

# Foreword

This book is designed to provide a quick overview of the Sustainable Development Department (SDS). The accompanying CD-ROM provides more in-depth information about particular SDS resources. The text is available in the CD-ROM, along with interactive links to additional information. Some of these links open a web browser on the specific page in the SDS Internet site where additional information on that topic is available (a connection to the Internet is required to view this additional information). Other links launch an annotated bibliography of SDS publications pertaining to the particular topic or area of interest. For viewers interested in greater detail, each bibliographical entry includes a link to the page on the SDS website from where the publication can be downloaded in its entirety.

The annotated bibliography is fully cross-referenced. Thus, under the topic of “natural disasters” are included publications that approach this subject from the point of view of the natural environment, risk financing, the impact on microenterprises, etc.

Interactive navigational icons in the CD-ROM also allow the viewer to pull up publications by type and author, as well as by topic. This means that a viewer may choose to see the summaries of certain types of publications (say, strategies or best practice papers) regardless of subject area. Alternatively, the viewer may choose to see the bibliography for a particular author, regardless of topic or type of publication.

The annotated bibliography includes summaries of approximately 400 publications, special programs, and resources in other media (such as videos). Links to the SDS website and other web pages put a world of additional information at the viewer’s fingertips. This includes draft working papers, conference agendas and presentations, information on forthcoming events, and staff bios. (The total number of publications in the SDS web site exceeds 800.)

This packet of information addresses the need for a systematic, current and comprehensive listing of the technical information available at the Sustainable

Development Department. Here, policymakers, program and project managers, executing agencies, Bank staff, and other interested parties, can find descriptions of products that range from best practice and technical studies, to sector strategies and policies, databases, videos, and Bank-supported regional programs. Some of the topics covered include poverty, social development, education, health, urban development, social inclusion, gender, infrastructure, financial markets, enterprise development, information and communication technology, natural disasters, environmental management, rural development, science and technology, state reform, and civil society.

The products identified here reflect part of the support that SDS offers to the Bank's work program and to the region. It builds on the three previous editions of the SDS Resource Guide (1999, 2001 and 2003) as well as the previous annual editions of the SDS CD-ROM Library (1999-2004), which this booklet and CD-ROM replace.

It is our hope that this integrated and interactive module will make SDS resources more easily accessible.

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Development requires more than financial resources. It also requires pertinent projects and the creation and transfer of knowledge and experiences about the various issues that, together, have an impact on economic, social and political development. This includes traditional areas such as agriculture and rural development, infrastructure and financial markets, and education and poverty reduction, as well as issues whose impacts on economic development have been recognized more recently. The latter include, for example, the role of institutions, governance and civil society; the contributions made by micro and small enterprises; and the negative impacts of natural disasters, HIV/AIDS, domestic violence, and social exclusion.

In recognition of the importance of understanding the intricacies of the relationships between all these topics and their impact on economic and social development, the Inter-American Development Bank created the Sustainable Development Department (SDS) in 1994 [[www.iadb.org/sds](http://www.iadb.org/sds)]. The Department's original structure included three divisions that dealt with social issues, the environment, and infrastructure and financial markets; and three technical units that were concerned with issues relating to women, indigenous peoples, and microenterprise. Today, SDS consists of six divisions and five units (organized into three subdepartments) that are able to provide the Bank with technical expertise in most areas of interest. The three subdepartments are: Social Development and Public Governance; Private Enterprise and Financial Markets; and Education, Science and Technology.

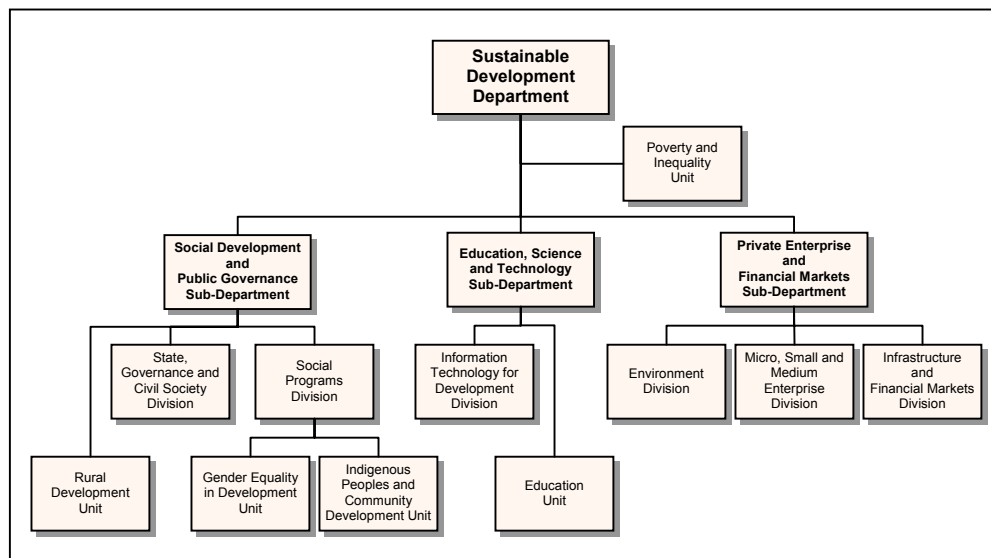
The Social Development and Public Governance Subdepartment [[www.iadb.org/sds/hrs\\_e.htm](http://www.iadb.org/sds/hrs_e.htm); [www.iadb.org/sds/scs\\_e.htm](http://www.iadb.org/sds/scs_e.htm)] covers issues such as social programs, gender equality, indigenous peoples, community development, social inclusion, rural development, state reform, governance, and civil society. The Private Enterprise and Financial Markets Subdepartment [[www.iadb.org/sds/ifm\\_e.htm](http://www.iadb.org/sds/ifm_e.htm)] is responsible for topics such as infrastructure, financial reform and markets, micro, small

and medium enterprises, and the environment. The Education, Science and Technology Subdepartment deals with education, information and communication technology, and science issues. SDS also includes the Poverty and Inequality Unit

[[www.iadb.org/sds/pov/index\\_pov\\_e.htm](http://www.iadb.org/sds/pov/index_pov_e.htm)].

All these areas interact and contribute to the Bank's overarching objectives for reducing poverty and promoting social equity, and for promoting sustainable economic growth.

### SDS Structure



- The *Poverty and Inequality Unit* [[www.iadb.org/sds/pov/index\\_pov\\_e.htm](http://www.iadb.org/sds/pov/index_pov_e.htm)] provides technical and strategic leadership on poverty-related issues, as well as support and review of poverty reduction in country strategies, sector work, and lending operations.

### SOCIAL DEVELOPMENT AND PUBLIC GOVERNANCE SUBDEPARTMENT

- The *Social Development Division* [[www.iadb.org/sds/hrs\\_e.htm](http://www.iadb.org/sds/hrs_e.htm)] addresses issues such as children and youth, social services, urban development, violence prevention, labor markets, and health.
- The *Gender Equality in Development Unit* [[www.iadb.org/SDS/GED/index\\_wid\\_e.htm](http://www.iadb.org/SDS/GED/index_wid_e.htm)] promotes the full and active participation of women in Bank-funded programs, providing quality review of projects and technical assistance to project teams, in addition to undertaking outreach activities.

**SDS expertise includes  
the following development topics:**

• Children and Youth	[.../SOC/site_10_e.htm]
• Civil Society	[.../SCS/site_1461_e.htm]
• Disaster Risk Management	[.../ENV/site_2493_e.htm]
• Education	[.../SCI/site_25_e.htm]
• Energy	[.../IFM/site_2052_e.htm]
• Environment and Natural Resources	[.../ENV_e.htm]
• Financial Markets	[.../IFM/site_405_e.htm]
• Gender Issues	[.../WID/index_wid_e.htm]
• Health and HIV/AIDS	[.../SOC/site_3300_e.htm]
• Indigenous Peoples	[.../IND/site_40_e.htm]
• Information and Communication Technology	[.../ICT/site_5928_e.htm]
• Infrastructure	[.../IFM/site_404_e.htm]
• Labor Markets	[.../SOC/site_12_e.htm]
• Micro, Small and Medium Enterprise	[.../MIC/index_mic_e.htm]
• Modernization of the State	[.../SCS/site_1460_e.htm]
• Poverty and Equity	[.../POV/index_pov_e.htm]
• Private Sector Development	[.../SDS/privsec_e.htm]
• Regional Initiatives	[.../POV/publication/publication_21_3594_e.htm]
• Rural Development	[.../ENV/site_47_e.htm]
• Science and Technology	[.../SCI/site_27_e.htm]
• Social Development and Inclusion	[.../SOC/index_soc_e.htm]
• Urban Development and Housing	[.../SOC/site_15_e.htm]
• Violence Prevention	[.../SOC/site_471_e.htm]

- The *Indigenous Peoples and Community Development Unit* [[www.iadb.org/sds/IND/index\\_ind\\_e.htm](http://www.iadb.org/sds/IND/index_ind_e.htm)] is responsible for ensuring the sociocultural soundness of Bank operations in the areas of indigenous peoples, involuntary resettlement, and community consultation and participation. The Unit also promotes development with identity.
- The *Rural Development Unit* [[www.iadb.org/sds/ENV/site\\_47\\_e.htm](http://www.iadb.org/sds/ENV/site_47_e.htm)] provides technical assistance and support for the development of sustainable agriculture and rural poverty reduction programs.
- The *State, Governance and Civil Society Division* [[www.iadb.org/sds/scs\\_e.htm](http://www.iadb.org/sds/scs_e.htm)] provides conceptual and technical support in the identification and design of operations for the modernization of the State, the promotion and consolidation of the rule of law, and strengthening civil society.

**PRIVATE ENTERPRISE AND FINANCIAL MARKETS SUBDEPARTMENT**

- The *Environment Division* [[www.iadb.org/sds/env\\_e.htm](http://www.iadb.org/sds/env_e.htm)] furthers the goal of sustainable development by enhancing the environmental quality of operations. It ensures that projects fulfill IDB environmental objectives and requirements by drawing upon lessons from other operations, direct experience, and state-of-the-art research and analysis.

- The *Infrastructure and Financial Markets Division* [[www.iadb.org/sds/ifm/index\\_ifm\\_e.htm](http://www.iadb.org/sds/ifm/index_ifm_e.htm)] is concerned with infrastructure investment and management, financial and capital markets development, and the development of private enterprises.
- The *Micro, Small and Medium Enterprise Division* [[www.iadb.org/sds/MIC/index\\_mic\\_e.htm](http://www.iadb.org/sds/MIC/index_mic_e.htm)] is responsible for promoting the creation of the necessary conditions for the development of the micro, small, and medium enterprise sector in the region and carries out operations in this area.

## **EDUCATION, SCIENCE AND TECHNOLOGY SUBDEPARTMENT**

- The *Information Technology for Development Division* [[www.iadb.org/sds/itdev/index.htm](http://www.iadb.org/sds/itdev/index.htm)] seeks to strengthen the Bank's efforts to support the development of information technology in the region by incorporating IT components in sector projects (such as health, education, and modernization of the State), as well as by fine-tuning and implementing the Bank's strategy on information technology for development.
- The *Education Unit* [[www.iadb.org/sds/SCI/site\\_25\\_e.htm](http://www.iadb.org/sds/SCI/site_25_e.htm)] works on the conception and design of new education, science and technology projects; develops policies and strategies for these areas, and monitors the Bank's portfolio of education, science and technology projects.

SDS provides the Inter-American Development Bank with operational support in the design of projects and the Bank portfolio. Specifically, SDS experts evaluate and develop project analysis methodologies and participate in project design to enhance the quality and monitor the implementation of projects.

SDS provides technical and operational support in the design of projects through staff participation in project teams and in various project review committees (Managerial Review Committee, and the Loan, Programming, Coordination and Private Sector Coordination committees). The Department also chairs the Committee on Environment and Social Impact (CESI).

[[www.iadb.org/sds/special\\_list\\_e.htm#COMM](http://www.iadb.org/sds/special_list_e.htm#COMM)]

SDS develops technical cooperation operations (including regional, trust fund, and microenterprise operations), operations financed by the Multilateral Investment Fund (MIF), and operations financed through the Social Entrepreneurship Program (SEP) [[www.iadb.org/sds/mic/publication/gen\\_159\\_4053\\_s.htm](http://www.iadb.org/sds/mic/publication/gen_159_4053_s.htm)]. In recent years,

SDS staff has prepared about 55 technical cooperation operations, 15 MIF operations, and 16 SEP operations per year. Additionally, SDS staff participates in project teams, as well as technical cooperation operations led by other departments.

To create and disseminate knowledge, SDS staff has developed the capacity and expertise to carry out best practices research; develop sector strategies, policies, and guidelines; produce and conduct professional training courses; generate training manuals and toolkits; and conduct seminars, conferences, dialogues, and meetings. The goal of these activities is the dissemination of knowledge and the creation of consensus on issues of national and regional importance. These activities are vital to ensuring that the experiences gained and the lessons learned can be effectively applied to the design of future projects.

SDS has coordinated the development of 29 strategies [[www.iadb.org/sds/strat\\_e.htm](http://www.iadb.org/sds/strat_e.htm)] covering all the major topics under its purview. The Department has taken the lead in the development of a new strategic framework that is made up of two overarching strategies (sustainable economic growth, and poverty reduction and promotion of social equity), four sector strategies (social development, competitiveness, modernization of the State, and regional integration) and one crosscutting strategy (environment), endorsed by the Bank's Board of Executive Directors in 2003. SDS also coordinated the design of the private sector development strategy, as well as the strategy for citizen participation in IDB activities, both of which were endorsed by the Board of Executive Directors in 2004. Implementation plans for the seven priority area strategies, as well as for the private sector development and citizen participation strategies, were approved and are underway. The process of consolidating and integrating other sector strategies into the strategic framework is continuing.

The Department has also published approximately 800 items through various channels and media. SDS publishes a series of best practice and lessons learned papers, as well as papers on applied analytical research. It also publishes books, special and annual reports, newsletters, conference proceedings, and working papers. In addition to conferences, seminars, workshops, and printed material, dissemination takes place through the Department's Internet site (about 400,000 files are currently being downloaded from the website each month), thematic networks, CD-ROMs, and videos.

New development topics identified by SDS are eventually mainstreamed into the Bank's pipeline. Some innovative topics currently under development include social cohesion, violence prevention, corporate social responsibility, improving the business

climate, integrated poverty reduction programs, and greater emphasis on the efficiency and progressivity of public expenditures.

SDS also establishes and maintains contacts with partners (such as other multilateral and bilateral donors, nongovernment organizations and various stakeholders), which are instrumental in creating a regional consensus on issues of strategic importance, as well as leveraging the impact of Bank financing. SDS has held the technical leadership in the creation of new trust funds for several topics under its purview in partnership with bilateral donor agencies (e.g., Italian Trust Fund for Microenterprise Development, Italian Trust Fund for Information and Communication Technology for Development, Netherlands Water Partnership Program, the multi-donor Social Inclusion Fund, the Korean Trust Funds for Poverty and for Science and Technology, etc.). SDS has also presented proposals for the Regional Public Goods program.



The mission [[www.iadb.org/sds/mission\\_e.htm](http://www.iadb.org/sds/mission_e.htm)] of the Sustainable Development Department is to develop and support the implementation of sector strategies, policies and guidelines; to contribute to the design and review of projects; and to create and disseminate knowledge.

SDS support for *the development and implementation of sector strategies, policies, and guidelines* is discussed in detail in the next section.

