Poverty and Inequality in Latin America and the Caribbean

The reduction of poverty is the key development challenge confronting the countries of Latin America and the Caribbean. The incidence of poverty in the region declined during the 1990s, but progress was limited. There was a slight reduction in the proportion of the regional population living in poverty—from about 38 percent at the beginning of the decade to about 35 percent toward the end (based on a poverty line of US$2 per day in purchasing power parity). As a consequence of population growth, however, the absolute number of poor individuals increased by nearly 8 million between 1990 and 1998, bringing the total number of poor in the region to about 180 million.

A number of factors prevented the region from achieving greater poverty reduction in the last decade. A series of economic crises and natural disasters that affected some countries caused increases in poverty, exacerbating the already high degree of vulnerability of considerable groups of the population. Economic growth during the decade had a limited impact on poverty due to the increase in wage and income inequality. The increase in inequality resulted from a relatively higher demand for skilled labor associated with technological change and the transitional impact of trade and financial liberalization. Income inequality, as measured by the Gini coefficient, increased by 3 percent in the region over the decade. The increase was concentrated in seven countries, and the rest showed little or no change. At the end of the decade, the richest 5 percent of the region's population received 25 percent of regional income, while the income share of the poorest 30 percent was only 7 percent.

A welfare indicator based solely on income, however, does not capture the significant achievements of many countries in enhancing other measures of welfare. Regional indicators of human development improved significantly. Infant mortality rates, for example, show one of the steepest declines among developing countries, and the average years of education have increased.

International Development Goals

The region's achievements in attaining international development goals are superior to the average of all developing countries. The goals were formulated in a series of international conferences held since 1990 and are still being developed. The final declaration of the Summit of the Americas held in Quebec City, Canada in April, 2001 committed the governments of the region to engage in additional efforts to attain these goals, especially reducing extreme poverty by 2015 to half of its 1990 level.

The following is a brief summary of the region's progress in attaining some of the international development goals:

Reduce the proportion of people living in extreme poverty by half between 1990 and 2015. Progress toward the attainment of this goal has been insufficient.

Universal primary school enrollment by 2015. Substantial progress has been made toward achieving this goal. Enrollment levels in the region have already reached 93 percent of the school-age population. The recent Summit of the Americas, however, introduced more ambitious goals for 2010, incorporating improvements in educational quality, universal access to primary education, the reduction of school dropout rates for both boys and girls, and a 75 percent enrollment coverage for secondary school.

Achieve equality in primary and secondary education by 2005. This goal has been virtually achieved in Latin America and the Caribbean. In most countries the difference in enrollment between boys and girls in primary education has disappeared.

Reduce mortality rates for children under five years of age by two-thirds between 1990 and 2015. The mortality rate for children under five years of age in Latin America and the Caribbean (37 per thousand) has declined. In addition, it is lower than the comparable rates in Sub-Saharan Africa (151 per thousand) and East Asia and the Pacific (43 per thousand). However, faster progress is needed to reach the goal of reducing the rate by two-thirds.

Reduce maternal mortality by three-fourths between 1990 and 2015. The rates of maternal mortality are also lower in Latin America and the Caribbean than in Sub-Saharan Africa and South Asia. However, progress is still below the rate required to achieve the goal of reducing maternal mortality by 75 percent by 2015.

Ensure environmental sustainability, including reducing by half the proportion of people without access to safe drinking water by 2015. Latin America and the Caribbean is not ahead of other regions in the fulfillment of this goal. Few countries are implementing national strategies for sustainable development. There also has been little progress in expanding access to safe drinking water.

Intra-Regional Disparities

In considering the region’s attainments, it must be emphasized that the countrywide averages hide significant disparities in income, assets, social indicators, and quality of life. These disparities are apparent among countries with different levels of development as well as among different regions within each country. There are substantial differences between the rich and poor, distinct ethnic groups, men and women, urban and rural areas, and relatively prosperous and backward regions within countries.

The average years of schooling for the poorest 20 percent is only four, while for the richest 20 percent it is ten. Primary school enrollment rates are substantially lower for the children of indigenous and Afro-Latin families. Gender gaps are also significant, particularly with respect to asset ownership. Infant mortality and malnutrition rates in the poorer areas and among low-income groups are generally higher than those found in the more prosperous regions and groups. Mortality rates for children under five years of age are significantly higher in rural than in urban areas. Access to electricity in the poorest quintile of income earners is still far from the almost universal access enjoyed by those in the richest quintile. Limited access to safe water is also an issue largely affecting the poor. Disparities in access to telephone service are still more dramatic: less than one percent of the population in the poorest quintile of income earners has access to a telephone, even in countries in which the richest quintile enjoys 90 percent coverage.

Economic Growth and Poverty Reduction

Although it is clearly essential to accelerate significantly the economic growth rates of the countries in the region in order to improve the income levels of the poor, growth alone will not be sufficient to make a major dent in poverty. Under an optimistic scenario, in which the benefits of growth would be equally distributed (without changes in the underlying income distribution), the region would have to attain an average annual per capita income growth rate of approximately 3.4 percent in order to reduce by half the proportion of individuals whose income is below US$2 (PPP) a day by 2015**. *This represents more than twice the average annual per capita income growth rate of the last decade (1.5 percent).*** Achieving this level of growth would entail average annual per capita income growth rates between 2 and 6 percent depending on the country. In the countries where the incidence of poverty is high, the effort required would, of course, be higher. For example, to reach the poverty reduction target in Central America would require an average annual per capita income growth rate of 4.5 percent. This is three times the average growth rate of the Central American countries in the 1990s.

The failure of poverty to decline faster in most countries, and more evenly within countries, during the 1990s suggests that a number of factors are attenuating the relationship between growth and poverty reduction. The most likely factor, discussed increasingly in recent years, is inequality. The strikingly high levels of inequality in Latin America and the Caribbean are important for the present discussion because the extent to which growth reduces poverty depends, among other things, on the extent of inequality. In general, the higher the inequality—especially inequality in the distribution of assets, such as land and human capital—the greater the rate of growth that is required to reduce poverty by a given amount.

The conclusion reached by numerous studies is that additional measures are required to ensure that growth benefits the poor in equal or greater proportion than the non-poor. It is necessary to promote initiatives that generate economic opportunities for the poor, improve their risk management tools, eliminate the structural inequalities in the distribution of assets (especially in education), expand their access to physical and social infrastructure, eliminate the barriers that keep groups (ethnic, racial, women) excluded, and develop effective and efficient governmental institutions that respond more adequately to the needs of those groups that have been excluded.

POVERTY REDUCTION: A GENERAL FRAMEWORK

The importance of sustained rates of economic growth for poverty reduction in Latin America and the Caribbean cannot be overestimated. The periods of the most substantial declines in poverty have coincided with robust and sustained growth. The converse is also true. For example, in the "lost decade" of the 1980s, when growth slowed significantly, poverty increased sharply in the region. Thus, policies that contribute to higher rates of growth, including prudent macroeconomic policies, are also policies that contribute to the reduction of poverty. Enhancing growth and reducing poverty are not a development dichotomy. To the contrary: they are two sides of the same coin, namely, broadening economic opportunities for all citizens.

