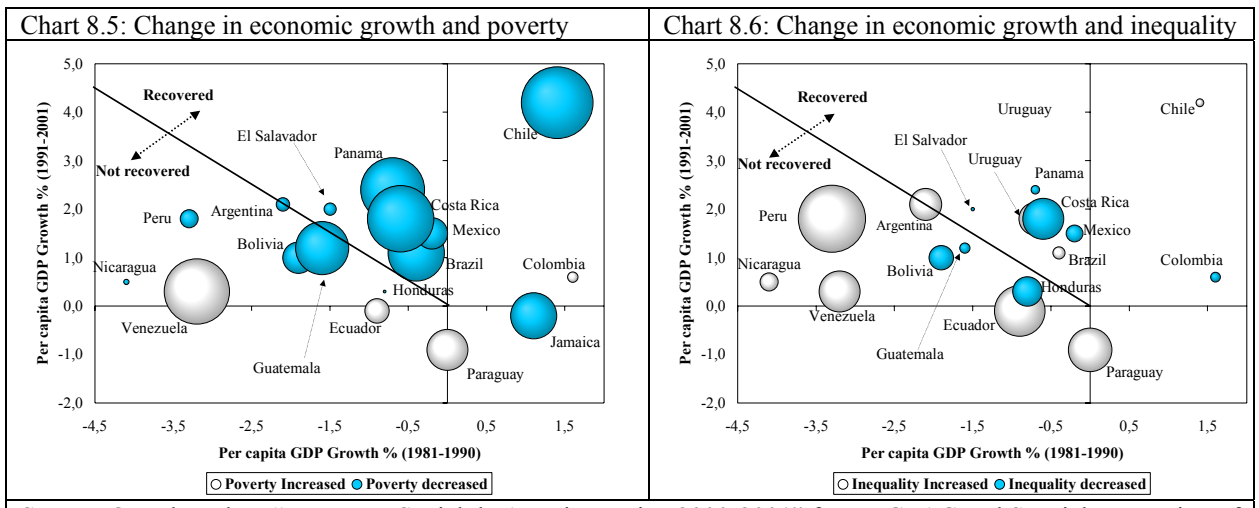


Chart 8.1 and 8.2: Source: OVE based on “Panorama Social de America Latina 2000-2001” from ECLAC and Special Processing of Household Surveys. The Chart contains the percentage growth of the head count ratio in urban areas with a poverty line equivalent to real US\$ 30.