The Department contributes to the *design and review of projects* in several ways. SDS specialists participate in project teams and provide technical support and expertise. This is particularly important in areas that are in the process of being mainstreamed into Bank operations. SDS staff participates as team members for lending projects, as well as technical cooperation grants. SDS also participates and leads the design of some regional technical cooperation operations and MIF operations, and coordinates the Social Entrepreneurship Program. The Department plays an active role in various project review committees that enhance the quality of operations. This includes, in particular, the Committee on Environment and Social Impact (CESI) [[www.iadb.org/sds/env/publication/gen\\_183\\_57\\_e.htm](http://www.iadb.org/sds/env/publication/gen_183_57_e.htm)], which SDS chairs. As its name implies, the CESI reviews the environmental and social impact of Bank operations and suggests measures to mitigate negative impacts and enhance positive ones. SDS also participates in the Managerial Review Committee (CRG), as well as in the Bank's various Management Committees: Programming, Private Sector Coordination, Loan, and Audit and Evaluation. In addition, the Department mobilizes external resources, which are generally used to provide technical cooperation grants to assist in the implementation of Bank projects.

The Department's *knowledge creation and dissemination* efforts are carried out through many different means, including: print and electronic publications; seminars, workshops, forums and conferences; support for special programs; and sponsorship of thematic networks.

## **PRINT PUBLICATIONS**

SDS publishes three series of departmental papers that include strategies and sector policies, technical papers, and best practices papers. Strategy papers [[www.iadb.org/sds/publication\\_type\\_3\\_e.htm](http://www.iadb.org/sds/publication_type_3_e.htm)] identify the priorities and criteria for Bank action on specific sectors. Technical papers [[www.iadb.org/sds/publication\\_type\\_2\\_e.htm](http://www.iadb.org/sds/publication_type_2_e.htm)] are analytical reports and research on issues, sectors and specific topics of interest in areas of present or future Bank activity. These papers serve to generate know-how on relevant development topics. Best practices papers [[www.iadb.org/sds/publication\\_type\\_1\\_e.htm](http://www.iadb.org/sds/publication_type_1_e.htm)] relate lessons learned from experiences that have worked in various areas of Bank involvement. They have policy relevance, and help in the formulation of Bank sector strategies, as well as project conceptualization and design. Recent papers examined topics such as climate change, disaster risk management, markets for business development services, cultural land use analysis, HIV/AIDS, and corporate social responsibility, to name just a few.

In addition to the departmental papers, SDS publishes books, special reports [[www.iadb.org/sds/publication\\_type\\_4\\_e.htm](http://www.iadb.org/sds/publication_type_4_e.htm)], and newsletters [[www.iadb.org/sds/publication\\_type\\_5\\_e.htm](http://www.iadb.org/sds/publication_type_5_e.htm)]. The books published by SDS are generally collections of essays on topics of particular timeliness and relevance. In some instances, these books constitute the proceedings of Bank-sponsored conferences. Recent books outlined the findings of the first phase of the Social Equity Forum; examined social inclusion in Latin America and the Caribbean; analyzed the challenges posed by the Millennium Development Goals; and addressed the issue of energy integration. Special publications include annual reports on particular topics such as rural development or financial markets, and reports on Bank support to various issues, such as urban development or microenterprise development.

## **ELECTRONIC PUBLICATIONS**

All SDS publications are disseminated by means of the SDS Internet site, which also provides access to many other types of information, including draft working papers (and other papers published to encourage the exchange of ideas), events, information on special programs, conference papers and other material. Most books are sold through the IDB Bookstore [<http://shop.iadb.org/iadbstore/>].

In addition to the SDS Internet site, the Department produces various CD-ROMs as well as videos on topics that include the sector strategies, domestic violence, information technology for development, and more.

## **SEMINARS, WORKSHOPS, CONFERENCES AND OTHER MEETINGS**

[[www.iadb.org/sds/event\\_list\\_e.htm](http://www.iadb.org/sds/event_list_e.htm)]

SDS participates in the organization of different types of meetings to disseminate information inside and outside of the Bank. These range from brown-bag lunches on topics of current interest to ministerial meetings and forums for presidents and high-level national authorities. Recent events of this type included forums on social cohesion, microenterprise, corporate social responsibility, business climate, infrastructure investment, urban and rural development, etc.

### **Regional Policy Dialogues**

[[www.iadb.org/int/DRP/defaulteng.asp](http://www.iadb.org/int/DRP/defaulteng.asp)]

The Regional Policy Dialogues date to 1999. Their aim is to create an environment in which the countries of the region can deepen and broaden their dialogue and exchange of experiences to face the challenges of globalization and develop regional cooperation processes. The Bank identified seven topics for the Regional Policy Dialogues, creating a specialized network for each one. Participants in these networks include high-level ministry staff (usually deputy ministers or their equivalent) in charge of making decisions and designing public policies. Five of the seven networks fall under the technical responsibility of SDS. They are the networks dealing with natural disasters, education and human resources training, public policy administration and transparency, environment, and poverty and social protection.

### **Summit Meetings**

[[www.iadb.org/sds/special\\_list\\_e.htm#SUMMIT](http://www.iadb.org/sds/special_list_e.htm#SUMMIT)]

SDS staff serves as the Bank's representatives to various international forums. A significant amount of work goes into support for these events, including sponsoring and organizing high-level meetings, developing special programs, and producing and publishing special research to support joint efforts.

The IDB has participated actively in the Summits of the Americas, which bring together the Heads of State and Government of the Western Hemisphere to discuss common concerns, seek solutions and develop a shared vision for the future economic, social, and political development of the region. SDS has published special reports on Bank efforts to further Summit goals. The IDB has carried out intensive and complex financial and technical activities in the context of 22 strategic programs presented at the Quebec Summit, which cover public governance and political development, integration

and economic development, ecology and sustainable development, equity and human development, and connectivity and technological development. Those activities are highlighted in the most recent report to the Special Summit of the Americas held in Monterrey, Mexico, in January 2004. SDS staff also contributes to the Bank's participation in the European-LAC Summits, notably the 2004 Summit in Guadalajara, Mexico, on social cohesion, as well as other regional conferences.

### **Millennium Development Goals (MDGs)**

[[www.iadb.org/sds/POV/publication/publication\\_21\\_3594\\_e.htm](http://www.iadb.org/sds/POV/publication/publication_21_3594_e.htm)]

The IDB plays an active role in supporting efforts to adapt the MDGs to the needs and realities of the region, and to support member countries in achieving the goals. Under the leadership of SDS, the Bank published a book and CD-ROM that provides an in-depth progress report, suggestions for investment priorities, and an agenda of reforms for achieving the MDGs. The book also presents a set of tools that the IDB has used to support countries in their efforts to achieve the MDGs. The topics include poverty and hunger, education, gender equality, child and maternal health, HIV/AIDS, and environmental sustainability. SDS also played a seminal role in follow-up regional conferences that gave rise to the Brasilia Declaration.

[[www.iadb.org/sds/publication/publication\\_3749\\_e.htm](http://www.iadb.org/sds/publication/publication_3749_e.htm)]

### **SPECIAL PROGRAMS**

SDS provides significant support to special programs on a variety of topics, including those that seek to mobilize resources to finance regional public goods. They include:

- The Social Entrepreneurship Program  
[[www.iadb.org/sds/mic/publication/gen\\_159\\_3805\\_e.htm#top](http://www.iadb.org/sds/mic/publication/gen_159_3805_e.htm#top)]
- The Indigenous Fund [<http://www.fondoindigena.net/>]
- The Program for the Support of Women's Leadership and Representation (PROLEAD) [[www.iadb.org/sds/prolead/](http://www.iadb.org/sds/prolead/)]
- Information and Communication Technology for Business (ICT4BUS)  
[[www.iadb.org/sds/ICT/publication/gen\\_5935\\_3999\\_e.htm](http://www.iadb.org/sds/ICT/publication/gen_5935_3999_e.htm)]
- The Regional Fund for Agricultural Technology (FONTAGRO)  
[[www.iadb.org/sds/ENV/site\\_5080\\_e.htm](http://www.iadb.org/sds/ENV/site_5080_e.htm)]
- The Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean (MECOVI)  
[[www.iadb.org/sds/pov/site\\_19\\_e.htm](http://www.iadb.org/sds/pov/site_19_e.htm)]
- The Social Inclusion Fund [[www.iadb.org/sds/soc/site\\_5594\\_e.htm](http://www.iadb.org/sds/soc/site_5594_e.htm)]
- The Education Portal of the Americas [[www.educoea.org/](http://www.educoea.org/)]

## **THEMATIC NETWORKS**

SDS coordinates 22 electronic networks on topics ranging from agriculture and rural development to competitiveness and competition policy; education to early childhood development; financial market reform to health sector reform; and community development to violence prevention. These informal networks of Bank staff meet periodically to discuss papers and presentations, and exchange information through email and mailing lists.

**T**his section details SDS support for the development and implementation of sector strategies, policies and guidelines. It also provides a listing of strategies and best practices papers.

## STRATEGIES

[[www.iadb.org/sds/publication\\_type\\_3\\_e.htm](http://www.iadb.org/sds/publication_type_3_e.htm)]

IDB sector *strategies* identify priorities for Bank action in its operational, technical and

analytical work. Thus, strategies have broad implications for the character of lending and advisory work, budget and staff allocations, and the development of operational policies and guidelines. Following the Eighth Replenishment of Resources in 1994, the Sustainable Development Department played a significant role in the development of new strategies in the areas of agriculture and rural development, infrastructure and financial markets, environment and natural resources, social development, modernization of the State, urban and subnational development, and private sector development.

In 1999, the Board endorsed an

### **The IDB Board Endorsed 20 Strategies by 2001**

- Agriculture
- Capital Markets
- Coastal and Marine Resources
- Energy
- Integrated Water Resources
- Financial Markets
- Information Technology for Development
- Infrastructure Development
- Higher Education
- Microenterprise
- Poverty Reduction
- Primary and Secondary Education
- Rural Finance
- Rural Poverty Reduction
- Science and Technology
- Small and Medium Enterprise
- Social Services Delivery
- Subnational Development
- Using Social Investment Funds to Combat Poverty
- Vocational and Technical Training

institutional strategy that called for adapting and revising the sector strategies in order to provide clear guidance to IDB staff, government officials, executing agencies, and civil society. In 2000, the action plan for implementing the institutional strategy recommended that SDS should coordinate the rationalization, consolidation and updating of the sector strategies and policies. This led, among other things, to the development of a renewed strategic framework for the Bank that includes two overarching strategies, four priority area strategies and a crosscutting strategy, endorsed by the Board in 2003.

The two overarching strategies—sustainable economic growth, and poverty reduction and promotion of social equity—are compatible and interrelated. Indeed, sustainable economic growth is a necessary condition for reducing poverty. It provides the flow of resources needed for employment and income generation, and for programs to alleviate poverty. At the same time, a number of studies have shown that persistent poverty and inequality limit a country's growth potential. For instance, inequalities in human capital in Latin America and the Caribbean act as a deterrent to growth and higher productivity, and tend to perpetuate poverty. Targeted interventions to assist the poor, such as investments in human capital and infrastructure, and providing access to financing for productive activities, will not only promote social justice and equity, but will also encourage economic development. Given this double causality, economic and social development policies should not only focus on actions to promote sustainable economic growth, but also include specific actions to promote social equity and targeted efforts directed to the poorest populations, excluded groups, and low-income geographic areas. This allows for the mutual reinforcement of policies and strengthens the benefits of growth for the poorest populations.

The four priorities highlighted in the institutional strategy (*competitiveness, social development, regional integration, and modernization of the State*) are areas where the Bank has a comparative advantage in assisting countries to make progress toward the two overarching objectives. Current challenges were taken into account in the development of these four strategies. Additional factors that were taken into consideration include, among others, the Bank's presence in the region; its experience in working in areas that require capacity for diagnosis and dialogue; actions that require persistence over time; programs that depend on developing consensus; policy and institutional reform; and actions that demand technical and financial assistance. The strategies also recognize the crosscutting nature of the environmental dimension (developed in the environment strategy), which aims to adequately internalize environmental sustainability.

In addition, in the first half of 2004, the Bank's Board of Executive Directors favorably considered a private sector development strategy and a strategy for promoting citizen participation in IDB activities, bringing to 29 the total number of strategies whose development has been coordinated by SDS.

The Department is currently involved in an effort to consolidate and update other Bank strategies, including those for education, health, rural development, financial and capital markets, infrastructure, information technology for development, and small and medium enterprise development. Once the consolidation process is finalized, there will be an updated, integrated, and consistent set of sector strategies, as follows:

### **Poverty Reduction and Social Equity**

- Poverty Reduction and Promotion of Social Equity Strategy OP-1002 (GN-1894-7)

### **Sustainable Economic Growth**

- Sustainable Economic Growth Strategy OP-1001 (GN-2227-1)

### **Social Development**

- Social Development Strategy OP-1003 (GN-2241-1)
- Reform of the Delivery of Social Services Strategy (GN-1932-1)
- Education Strategy
- Health Strategy
- Indigenous Development Strategy

### **Competitiveness**

- Competitiveness Strategy (GN-2243-1)
- Private Sector Development Strategy (GN-2270-4)
- Energy Sector Strategy (GN-1969-4)
- Financial and Capital Markets Strategy
- Microenterprise Development Strategy (GN-1938-3)
- Small and Medium Enterprise Development Strategy (GN-1885 corr)
- Rural Development Strategy
- Information Technology for Development Strategy (GN-2024-3)
- Science and Technology Strategy (GN-1913-2)

### **Modernization of the State**

- Modernization of the State Strategy OP-1004 (GN-2235-1)
- Strategic Framework for Promoting Citizen Participation in Bank Activities (GN-2232-2)
- Subnational Development Strategy (GN-2125-3)

### **Integration**

- Regional Integration Strategy OP-1006 (GN-2245-1)
- Infrastructure Development Strategy (GN-1884-1)

### **Environment**

- Environment Strategy OP-1007 (GN-2208-4)



The strategies are the product of the work of inter-departmental teams. They have extensive public consultation and research into the various areas addressed, including research into best practices and lessons learned from previous efforts in the sector. They also benefit from a valuable consensus-building exercise throughout the region. The strategies go through a detailed consultation and dialogue process that brings together input from member governments, nongovernment organizations, civil society and other stakeholders. Their aim is to respond to national needs and demands, and to maximize the Bank's contribution to national development processes. Strategies provide thematic guidance for the Bank's commitments to its member countries. The outcome of these efforts is a progressive improvement in the alignment of the Bank's mechanisms, instruments, criteria and capacities with national needs. This enables the institution to increase the effectiveness of its contribution to the development of Latin America and the Caribbean.

Detailed implementation plans were also approved by the Board of Executive Directors for the seven priority area strategies (GN-2195-3), as well as the Private Sector Development Strategy (GN-2270-7). These strategy implementation plans establish specific activities to be undertaken during the period 2003-2007, thus creating a strategic framework for IDB support to its member countries.

- **SUSTAINABLE ECONOMIC GROWTH**  
[[www.iadb.org/sds/publication/publication\\_3434\\_e.htm](http://www.iadb.org/sds/publication/publication_3434_e.htm)]: The objective of this strategy is to contribute to increases in per capita GDP and income, improving the quality of life, alleviating poverty, and preserving or improving the natural resource base.
- **POVERTY REDUCTION AND PROMOTION OF SOCIAL EQUITY**  
[[www.iadb.org/sds/publication/publication\\_3433\\_e.htm](http://www.iadb.org/sds/publication/publication_3433_e.htm)]: This strategy aims to promote faster progress in the reduction of poverty by tackling its root causes and fostering inclusion and greater social equity, which are essential elements of development.
- **MODERNIZATION OF THE STATE**  
[[www.iadb.org/sds/publication/publication\\_3437\\_e.htm](http://www.iadb.org/sds/publication/publication_3437_e.htm)]: The objective of this strategy is to establish the basic concepts that will guide Bank actions in promoting state reforms to consolidate democratic governance.