Growth must, however, have a number of characteristics if it is to make an important contribution to poverty reduction. The pattern of growth is crucial. A given rate of growth will have very different effects on poverty depending on whether the pattern of growth is broad-based or exclusionary. While the experience varies somewhat from country to country, the historical pattern of growth in Latin America and the Caribbean has failed to provide its benefits to broad segments of the population. The current juncture in regional development may be no exception. For example, recent trends in employment generation and wage disparities associated with the extant pattern of growth in the region suggest that it may be exacerbating inequality rather than ameliorating it. Country studies conducted in Brazil, Chile, Colombia, Mexico, and Venezuela indicate that the premiums paid to skilled workers have increased while those to unskilled workers have stagnated or declined. The debate about the effects of the prevailing model of market-based, outward-oriented development on poverty and inequality remains lively and substantially unresolved. It is clear, however, that many people are being excluded from participation in the benefits of current regional development, and a set of targeted strategies for dealing with this situation is required. The aim is to make the growth process in the region significantly more inclusive.

It must also be more stable than it has traditionally been. Many countries in Latin America and the Caribbean have historically faced adverse shocks due to numerous factors, including policy mistakes, volatility in international capital markets with effects on domestic financial institutions, instability in commodity prices, and natural and man-made disasters. Regional volatility in growth rates has often translated into sharp turns in poverty rates. In fact, the sharpest increases in poverty in the region arguably have been the result of adverse shocks caused by economic, political or natural factors. Aggregate growth, therefore, is not enough to reduce poverty. Steady growth is also an essential requirement. In its absence, the stop-and-go pattern of regional growth will result in frequent reversals in the incidence of poverty as well.

In addition to the specific policy actions that are outlined below, there needs to be an enabling environment for poverty reduction that goes beyond even broad-based, steady, and sustainable growth. In addition to these, strengthened processes of good governance and participatory development are required. Poverty is not only a problem of unmet material needs, but is also a consequence of social exclusion. Increasing the "voice" of the poor, by building social capital and strengthening their organizational capacity, is one way of fostering the policy changes and gaining the political support needed for poverty reduction. Greater transparency and accountability of both governmental and political institutions can help limit the influence of special vested interests that profit from excluding the poor from growth and development.

Finally, many of the specific policy actions discussed below will require adequate financial resources in order to be effectively implemented. Such resources could be obtained by reallocating government spending from other uses, increasing government revenue, or both. Government revenue could be increased by broadening the base of the tax system, increasing the compliance rate, and—depending upon specific country circumstances—raising the tax rates of the well-to-do. Any reforms introduced to the tax system, however, should attend to both efficiency and equity goals. Studies have shown that more can be accomplished by broadening the tax base and increasing the rate of compliance than by simply raising tax rates.

Specific Areas of Emphasis for the Reduction of Poverty

This general framework for poverty reduction in Latin America and the Caribbean implies a number of specific areas of emphasis.

Enhancing Opportunities for the Poor: Assets and Markets

Since poverty is closely linked to the lack of financial and productive assets, policies in this area are of great relevance. For example, the asset base of the poor can be enhanced through land reform and land titling, programs that distribute shares from privatization of public enterprises among the population, and the reform of inheritance laws. Provision of housing subsidies for low-income groups can also serve to provide the poor with an important asset. Increasing the assets of the poor must be accompanied by measures that also enhance their access to market opportunities. A great many actions can increase these opportunities. They include correcting market failures in credit markets; reducing discriminatory practices in labor markets; improving the poor's bargaining power; improving access to poor regions through the provision of physical infrastructure; and increasing the poor's access to information and technology.

Contributing to Human Development

Targeted interventions are required in education, health, and nutrition to contribute to the human development of poor people. While the poor in general would benefit from these interventions, they are especially important for groups that are socially excluded, such as many indigenous populations, people living in geographically isolated areas, or those who are the victims of discrimination. Investment in their own human capital is frequently an unattractive option for the poor because of the opportunity costs involved in having children and adolescents attend and remain in school instead of working and contributing to the fulfillment of immediate familial subsistence needs. Even when poor children do attend school, the quality of the education they receive in the public school systems of the region is generally far below that obtained by the children of the non-poor (many of whom attend expensive private schools). The access of the poor to quality health care, both preventative and curative, is also generally deficient throughout the region. The accumulation of human capital by the poor can also be affected by deficiencies in early childhood nutrition that lower cognitive capacity and result in significantly lower attainment in school. The conclusion from recent experience is that both demand-side and supply-side measures are needed to enable the poor to invest in their own human capital development. Promising programs are those that provide incentives for the poor to invest in their own education, health, and nutrition through subsidized public sector interventions, conditioned upon the poor's contributing some of their own resources and participating in such programs on a regular, sustained, and monitored basis.

Improving the Quality of Life of the Poor

Neighborhood improvement programs in urban areas as well as investments in water, sanitation and environmental clean-up can disproportionately benefit the poor, who are far more likely to lack access to physical infrastructure and services, and who most often suffer the effects of environmental degradation. Such policies offer triple benefits. First, the quality of life is directly improved through the provision of clean water and sanitation services, or improvements in housing and transportation, with resulting improvements in health status and economic opportunities. Second, the value of dwellings increases, and if land titling is provided, so does the collateral of poor households. Third, investment costs for infrastructure provided can represent direct transfers to poor households, since cost recovery from poor households is normally only applicable for the operating and not the installation costs of water, sanitation, and related services.

Social Protection

Adverse shocks can lead to very sharp increases in poverty at the country level or for groups that are particularly adversely affected. Shocks can be systemic or idiosyncratic. Systemic shocks can be of economic, natural or political origin. They can also be the product of reforms designed to correct market imperfections. Recent examples abound: the peso crisis in Mexico, the fall in international coffee prices, El Niño, the effects of rapid trade liberalization and privatization, and the impact of the Asian currency crises on growth in Latin America and the Caribbean. Likewise, the poor are likely to be particularly hurt by idiosyncratic shocks such as illness, physical and mental disabilities, unemployment and the like. The poor are ill-equipped to deal with shocks, and informal insurance arrangements have serious limitations. Most countries lack the institutional mechanisms to mitigate the impact of adverse shocks on the poor, and as a consequence the responses are frequently improvised. Developing such mechanisms would contribute greatly to poverty reduction. An example is the greater use of temporary employment programs. Data indicate that open unemployment is disproportionately present among the poor of the region. Thus, public employment programs of a short- or medium-term duration are a possible solution worthy of increased attention by regional policymakers.

Prevention of Social Ills

Another noteworthy dimension of poverty in the region is the poor's vulnerability to crime and violence, the high incidence of domestic violence among the poor, unplanned teenage pregnancies, alcoholism, drug trafficking, armed conflict, and other social ills. These require a wide array of especially targeted preventative measures. Programs focused on at-risk youth, community involvement, and the upgrading of urban slum communities have shown promise in combating the upsurge in crime and violence. Public information campaigns and such innovations as women's police stations and support centers have helped mitigate the personal devastation caused by domestic violence. Programs to combat the use of alcohol, drugs, and firearms require expansion and more systematic efforts to enhance their effectiveness.