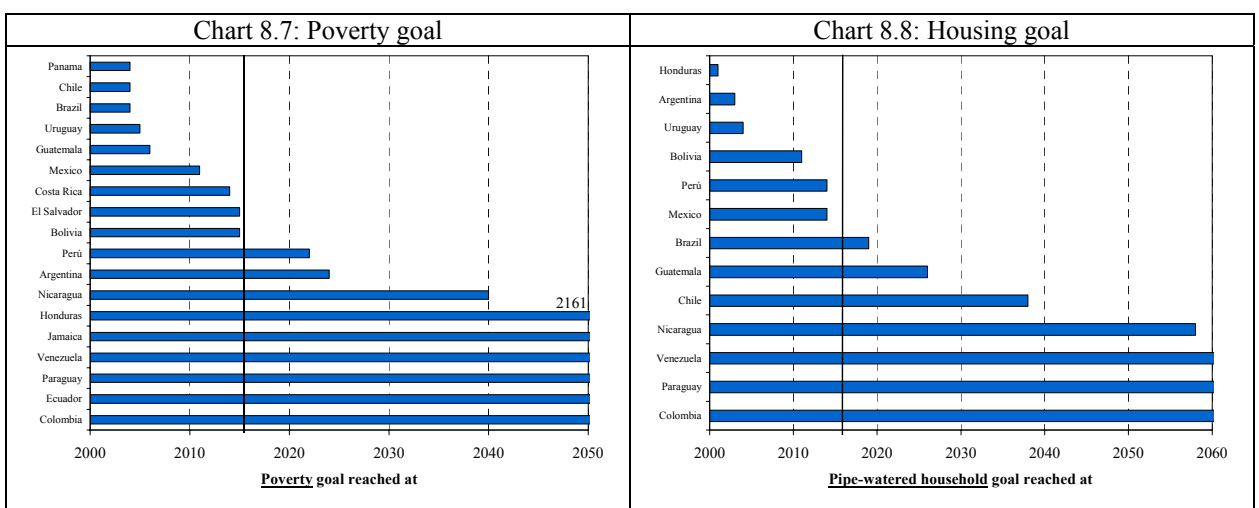


Source: OVE, based on “Panorama Social de America Latina 2000-2001” from ECLAC and Special Processing of Household Surveys, and is the percentage change of the Gini index.

Source: OVE based on Human Development Report 2000. UNDP, and contains the percentage change of the Human Development Index. As a result of revisions to data and methodology, human development index values are not strictly comparable with those in earlier Human Development Reports.

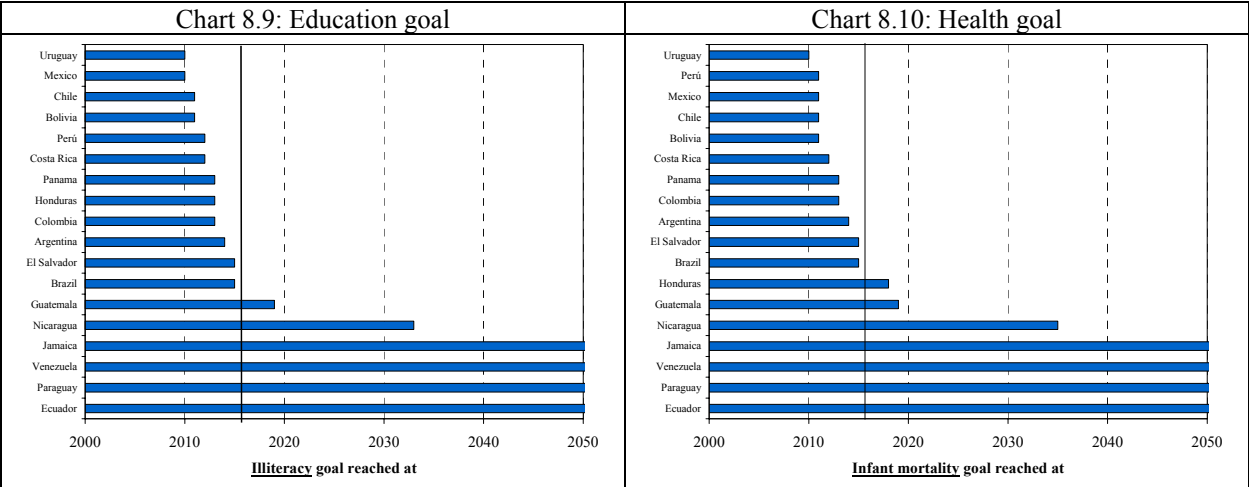


Source: OVE based on “Panorama Social de America Latina 2000-2001” from ECLAC and Special Processing of Household Surveys. Growth of head count ratio in urban areas with a poverty line equivalent to real US\$ 30 in PPP and Percentage change of the Gini index.



Source: OVE. Poverty goal: Halve extreme poverty in 2001 for 2015. Poverty is the head count ratio based on a poverty line equivalent to real US\$ 30 in PPP.

Source: OVE. Housing goal: Halve proportion of households without piped water in 2001 for 2015.



Source: OVE. Education goal: Halve illiteracy rate in 2001 for 2015. Illiteracy is the percentage of illiterate adults in the population aged 15 years and over.

Chart 8.10: Source: OVE. Health goal: Halve mortal infantile in 2001 for 2015. Mortal infantile is the number of deaths (children aged 1 year or less) in 1000 live births. Note: Function used for projections is

$$\mathcal{E}_{x/pcGDP} = \frac{\Delta(X_{99/90})/X}{\Delta(pcGDP_{99/90})/pcGDP}$$

where X is the goal indicator and pc GDP is the per capita real GDP.