- **COMPETITIVENESS** [[www.iadb.org/sds/publication/publication\\_3955\\_e.htm](http://www.iadb.org/sds/publication/publication_3955_e.htm)]: This strategy contributes to improving the economic and institutional environment in order to support the development of the private sector and increase productivity.
- **SOCIAL DEVELOPMENT** [[www.iadb.org/sds/publication/publication\\_3436\\_e.htm](http://www.iadb.org/sds/publication/publication_3436_e.htm)]: This strategy is guided by the principles of universality, solidarity, efficiency and sustainability. Its objective is to foster social progress by helping to create a social environment conducive to improved well-being, with special emphasis on reducing poverty and inequalities in opportunities.
- **REGIONAL INTEGRATION** [[www.iadb.org/sds/publication/publication\\_3438\\_e.htm](http://www.iadb.org/sds/publication/publication_3438_e.htm)]: The main goal of this strategy is to guide Bank support for regional cooperation, creating regional public goods while taking advantage of the globalization process.
- **ENVIRONMENT** [[www.iadb.org/sds/publication/publication\\_3439\\_e.htm](http://www.iadb.org/sds/publication/publication_3439_e.htm)]: This strategy establishes environmental sustainability as an underlying objective that is linked to all of the Bank's priority areas. It lays out two key principles for action: improved environmental governance, and development of an enhanced policy and incentive framework for environmental management.
- **PRIVATE SECTOR DEVELOPMENT**: This strategy provides a roadmap for the IDB intended to help it place a strategic focus on private sector development activities. Its objective is to deepen and complement the essential role of the private sector in promoting economic growth and generating income by creating jobs that contribute to sustained poverty reduction.

## **SECTOR POLICIES AND OPERATIONAL GUIDELINES**

The Bank Board of Executive Directors also called for updating and streamlining existing operational policies. Sector policies have a more narrowly defined normative purpose than the strategies and, in addition, are binding. They establish criteria to be applied in project design and implementation. The broad framework laid out in a strategy finds its specific application in an operational policy. A sector guideline, on the other hand, offers methodological guidance to the staff on the design and implementation of programs.

SDS also plays a role in the consolidation of existing sector operational policies in the areas of industrial development, public health and nutrition, telecommunications, and transportation. Work is underway for new policies in the areas of environment, energy, gender, indigenous peoples, involuntary resettlement, natural disasters and rural

development—all areas that fall under the purview of the Sustainable Development Department. Operational guidelines in the areas of education, governance, social development, reproductive health, and natural disasters are also in development.

## **BEST PRACTICES**

[[www.iadb.org/sds/publication\\_type\\_1\\_e.htm](http://www.iadb.org/sds/publication_type_1_e.htm)]

Informal guides, action plans, best practices and lessons learned studies, as well as sector performance reports, help to enrich and improve the quality of new development projects and the development impact of Bank operations. SDS has published many such papers.

### **Selected SDS Guidelines and Best Practices Papers**

- A Tale of Four Village Banking Programs: Best Practices in Latin America
- Acceso a la justicia y equidad. Estudio en siete países de América Latina
- Action Plan for Combating Social Exclusion Due to Race or Ethnic Background
- Desastres naturales e instituciones microfinancieras. Guía para prevenir y aminorar el impacto
- ECCD Program Guide: A Toolkit for Early Childhood Care and Development
- Equipment Leasing and Lending: A Guide for Microfinance
- Estudio de casos de desarrollo económico local en América Latina
- Facing the Challenges of Natural Disasters in Latin America and the Caribbean: An IDB Action Plan
- Forest Financing in Latin America: The Role of the Inter-American Development Bank
- Gestión ambiental en América Latina. Evolución, tendencias y principales prácticas
- Guidelines for the Design of Violence Reduction Projects
- Guía metodológica para la preparación de estrategias de desarrollo empresarial y de la pequeña y mediana empresa
- Guía operativa para programas de competitividad para la pequeña y mediana empresa
- IDB Experience in Justice Reform: Lessons Learned and Elements for Policy Formulation
- Involuntary Resettlement in IDB Projects: Principles and Guidelines
- Lecciones aprendidas en la promoción de mercados de servicios de desarrollo empresarial. Un análisis de la experiencia del BID en el período 1995-2002
- Lecciones operativas para promover mercados de servicios de desarrollo empresarial a través de bonos y fondos compartidos
- Lessons Learned in Rural Finance: The Experience of the Inter-American Development Bank, 1961-1998
- Liberalization of the Gas Sector in Latin America: The Experience of Three Countries
- Manual de capacitación. Enfoque de género en programas y proyectos de desarrollo
- Operational Guidelines for Housing: Urban Development and Housing Policy
- Perspectivas sobre la reforma educativa: América Central en el contexto de políticas de educación en las Américas

- Principles and Practices for Regulating and Supervising Microfinance
- Sociocultural Analysis Guidelines
- Targeted Human Development Programs. Investing in the Next Generation
- Technical Guide for the Analysis of Microenterprise Finance Institutions
- The Experience in Primary and Secondary Mortgage Financing
- Violencia doméstica. Intervenciones para su prevención y tratamiento

The activities undertaken by the Department's Divisions and Units support the implementation of the new sector strategies that were approved by the Board of Directors. The next sections of this book provide an overview of these activities, which comprise support for project design and review, and knowledge creation and dissemination. Chapter 4 summarizes the activities to promote poverty reduction, equity and social development, and highlights the challenges to improving the pace of poverty reduction, and promoting social equity. Chapter 5 provides an overview of activities to promote economic growth, competitiveness and private sector development, under conditions that lead to improving the quality of life. This chapter highlights the challenges to increasing pro-poor growth and competitiveness for all producers, as well as activities to improve the business climate, infrastructure, financial markets and innovation systems. Finally, Chapter 6 details activities to foster environmental sustainability and reduce the region's vulnerability to natural disasters.

In the last decades, the countries of Latin America and the Caribbean have made important social and economic strides. Economic reforms and liberalization have contributed to macroeconomic stability. Political and institutional reforms have advanced the consolidation of democracy and democratic institutions throughout the region. Social reforms have also had important effects. The average person is healthier and better educated. People live longer and women have made substantial inroads in economic and public life. Notwithstanding these gains, much remains to be achieved in the areas of poverty reduction, inequality and social exclusion, which have remained burning issues for the region and have constrained growth, as well as social and political progress. Problems of efficiency, effectiveness and low coverage of the poor and excluded continue to affect a generation of reform efforts in health, education and housing. Increased violence and insecurity, a pressing concern in the last two decades, combine with poverty and inequality to slow economic growth and impede social development.

The development agenda of the region focuses on economic reforms aimed at broadening the market, and needs to place more emphasis on fighting the grave social inequities that still plague the region. Recent periods of economic growth in Latin America and the Caribbean have not been accompanied by strong employment growth or a significant reduction in poverty. Improvements in average social indicators, reflected in the Human Development Index and the Millennium Development Goals, tend to conceal the wide disparities in human capital, social conditions and living standards between different regions within countries, between rich and poor, between men and women, between indigenous peoples and other groups, between people of African descent and others, and between rural and urban dwellers.

Since 1990, the countries of Latin America and the Caribbean have made progress in reducing poverty, but the gains have been modest. Different studies point to an average reduction in the incidence of poverty of just over 10 percent. However,

given population growth, the absolute number of poor people increased in the decade. Moreover, the economic performance of recent years reversed the gains made in some countries. Taking as a poverty yardstick the percentage of the population earning less than two dollars a day (in purchasing power parity), the region entered the twenty-first century with around one third of its population living in poverty.

In most countries of the region poverty is closely related to relatively high levels of income inequality. The countries of Latin America and the Caribbean are among the most inequitable in the world. Moreover, in most countries, inequality is higher than would be expected given their level of development. The Gini coefficient for the region as a whole is 25 percent higher than would be expected given per capita GDP. If the distribution of income in the region were to correspond to what would be expected for its level of development, the number of poor people would be reduced by half. Underlying income inequality, are huge inequities in the distribution of assets, including education, land and credit. According to recent studies, the average length of schooling for the poorest 20 percent of the population is only four years, while for the richest 20 percent it is 10 years. In countries where data is available, poor children face many more disadvantages (or developmental “failures,” including relatively high child mortality, school dropout rates, and youth unemployment) much sooner than rich children, significantly reducing the odds of them ever joining a competitive work force and escaping poverty.

The low levels of human capital of the poorest segments of that labor force constrained the opportunities that arose from trade and financial liberalization. Growth in most countries has been concentrated in capital intensive export sectors and modern services with high levels of labor productivity. Educated workers have benefited substantially from liberalization and increased growth in the first half of the nineties. However, uneducated workers have seen their wages stagnate and, in some case, even decrease in real terms. This has worsen inequality and reduced the impact of growth on reducing poverty.

Compounding the problem of inequality is social exclusion, which both causes and is a consequence of inequality. Socially excluded populations in the region, by gender, age, race, ethnicity, disability and HIV/AIDS, migration status or other features of exclusion, share poverty, suffer multiple and cumulative disadvantages, stigma and discrimination, and rank consistently lower in terms of progress toward reaching the Millennium Development Goals.

The Bank is an active partner in addressing the main issues of concern to the countries of the region. It does so in the context of the strategies for the overarching

objectives of sustainable economic growth, and poverty reduction and promotion of social equity. This section presents some of the specific support provided by SDS in the areas of poverty reduction, social equity, and social development through the work of the Social Capital, Ethics and Development Initiative, the Poverty and Inequality Unit, the Education Unit of the Education, Science and Technology Subdepartment, and the Social Development and Public Governance Subdepartment, which includes the Social Programs Division, the Education Unit, the Gender Equality in Development Unit, the Indigenous Peoples and Community Development Unit, and the State, Governance and Civil Society Division.

### **THE SOCIAL CAPITAL, ETHICS AND DEVELOPMENT INITIATIVE**

[[www.iadb.org/etica](http://www.iadb.org/etica)]

The Social Capital, Ethics and Development Initiative was created to serve as a catalyst to raise the themes of ethics, development, and social capital within government entities, political parties, business and trade union organizations, academia, religious communities and nongovernment associations. The areas of work of the initiative include socially responsible public policies, strengthening volunteerism, citizen participation, the empowerment of marginalized communities, and the inclusion of the concepts of ethics and social capital into academic programs. The methodology includes raising awareness and promoting discussions of the issues involved; creating knowledge surrounding these issues; forming networks; collaborating with other international organizations on the topic; and implementing activities. The initiative was transferred to SDS in 2005.

The initiative has five major goals: (i) to stimulate analysis and discussion of ethical dilemmas and challenges and encourage policymakers to take responsibility for these challenges; (ii) to cooperate in areas such as strengthening volunteerism, expanding corporate social responsibility and prompting key social players to adopt ethical codes of conduct; (iii) to become a driving force behind efforts to include ethical goals and criteria in the preparation and implementation of development projects; (iv) to promote the teaching of ethics in development; (v) to help create a network of academic and research centers in ethics in development; and (vi) to encourage the mass media to cover issues dealing with ethics in development. Several seminars and meetings brought together key players in the region to discuss issues such as social responsibility in higher

education, the creation of a culture of transparency, young entrepreneurs and volunteerism, among other topics.

### **THE POVERTY AND INEQUALITY UNIT (SDS/POV)**

[[www.iadb.org/sds/pov/index\\_pov\\_e.htm](http://www.iadb.org/sds/pov/index_pov_e.htm) ]

SDS/POV provides technical leadership in the areas of poverty reduction and promoting social equity, and contributes to enhancing the quality and impact of the Bank's lending and nonlending activities in these two areas. The Unit is also responsible for monitoring the Bank's portfolio with respect to how loans are targeted to assist the poor, and for providing support to improve poverty targeting mechanisms in operations. In addition, the Unit seeks to improve the quality of information and analysis of poverty and inequality. Some key activities of the Poverty and Inequality Unit are listed below.

### **The Social Equity Forum**

[[www.iadb.org/sds/pov/site\\_4324\\_e.htm](http://www.iadb.org/sds/pov/site_4324_e.htm) ]

SDS/POV organizes and carries out the Social Equity Forum (which was established in 1998). The aim of this series of biannual meetings is to place the issue of social equity squarely on the agenda of debates on political, economic, and social reforms in Latin America and the Caribbean. The meetings facilitate the discussion and evaluation of successful experiences to promote equity as well as exchanges of ideas on policies and programs. Forum participants include ministers of economy, finance, and planning; civil society representatives; academics; and other opinion leaders. Meetings have dealt with issues such as the incorporation of equity considerations in the macroeconomic reform process; equity and labor markets; transparency and accountability; and social fairness.



## **MECOVI**

[[www.iadb.org/sds/POV/site\\_19\\_e.htm](http://www.iadb.org/sds/POV/site_19_e.htm)]

The Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean (MECOVI, in its Spanish acronym) was established in 1997 in recognition of the urgent need for an information system with reliable data to measure poverty, inequality, and social indicators in all the countries of the region. Together with the World Bank, the Economic Commission for Latin America and the Caribbean (ECLAC), and country governments, the IDB is providing, through the MECOVI program, financing, technical leadership, and overall coordination for key activities to strengthen each country's institutional capacity to implement and analyze a high quality multipurpose household survey system. An important element of the regional component of the program is the construction of a user-friendly data bank of household surveys.

## **Support to the MDG Initiative**

[[www.iadb.org/sds/POV/publication/publication\\_21\\_3594\\_e.htm](http://www.iadb.org/sds/POV/publication/publication_21_3594_e.htm)]

SDS has developed a technical project to support countries in the implementation and monitoring of the Millennium Development Goals by strengthening the capacity of national institutions and promoting a consensus surrounding pro-poor strategies and policies. The United Nations Development Programme (UNDP), ECLAC and the World Bank are implementing this project in partnership with the IDB. SDS support for the implementation of the MDG initiative has included the organization of international conferences and seminars as well as the publication of a book and CD-ROM.

## **Support to National Poverty Strategies and Documents**

[[www.iadb.org/sds/pov/site\\_3215\\_e.htm](http://www.iadb.org/sds/pov/site_3215_e.htm)]

The Bank is providing support to the member countries in defining national poverty reduction strategies and poverty documents. Some of these have been prepared within the context of the Highly Indebted Poor Countries (HIPC) initiative for debt reduction. Others have been prepared for middle-income countries. The comprehensive poverty reduction strategies are medium- and long-term action plans developed by national governments within a participatory framework (based on widespread consultations and in collaboration with a broad range of national and international actors). The IDB has provided resources from its technical assistance, cooperation and loan programs to the

governments of the region to support the development and implementation of national poverty reduction strategies.

### **Regional Policy Dialogue on Poverty and Social Protection**

SDS provides technical support to the Integration and Regional Programs Department (INT), which runs the Poverty and Social Protection Network. The network examines the institutional aspects of programs to combat poverty in the region, carrying out research on regional experiences with social protection programs and disseminating lessons learned. This effort centers in areas such as: (i) undertaking comparative analyses of development and poverty reduction efforts in the region and elsewhere; (ii) carrying out research into experiences and best practices in microcredit programs for the poor that include investments in human capital; and (iii) analyzing the experience of the countries of the region with social investment funds and social inclusion programs. The research for the dialogue helps identify the main obstacles facing poverty reduction and social protection policies in Latin America and the Caribbean.

### **THE EDUCATION UNIT (SDS/EDU) OF THE EDUCATION, SCIENCE AND TECHNOLOGY SUBDEPARTMENT**

[[www.iadb.org/sds/SCI/index\\_sci\\_e.htm](http://www.iadb.org/sds/SCI/index_sci_e.htm)]

SDS/EDU plays an integral part in Bank activities dealing with poverty, equity and social inclusion. Thus, education components are usually an important part of programs and projects that deal with children and youth, health, women, indigenous peoples, violence prevention, and social inclusion. SDS has played an active role in the development of strategies for elementary and secondary education.