Good Governance and Social Inclusion

Strengthened processes of governance and participatory development are also required for sustained poverty reduction in the region. Effective governance involves such diverse elements as publicly accountable institutions for formulating and executing the budget, efficient tax administration and public expenditure management, prudent banking supervision, a transparent foreign exchange and trade regime, and a fair and transparent legal and regulatory framework. Reforms along these various dimensions are highly likely to be pro-poor, since an emerging body of evidence indicates that the poor suffer disproportionately from the lack of public transparency and accountability (for example, in the delivery of basic services). Policies that facilitate the development of grassroots organizations among the poor, such as enhancement of the enabling environment (legal and regulatory) for community development and the greater pursuit of public-private partnerships for poverty reduction, could make important contributions to both the increase of the poor's social capital and the reduction of poverty.

Actions at the International Level

The policy spheres discussed in this section apply to actions that need to be taken at the national or sub-national levels. In addition, however, there is a set of initiatives particularly relevant for institutions such as the Inter-American Development Bank. These initiatives can be taken in multilateral forums, or bilaterally by industrial nations. International organizations and industrial countries can make a contribution to poverty reduction in the developing world in at least three ways.

First, the industrial countries can make capital available for capital-poor countries through concessional grants and long-term loans at subsidized interest rates. They can also reduce official debt levels through mechanisms such as the Highly-Indebted Poor Countries Initiative (HIPC). Finally, they can provide financial safety nets in the face of adverse shocks.

Second, the industrial countries can facilitate poverty reduction in developing countries by opening markets for agricultural products and labor-intensive exports; promoting free trade or extending benefits of preferential agreements that could help increase developing countries' exports; improving the access of developing countries to modern technology; encouraging private capital flows; and imposing less onerous terms on the transfers of intellectual property rights to poorer countries.

Third, multilateral institutions can assist countries in the design of sound policies, and through their lending programs and policy dialogue, influence the policies and allocation of resources by individual countries to better target the poor. By bringing positive influence to bear upon key policy decisions, international development organizations can tilt the scales in favor of the adoption of pro-poor programs and policies.

THE OBJECTIVES OF POVERTY REDUCTION AND EQUITY ENHANCEMENT IN THE IDB'S INSTITUTIONAL STRATEGY

The Inter-American Development Bank has a long-standing commitment to the reduction of poverty and enhancement of social equity in the countries of Latin America and the Caribbean. The various replenishments of the Bank's resources have consistently emphasized these objectives as central to the Bank's mission. In approving the Eighth General Replenishment in the Bank's Resources (IDB-8) in 1994, for example, the Board of Governors cited poverty reduction and social equity as key areas of Bank activity (the others were economic modernization and integration and the preservation of the environment). The background report for the Eighth General Increase paid particular attention to the needs of families, women, and youth. It also emphasized the areas of health, nutrition, and the formation of human capital. IDB-8 introduced important lending goals to further the objective of poverty reduction and enhanced social equity. In particular, it directed that lending to address these objectives should account for 40 percent of the total volume and 50 percent of the total number of Bank operations. These goals continue to guide the Bank's annual lending operations.

The IDB-8 priorities have not changed. However, given the dramatic changes in the international economy since 1994 and their implications for both the Bank's lending and non-lending activities, the Bank initiated an exercise to assess its institutional strategy within the new context of development in the region. This exercise, involving a detailed assessment of the Bank's multitude of activities as well as broad consultations within the institution and with various external constituencies, suggested that the Bank should develop a process whereby its Governors would have the opportunity to conduct a general review of priorities in the light of changing conditions in the region. The aim of the institutional strategy process is to provide greater operational clarification of the key areas of activity spelled out in IDB-8.

The process is well underway and is clearly serving to reiterate the profound importance the Bank attaches to the objectives of poverty reduction and the enhancement of social equity. In a recent report to the Board of Governors on the implementation of the institutional strategy, the Bank put forth two main objectives on which it will work in the future—poverty reduction and social equity, and environmentally sustainable growth. While these are consistent with the core IDB-8 objectives, the report also emphasized four priority areas of activity that would put them into operation. The priority areas identified are social development, modernization of the state, competitiveness, and regional integration. The report argued that working on these topics would improve living conditions for all persons, including the poor.

These improvements in the Bank's institutional strategy mark an important breakthrough for its work on poverty reduction and social equity in several ways. First, they explicitly recognize the importance of social development, including the promotion of social progress in tandem with economic growth, the prevention or mitigation of social ills such as crime and violence, and the protection of vulnerable populations. Second, and of vital importance, is the recognition that the objective of poverty reduction and enhanced social equity must infuse all of the Bank's other priority areas.

Social development plays a key role in poverty reduction because it empowers the poor to participate in decisions that directly affect their lives, it mitigates a wide array of social ills that harm the poor disproportionately, and it promotes social inclusion. The modernization of the state contributes to reducing poverty and enhancing social equity through reforms in the delivery of public services, improvements in transparency and accountability, legal and judicial reform, and decentralization of governmental activities. Increased competitiveness can likewise contribute to these objectives if it involves an increase in the asset base of the poor; improvements in the poor's access to information and technology; support for microenterprises to promote the poor's access to markets; efforts to increase the productivity of small producers; and reductions in the exposure to risk faced by the poor. Integration can also make a powerful contribution to poverty reduction and increased social equity if it is accompanied by a series of explicit actions to protect the poor, such as social protection provisions to protect the poor against some of the transitional costs of moving to more open and integrated economies, and the incorporation of a social charter in economic integration arrangements. In short, the Bank's activities aimed at reducing poverty and enhancing social equity are not limited to work in the social sectors or to programs explicitly targeted to the poor (i.e., the Program of Targeted Interventions). The other pillars of its work are also intimately related to the attainment of this fundamental objective.

Recent work on the evolving institutional strategy emphasizes the close linkages and synergies between the Bank's core objectives and the four priority areas designed to attain them. While it has long been emphasized that growth is fundamental to poverty reduction, it is now increasingly apparent that reducing poverty can also promote economic growth. Lower levels of poverty can assist the modernization of the state (for example, by empowering the poor to monitor the delivery of public services); enhance competitiveness (for example, by expanding the skill and knowledge base of national economies); and contribute to the process of economic integration (for example, by widening the markets for regional production). It has long been recognized that poverty reduction and enhanced social equity are integral components of social development. The recent emphasis on the linkages between poverty reduction and the development of social capital has provided added support for this proposition.

In sum, the Bank's recent work on further delineating its institutional strategy has served to underline the continuing validity of the core IDB-8 objectives while sharpening its understanding of the priority areas of the work necessary for attaining them. The work has also underlined the continuing—indeed, increased—importance of the objective of reducing poverty and enhancing social equity. This importance stems not only from the need to raise the living standards of the region's poor, but also from the positive direct and indirect effects that reducing poverty can have on attaining other Bank priorities and objectives (such as ensuring environmentally sustainable growth).