The region's education systems have experienced substantial improvements. There is a growing interest in the region in sharing and coordinating efforts for educational improvement. This expanding international agenda has been strongly encouraged at the top level of decision making in presidential and ministerial meetings. This is of great importance because of the flourishing of innovative programs in the region, including those dealing with distance education as a vehicle for expanding secondary education to rural areas; conditioned cash transfer programs that coordinate poverty reduction and education strategies; targeted support for schools with disadvantaged children; and a series of other high-impact new programs. The willingness of the public and private sectors to make education a real priority should also be highlighted because it has led to improvements in public spending on education. In addition, the impact of

decentralization reforms has been particularly positive where they have been accompanied by a clear definition of responsibilities among levels of government and a corresponding arrangement for financing education in a decentralized setting. Significant progress has also been made in the areas of testing and evaluation. An increasing number of countries are participating in international assessments of student learning.

### **Regional Policy Dialogue on Education and Human Resources**

SDS provides technical support to the Integration and Regional Programs Department, which runs the Education and Human Resources Network. This network provides a forum for discussing priority education policies and initiatives and exchanging ideas and best practices; analyzing common problems; and exploring regional cooperative efforts to improve education systems in the region. It has addressed issues that relate to secondary education, teacher performance and evaluation, and education reform.

### **THE SOCIAL PROGRAMS DIVISION (SDS/SOC) OF THE SOCIAL DEVELOPMENT AND PUBLIC GOVERNANCE SUBDEPARTMENT**

[[www.iadb.org/sds/SOC/index\\_soc\\_e.htm](http://www.iadb.org/sds/SOC/index_soc_e.htm)]

SDS/SOC supports IDB operations and helps to identify and promote new opportunities for Bank action in the social areas that will accelerate overall economic growth and improve the well-being of people in the region, particularly the poor and excluded. Working in tandem with the Bank's operational departments, the Division offers technical advice on priority issues in the areas of children and youth, health and social security, labor markets, social dialogue and social cohesion, urban development and heritage preservation, and violence prevention. Activities in these areas are highlighted below.

### **Children and Youth**

[[www.iadb.org/sds/SOC/site\\_10\\_e.htm](http://www.iadb.org/sds/SOC/site_10_e.htm)]

SDS work in the area of children and youth emphasizes early childhood care and development (ECCD) because it is considered a cost-effective approach to addressing the problems of children in poverty and its transmission from one generation to the next. ECCD can also enhance investments in other areas such as education, health care, and violence prevention programs. In addition, SDS has addressed issues affecting children and youth from various other angles. They include the prevention of child

labor; the development of strategies in the areas of primary and secondary education as well as vocational training; analyses of issues related to child health, such as adolescent pregnancy and infant mortality; research into the costs associated with child abuse; and the development of a database of successful youth programs.

## **Health**

[[www.iadb.org/sds/SOC/site\\_11\\_e.htm](http://www.iadb.org/sds/SOC/site_11_e.htm)]

Activities in the health sector contribute to the improvement of public health in the region through the identification of epidemiological and technological trends; the introduction of new health management methodologies; and the dissemination of scientific information on health policy and programs to assist the public decision-making process. Research related to health issues has looked into topics such as occupational hazards, health expenditures, pharmaceuticals, essential services, and different aspects of HIV/AIDS (prevention, vulnerability, discrimination). In addition, SDS spearheaded a health promotion initiative (*Vida sana es más vida*) to help countries identify health priorities, set goals, develop information systems and indicators, and prepare strategies and action plans.

## **Social Cohesion and Inclusion**

[[www.iadb.org/sds/SOC/site\\_2529\\_e.htm](http://www.iadb.org/sds/SOC/site_2529_e.htm)]

Efforts in this area promote the inclusion and participation of all individuals regardless of race, ethnicity, gender or physical disability. SDS provides technical support to the Bank's borrowing countries in their attempts to expand the access of socially excluded groups to needed services and legal rights. To further these goals and help build a social cohesion agenda for the region, increased priority is being given to promoting democratic institutions, combating poverty and inequality, fostering social inclusion, and creating a more conducive environment to achieve social equity. SDS coordinated the development of a regional action plan to combat social exclusion due to ethnicity; developed a framework for a social cohesion agenda; and published a collection of readings on social inclusion and economic development.

## **The Social Inclusion Fund**

[[www.iadb.org/sds/SOC/site\\_5594\\_e.htm](http://www.iadb.org/sds/SOC/site_5594_e.htm)]

The multidonor Social Inclusion Trust Fund was established to support small-scale initiatives addressing the social inclusion of indigenous and Afro-descendant

populations, persons with disabilities, persons with HIV/AIDS, and poor women. Contributions thus far have been received from the Norwegian Ministry of Foreign Affairs and the UK Department for International Development (UK-DFID). The Trust Fund has three main objectives. The first is to promote sustained and integrated programs and policies to address social inclusion by targeting traditionally excluded groups. The second is to strengthen local institutions that work with traditionally excluded groups. The third objective is to increase governments' awareness of the importance of social inclusion as a development objective.

### **Urban Development and Heritage Preservation**

[[www.iadb.org/sds/SOC/site\\_15\\_e.htm](http://www.iadb.org/sds/SOC/site_15_e.htm)]

SDS provides support to the regional operations departments in satisfying the growing need for effective multisector interventions to tackle the increasingly complex urban development problems of the region. SDS staff support housing sector reform, settlement upgrading, municipal and provincial development, comprehensive urban development, downtown revitalization projects, and cultural heritage conservation. Research and dissemination of best practices and effective institutional arrangements for implementation are also part of the responsibilities of SDS. The work is disseminated through an active program of technical meetings, seminars, and publications. The Bank has pioneered the involvement of multilateral development institutions in assisting borrowing countries in the protection of monuments and archeological sites of significance. Research in this area includes the development of operational guidelines for housing, a review of experiences with neighborhood upgrading programs, lending for urban heritage conservation, subsidies in housing, housing reform, and mortgage markets.

### **Violence Prevention**

[[www.iadb.org/sds/SOC/site\\_471\\_e.htm](http://www.iadb.org/sds/SOC/site_471_e.htm)]

The IDB is committed to working in partnership with the region's governments and civil society to reduce violence both inside and outside the home. SDS has created a Violence Reduction Group (comprised of staff from the Gender Equality in Development Unit and the Social Programs Division) whose mission is to provide technical support to Bank projects in the area of violence reduction; conduct research on the causes and consequences of violence in the region; identify best practice interventions that reduce social and domestic violence and share this knowledge with

regional stakeholders; support governments in the design of national and municipal violence prevention strategies; and disseminate the message that violence is preventable. Research in this area includes studies of community policing experiences, domestic violence, child abuse, tools to prevent violence, and the creation of a database of violence prevention programs.

### **THE GENDER EQUALITY IN DEVELOPMENT UNIT (SDS/GED)**

[[www.iadb.org/SDS/GED/index\\_wid\\_e.htm](http://www.iadb.org/SDS/GED/index_wid_e.htm)]

SDS/GED enhances the contribution of women to development and ensures their equitable participation in Bank-funded programs as well as in the benefits of development. The Unit has been instrumental in sensitizing Bank staff and the staff of borrowing country agencies to the importance and benefits of including women in project design and implementation, as well as other gender issues. SDS/GED works actively on topics such as enhancing the participation of women in public and civic life by strengthening their ability to become effective leaders. It also carries out programs that benefit and bolster families and children and that address issues of poverty and social equity (including health and education).

### **PROLEAD**

[[www.iadb.org/sds/prolead/](http://www.iadb.org/sds/prolead/)]

The Program for the Support of Women's Leadership and Representation, established in 1998, is a collaborative effort of the IDB, the OAS/CIM, UNICEF, UNIFEM and UNDP aimed at promoting women's citizen participation and their access to leadership positions in public and civic life. With the support of the governments of Norway, Sweden and The Netherlands, PROLEAD has promoted capacity building and networking events, and given grants to 55 Latin American and Caribbean organizations. The program is an important focal point for providing information on activities, networks, best practices, and lessons learned in the area of women's leadership.

### **The Fund for Gender Mainstreaming**

This fund was established in 2005 to provide technical support and increase the level of gender mainstreaming in IDB-financed development initiatives in Latin America and the Caribbean. It directly supports the implementation of the Gender Mainstreaming Action Plan, the proposed Long-term Strategic Outlook on Gender and the new Gender Policy. It takes into consideration activities that support gender mainstreaming

throughout the project cycle; improve the availability and quality of technical support for and analysis of gender issues; and strengthen institutional mechanisms for creating accountability, and achieving and monitoring results.

## **THE INDIGENOUS PEOPLES AND COMMUNITY DEVELOPMENT UNIT (SDS/IND)**

[[www.iadb.org/sds/IND/index\\_ind\\_e.htm](http://www.iadb.org/sds/IND/index_ind_e.htm)]

SDS/IND focuses on issues of poverty reduction, social equity and sustainable development as they affect indigenous populations. Other areas of concern are community development and participation, involuntary resettlement, and sociocultural soundness matters in general. The approach to questions related to indigenous peoples is three-pronged. It includes facilitating access by indigenous peoples to mainstream Bank operations in the social, productive, and environmental sectors; identifying innovative projects to address the specific demands and needs of indigenous peoples; and strengthening current practices to avoid, mitigate or compensate for impacts generated by development projects targeted to other population groups. The fundamental premise of SDS/IND activities is that sustainable and equitable development goes hand in hand with strengthening the cultural identity of indigenous peoples and their increased participation in civil society. SDS/IND is also responsible for ensuring the appropriate implementation of the involuntary resettlement policy adopted in 1998. In addition, it pioneers innovative methodologies for community consultation and participation, and addresses broader sociocultural soundness issues.

## **The Indigenous Fund**

[[www.fondoindigena.net/](http://www.fondoindigena.net/)]

The Indigenous Peoples Fund was established in 1992 with the support of the IDB and other institutions, as a mechanism to support indigenous development initiatives and to facilitate the dialogue between indigenous peoples and the governments of the region. Since then, it has secured broad political support from governments and indigenous peoples. In May 1997, agreement was reached on the creation of a US\$100 million endowment fund (to be administered by the IDB) to support activities in building local institutions, training, technical support, and project preparation.

## **THE STATE, GOVERNANCE AND CIVIL SOCIETY DIVISION (SDS/SGC)**

[[www.iadb.org/sds/scs/index\\_scs\\_e.htm](http://www.iadb.org/sds/scs/index_scs_e.htm)]

SDS/SGC develops strategy and policy proposals, provides technical support to operations, and fosters activities in the areas of modernization of the State, governance and strengthening of civil society. Activities in these areas are highlighted below.

### **Civil Society**

[[www.iadb.org/sds/SCS/site\\_1461\\_e.htm](http://www.iadb.org/sds/SCS/site_1461_e.htm)]

The far-reaching changes taking place in the countries of Latin America and the Caribbean have entailed a substantial revision of the roles of government and of the different sectors of society. Another factor contributing to this process was the emergence of a broad consensus on the importance of certain issues on the development agenda, such as the environment, gender, ethnicity, equity and the social structures that generate exclusion. The countries of the region are making great efforts to strengthen their democratic systems while at the same time promoting economic and social development, recognizing the intertwined nature of democracy and development. In this context, citizen participation is of growing importance, both with respect to ideas about how it can contribute to strengthening democracy, and about the processes and mechanisms that can be used to achieve development goals in the region. Indeed, participation is key to making development policies and projects more responsive to the needs of those persons who have traditionally suffered from economic, social or cultural exclusion. Areas of work to strengthen the role of civil society in the development process include citizen participation, civil society consultation, and outreach. In addition to hosting regional meetings with civil society organizations, SDS has coordinated the development of a strategy and operational policies on citizen participation in Bank activities. It has also published books on poverty and civil society, community policing, community consultation, human rights, and conflict management.

### **Justice**

SDS supports programs and projects to strengthen the independence of the judiciary; improve access to justice; strengthen the ability of justice administration mechanisms to fight corruption; modernize systems for the administration of justice; promote alternative conflict resolution methods; update procedural legislation; and protect citizen security. Activities include building consensus and preparing the way for reform of the justice system; institutional strengthening; training; promoting the involvement



of citizens and civil organizations; and improving the legal framework. SDS has hosted a series of regional conferences on justice and development. In addition it has published books on access to justice and equity, and best practice reports on reforms of the justice system.

### **Modernization of the State**

[[www.iadb.org/sds/scs/site\\_1460\\_e.htm](http://www.iadb.org/sds/scs/site_1460_e.htm)]

Reform efforts to modernize the State are mainly geared toward consolidating democratic governance. Sustainable and equitable development requires a democratic, modern and efficient State that promotes sustainable economic growth, providing a regulatory framework that is conducive to the operation of markets; guarantees a stable and reliable macroeconomic environment, legal predictability, and political security; is capable of adopting appropriate economic and social policies for poverty reduction and environmental protection; and implements these policies in an efficient, transparent, and responsible manner. In the region, there has historically existed a deficient relationship between the State and the market, on one hand, and the State and citizens on the other, which has resulted in an erosion of the possibilities for a sustainable and equitable development. The region's *democratic deficit* has been reflected in authoritarianism, cronyism, populism, corruption, and the capture of institutions and public policies by special interests that have resulted in state actions that discourage the efficient functioning of markets and instead promote rent-seeking and speculation. At the same time, these phenomena have contributed to policy-making processes that do not reflect the needs of the majority of citizens and lead to the exclusion of broad sectors of society from the benefits of growth. SDS areas of work under this topic include democratic systems; the rule of law; the State, markets, and society; and public management. In addition, the Department has hosted conferences on security and development, state reform, and governance; and maintains a database of IDB projects dealing with these issues and has published books on politics, governance, public administration, and human rights.

### **Regional Policy Dialogue on Policy Management and Transparency**

SDS provides technical support to the Integration and Regional Programs Department, which runs the Policy Management and Transparency Network. This network addresses issues that are crucial to the success of civil service reform programs. Topics of discussion include the structure and characteristics of civil service systems, analyses

of reforms in the region and elsewhere, and the challenges of reform. The network also explores lessons learned, best practices, and useful approaches in such key areas as: senior public management systems; labor relations in the public sector; the political economy of public management reform; new technology in public management reform; public sector retraining and redeployment programs; public sector remuneration; budget planning and human resources management; and alternative service delivery.

### **Subnational Development**

SDS is providing support to borrowing member countries in their efforts to promote socioeconomic development through the devolution of responsibilities and resources to subnational and local governments. To this end, it has developed a strategy and undertaken research to define the objectives that the Bank can promote among borrowing countries committed to subnational development. These publications also make recommendations concerning effective ways to achieve subnational development, and identify the specific instruments and resources that the Bank can mobilize in this pursuit.

### **THE CHALLENGES AHEAD<sup>1</sup>**

The Sustainable Development Department has developed effective tools, programs and activities to contribute to the understanding and the resolution of the issues that hinder or promote social, economic and political progress in the region. The various units of SDS will continue to provide strong intellectual leadership in these areas as the region faces the challenges of the twenty-first century, which, among others, include: fostering social cohesion; improving the effectiveness of the State and the political system to advance equitable development; promoting social progress that ensures access for the poor and excluded to quality health, education and housing and reduces their vulnerability to social ills; and promoting social inclusion.

Building *social cohesion* is fundamental to fostering social and economic progress and to advance in practically all the areas considered to be of priority in a region that has the worst income distribution worldwide. The lack of a broad-based and politically sustainable social contract in Latin America and the Caribbean prevents the functioning of socially cohesive societies, despite progress on other fronts. Pervasive income inequality, racial and ethnic heterogeneity, a poorly structured civil society and a large informal economy help explain the weak social agreements in the region and constrain

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<sup>1</sup> The section on challenges in chapters 4, 5, 6 and 7 take the sector strategies into consideration.

the establishment of modern social contracts. The challenges of promoting cohesion and fighting poverty, inequality and exclusion should take advantage of the “windows of opportunities” for effective action that exist in Latin America and the Caribbean. The resurgence of democratic governance represents an opportunity for building social cohesion, strengthening the fiscal base, and consolidating democracy. A more mature and engaged civil society and women’s rising participation in the economy and politics are key assets. In addition, ongoing progress in promoting social inclusion as well as in fostering trade and regional integration provide an opportunity to improve cohesion in the region. Finally, the demographic transition (with projected declines in both fertility and dependency ratios, and consequently, increases in savings) provides another opportunity to reduce poverty and inequality, especially if there is heavy investment in the human capital of the future work force.

The challenge of *institutional strengthening* is at the core of promoting sustainable development. This is highly dependent on actions to strengthen the democratic system, modernize the State, promote governance and strengthen civil society. To strengthen *democratic systems*, attention should be paid to the legislative branch, the political party system, supervisory and regulatory institutions, and civil society. In particular, the legislative branch presents problems related to organization, administration, functioning and limited resources that curtail its ability to fulfill its responsibilities. The political party system is weak throughout the region. It lacks the ability to process and combine citizen demands or represent general public interests.

In addition, despite their proliferation, civil society organizations remain weak, owing in large part to the social exclusion of large segments of society. Challenges pertaining to the rule of law and the justice system in the region have to do with uncertainty or delays surrounding the protection of rights and obligations. An important segment of society lacks legal security with respect to assets, which limits their access to credit and to formal labor and production systems. The main challenges facing the establishment of the rule of law include the independence of the judiciary; obsolete laws and procedures; judicial backlogs; lack of resources; the absence of a modern system of organization, information and administration; barriers to access and limitations on coverage; limitations and deterioration of the physical infrastructure; and the precarious protection of human rights. As a result, the justice system lacks equity, which makes access difficult for large segments of the population and reduces confidence.

The countries of Latin America and the Caribbean have yet to achieve the *professionalization and modernization of the public administration* that are necessary for the

efficient provision of public services to reduce poverty. Reform of public administrations during the past two decades has taken place as a result of severe fiscal crises and external shocks. Although there has been some improvement in fiscal and economic administration, institutional reforms remain pending. The allocation of government resources should be reformed to better meet the needs of disadvantaged groups. The provision of government service should also better target neediest groups. These aims cannot be accomplished without reducing the politicization of public administrations and their capture by special interests, promoting instead a professional civil service that will act in pursuit of the general good.

*Social development* remains a key challenge for the region. There are still significant deficiencies in the access of the poor and excluded to quality basic social services, especially in the areas of health, education and housing. In addition, in most countries of the region, the poor are increasingly vulnerable to social ills, especially crime and violence. Inequality in coverage and in the quality of *health* services is the key constraint facing this sector. Although health reforms have helped to increase coverage of the poor, significant inequities exist between low- and high-income groups, and public health expenditures in some countries is still regressive. Groups excluded by reasons of gender, race, ethnicity and disability find their needs unmet due to lack of access to quality health services and scarce infrastructure to provide them. Specifically, efforts should be geared toward strengthening recent reforms. In countries where communicable diseases and maternal and perinatal disorders predominate, priority should be given to combating maternal mortality, infant mortality and morbidity, and infectious diseases like AIDS, malaria, dengue, and tuberculosis. In countries in later stages of the demographic transition, emphasis should be given to early mortality due to noncommunicable diseases.

Overall, *education* systems in the region have experienced substantial improvements over the past decade. These improvements are evident both in terms of inputs (more schools, better trained teachers, a more equitable distribution of textbooks, etc.) and of results. More children from all socioeconomic and ethnic backgrounds attend school, they enter school earlier, attend school for longer periods of time and complete ever-higher levels of education. Despite these important achievements, major challenges remain, progress has been slow and there are gaps in quality. International tests show that students throughout the region fail to keep pace with their counterparts in Asia, Europe and North America. A third or less of the urban workforce has completed the 12 years of schooling deemed necessary to guarantee a decent standard of living and keep pace with the demands of an increasingly global

economy. Curricular reform, weak or nonexistent standards and the urgency of improvements in teaching are also a challenge. Few education systems have been able to ensure that all children, regardless of their origin, receive a minimally acceptable level of education resources. Turning universal entry into universal completion in primary and secondary school also presents a challenge: in most of the region, primary completion rates hover around 75 percent. Actions are needed in both the demand of services and in the supply of education possibilities. Current enrollment levels in higher education are expected to double in ten years, and governments and the private sector need to increase their ability to respond to this challenge.

Challenges in the areas of housing and urban development concern inadequate housing, housing sector reform and the revitalization of city centers. One-third of the region's urban population lives in either informal housing or in segregated neighborhoods that lack essential services. Providing adequate sanitation and social services, and improving housing conditions are pressing tasks. To accomplish this, efforts should continue to transform the housing market into a leading economic sector by making housing credit accessible to low-income homeowners. This includes policies such as direct housing subsidies and microcredit for home improvements. Countries should also make efforts to reverse the deterioration of historic city centers in order to improve living conditions.

Another area in which progress has been lackluster is that of preventing violence. Indeed, rising *crime and violence* obstruct social and economic improvements, affect the poor most severely, and exacerbate the region's sharp income inequality. Homicide rates in Latin America and the Caribbean are the second highest in the world and continue to rise. The incidence of domestic violence is also very high. In some countries up to a quarter of adult women and more than a third of children suffer physical violence in the home. The negative effect of violence on schooling performance erodes human capital and future possibilities for social and economic development. Furthermore, violence has been shown to have a contagion effect for society as a whole. Escalating spirals of violence, in turn, generate significant social and economic costs in terms of foregone economic growth, decreased social capital, worsening poverty and increased inequality. Specific actions needed in this area include strengthening the ability of municipal government institutions to combat crime and violence. Efforts are also needed to collect reliable and comparable information on violence and its risk factors. A major challenge is the professionalization of police forces. Support should also be provided to improve coordination between the police,

the judicial system, health providers, educators, city planners and everyday citizens in attempts to prevent violence.

Women in Latin America and the Caribbean have made significant advances in education, health and nutrition, as well as in opportunities to generate income and participate in social and political processes. Yet, national averages conceal increasing inequities between women of different income levels, between women who live in urban and rural areas, and between women of different ethnic or racial origin. Gains in women's capabilities and opportunities, paired with an enabling environment (in which women are active participants in public office) and better legislation are necessary conditions for women's empowerment and gender equality in the region. However, this requires public policy and development investments that focus on reducing poverty and inequality with a gender perspective. Women's critical contributions to their families, communities and societies need to be acknowledged, supported and compensated. *Sustainable gender equality* requires the leveling of domestic and public spheres to the new roles of women. At the same time, being vigilant in protecting women's rights as citizens, as well as their safety and empowerment, requires the existence of a body of laws that are familiar to judiciary practitioners and those that are protected by them. It also requires that women have a voice at decision-making levels in the executive, legislative and judiciary powers.

Special efforts are needed in the region to reduce exclusion based on ethnic origin. About 10 percent of the region's population is of indigenous descent. Indigenous peoples represent 40 percent of the rural population and 25 percent of those living below the poverty line. Despite their cultural and linguistic diversity, the more than 400 indigenous peoples living in Latin America and the Caribbean experience similar problems with respect to loss of access to their land and natural resources, lack of links between their traditional economic systems and the national economy, marginalization, and cultural disintegration. The challenge with respect to the indigenous peoples of the region consists in promoting *development with identity*. This encompasses reducing poverty (which has a disproportionate impact on indigenous peoples), inequality and marginalization while increasing access to development opportunities. Implied in this are gender equity, as well as recognizing and strengthening the cultural identity, territories, natural resources, and social organizations of indigenous peoples. There are four main priorities for promoting a strategy of indigenous development with identity: mainstreaming indigenous topics into development agendas; empowering indigenous peoples to take full advantage of their

abilities in all facets of development projects; improving access to quality social and financial services; and promoting indigenous rights, legislation and judicial security.

Indeed, during the next decade the region has to renew its efforts to address the challenge of *social inclusion*, which has major implications for reducing inequality and promoting economic development in a context of democracy and social and political stability. Socially excluded populations by reasons of gender, race and ethnicity, age or disability and other features constitute a sizeable segment of the population of the region. They are a large segment of the poor, suffer multiple and cumulative disadvantages, stigma and discrimination, and rank consistently lower in social and economic indicators. In most countries, excluded populations are not small minorities and can represent between 25 and 50 percent of the population. These groups, which include the Afro-descendant population, face substantial discrimination in terms of access to jobs, credit, health care, and the basic means of subsistence. The initial challenge of inclusion comes in acknowledging the problem and its national dimensions. This means counting race, ethnicity, disability and other exclusionary characteristics in national census and household surveys. The second challenge is understanding how exclusion has become entrenched so that public policies can be better targeted. This requires more extensive analysis of the problem and how it is perpetuated through education, job markets, and the provision of services. The third challenge is to shape new inclusive public policies to test ways of addressing inclusion on a national and local level. This includes promoting a range of anti-discrimination instruments, improved education and skills training, anti-poverty programs that incorporate inclusion, and inclusive labor market policies.

Achieving sustainable economic growth is necessary to reduce poverty and promote higher standards of living for all people in the region. Growth provides the flow of resources needed for employment and income generation, and for financing programs to alleviate poverty. Increased competitiveness, a key component of sustainable economic growth, is also closely linked with poverty reduction. Low levels of per capita income in most of the countries of the region imply that significant increases in productivity will be needed to achieve a substantial reduction in poverty. Competitiveness is also intimately linked to the environment because improvements in productivity are only sustainable if they lead to the preservation and improvement of the natural resource base. The objective of SDS activities to support economic growth, competitiveness and private sector development is to contribute increased per capita GDP and income growth in the countries of the region, under conditions that lead to an improved quality of life and lower poverty while preserving or improving the natural resource base.

Over the past decade, the countries of Latin America and the Caribbean undertook wide-ranging structural reforms that liberalized trade and capital markets, privatized enterprises in a wide range of sectors, diversified exports and promoted foreign and domestic investment in the local credit and capital markets. These economic policies led to banking sector reforms that had a profound impact on the development of the financial sector. Considerable progress was also made in restructuring financial services, broadening regulation and supervision, and reducing market-distorting measures, such as high interest rates and public sector intervention. Likewise, the region has made major efforts to foster investments in infrastructure, including the introduction of modern regulatory regimes and the creation of a favorable climate for private investment. Though private participation has provided net overall welfare gains in most areas (the success story of telecommunications being the clearest



example), public perception in Latin America is not favorable. A reason for this is that the benefits of reform have not always reached low-income populations. In addition, the relatively recent reforms have delivered less spectacular results than originally expected. Moreover, economic growth and the pace of reforms slowed in the last five years, and the region began losing ground in rankings of competitiveness and business climate. After an initial surge in the late 1990s, private sector investment in infrastructure declined by US\$60 billion between 1998 and 2003.

Institutional and structural reforms placed too much emphasis on measures with low up-front costs, such as privatization, and less on strengthening labor market institutions and legal and judicial systems or ensuring that the benefits of the reforms were broadly shared. Although the initial monetary measures to reduce inflation were successful and paved the way for renewed growth, the lack of consistent fiscal policies made those efforts unsustainable in many countries. The region's financial markets are still underperforming relative to their development potential. Specifically, financing and credit are still unavailable to large segments of the economically active population. Also, inefficient intermediation and very high risk premiums imply that the cost of capital is often too high and hinders competitiveness. This is particularly true of bank lending to small and medium enterprises, which are the largest contributors to production and employment in the region.

Macroeconomic instability has had a negative impact on market growth and nowhere is this more visible than in the continued decline of financial markets. The transformation of securities and financial markets remains the key to sustainable development. In order for securities markets to assume their role in the development of savings and investment, the region needs the introduction of international standards of corporate governance. Many countries have begun to move in this direction by implementing accounting and auditing reforms.

Commercial law, especially that related to contract enforcement, has also been a stumbling block. Difficulties enforcing contracts under current civil law structures means that entire areas of financial services do not function correctly. Specifically, the inability to perfect collateral hinders lending to SMEs and inhibits the growth of mortgage markets. Redressing this problem would entail financial and commercial legislative changes as well as changes in the civil legal structure and its institutions.

The region needs to become more resilient to crises if the current recovery is to be sustainable. This can be achieved through better fiscal management; deepening domestic financial intermediation and extending it to SMEs; and improvements in the business environment and governance of public and private institutions.

Demand for infrastructure services in the last decade has been stymied by slow economic growth. Yet, the challenge of how to satisfy this demand remains. In particular, the demand for infrastructure services needs to be met within the constraints of existing institutional conditions, social and environmental requirements, and the paramount need to keep fiscal deficits in check. To overcome these challenges, governments, businesses, and consumers must recognize that the provision of infrastructure services requires long-term commitments. The task at hand is not only to promote social acceptance of private sector participation in infrastructure services, but also to improve the efficiency and sustainability of services provided by public sector entities. In the first instance, it implies dealing with the tariff and subsidies structure for infrastructure services in such a way as not to jeopardize economic stability. An equally challenging situation involves the need to undertake reforms of the legal system in order to secure the reallocation of property rights implied by the reforms, which must be recognized and addressed creatively.

Most companies in the region are formal or informal micro, small or medium enterprises. This varied group of businesses accounts for a significant share of total economic activity, jobs, and income in the region. Unfortunately, these enterprises face serious barriers to market entry because of their size and lack of access to factor markets, financing, and final markets for goods and services. Lack of access is made worse by a limited entrepreneurial capacity to combine available factors efficiently and create profitable long-term sustainable businesses. Relatively lower productivity and competitiveness in relation to larger enterprises and international competitors compound problems.

Improvements in productivity and competitiveness, and hence, economic growth and development, are critically dependent on technological innovation and investments in education, science and technology. Indeed, patterns of trade and economic growth are largely governed by innovation and technology. According to a ranking compiled by the World Economic Forum, the countries of the region rank in the bottom half with respect to technology. Total annual expenditures for research and development (R&D) for all the countries of the region is US\$11.5 billion—half of what countries like South Korea spend. As a percent of GDP, regional investment in R&D is 0.6 percent, compared to between 2.5 and 3 percent in the industrialized nations. The countries of the region also lag well behind others on such measures as private sector participation in R&D, number of patents issued, network readiness, and the existence of a policy environment supportive of innovation.

The international experience shows that no country has developed successfully in the absence of universal quality education, particularly in basic sciences. In spite of considerable efforts by the governments and the Bank, the results fall far short of expectations and needs. In addition, labor force preparedness is at the forefront of concerns about the ability of countries to compete in the global economy and labor markets exhibit increasing returns to highly skilled workers.

The information revolution took off quickly in developed countries, but much of the rest of the world, including the countries of Latin America and the Caribbean, continue to lag behind. This so-called “digital divide” between rich and poor countries is further exacerbated within developing countries by gaps between groups of people with access to information and communication technology and those without. Geographic, social, economic, and technical factors combine in many countries to hamper the supply of national and international connectivity. As a result, telecommunications infrastructure is concentrated in a few main cities. Technical, economic and political barriers have deterred investment and contributed to relatively high prices, hindering the availability of information and communication services for the poor.

SDS addresses issues of sustainable economic growth, competitiveness and private sector development, primarily through the activities of the Private Enterprise and Financial Markets Subdepartment and the recently created Education, Science and Technology Subdepartment.

## **THE PRIVATE ENTERPRISE AND FINANCIAL MARKETS SUBDEPARTMENT (SDS/PEF)**

SDS/PEF includes the Infrastructure and Financial Markets Division, the Micro, Small and Medium Enterprise Division, and the Environment Division. The Subdepartment coordinates the implementation of the private sector development strategy, as well as several related initiatives.

### **The Business Climate Initiative**

[[www.iadb.org/businessclimate/sitio/i\\_home.htm](http://www.iadb.org/businessclimate/sitio/i_home.htm)]

The aim of the Business Climate Initiative is to assist concerned governments in improving the conditions that allow private sector investment to thrive. A good business climate is one that provides a sound legal and regulatory framework for

enterprises, promotes competition, strengthens governance, overcomes bureaucratic inefficiencies, and improves access to key financial and infrastructure services.