THE IDB'S LENDING PROGRAM TO REDUCE POVERTY AND ENHANCE SOCIAL EQUITY

Pursuit of the objectives of poverty reduction and the enhancement of social equity is reflected in the IDB's lending program. As noted above, the Eighth Replenishment of the Bank's capital established as indicative goals that 40 percent of the total volume of lending and 50 percent of the total number of loans be devoted to poverty reduction and social equity enhancement (so-called "SEQ loans"). A subset of these loans is comprised of loans that are considered poverty-targeted investments (PTIs).

New loans approved in 2000 to directly support poverty reduction and social equity reached US$2.7 billion, an increase from the US$2.2 billion approved in 1999. SEQ loans in 2000 represented 51.8 percent of total Bank lending approved in that year, a significantly higher proportion than the 45.9 percent registered in 1999. The Bank, therefore, exceeded its target of 40 percent established in the Eighth Replenishment. With respect to the number of Bank operations, 37 SEQ loans were approved in 2000, one more than the number approved in 1999. This represented 46.8 percent of the total number of loans approved in 2000, slightly below the 50 percent goal established by the Eighth Replenishment and the 49.3 percent reached in 1999.

In the case of social sector loans, which are automatically classified as SEQ operations, there was an increase in the number of operations approved in the education sector in 2000 compared with the previous year as well as an increase in the loan amount approved for social investment projects. More SEQ loans were approved for urban development and environmental projects in 2000 than in 1999. Likewise, there was an increase in 2000 in the proportion of non-social sector projects oriented to poverty reduction and social equity enhancement compared to 1999. The proportion of SEQ operations in the non-social sectors increased from 18.9 percent in 1999 to 25.5 percent in 2000. Similarly, the proportion of SEQ volume in the non-social sectors increased from 16.6 to 28.6 percent.

PTIs, a subset of SEQ loans, may comprise projects in areas such as early childhood development, primary education and health care, smallholder agricultural production, microenterprises, or social investment funds. They may also entail projects that are targeted at regions, cities, or neighborhoods that have been identified as poor according to income or non-income criteria. Finally, PTI projects are also those in which more than 50 percent of the potential beneficiaries are likely to be poor (according to the poverty line for each country). In 2000, the Bank approved 24 PTI loans, one more than the number approved in 1999. This amount represented 40.7 percent of the Bank's total investment operations approved in 2000, compared to 46 percent in 1999. PTI loans reached US$1.1 billion in 2000 compared to US$1.4 billion in 1999. This represented 31.7 percent of the total in 2000, compared with 37.4 percent in 1999.

Activities of the Multilateral Investment Fund and the Inter-American Investment Corporation

The Multilateral Investment Fund (MIF) makes direct contributions to the IDB's poverty reduction and equity enhancement goals through its support to microfinance, the development of microenterprises, and labor training. In 2000, the MIF approved 24 microenterprise projects for a total of US$26.9 million. A Natural Disasters Recovery Fund in the amount of US$10 million was approved to guarantee access to emergency financing by microenterprises and microfinance institutions, in the event of a natural disaster. The MIF is also supporting the creation of a private fund to guarantee commercial bank loans to new businesses established by young entrepreneurs in Peru.

The Fund plays a key role in the development of microfinance institutions in the region. MIF-supported microfinance institutions provide two-thirds of total microfinancing from all sources in Latin America and the Caribbean. The MIF is supporting the transition of some microfinance-oriented nongovernmental organizations to free-standing financial institutions through its investments and technical assistance. The Fund's active portfolio in these institutions reached US$143 million in 2000, which has served as a catalyst for an additional US$632 million from other investors. Through its Activity Line Program, the MIF allocated US$3 million in 2000 for the institutional development of microfinance institutions in Guatemala, Guyana, Nicaragua and Paraguay.

The MIF has also supported 22 labor-training projects in its eight years of operations, focusing on the training needs of poor and vulnerable groups, including youth, women and rural workers. In 2000, the Fund approved support for the Regional Employment Program for Blind People to improve job opportunities and employability for the blind in Argentina, Chile and Uruguay. It also provided support for the Technical Distance Training Program to extend the training opportunities in the rural areas of Peru.

Other IDB Group lending operations, whose objectives are economic growth and development in a broader sense, also have considerable indirect impacts on poverty reduction. For example, investments and loan operations made by the Inter-American Investment Corporation (IIC) help to promote the establishment, growth and modernization of medium- and small-scale private enterprises in the region. The US$820 million of resources committed by the Corporation in loans and investments in the last eleven years have benefited 2,500 medium- and small-scale businesses in the region, promoting the creation of 175,000 jobs. In 2000, the Corporation approved 14 loans and 6 capital investments for a total of US$143 million.

GOOD LENDING PRACTICES FOR POVERTY REDUCTION AND SOCIAL EQUITY

This section presents a sample of approved projects that are innovative in their design. They represent each of the four priority areas of the Bank's institutional strategy discussed above.

Social Development

The *Social Safety Net Program* in Colombia is one such innovative project. This US$270 million comprehensive social protection program has three main thrusts: emergency employment, job training, and conditional grants to poor families. The program is expected to increase income in low-income urban areas through projects that will create a demand for unskilled labor. It will also offer training and practical job experience for poor youths. The program uses a detailed method by which to evaluate its impact. It will employ self-targeting and geographic-targeting mechanisms and the beneficiary identification and selection system (SISBEN) to focus its activities on the poor.

In Brazil, the objective of the *Rio de Janeiro Urban Upgrading Program – Stage Two,* a US$180 million loan, is to improve the quality of life of the urban poor who live in Rio's *favelas* and subdivisions. The program consists of urban infrastructure investments, community development activities, and institutional development. One objective of the program is a reduction in crime in these communities.

The main objective of *Ecuador's Beneficiary Identification Mechanism for Social Programs*, to be carried out with a US$4.5 million loan, is to help establish a mechanism for identifying social program beneficiaries, in order to better target families living in poverty. The new system will make the necessary information available to institutions that carry out social programs so they can plan their activities. The system will also involve interagency coordination, boosting the impact of social spending by eliminating the duplication of activities.

The Program for *Strengthening Education Reform* in Paraguay aims to increase the quality and equity of basic education. It will improve management and pedagogical processes in first and second cycle schools, reduce inequality within the school system, improve the access to the third cycle of basic schooling, promote the participation of parents through the *Asociaciones de Cooperación Escolar*, improve the quality of the initial training of teachers, and strengthen the management of the Ministry of Education. The program includes the design of targeted strategies to benefit the poorest sectors of the country.

Modernization of the State

A US$250 million sector loan (*Support for Transparency and Reform in the Fiscal, Social and Justice Sectors*) will support macroeconomic stability in Peru. The conditionality of the operation aims to protect social sector and justice sector spending from budget cuts, and sets up public accountability and transparency mechanisms in those sectors as well as in the fiscal area. Specific conditionality in the social sectors aims to improve coordination, supervision and evaluation of social programs, and supports the implementation of a contingency plan in the event of a macroeconomic crisis.