### **The Corporate Social Responsibility Initiative (CSR)**

[[www.csramerica.org](http://www.csramerica.org)]

The CSR initiative includes research projects, the incorporation of CRS practices into Bank operations, financing projects to promote responsible behavior, activities to enhance the social and environmental responsibility of the Bank itself, and the dissemination of best practices. One of the highlights of these efforts is the organization of annual conferences on social responsibility, which bring together representatives of governments, multilateral agencies, private enterprises, foundations, and business networks and associations to address CSR practices in the region and develop effective and sustainable CSR principles. The results of these conferences are published in annual Proceedings and reported, together with other Bank activities, in the Bank's CSR website. It is expected that during the next 12 months, the Bank will produce its first Sustainability Report, which will detail Bank practices and support for sustainability projects and report on its own activities to become a better corporate citizen.

### **THE INFRASTRUCTURE AND FINANCIAL MARKETS DIVISION (SDS/IFM)**

[[www.iadb.org/sds/ifm/index\\_ifm\\_e.htm](http://www.iadb.org/sds/ifm/index_ifm_e.htm)]

SDS/IFM is a source of expertise, leadership, and innovation in support of the Bank's lending and technical assistance activities in the fields of infrastructure investment and management, and the development and reform of financial and capital markets.

SDS/IFM has an established role in providing technical support to the Bank's regional departments, particularly in promoting the creation of innovative financial tools.

#### **Infrastructure**

[[www.iadb.org/sds/ifm/site\\_404\\_e.htm](http://www.iadb.org/sds/ifm/site_404_e.htm)]

Major areas of work relating to infrastructure include energy, water and sanitation, transportation, transnational projects, and competition issues. SDS/IFM has organized important workshops and conferences on these topics, including recent workshops on the sustainability of power sector reform, conferences on financing water and sanitation services, and meetings on competition policy in infrastructure services. Publications in this area include books on topics such as privatization, competition policy in regulated

industries, the integration of natural gas markets, and power sector reform. SDS/IFM has also published technical and best practices papers on topics such as cross subsidies in public services, infrastructure financing, case studies on potable water supply, liberalization of the gas sector, and the political economy of reform and private sector participation in infrastructure.

#### *Series of Conferences on Infrastructure Investment*

Huge infrastructure investment needs in the region (estimated at US\$40 billion per year for the next 10 years in 2000) cannot be financed through public budgets without affecting macroeconomic stability, inflation and public deficits. The recuperation of Latin American credibility before the international financial community requires the utmost attention. Mobilizing the required financial resources cannot be done without a significant participation of the private sector. Various initiatives address these challenges. In 2004 the Bank launched a series of conferences (which took place in Washington, D.C., Lima, Madrid and Tokyo) and publications aimed at promoting investments in infrastructure in the region. The Bank's strategy is to set up a sustainable institutional framework that allows the private sector to operate, take risks and undertake new initiatives, and the public sector to fill the voids and to engage in public-private partnerships that do not have the flaws that led to the failure of some state-owned enterprises.

#### *Water and Sanitation*

As part of its work related to the Millennium Development Goals, SDS/IFM is carrying out analytical work to increase service coverage and improve efficiency in the water and sanitation sectors. Key challenges are pricing, rigid management, poor commercial practices, and political interference, which, together, have had a negative effect on the performance of water project, resulting in low efficiency, poor quality of service, and poor coverage. The Bank's challenge is to promote a renewed commitment on the part of governments (including municipalities) to ensure the long-term sustainability of services and remove the obstacles preventing the success of water and sanitation services.

#### *Political Economy of Reform*

An innovative line of work for SDS/IFM has been the analysis of the political economy of reform, as well as policies (such as subsidies). This research, which has been applied

to infrastructure, involves case studies and technical papers that offer new insights on the reform process for policymakers. From a methodological point of view, the work provides a mapping of special interests, looks into the expected impact of reforms, and studies how improvements to the reforms can address the concerns of groups that would lose as a result of the reform. Institutional analysis is also a crucial part of this line of work.

## **Financial and Capital Markets**

[[www.iadb.org/sds/IFM/site\\_405\\_e.htm](http://www.iadb.org/sds/IFM/site_405_e.htm)]

Major areas of work in financial and capital market development include banking supervision; pension fund and insurance market reform; and the development of financial and securities markets, intermediaries and instruments. Publications included books dealing with capital market development, financial crises, financial disclosure, pension reform and financial risk management. Technical and best practices papers were published on topics such as building effective banking systems, developing government bond markets, financial intermediation, pension reform, and securities regulation.

### *Banking Sector*

In the context of the preparation and implementation of Basle 2, SDS/IFM has fostered the institutional dialogue between the public and private sectors (i.e., supervisors and banks) to discuss the timely issues of capital adequacy, banking supervision, credit shortage, costs, and volatility. These events and related publications are intended to favor the development and implementation of an adequate regulatory and supervisory framework in the region, and stimulate access to financing, particularly for small and medium enterprises.

### *Capital Market Development*

Several initiatives in the area of capital market development were undertaken during the last 10 years, including a first ground-breaking strategy for capital market development in the region. More recently, a symposium was held to complement the Bank's private sector lending activity for capital market development. The symposium led to the publication of a book entitled *Focus on Capital*. An important highlight of work in this areas is the creation of a Latin American and Caribbean Public Debt Management Specialists Forum whose main objective is to build a general framework for

government debt management that fosters continuous sharing of experiences across countries as well as technical discussions. The ultimate goal of this effort is to improve debt management as well as its cost-effectiveness, and favor the development of capital markets.

### *Pension Reform*

The special challenges of pension reform in small economies was the topic of a symposium held in Barbados in June 2003, which was convened by the Caribbean Development Bank (CDB) and the Inter-American Development Bank. Pension and insurance officials and experts from 17 English-speaking island nations gathered at the CDB's Barbados headquarters. Analysts discussed the issues confronting virtually every nation; namely, the rise in the share of the aged population. The three-day dialogue has yielded a new book, *Workable Pension Systems: Reforms in the Caribbean*. The publication offers a definitive update on the political, demographic and regulatory status of public pensions in small island nations and in some comparable economies.

Significant analytical work has also been undertaken to review the experience of Latin American countries. A pension reform forum (*Transition Issues and Deepening Reforms*) was held at the end of 2004 during which international pension experts discussed the achievements and shortcomings of pension reforms in the region during the past decade. The experts recommended the adoption of new measures to make retirement systems more sustainable and equitable. Case studies of pension reform in Argentina, Bolivia, Chile and Mexico showed that the privately managed systems adopted in these countries had mixed results. However, this does not necessarily lead to a negative conclusion about introducing the funded pillar to correct imbalances in the public pay-as-you-go system. A publication on these topics is expected for early 2006.

### *Regional Financial Sector Forum*

This initiative is aimed at strengthening financial sector stability and development in the region. Its main objective is to develop a regional focus on the key issues for supporting sustainable financial sector development. Forum participants include senior officials with responsibilities in the design and implementation of financial policies in the region. The first meeting of the Regional Financial Sector Forum focused on the institutional structure for regulation and financial supervision. The second meeting dealt with corporate governance. Two meetings dealing with insurance and financial sector development in the region are expected to take place in 2005.

## **THE MICRO, SMALL AND MEDIUM ENTERPRISE DIVISION (SDS/MSM)**

[[www.iadb.org/sds/mic/index\\_mic\\_e.htm](http://www.iadb.org/sds/mic/index_mic_e.htm)]

SDS/MSM works to expand economic opportunities in Latin America and the Caribbean by promoting the conditions necessary for the growth and development of micro, small and medium enterprises. Major areas of work include microfinance, the policy and business environment for micro, small and medium enterprises; business development services; social entrepreneurship, and local economic development. SDS/MSM also manages the Social Entrepreneurship Program, and prepares operations on behalf of the Multilateral Investment Fund.

### **Microenterprise**

SDS/MSM has published several books on topics such as microfinance and poverty, credit unions, entrepreneurship and business development services. Technical and best practices research papers included topics such as case studies on microfinance downscaling, micro-leasing, village bank programs, microfinance guarantees, and business registration reform. The Division also publishes the magazine *Microenterprise Americas* and a quarterly bulletin entitled *Microenterprise Development Review*. Additionally, SDS/MSM has sponsored various workshops on social entrepreneurship, competitiveness, sources of funding for microfinance and entrepreneurship.

### *The Social Entrepreneurship Program*

[[www.iadb.org/sds/mic/publication/gen\\_159\\_4053\\_s.htm](http://www.iadb.org/sds/mic/publication/gen_159_4053_s.htm)]

The Social Entrepreneurship Program had its genesis in the Small Projects Financing Program established by the Bank in 1978. With its creation, the IDB became the first multilateral development bank to lend directly to private nonprofit organizations without a government guarantee. The overall goal of the program is to promote social equity and the economic development of poor and/or marginalized groups. To that end, the Bank finances small projects that provide financial, business, social and/or community development services to the targeted population in an efficient and sustainable manner. The program has been a major contributor to the development and strengthening of nongovernmental organizations in the region and to their efforts to improve the livelihoods of low-income people. The program is highly competitive and supports initiatives that have high levels of innovation and additionality as well as a clear demonstration effect.



### *The Inter-American Microenterprise Forum*

[[www.iadb.org/foromic/index.cfm](http://www.iadb.org/foromic/index.cfm)]

SDS/MSM sponsors and coordinates this annual forum in a different country of the region each year. Each forum includes panels and roundtable sessions on specific topics in the areas of microfinance, business development services, business climate, and social entrepreneurship. During each event the Bank recognizes institutions and individuals for their outstanding performance in the areas of microfinance, social entrepreneurship and business development services. This is the culmination of a regional competitive process and involves the presentation of Inter-American Awards for Excellence in each field.

### *The MIF General Program*

Under this program, SDS/MSM prepares projects related to microenterprise and small business development in the areas of remittances as a development tool, reducing regulatory burdens on small businesses, and small business networks and supply chains, which are financed by the Multilateral Investment Fund. The microenterprise projects tend to be focused on innovation, financial regulation and supervision, development of entrepreneurship, and strengthening of microfinance institutions.

### *The MIF Line of Activity*

In order to support the sustainable expansion of microfinance and its integration into mainstream financial and capital markets, SDS/MSM prepares projects that channel resources provided by the Multilateral Investment Fund to selected microfinance institutions. Through this program, the Bank supports specialized microfinance institutions (banks, finance companies, NGOs, cooperatives) that are committed to profitability and to operating under commercial conditions. These projects provide nonreimbursable technical assistance to develop new products, reach new clients, improve risk management, upgrade information systems, and/or strengthen human resource capacities.

### *Microfinance Regulatory Support*

This program finances demand-driven and customized technical assistance to modify and adapt regulatory and supervisory frameworks in order to make them more conducive for microfinance. The program's objective is to promote a regulatory

environment that enables and encourages financial institutions to offer services to low-income entrepreneurs, and support bank supervisory authorities in modifying existing regulations to accommodate microfinance into the country's financial sector.

### **Small and Medium Enterprise**

[[www.iadb.org/sds/mic/index\\_mic\\_e.htm](http://www.iadb.org/sds/mic/index_mic_e.htm)]

Within the context of strategies for business development and competition, the IDB Group is continuing on the path initiated in the 1990s to improve the business environment, increase lending for financial services and business development, and promote private sector participation in policy design and implementation. SDS/MSM has supported this development through best practices, research papers and technical support to Bank and MIF operations, while fostering political and academic debate with public and private institutions in the region.

Currently, SDS/MSM works to advance knowledge in two main areas: (i) fostering SME competitiveness and (ii) promoting local economic development. In line with these areas, SDS/MSM has focused its recent work on two main topics: clusters and value chains, and entrepreneurship.

#### *Promotion of Clusters and Value Chains*

Recent empirical and theoretical evidence show that small and medium enterprises that cooperate and undertake joint actions have a competitive advantage with respect to isolated firms because of their higher collective efficiency. For this reason, during the last few years, the IDB Group has actively promoted cluster and value chain projects in the region.

SDS/MSM has contributed to this line of work by preparing case studies about successful experiences, collecting lessons learned from a wide range of international practices, and disseminating these materials through workshops, seminars and the annual Inter-American Microenterprise Forum.

Measuring the results and impact of these projects is key to taking advantage of lessons learned and to allow for a continuous improvement in the design and execution of cluster and value chains initiatives. Thus, the recent focus of the Division's research has been in developing evaluation capacity for all the projects' stakeholders, including the IDB Group.

### *Entrepreneurship*

[[www.iadb.org/sds/mic/publication/gen\\_159\\_3806\\_e.htm](http://www.iadb.org/sds/mic/publication/gen_159_3806_e.htm)]

Entrepreneurs and their businesses are the key players in today's development model. However, much work remains to be done in this area in Latin America and the Caribbean. SDS/MSM has contributed to developing a framework to define economic and cultural incentives in order to increase the rates of business creation and growth. This framework takes into account the business environment and the process of creation and early development of new firms. The Division has also produced several publications about the role of entrepreneurship in emerging economies, and best practices in designing entrepreneurship programs and policies to foster the creation of dynamic new enterprises in the region.

### **THE EDUCATION, SCIENCE AND TECHNOLOGY SUBDEPARTMENT**

To address challenges in the scientific and technological innovation fields, the Bank recently created a new subdepartment within the Sustainable Development Department in order to highlight the importance of these topics and better focus its efforts to improve labor productivity and international competitiveness in the region. The Education, Science and Technology Subdepartment houses the Information Technology for Development Division and the Education Unit, thus consolidating activities dealing with science and technology. The subdepartment is responsible for planning, developing, implementing and managing the Bank's science and technology for development activities, as well as for providing technical support to the regional operations departments in these areas. It is also responsible for providing analytical and technical support in higher education and basic scientific research.

### **Science and Technology**

[[www.iadb.org/sds/SCI/site\\_27\\_e.htm](http://www.iadb.org/sds/SCI/site_27_e.htm)]

The Bank has been active in promoting progress in science and technology in Latin America and the Caribbean. It has accomplished this indirectly through its lending and technical assistance resources, whereby it has helped to introduce scientific and technological advances and assisted in modernizing economic activities and institutions. The Bank has also provided direct assistance through loans for advanced and technical education and the development of science and technology. The Bank may support institutions and activities other than those that have traditionally received support in the field of education, in the following fields of activity: (i) development of a scientific and

technological policy in the member countries to fit their economic and social development plans; (ii) creation of demand for applied research services and personnel; (iii) support for basic and applied research; (iv) establishment of technological research institutes and standards bureaus; (v) avoidance of the emigration of talent; (vi) support for multinational or regional institutions; and (vii) transfer of technology.

Work in the area of science and technology includes the implementation of the strategy, as well as development of technical papers dealing with biotechnology and agriculture. Activities will be reinforced by the use of resources such as the Korea Fund for Technology and Innovation.

## **THE INFORMATION TECHNOLOGY FOR DEVELOPMENT DIVISION (SDS/ICT)**

[[www.iadb.org/sds/ict/site\\_5928\\_e.htm](http://www.iadb.org/sds/ict/site_5928_e.htm)]

SDS/ICT helps to match the needs of countries in the area of information technology for development with the resources and capabilities of the Bank. In order to accomplish this, the Division operates through a matrix organization involving sector and multi-sector projects. This approach enables it to integrate its involvement in sector projects with increasing requests from countries for multi-sector IT for development projects. SDS/ICT provides technical support for project development and other Bank activities in the information technology for development field; offers strategic and technical advice to governments on how to make better use of available information technologies; and develops cooperation and co-financing arrangements to support research activities, studies, training, seminars, technical assistance and pilot projects. Thus SDS/ICT makes available to public officials and political authorities a series of innovative and emerging e-governance and e-government solutions as means to improve the efficiency, transparency and accountability of public administration. SDS/ICT also promotes the adoption of e-business to enhance private sector productivity, efficiency, market penetration, and competitiveness, particularly in the case of small and medium enterprises. It also promotes linkages between public and private institutions in the region and with institutions in nonborrowing countries. Finally, SDS/ICT prepares strategic analyses of needs, priorities and opportunities in borrowing member countries.

## **E-Government**

[[www.iadb.org/sds/ICT/site\\_6198\\_e.htm](http://www.iadb.org/sds/ICT/site_6198_e.htm)]

The countries of Latin America and the Caribbean recognize the potential of information and communication technology as a tool for carrying out the institutional transformation of public administrations, as well as raising the level of trust between citizens and the government in order to mobilize public, private and civil society resources to achieve development objectives. Within the appropriate institutional framework, SDS/ICT can contribute significantly to promoting efficiency, effectiveness and transparency in carrying out and providing public services. Countries have been evolving government-wide approaches in public administration (i.e., e-government) in order to balance the need for standards and flexibility in the innovative deployment of information and communication technologies. Public sector use of these technologies enhances country capacity to formulate public policies and establish a regulatory structure to ensure that growth of the knowledge economy contributes to carrying out a democratic process that leads to efficient, equitable and sustainable development.

Through its ICT in Governance Program, SDS/ICT promotes consensus on outcome, outputs and indicators to measure development effectiveness in this area and, thereby, facilitate appropriate matches in e-government between the increasing and changing needs of each country and the resources of the Bank. These efforts are carried out through the creation of alliances with other institutions and governments; the promotion of regional dialogues among institutions on the different aspects of e-government; and the promotion of regional cooperation to strengthen democracy through the expansion of e-government capabilities.

Work in this area also includes the publication of an e-government manual, promoting legislative information networks and a study on the role of information and communication technology in building trust in government.

## **E-Business**

[[www.iadb.org/sds/ict/site\\_6211\\_e.htm](http://www.iadb.org/sds/ict/site_6211_e.htm)]

ICT-4-BUS is a program sponsored by the IDB and the Multilateral Investment Fund to improve the competitiveness, productivity, and efficiency of small and medium enterprises in Latin America and the Caribbean by improving their business processes and expanding their access to new ICT solutions and services. ICT-4-BUS provides funds for development and implementation of ICT pilot projects, which test innovative ICT applications for SMEs, mainly in the areas of value chain integration, workplace productivity and efficiency, and market penetration. In so doing, the program seeks to facilitate a match between the offer of ICT applications and services with the specific

demands of and needs of SMEs. The pilot projects have to demonstrate the technical feasibility and commercial viability of proposed ICT services and solutions for the benefit of SMEs in the region.

Work on e-business includes the publication of a quarterly electronic newsletter, an e-business manual for small and medium enterprises, and a best practices evaluation of the ICT-4-BUS program.

## **THE CHALLENGES AHEAD**

One of the greatest challenges that the region faces in order to overcome lackluster economic growth and widespread poverty lies in the establishment of a healthier *business climate* and a reduction in the size of the informal economy. Measures that address these issues should be structured in such a way that micro, small and medium enterprises benefit as much as larger ones and multinational companies. Many workers and enterprises in Latin America and the Caribbean are pushed into informality by the high costs of complying with laws and regulations. The challenge that the region faces is to reduce fiscal and regulatory burdens in order to increase formality. Reforms should endeavor to establish the “rules of the game” that ensure macroeconomic stability, competitive markets, appropriate legal and regulatory frameworks, and a robust social and physical infrastructure. These rules of the game must also mitigate negative impacts on the environment, health, and labor that are sometimes associated with private enterprise.

It is important to establish a positive relationship between the State, markets and society. Despite major improvements, the movement toward market economies has not been accompanied by the development of effective regulatory capacity (to promote competition and protect societal interests), adequate consensus mechanisms or the effective rule of law. At the same, fiscal problems have led to the abandonment of policies and institutions to promote and support the productive sectors. There has been little progress toward fiscal reforms to broaden the tax base and shift the tax burden to make it more equitable. There is still a lack of confidence in basic economic rights and in the ability of governments to provide public services and basic infrastructure. Regulatory and supervisory institutions often lack the necessary independence, objectivity or technical capacity to monitor the behavior of public agents and scrutinize transactions between the State and economic agents.

Challenges in the *financial markets* sector fall into several major areas: general financial services, banking, capital markets, private pension systems and insurance. In

the area of general financial services, actions should concentrate on bringing into the economic mainstream those economic units that are not contributing their full potential. This can be achieved by providing incentives to reduce informality, addressing business climate and competitiveness issues, deepening supervision and regulation, empowering public financial intermediaries to enforce laws, revising the legal and judicial laws that govern commercial contracts, improving the cultural sensitivity of corporate governance, and fostering the adoption of international standards of governance.

In the *banking* area, the challenges are to broaden banking services to reach a larger number of clients. This can be achieved through legislative reforms to foster and enforce commercial contracts, and by ensuring that public and national development banks operate efficiently. The main challenges in the area of *securities markets* include impediments to supply and widespread listing on capital exchanges and impediments to demand and extensive purchasing of issues. Factors that affect debt markets also need to be considered, including fiscal deficits, central bank and pension reforms, and other macroeconomic topics.

Political legitimacy and consensus building are important challenges in *pension reform*. In some countries there is a need to strengthen the dialogue on pension reform and to work closely with public pension systems in order to smooth out irregularities and provide greater old age security. A key aspect will be to expand coverage and contributions using positive incentives. There is also the need to redress constraints to the private pillar, including widening investment possibilities and reducing administrative costs, and reviewing and developing ways to instill confidence in the pension system, including broad government reforms and protection of pension assets. To promote a sound securities market, it is important to nurture a continuous increase in the number of investors, including *insurance* companies. The creation of instruments for complete markets is crucial.

There are several general challenges in the area of *infrastructure* that require attention in the near and medium term. They pertain to the scope of regulation, public investment and fiscal prudence, subsidies and redistribution, contracts in a weak legal environment, and the role of public-private partnerships. In developing countries, inadequate regulation is a consequence of poor financial conditions and the need to attract private investors to meet the requirements of underserved populations, and thus regulation is not, as is the case of developed nations, a means of stimulating efficiency gains. As a result, developing countries must keep in mind the trade-offs between efficiency gains and attracting private investors. Fiscal prudence in public investments

calls for transparent government accounting, clear criteria for ensuring that publicly owned companies do not add to the fiscal deficit, and economic criteria for public-private initiatives. Municipalities also require institutional strengthening, because it is at the subnational level that many public and private investment decisions will have an impact. The challenge with respect to subsidies and redistribution is to find ways to defuse opposition from groups that would see their taxes rise or cross-subsidy transfers decrease, and by providing short-term compensation to those groups who prefer the status quo. The region has undergone a relatively high renegotiation rate on concession contracts, largely because weak legal environments result in a lack of contract enforcement. In countries with high redistribution pressures and imperfect property rights protection, contracts *and* governance require a joint design reflecting the relevant constraints, thus the growing popularity of public-private partnerships.

In addition to these generalized challenges, the infrastructure sector faces serious challenges in the area of energy supply security and with respect to the decentralization of water and sanitation regulation. Several factors, such as the anticipation of government intervention to cap prices during periods of scarcity, large time-to-build of generating facilities and differential creditworthiness on the demand side, conspire against the effectiveness of artificially designed short-term markets to induce timely capacity additions in electricity. The supply of gas has been affected by political events. Centralized supervision of water and sanitation faces problems of asymmetrical information and technological heterogeneity, which complicates the use of comparative regulation.

The main challenges for *microenterprises* in the coming decade are: strengthening their human capital, greater entry into the formal economy, access to business development services and adequate financing. The existence of a business environment that stimulates the proper operation of markets and promotes formalization, as well as a greater participation of the private sector in support of microenterprises, will be key factors for this sector. Many of the hurdles facing *small and medium enterprises* in the region coincide with those of microenterprises. Nevertheless, SMEs face additional challenges, including the fact that they tend to be family-owned. This means that their capacity and skills are generally limited to those of the owner or entrepreneur. An important challenge facing SMEs is the need to enhance competitiveness in increasingly global markets.

Access to the Internet and other *information and communication technologies* will enable the people of Latin America and the Caribbean to gain more effective access to government services, carry out financial transactions, access education services,



participate in electronic commerce, and communicate efficiently. To accomplish this, continued progress needs to be made toward strengthening the social, economic and political adjustment mechanisms that enable individuals, organizations and countries to make and implement decisions. Factors such as political stability, macroeconomic governance, transparency and accountability of national and local administrations, the rule of law, physical infrastructure, and basic literacy pave the way for and, at the same time, are stimulated by a more effective deployment of information and communication technologies across the region.

Similarly, successfully addressing these challenges depends on strengthening the commitment to the *development of science, technology and innovation systems* in the region. The ability of nations to create, adapt and assimilate technology is key to increased productivity, competitiveness, and economic growth, as well as improved equity. This requires increased investment in science and technology infrastructure and the development of adequate regulatory frameworks to promote innovation. The existence of highly qualified and technologically proficient staff is also necessary to efficiently integrate technology into productive processes. The development of national innovation systems with strengthened and consolidated institutions that facilitate the interaction of these elements, should occupy an increasingly important place in the development agenda of the countries of the region. Innovation is understood to be a crucial source of improved business competitiveness and worker productivity.

**E**nvironmental sustainability is central to sustainable economic growth and to efforts to reduce poverty and social inequality. Relative to other regions of the world, the countries of Latin American and the Caribbean are well endowed with natural resources and environmental attributes. They also rely heavily on the services provided by their forests, coastal and marine resources, biodiversity, agricultural soils, and water resources. However, these services are also fragile and in an apparent state of deterioration, thus requiring the countries' full attention to achieve long-term development goals. The countries of Latin America and the Caribbean recognize the importance of the environment and natural resources to social and economic well-being and have signed on to environmental declarations concomitant to the Summit meetings, beginning with the 1992 Rio Summit and extending to the Johannesburg Summit in 2002. In most countries of the region, the links between poverty and the environment are quite apparent: the poor are the most affected by pollution, deficient basic services, lack of land security, and the loss of key natural resources for their livelihood. As the region embarks on renewed efforts to increase competitiveness, investments in infrastructure and human and social capital must be coupled with the institutional capacity to address environmental issues and undertake the appropriate interventions to protect and enhance the natural capital. The achievement of long-term development goals will require the political will, commitment, and capacities of all stakeholders to protect the quality and availability of natural resources.

The countries of Latin American and the Caribbean are no strangers to the devastation brought on by hurricanes, floods, earthquakes, landslides and volcanic eruptions. The increase in the frequency of disasters and their associated damages in the region is part of a worldwide trend, which results from growing vulnerability and may

reflect changing climate patterns. The Bank has adopted a proactive stance to reduce the toll of disasters in the region through a comprehensive approach that encompasses both pre-disaster risk reduction and post-disaster recovery. It is framed by new policies and institutional arrangements, and activities such as risk analysis, prevention and mitigation, risk transfer, emergency preparedness and response, and post-disaster rehabilitation and reconstruction.

The Sustainable Development Department contributes to the Bank's support to environmental sustainability through its *Environment Division* (SDS/ENV), whose mandate includes the proactive support of environmental and natural resources management in the region, and the *Rural Development Unit* (SDS/RUR). SDS/ENV contributes to enhancing the environmental quality of IDB operations by preparing and disseminating technical studies, and providing guidance on environmental impact assessments and good practices in environmental management and project analysis. It offers environmental training to Bank staff, provides technical advice to project teams, and supports the Committee on Environment and Social Impact (CESI). The work of the Environment Division embraces public and private sector projects including urban and rural environmental management, energy conservation and development, forestry and biodiversity, water resources management, coastal and marine resources, climate change and disaster risk management.

## **THE ENVIRONMENT DIVISION (SDS/ENV)**

[[www.iadb.org/sds/env\\_e.htm](http://www.iadb.org/sds/env_e.htm)]

At the strategic and policy level, SDS/ENV (of the Private Enterprise and Financial Markets Subdepartment) has led the development of important Bank documents that reflect a proactive position to promote environmental and social sustainability in the region. The IDB's *Environment Strategy* (GN-2208-4), endorsed by the IDB Board of Executive Directors in July 2003, sets the context for the Bank's work and establishes strategic lines of activity that are in tune with the priorities, challenges, and opportunities for sustainable development in the region, as well as fundamental principles for good environmental governance, enhanced policy integration and development of the right set of incentives to achieve sustainable outcomes. The priority actions for implementation under the strategy include: the incorporation of country environmental analyses (CEAs) in early stages of IDB Country Strategy preparation; the development and use of best practices and guidelines for strategic environmental assessments (SEAs) applied to large infrastructure projects; the improvement of

environmental baselines and performance indicators; and the review of the Bank's approach to managing environmental risk and enhancing sustainability. SDS/ENV is also leading the development of its new *Environment and Safeguards Compliance Policy*, to be presented for Board approval in 2005. This policy will establish directives under two major categories: mainstreaming environment, and safeguarding the environment and managing risks.

SDS/ENV has fostered leadership and innovation to support Bank operations in five priority areas: managing natural resources, building environmental management capacity in the region, establishing and managing an environmental quality assurance process for all Bank operations, leveraging resources and partnerships, and promoting regional integration and positive linkages between trade and the environment.

### **Managing Natural Resources**

SDS has provided technical expertise and leadership in the following areas: water resources management, forestry and biodiversity, pollution control, and disaster prevention and mitigation.

#### *Water Resource Management*

[[www.iadb.org/sds/env/site\\_43\\_e.htm](http://www.iadb.org/sds/env/site_43_e.htm)]

Water is a vital resource for human survival and economic development; as populations and economies grow, water demand increases while the availability of the resource remains constant. Shortages engender water use conflicts, both in terms of quantity and quality. There is considerable variation across countries in laws and institutions related to water, and planning and project implementation ability is not uniform. The Bank's Eighth General Increase in Resources called for the establishment of guidelines that are flexible enough to be tailored to different situations involving institutions, legal instruments, and the technical means to achieve an integrated approach to planning that considers all sources and uses of water in a given basin. The primary activity of the Environment Division in this area is to encourage a comprehensive approach to water resources management activities, when warranted by the characteristics of the problem. Also included is the integrated management of other resources in the watershed, such as soil and vegetation and beneficiary participation.

Efforts are directed toward supporting water resources planning, policy making and management through the implementation of a strategy that considers several issues associated with the core problem of developing multiple sources and managing multiple

uses of water so that, over time, more efficient water resource supply systems and use patterns emerge, while maintaining or improving ambient water quality. One consideration is the identification and preparation of efficient and cost-effective water resources project investments in areas such as potable water supply, sewerage, wastewater treatment and irrigation. SDS/ENV has also introduced the use of a wide range of water management instruments, and advanced integrated water management approaches that take into account a range of social, economic and environmental factors, as well as participatory processes and incentive-based systems to achieve sustainability objectives. Better use and quality of water resources might also be obtained through a reduction of water system losses, optimal water pricing or marketing policies, effluent discharge regulation, water quality monitoring and enforcement, soil and water conservation programs, non-point source pollution control, and water and soil conservation measures.

In addition to the strategy for integrated water resources management, which dates from 1998 and was updated in the recently-approved environment strategy, SDS/ENV has published a book on water quality, and technical papers on the economic appraisal of water quality improvements, and water and sanitation policy issues.

### *Biodiversity*

[[www.iadb.org/sds/ENV/site\\_45\\_e.htm](http://www.iadb.org/sds/ENV/site_45_e.htm)]

Latin America and the Caribbean have one of the largest concentrations of biodiversity in the world, holding a large percentage (between 27 and 43 percent) of total animal and plant species in the planet. Four of the megabiodiversity countries (Brazil, Colombia, Mexico, and Peru) hold a large share of endemic and endangered species. However, the region's vast natural forests are severely threatened by deforestation, thus reducing the natural wealth and the potential local and global environmental benefits that these natural ecosystems can provide to the region. Current priority areas of action include the development of a framework for Bank action, analysis of sector policies (especially in agriculture and rural development) that affect the protection and sustainable management of forest resources; the generation of innovative approaches to manage tropical forests and curb deforestation; and the adoption of financial mechanisms to support reforestation and agroforestry programs. Biodiversity conservation has also become a major area of concern in the region due to its relevance for the survival of indigenous peoples and for those who depend upon wildland resources. Growing

markets for natural products and the expanding ecotourism industry provide a source of revenue for rural communities and are a potential ingredient for sustainable development strategies. Much biological diversity can be conserved within the boundaries of established protected areas, with adequate management and financing arrangements to ensure effective long-term protection.