The *Modernization Program for the Municipality of Managua* (US$5.7 million) seeks to strengthen the municipal government's institutional capacity by promoting further decentralization and enlisting greater community participation in the design and implementation of high priority socioeconomic projects. Using an explicit "learning-by-doing" approach, the program will finance technical assistance and investments in pilot projects to modernize the municipality's delivery of basic services. The program will also work to increase community participation by providing institutional strengthening support for the municipality's district offices and conducting investment programs in low-income neighborhoods selected through participatory processes.

In Argentina, the *Loan for Modernizing the Cordoba Provincial Government* (US$215 million) will improve the province's financial and administrative management capacity in order to promote sustainable fiscal balance in the medium and long terms. The project will introduce greater transparency in fiscal management by making results public and involving citizens in strategic decision-making. It will enhance the quality of public spending by enforcing stricter controls. The project will support greater school coverage, assistance for vulnerable groups (especially among families with female heads of household), and access to justice.

In Chile, the US$14.5 million *Program to Strengthen the Alliance between Civil Society and the State* aims to create conditions that facilitate citizen participation in the design and implementation of policies related to the common welfare. The program has three main components: (i) strengthening civil society; (ii) increasing the participation of civil society in public policy formulation; and (iii) promoting volunteerism. Innovative elements include the promotion of citizen networks using communication and electronic dialogue through the Internet, the creation of an Ombudsman's office based on recent experiences in other countries of the region, and an analysis of the degree of openness of government programs.

Competitiveness

In Brazil, the *Consolidation and Self-sufficiency of Agrarian Reform Settlements Program* (a US$51 million loan) will enable families living in land reform settlements to reach self-sufficiency faster, so that they will no longer need to rely on subsidies from the Instituto Nacional de Colonização e Reforma Agrária (INCRA). While the settlements' participation in the program's graduation plan is voluntary, opting to participate will bring immediate, tangible benefits offered under the program (infrastructure works, technical assistance, training) in exchange for being gradually weaned off the credit program that INCRA now operates. The pilot program, which includes a detailed impact-evaluation plan, targets 75 settlements selected using indicators of relative need for access to infrastructure and social services.

In Honduras, the *Program for Revitalization of the Rural Economy* (US$30 million loan) seeks to improve the competitiveness of rural productive sectors, including food production. Two important features of the program are strengthening the Honduran government's capacity to formulate and implement public policies for the rural sector, and the financing of investments in plant and animal health and food safety services. The project targets municipalities where the incidence of poverty is high. It plans investments in small, local infrastructure works using a rigorous, competitive and participatory selection process.

Ecuador's *Rural Transportation Infrastructure Program* (a loan of US$9 million) will lay the foundation for a sustainable rural road management model that will give poor rural communities continuous access to social services, markets, and other income-generating activities. The program introduces a new road management model that features the beneficiary community's participation, and routine maintenance performed by local microenterprises. The program will rehabilitate rural roads and non-motorized paths in provinces and municipalities where the incidence of poverty is high. The local governments and beneficiary communities will be involved in monitoring and evaluating the program so that any necessary adjustments can be made while the program is still underway.

In addition to these specific country operations, the Bank has made special efforts to increase the competitiveness of low-income marginalized groups though regional lending initiatives. For example, the *Program for Social Entrepreneurs* provides loans and technical cooperations to support indigenous and other small-scale entrepreneurs. Two examples of projects approved during 2001 under this initiative are the program *Support to Garífuna Women Producing and*

Selling Products Derived from Yucca and the program *Development of the Rural Native Communities of Cayambe*. Under the *Garífuna* women's program, a donation of US$250,000 will be administered by Casa Gari and used to finance microentrepreneurs living in extreme poverty to increase the production of products derived from yuca in three *Garífuna* communities in Honduras. The *Cayambe* program includes a loan of US$320,000 and a donation of US$120,000 to support microentrepreneurs in native communities in Cayambe, Ecuador. The goal of the project, administered by the *Casa Campesina de Cayambe*, is to convert rural farmers living at subsistence levels into microentrepreneurs in the agricultural and livestock sectors.

The Bank has also placed special emphasis on increasing the competitiveness of micro and small enterprises, mainly through sponsored programs of the Multilateral Investment Fund , both at the country and regional levels. Some of the most innovative programs are detailed below.

The *Innovation Partnerships Program*, a US$8 million grant program, offers a new way to work through private sector partners to test new ideas and help expand the range of financial and nonfinancial services available to microentrepreneurs. Projects will be selected through a competitive grant process. The first round to be funded will focus on one of four themes: rural finance, risk management in microfinance institutions, business development services for startups, and commercialization services for small- and medium-scale enterprises.

The *Recovery Fund for Natural Disasters* is a US$10 million program. When natural disasters strike, microenterprises and the microfinance institutions that serve them are particularly hard hit. They need emergency financing quickly and effectively. This recovery program will establish a mechanism to guarantee the availability of such contingency resources and get both microenterprises and microfinance institutions back on the road to financial and operational self-sustainability.

In El Salvador, the program *Strengthening Microenterprise Productivity in El* Salvador, financed with a grant for US$870,000, aims to improve the productivity of the microenterprise sector in the impoverished western region of the country. The program will sponsor a system of training and technical assistance vouchers; a system for improving the supply of services to microentrepreneurs; and a promotion, information, and dissemination system. Through these mechanisms, the program will promote a sustainable market for training and technical assistance services and develop an intervention methodology that successfully combines investments from the private, governmental, and international sectors.

Regional Integration

Paraguay's *Western Integration Corridors Program* will use a US$100 million loan to promote the expansion of the western region's participation in the national and international economies. The program will rehabilitate National Route 9, the region's main artery, thereby making it possible to move produce from the Central Chaco to the nation's capital. It will also consolidate the Central Chaco's internal roads system, which links the small farm regions to Route 9, ensuring that the roads are passable year-round and extending the system to the borders with Argentina, Bolivia and Brazil. The program is expected to have a positive effect on Paraguay's trade with other MERCOSUR countries and with countries on the Pacific coast, which will further develop productive activities and improve the rural population's living conditions.

NONFINANCIAL ACTIVITIES THAT CONTRIBUTE TO POVERTY REDUCTION AND SOCIAL EQUITY

The Bank's efforts to reduce poverty and enhance social equity in the region also include non-lending services that help tilt the countries' priorities in favor of these objectives. The Eighth Replenishment mandated that the Bank be active in non-lending areas by engaging in such activities as the analysis of the determinants of poverty in the countries of the region, improving the quality of information on poverty and living conditions, and helping to build consensus to enable countries to devise strategies in which poverty reduction would figure as a principal objective. This section briefly discusses recent (i.e., 2000-01) Bank initiatives in the areas of research, policy analysis, data enhancement, and knowledge dissemination bearing on poverty reduction and the enhancement of social equity.

Research

The Bank has continued to be active in sponsoring research projects to increase knowledge about poverty reduction and equity enhancement. It recently published two books entitled *Social Protection for Equity and Growth,* and *Shielding the Poor: Social Protection for the Developing World.* These examine the reasons why the poor are particularly vulnerable to adverse shocks, and offer policy recommendations to enable the poor to cope with income losses and minimize the impact that adverse shocks have on them. The Bank also published several technical documents on a variety of topics, including socially responsible macroeconomics, the relationships between investment in human capital and poverty reduction, the effects of natural disasters on the poor, and the effects of trade reform on labor markets. The initial phase of a project on the "Microeconomics of Income Distribution in East Asia and Latin America" was completed in cooperation with the World Bank. A study was also conducted entitled "Do We Know How Much Poverty There Is?" The study tested the sensitivity of poverty indices to various methodological alternatives such as assumptions about economies of scale in consumption, choices of adult equivalence scales, underreporting of income, and alternative poverty lines.

Support continues to be provided to the Network on Inequality and Poverty, a joint venture of the Latin American and Caribbean Economic Association, the World Bank, and the IDB. The network holds meetings each year in which scholars present research findings on poverty and inequality topics. The 2000 meeting was held in Rio de Janeiro, where researchers presented the latest advances in the study of the economics of child labor and the economic and social costs of crime, as well as an impact evaluation of poverty reduction programs. Likewise, various studies were coordinated through the Bank-sponsored Regional Network of Research Centers on the role of assets in the reduction of poverty, the problems faced by youth and adolescents in the region, and other topics related to poverty reduction.

Several technical cooperation operations financed a series of studies in 2001 on the costs and causes of social exclusion based on race or ethnicity and the policies for combating it, including specialized household surveys on various aspects of the problem. Three recently published studies dealt with indigenous issues: *Indigenous Peoples and Social Investment Funds, Indigenous Peoples and Land Titling,* and *Community Consultations: The Darien Case.* Another study entitled *Microenterprises and Poverty* examined poverty levels among microentrepreneurs in the region. Technical papers on reducing vulnerability, on the development of financial instruments for disaster risk management, and on the socioeconomic impact of El

Niño in the region were also published. The Bank also conducted a study on expanding the use of information technology to low-income groups in the region and carried out an evaluation of youth training programs. Another study examined the impact of technical training on employment among women.

The Inter-American Investment Corporation (IIC) is sponsoring a pilot project to promote a new methodology for the selection and evaluation of small- and medium-scale enterprises with strong potential for development. The objective of the pilot program, to be developed initially in Bolivia and Chile, is to carry out a diagnosis of 50 small- and medium-size enterprises in the two countries, and identify the factors that affect their development. The diagnosis is expected to validate a methodology that will be disseminated in all the Bank's developing member countries. The methodology will also serve to gather valuable information about the business environment for small- and medium-size enterprises in Bolivia and Chile; serve as a basis for any regional initiative related to regulatory or financial sector policies with direct influence over investment flows to small- and medium-size enterprises in the region; and support the effort of the region's countries to consolidate the sustainable growth and development of small- and medium-scale enterprises.

Dissemination of Good Practices

The Bank has continued to disseminate good practices in programs to combat poverty and enhance social equity. It publicized major advances in poverty reduction through its POBRED electronic network, its biannual newsletter *Equidad*, conferences, and informal seminars. It teamed with other multilateral financial institutions in working groups to produce the Global Poverty Report for the G-8 and a document entitled "Social Safety Nets in Response to Crisis: Lessons and Guidelines from Asia and Latin America" for the Asia-Pacific Economic Cooperation (APEC) Forum. Recent publications included a good practices paper on targeted human development programs, including cash and food transfers and fellowship programs. A workshop for Bank staff served as a means for sharing knowledge and impact evaluation experiences with experts who have evaluated the impact of poverty-targeted projects in the region.

A major dissemination activity was the Inter-American Microenterprise Forum, an event devoted to promoting alliances or partnerships for this sector's development. The III Forum was held in October 2000 in Barcelona, Spain. Six hundred suppliers of services for microenterprises, as well as non-governmental organizations, donor agencies, academics, private institutions, and representatives of Latin American, Caribbean and European governments participated in the forum. The most modern techniques and successful experiences to promote the development of microenterprises were discussed.

Documents on good practices in rural institutions, land markets, off-farm rural productive activities, and successful cases of rural development were completed and disseminated. The Bank has continued to participate in the work of the Interagency Group for Rural Development that implements the action plans for the Rural Poverty Reduction Strategy and the Strategy for Agricultural Development. The IDB Action Plan on Poverty and Vulnerability to Natural Disasters includes regional dialogues and campaigns to raise political and public awareness of disaster risks. A system has been devised to monitor the Bank's education projects, beginning with project design and continuing through implementation. It has been applied to the Bank's portfolio of projects in technical and vocational training.

The Bank has emphasized the dissemination of knowledge and good practices on social inclusion and the reduction of social ills. Its recent activities include a pilot course for indigenous professionals on social management, an international workshop on the inclusion of indigenous populations in social projects (cosponsored with the World Bank and the Pan American Health Organization), and a workshop on indigenous health. The Bank, in conjunction with other international organizations and agencies, sponsored the launch of the Inter-American Coalition for the Prevention of Violence and organized a seminar on the subject that was held in Panama.

It completed a technical cooperation operation on the prevention and control of domestic violence, and circulated publications on the topic among mayors in the region.

In response to calls from leaders and civil society organizations in the region, the Bank has been engaged in a concerted effort to incorporate race and ethnicity into every aspect of its work. A Social Inclusion Action Plan was approved by Management in May 2001, based upon recommendations made during a workshop held at IDB headquarters in January 2001. The workshop's objective was the development of an institutional consensus regarding the Bank's role in promoting social inclusion of all racial and ethnic groups in the region. In June, 2001, the Bank hosted some 300 representatives of civil society organizations, multilateral agencies, public officials, academics, and foundation representatives in an international conference entitled *Toward a Shared Vision of Development: High-Level Dialogue on Race, Ethnicity, and Inclusion in Latin America and the Caribbean*.

The Bank has also made special efforts to publicize the need to build stronger democracies, with more participation, representation and governance. It has also promoted the incorporation of these ideas in the national agendas of its member countries through seminars and publications. Seminars related to these topics were held in October 2000 and March 2001 respectively in Santiago, Chile. A book entitled *Democracy in Deficit* and a working paper entitled "Democracy and Development" were published in January and March 2001 respectively. The Bank has been supporting regional initiatives in this area such as the Program for the Strengthening of Alliances to Fight Urban Poverty *(FORTAL)*. This program will be implemented by a network of Latin American nongovernmental organizations with the financial assistance from the Bank's Fund for Special Operations and the support of the Swedish Government.

The Bank is sponsoring a *Pilot Program for the Diffusion of Information Technologies in Social Programs*. The program is funded by a technical cooperation approved in August 2000. The objective of the program is to encourage the use and application of information and communication technologies in social development projects within priority sectors. It is anticipated that these technologies will contribute to greater efficiency in the attainment of poverty reduction and social equity goals. The program will provide nonreimbursable financing to civil society organizations and public sector institutions responsible for social development in the region, to enable them to undertake information technology initiatives that will contribute to improving the efficiency and impact of social projects and poverty reduction efforts. A by-product of the program is expected to be the production of models of best practice in the use of information technology for social development, which should contribute to the future design and implementation of larger-scale information technology projects in the region.

Improvement of Data

The Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean (MECOVI as it is known by its Spanish acronym) continued to provide technical assistance and training to Argentina, Bolivia, El Salvador, Nicaragua, Paraguay, and Peru, in order to help improve their questionnaires, sampling techniques, fieldwork, quality control and analysis of household survey data. Guatemala was recently added to the program. The MECOVI program has also organized two regional training courses for staff of national statistical offices and others concerned with the generation and analysis of data related to poverty and living conditions in the region. The Household Surveys Data Bank, which contains data from 150 household surveys in 21 countries, is now available to users within the Bank. Arrangements are being made to make the data bank available to outside users as well. Based on the MECOVI surveys, a Social Data System was introduced and in 2000 was used in 25 Bank projects related to poverty reduction.

The Bank's Regional Operations Departments also are supporting member countries in the improvement of poverty and living conditions data.

Technical assistance has been provided to the government of The Bahamas to develop a household survey that will measure living conditions and access to social programs by vulnerable groups in the country. MECOVI provided support for the design of the household survey questionnaire. Bank technical staff, who will work in collaboration with Bahamian technicians, will assist in analyzing the data. The household survey is expected to be completed in the fall of 2001, and initial results on poverty in The Bahamas should be ready by the end of the year.

The Bank is also supporting the development and improvement of monitoring indicators for poverty reduction, in the context of national poverty reduction strategies. In Nicaragua the Bank approved a technical cooperation for the National System of Monitoring of Poverty Indicators in April 2001. This technical assistance supports the design and implementation of an institutional framework to collect, analyze and monitor indicators of the country's success in reducing poverty as established in its national poverty reduction strategy.

Policy Discussions

The Bank has also helped to facilitate dialogue and build a consensus on the objectives of poverty reduction and social equity enhancement through the procedures it uses for programming and preparation of Country Papers and through the instruments described below.

National Dialogues on Poverty Reduction in the context of the development of national poverty reduction strategies. For example, in Guatemala a Bank technical cooperation financed by the Norwegian Fund for Innovations in Social Programs was used to sponsor an International Dialogue on Poverty and Democratic Governance. This sponsored the initial dialogues required to begin drafting the Guatemala Poverty Reduction Strategy Paper and financed a workshop to permit the utilization of a logical frame methodology in the design of the first draft of the document.

"Encerronas". These workshops have been organized for the governments of Bolivia, Ecuador, El Salvador, Guatemala, Mexico, and the Dominican Republic. Their purpose is to identify policy priorities to accelerate those countries' economic and social development. These workshops enable dialogue within the governments, and between governments and the Bank, and serve as a foundation for policy discussions between the governments and civil society organizations. Similarly, they provide input for the Bank's programming work with the countries.

Social Policy Dialogue. This initiative, headed by former Chilean President Patricio Alwyn and coordinated by the Bank, strives to build consensus within countries on social policies. In Honduras, for example, the Dialogue made it easier to build a consensus among policymakers, the private sector, and civil society on the reform of the educational system. As a result, an educational reform bill is now being drafted. Within the Bank, efforts are underway to mainstream the Dialogue's method into the institution's practices and projects, through workshops and circulated documents.

Social Equity Forum. Four meetings of the Social Equity Forum were held in 2000-01. The Forum, which receives financial assistance from the Norwegian and Swedish governments, brings together a diverse group of policymakers, academics, researchers, representatives of civil society organizations, and opinion leaders. The purpose is to elevate social equity concerns to the forefront of policy debates in the region, and to share experiences and build knowledge on public policies that will promote social equity. The Forum's first meeting discussed socially responsible macroeconomics, employment issues, and the politics of social sector reforms. The second meeting examined the impact of the new global economy on equity in the labor market and its implications for public policy. The third meeting explored legislative and other decision-making processes as they relate to the adoption and implementation of policies designed to enhance social equity. The fourth meeting considered issues of transparency, governmental responsibility, and social equity, with particular attention to the role of non-governmental organizations in enhancing transparency and accountability.

Regional Policy Dialogue. At the request of the IDB Board of Executive Directors, the Bank has organized a regional Network of Policymakers on Poverty Reduction and Social Protection, comprised of high-ranking government officials who are responsible for policy formulation and implementation in these areas. The Network's goal is to share experiences and learn about best practices from within the region and elsewhere, in order to help craft effective strategies, policies and programs for poverty reduction and social protection in Latin America and the Caribbean. A preparatory meeting of the Network discussed international experiences with the design and implementation of social protection systems and programs, as well as mechanisms to protect social expenditures in times of fiscal austerity. The Network's first formal meeting was held in June 2001.

ACTION PLAN FOR PRIORITY AREAS TO REDUCE POVERTY AND ENHANCE SOCIAL EQUITY

In order to deepen the Bank's actions in the areas highlighted by the Eighth Replenishment, the Bank's Poverty and Inequality Unit has developed an Action Plan in Areas of Special Emphasis for Poverty Reduction and Equity Enhancement. This entails specific activities in five areas. The first area entails providing support for the development and implementation of national poverty reduction strategies, including the establishment of goals and indicators of efforts and results. These processes would be linked to the Bank's policy dialogue with the countries and strengthen the content and scope of the treatment of poverty reduction in Country Papers. The second area has to do with identifying, promoting, and implementing innovative projects in non-social sectors with direct benefits to the poor. The third area involves identifying, promoting, and implementing innovative projects in the social sectors with direct benefits to the poor. The fourth area requires institutionalizing comprehensive social protection systems and social safety nets. The fifth area involves improving the monitoring of progress in the attainment of poverty reduction goals in the region, including impact evaluation of a selected number of Bank loan operations. The following is an illustrative (but by no means exhaustive) discussion of these various aspects of the Action Plan.

National Poverty Reduction Strategies

The Bank will continue to assist borrowing country governments with the preparation of national poverty reduction strategies (ENRPs) through extensive consultations with the national and international actors involved. The support the Bank offers to the countries of the region to help them develop and implement their strategies will be linked to the policy dialogues with those countries. In addition, the Country Papers will contain a section with specific proposals on policies and projects to directly benefit the poor. In 2001, the Bank continued to assist Bolivia, Guyana, Honduras, and Nicaragua with their ENRPs, in the context of the Heavily-Indebted Poor Countries Initiative (HIPC). The Bank has also provided support to Guatemala with development of its ENRP in the form of policy advice and technical cooperation operations. In 2001, the Bank committed loans for US$270 million for implementation of the national strategies in Bolivia and Honduras and to support the preparation of the national strategy in the Dominican Republic.

Actions in Non-Social Sectors

A comprehensive poverty reduction strategy must include specific measures to ensure that the benefits of projects in non-social sectors (including infrastructure, microeconomic deregulation, financial products, directly productive activities, and modernization of the state) accrue to the poor. To increase Bank support for investments in the non-social sectors that target the poor, the Action Plan contains a broad set of measures to build and disseminate knowledge in the Bank and in the countries of the region regarding innovative productive, technological, and organizational systems that directly benefit the poor.

For example, the Bank is placing particular emphasis on innovative solutions to the basic infrastructure problems that affect all groups living in poverty in the region. In 2001, a series of good practice studies is being conducted that focus on delivering, regulating, and monitoring basic infrastructure services (including energy, telecommunications, water supply and sewerage), and identifying priority financial products for the poor. An action plan for property titling is being developed; housing solutions for the poor will continue to be supported; and a research methodology will be developed to analyze the impact of financial sector policies on the poor. In the productive sectors, special attention is given to the promotion of microenterprise in the region. Implementation of the action plans for a Rural Poverty Reduction Strategy and a Strategy for Agricultural Development has been initiated, and public officials in some of the poorest countries are being trained in rural poverty reduction strategies. In the area of modernization of public management, the Bank has been developing guidelines to steer its support of development activities by local governments, particularly in the areas of planning and management, infrastructure, and the delivery of public services.

The Bank's lending activities in these various areas are substantial. Fourteen infrastructure projects are being prepared in 2001, involving a total of US$467 million; five housing projects for US$209.8 million; two microenterprise projects for US$50 million; seven projects in the rural productive sector for US$743.9 million; and four in state modernization for a total of US$319 million (all lending volumes are approximations.)

Actions in the Social Sectors

Development of the social sectors is vital to the fight against poverty in the region. The Bank has an established record and lead role in the area of operations in the social sectors that target the poor. The Action Plan identifies new areas and approaches to broaden the benefits of the Bank's social portfolio to the poor of the region.

In 2001, the Bank continues to seek ways to strengthen its investments in human capital for the poor through numerous studies, including an examination of the institutional factors that either help or hinder better delivery of social services to the poor, an assessment of the regulatory frameworks governing medical insurance services, a study of good practices in programs to enhance educational quality, a study examining the experience with educational programs for girls, and an assessment of the impact of training programs in the region. In addition, the Bank is developing reproductive health guidelines for its operations.

The Bank will also seek to strengthen its work in the area of social exclusion. Bank-supported operations targeting social exclusion in various countries of the region have been reviewed. Studies have been conducted on the causes and costs of racially or ethnically motivated social exclusion and policies to combat it. These studies provided input for a conference that the Bank organized in June 2001. The Bank is also continuing to carry out activities to advance gender equality in employment and productive opportunities in the region. A forum on policy issues that affect women's employment was also held in 2001, and an effort is being made to identify good practices and lessons learned from various projects that have a gender focus. Increased attention is also being given to the problems of disabled people in the region, including a seminar and the publication of a book dealing with their problems, compilation of relevant data, and an assessment of policy options for promoting the inclusion of disabled people.

Work on the prevention of social problems is continuing in 2001 with a study of the causes and consequences of child labor, a study of the effects of inequality on crime and violence, the establishment of local networks to prevent and control domestic violence, and the circulation of publications on this subject among the region's mayors. A special focus this year has been improving living conditions in low-income urban neighborhoods.

The Bank's regional departments are currently developing innovative projects in the social areas that will directly benefit the poor. Eleven projects for investment in human capital are planned for 2001, involving a total of about US$1.4 billion in ten countries. Also being developed are three comprehensive social inclusion operations and six projects with components or measures that specifically target socially excluded groups. A credit program will be created for rural women in Central America and the Caribbean. Ten projects totaling about US$309 million will target the prevention of social problems.

Institutionalization of Comprehensive Social Protection Systems

The Bank continues to support the institutionalization of comprehensive social protection systems that include socially responsible macroeconomic policy; ways to protect spending that benefits the poor population in times of fiscal austerity; better management of the risks of systemic shocks such as economic crises and natural disasters; and systems to protect the poor in the event of unemployment, crop losses, and illness. For example, technical papers are being prepared on reducing vulnerability to natural disasters and on the development of financial instruments for dealing with them. Work is also continuing on the design of institutions and indicators for managing disaster risks and for building stronger environmental management offices in the countries of the region.

The Bank's regional departments are putting together a considerable number of operations specifically targeted at social protection. In 2001, loans for social safety nets are planned for three countries, totaling approximately US$575 million. Operations are being developed to reduce the risks from systemic shocks and promote rapid response to such shocks, including projects in the financial sector in three countries totaling about US$700 million as well as projects in the fiscal sector for about US$482 million. Among the projects for disaster preparedness and mitigation are five loans for about US$72.6 million in four Central American countries. Pension reform is the goal of loans to two countries. An innovative operation supports Brazil's policies in the social sector. A recent US$500 million operation will support a social protection system for those in the early stages of life, from birth to 18 years of age. The program will transfer cash to poor families in exchange for fulfillment of commitments on their part involving preventative health care, school attendance, and an end to child and adolescent labor.

Monitoring and Impact Evaluation

The importance that the governments of the region and the Bank attach to poverty reduction objectives must be matched by proper and timely measurement of the progress made on this front. One requirement is the improvement of poverty and inequality indicators. Another is that more impact evaluations be conducted of the Bank's own projects, using rigorous methods to establish what progress has been made toward the poverty reduction objectives proposed in the operations.

The MECOVI program continues to play a pivotal role in improving the region's social development indicators. The Bank will continue to provide technical assistance and financial resources to the MECOVI program to build up the technical capacity in the participating countries, add new countries to the program, and continue training and sharing information on best practices at the regional level.

Another important step planned is the development of a set of indicators of efforts and results to gauge the social development of countries in the region, particularly the progress made toward the accomplishment of the goals established in the national poverty reduction strategies. This project, approved in 2000, is getting underway in 2001. Two other activities to be carried out in this field are a project on social indicators for indigenous peoples and a project to improve the measurement of the quality of life in the region.

A group of projects that are deemed representative of the various sectors in which the Bank is active are expected to incorporate an impact evaluation component at the project design stage. The projects will include benchmark indicators and use control group techniques to assess their impacts. An initial review of the 37 SEQ projects in 2000 showed that five projects approved in that year had impact evaluation components. This inventory of 2000 projects indicated that, for 2001, the number of operations with impact evaluation components could be increased, if the countries involved were to agree and if the evaluations were carried out in accordance with the plan guidelines. It has, therefore, been suggested that, starting in 2001, impact evaluation be a feature of at least two projects per Bank regional department per year.

Other Activities of the Bank's Poverty and Inequality Unit

In addition to the activities it is carrying out in the specific context of the Action Plan, the Bank's Poverty and Inequality Unit is undertaking a number of other initiatives to support the programming and preparation of projects by the Bank's regional departments. These include a review of the recent pipeline of projects in order to identify those with poverty-targeting potential; dissemination of prototype operations in those sectors of Bank activity with good poverty-targeting potential; explanations of how to use the SEQ and PTI classification criteria in the design of projects; and demonstrations of the various features contained in the data bank of household surveys. Finally, the unit is updating the Bank's overall strategy for reducing poverty and enhancing social equity, and is helping to prepare the strategies for the four priority areas of the Bank's institutional strategy. The aim of this work is to incorporate poverty reduction and social equity enhancement objectives into those strategies and into future Bank lending operations designed to advance them.