SDS/ENV supports biodiversity conservation activities by: (i) exploring new avenues for technical support and investment in biodiversity conservation and rational utilization; (ii) supporting initiatives that link the stewardship of biological resources with the cultural heritage of native peoples; (iii) promoting the development of ecotourism tied to the management of protected areas as an integral component of sustainable development efforts; (iv) integrating biodiversity assessment in project design and execution, and (v) supporting inter-institutional cooperation under the Biodiversity Convention and other conventions and agreements. SDS/ENV also provides broad support for the consolidation of national systems of protected areas, linking the stewardship of biological resources with the cultural heritage of native peoples, and promoting ecotourism and biodiversity conservation as an integral component of development projects.

### *Renewable Energy*

[[www.iadb.org/sds/ENV/site\\_48\\_e.htm](http://www.iadb.org/sds/ENV/site_48_e.htm)]

Increases in economically effective renewable energy (RE) and energy efficiency (EE) can improve productivity and competitiveness, and promote social development and poverty reduction, as well as reduce environmental pollution. They also offer a diversification of energy options in a time of fuel price stability. Over the longer term, increased RE and EE are critical components of a global effort to reduce threats of climate change. A number of barriers to successful expansion of RE and EE must also be confronted, however, including policy and price distortions and inadequate financing mechanisms. In turn, addressing these problems requires more widely shared knowledge of lessons learned and good practices for RE/EE decisionmakers in the region, as well as support for reducing barriers to an increased number of cost-effective RE and EE projects.

SDS/ENV supports this goal through several lines of activity. The division is leading a regional assessment of economic and financial barriers to increased RE/EE and options for their reduction in Central America. Plans call for expanding the scope of this activity to the entire region. Results of other regional technical cooperation

projects on climate change provide beneficiaries in the region and Bank staff with an increased understanding of how production and sale of greenhouse gas “emission reduction credits” can add economic value to clean energy projects, and on how such value added can be mainstreamed more extensively into Bank activities. The Division is also the IDB’s focal point for the Global Environment Facility (GEF), through which clean energy and energy efficiency projects may be co-financed.

### *Disaster Prevention and Mitigation*

[[www.iadb.org/sds/ENV/site\\_2493\\_e.htm](http://www.iadb.org/sds/ENV/site_2493_e.htm)]

Building on its mandate to promote sustainable development in Latin America and the Caribbean, the Bank helps countries integrate risk reduction into development planning and investments, as well as build a permanent technical and operational capacity to manage risk reduction more effectively. SDS is currently coordinating the preparation of the Bank’s new disaster risk management policy. It has produced various special reports and technical papers in support of proactive disaster risk management, including disaster risk indicators for 12 Latin American and Caribbean countries, analysis of conflict-driven disaster risk management in the region, guidelines to include natural hazard management in the project cycle, a manual to prevent and reduce the impact of natural hazards on microfinance institutions, and an analysis of innovative financial instruments for natural disaster management. It has also produced an action plan for addressing the challenge of natural disasters that identifies six strategic areas for IDB assistance to help countries adopt comprehensive risk management policies: (i) national systems for disaster prevention and response; (ii) inserting prevention into the culture; (iii) reducing the vulnerability of the poor; (iv) involving the private sector; (v) risk information for making decisions; and (vi) fostering leadership and cooperation in the region. This Bank-wide plan is implemented through a coordinated network of 36 disaster focal points within the institution. SDS/ENV also coordinates IDB participation in inter-agency initiatives on disaster management and supports the Natural Disasters Network of the Regional Policy Dialogue, which brings together high-level government officials to discuss critical disaster risk management issues, priorities and actions.

## **Building Environmental Management Capacities**

[[www.iadb.org/sds/ENV/site\\_186\\_e.htm](http://www.iadb.org/sds/ENV/site_186_e.htm)]

SDS/ENV has been actively engaged in operations and programs involving support for environmental management activities in the region. Many countries, whose institutional capabilities were not up to the challenge of environmental management, received Bank support to strengthen environmental agencies, develop the necessary legislation and management instruments, and introduce monitoring and supervision systems.

SDS/ENV actively supported project teams in these efforts in 14 countries. During the 1990s, several countries (including Bolivia, Colombia, Panama and Peru) received Bank support to establish environmental ministries and develop new environmental legislation. Many other countries received support to strengthen and improve existing environmental agencies and legislation. In order to assess the effectiveness of such institutional strengthening programs, SDS/ENV coordinated a comparative study to identify lessons learned in the development and implementation of such programs. The Division also coordinated a comprehensive evaluation of environmental impact assessment (EIA) methodologies already in place in most countries. The study evaluated the effectiveness of EIA methodologies and identified their strengths and weaknesses. In addition, SDS/ENV organized a number of seminars, training-of-trainers courses and distance (Internet) training courses on the application of EIA methodologies.

## **Environmental Quality Assurance Process for Bank Operations**

Over the years, the Bank has developed systems to ensure that the environmental risks posed by the projects it supports are minimized. The Committee on Environment and Social Impact (CESI) [[www.iadb.org/sds/env/publication/publication\\_183\\_57\\_e.htm](http://www.iadb.org/sds/env/publication/publication_183_57_e.htm)] was established in 1996 to review the environmental and social viability of all loans and most technical cooperation operations in the Bank's pipeline on a weekly basis.

Depending on their potential impacts, loans may require an environmental impact assessment that will be reviewed by the committee. SDS chairs the Committee and is working to improve and update the CESI's review process and procedures. SDS/ENV also provides support to the CESI in areas such as the preparation of environmental assessment guidance documents and the development of EIA training. This included, for example, assistance to the Micro, Small and Medium Enterprise Division (SDS/MSM) in the development of specific guidelines for environmental and social due diligence for microenterprise operations. SDS/ENV is promoting the use of strategic



environmental assessments as an effective tool to take into account the socioeconomic impacts of integration initiatives in a proactive manner, and to increase their long-term sustainability, and promote successful stakeholder participation throughout program design and implementation stages.

### **Leveraging Resources and Partnerships**

Over the years, SDS/ENV has supported a number of activities to leverage resources and engage the international community, national environmental authorities and other stakeholders in the region, in a process of cooperation and dialogue on environmental issues. Technical cooperation financing and other Bank resources have been used for multi-annual programs to address issues of capacity in order to improve environmental management at the highest decision-making levels. It has also provided access to funding from the international community for technical assistance involving global environmental resources. Specific programs or areas of support include: key partnership programs, facilitating regional cooperation and dialogues on the environment, providing access to global environmental resources, and assessing national and regional performance in achieving environmental objectives.

#### *Key Partnership Programs*

SDS/ENV coordinates and manages two key partnerships that contribute to knowledge creation and innovation in environmental management. They are the IDB-Netherlands Partnership Program in Environment (NPPE) and the IDB-Netherlands Water Partnership Program (INWAP) [[www.iadb.org/sds/inwap/index.htm](http://www.iadb.org/sds/inwap/index.htm)]. The NPPE provides strategic support for areas such as environmental management, integrated water resources management, climate change (mitigation and adaptation), and biodiversity and forests. The INWAP's main objectives are to strengthen the Bank's operational capacity in water management, and to bolster the capacity of borrowing countries to address water management needs. The general lines of activity under INWAP include the adoption of integrated and innovative approaches to water management, support for institutional strengthening programs, and capacity building and training activities for Bank staff and government officials in member countries.

#### *Facilitating Regional Cooperation and Dialogue on the Environment*

SDS/ENV is part of the Inter-agency Technical Committee (that also includes the United Nations Development Programme, the United Nations Environment

Programme, the World Bank, and the Economic Commission for Latin America and the Caribbean) of the Forum of Environment Ministers, whose main objective is to strengthen its ability to act as a representative body in environmental matters and leverage political support toward the region's environmental agenda. The Bank's actions are in support of a five-year Action Plan adopted by the ministers in 2002. Another initiative supported by SDS/ENV is the Regional Policy Dialogue on the Environment, which was created in 2002 to promote high-level discussions on topics of regional interest. In 2004-2005, the dialogues facilitated the exchange of experiences on trade and the environment, as well as on capacity building priorities.

#### *Accessing Global Environmental Resources*

As the Bank's focal point for the Global Environment Facility (GEF), SDS/ENV provides technical assistance to the Regional Operations departments in the design of several operations, including those concerned with biodiversity, land and water protection, and renewable energy. To prepare for the growing number of projects in the GEF pipeline, SDS/ENV helped draft the necessary internal procedures for project review and financial management. In the *climate change* area [[www.iadb.org/sds/ENV/site\\_2492\\_e.htm](http://www.iadb.org/sds/ENV/site_2492_e.htm)], SDS/ENV channels technical cooperation funds to activities designed to strengthen connections between greenhouse gas mitigation and development pressures in the region. Such assessments highlight opportunities to reduce greenhouse gases while increasing energy efficiency, lowering costs, and providing other environmental and social benefits in a wide range of areas, including public transport, solid waste management, forests and renewable energy.

#### *Assessing National and Regional Performance in Achieving Environmental Objectives*

[[www.iadb.org/sds/ENV/site\\_393\\_e.htm](http://www.iadb.org/sds/ENV/site_393_e.htm)]

SDS/ENV is engaged in a regional initiative to assess progress made in achieving the Millennium Development Goals and identify institutional and methodological requirements to assist countries in reaching those goals.

### **Regional Integration and Positive Linkages Between Trade and the Environment**

SDS/ENV is actively involved in a number of initiatives to enhance regional and subregional capacities in the areas of trade and the environment. It has provided

technical expertise to a number of Bank-supported initiatives in the region as well as critical methodological support to projects that are relevant to international trade.

### *Initiatives to Support Integration, Trade and the Environment*

SDS/ENV has provided critical support to regional integration and trade initiatives in the context of the Central American Free Trade Agreement and the Mesoamerican Sustainable Development Initiative, which is part of the Plan Puebla-Panama.

SDS/ENV played a key facilitating role in the Memorandum of Understanding signed by the ministers of environment of the Mesoamerican region and the Plan Puebla-Panama Commissioners in June 2003. SDS/ENV is coordinating three subregional meetings (part of the Regional Policy Dialogue on the environment) that address trade and environmental priorities as well as capacity-building needs.

### **Environmental Management, Law and Economics**

[[www.iadb.org/sds/env/site\\_186\\_e.htm](http://www.iadb.org/sds/env/site_186_e.htm)]

An important function of the Environment Division is to support the efforts of borrowing member countries to strengthen environmental legislation, establish regulations and systems of incentives and disincentives aimed at promoting environmental conservation, and improve the management of institutions responsible for the environment and natural resources. This “good governance” model requires full commitment from government, broad civil society participation, and financial and technical support to be able to achieve positive results. SDS/ENV actively supports capacity building programs in environmental management, as well as the development of policy instruments that rely on public/private partnership. In addition to improving the quality of environmental management operations, this also provides Bank staff with a practical set of internally consistent options that can be evaluated and implemented at the project or program level. Work in this area has included the publication of papers on topics such as the economic analysis of solid waste disposal alternatives, policy tools, environmental management and regulations, and the use of contingent valuation models for project analysis.

### **THE RURAL DEVELOPMENT UNIT (SDS/RUR)**

[[www.iadb.org/sds/ENV/site\\_47\\_e.htm](http://www.iadb.org/sds/ENV/site_47_e.htm)]

SDS/RUR works in areas of particular importance in the rural development agenda, which include: the consolidation of public policy reforms, modernization of the State,

the development of land and financial markets, the sustainable use of natural resources, strengthening human resources, and infrastructure development. SDS/RUR assists in the preparation, execution and evaluation of rural development programs, creates and disseminates knowledge, coordinates the development of strategies and policies dealing with rural development issues, and provides support for the development of a regional interagency agenda for rural development. In addition, SDS/RUR has published books on rural finance, sustainable use of natural resources and access to land, and the relationship between agriculture, environment and poverty. Technical reports included topics such as agricultural research and biotechnology, institutional development in the agriculture sector, access to land, land markets and rural finance.

### **Rural Development and Agriculture**

[[www.iadb.org/sds/ENV/site\\_47\\_e.htm](http://www.iadb.org/sds/ENV/site_47_e.htm)]

Rural development is defined in a broad, territorial and multi-sector sense, and it includes many complementary activities such as: an increase in the competitiveness of food production systems, rural social development, sustainable natural resource management, institutional reform, and regional and subregional economic integration. Rural development can contribute to economic growth and also to greater equity. For this reason, it is of vital importance to modernize the food and agriculture sectors, as part of a regional effort to increase rural competitiveness. It is also essential to recognize alternatives to reduce rural poverty, like the promotion of agricultural and nonagricultural rural activities, and the creation of social networks for those segments of the population that are not able to migrate.

SDS/RUR work in this area included the development of three strategies, dealing with rural poverty, agricultural development, and rural finance. These are currently being updated and consolidated into one rural development strategy, as well as an operational policy.

### *The Regional Fund for Agricultural Technology (FONTAGRO)*

[[www.iadb.org/sds/ENV/site\\_5080\\_e.htm](http://www.iadb.org/sds/ENV/site_5080_e.htm)]

FONTAGRO has been financing agricultural research and technology transfer in the region since 1998. The fund uses the earnings from an endowment fund of approximately US\$34 million to make grant awards to winning proposals from researchers and institutes in the region through a biannual competition. Many of the research projects supported are innovative and promise to raise productivity and

enhance environmental protection. The program encourages collaboration across national boundaries between agricultural research institutes, and also promotes the involvement of private companies to maximize spillover effects and ensure that project results are in demand and easy to commercialize.

## **THE CHALLENGES AHEAD**

The region faces three major environmental challenges in the years ahead: promoting environmental sustainability; strengthening environmental governance; and enhancing policy integration and the development of an appropriate incentive framework to ensure that the environment is taken into consideration in all policy decisions.

*Environmental sustainability* is instrumental to various other regional and national goals, including promoting social development, reducing poverty, improving competitiveness and productivity, and encouraging regional integration and trade. Improvements in these areas create virtuous feedback loops that reinforce each other. Thus, improved competitiveness and increased trade boost economic growth, which helps further social development and reduce poverty, all of which can be important to improving environmental sustainability. Gains in competitiveness and productivity will be sustainable only if they are based on preserving and improving the natural resource base, given that the comparative advantage of many countries in the region lies in their rich natural resources. As a result, priority should be given to enhancing the productive value of natural resources and their environmental function and services, facilitating investments, developing markets for environmental services, promoting private sector participation in activities related to the environment, and tapping global and regional environmental markets.

Regional integration and trade pose specific challenges to environmental sustainability. In order to deal with them, regional institutions should be strengthened to effectively address and coordinate issues of environmental management, including regional investments, free trade negotiations, implementation of agreements, and harmonization of key environmental standard and procedures. Of similar importance is promoting regional sustainable development initiatives in critical transboundary areas, particularly in watersheds, biological corridors and areas high in biological diversity. Adopting sound strategic environmental impact assessment processes to guarantee the economic, social and environmental viability of large regional infrastructure projects is also essential.

Most of the environmental problems in the region are rooted in human activities and behavior that respond to distorted incentives. The region has depended on natural resource extraction as the basis of much of its economic development; yet, little or no economic value has been assigned to natural resources and the environment. As a result, public and private investment, often led by short-term financial and rent-seeking considerations, have led a process of continuous environmental deterioration, with little or no provisions for managing and conserving natural capital. Hence, at the core of the environmental problems of the region are pervasive market failures that distort asset investment choices and resource allocation to the detriment of natural capital.

Environmental degradation has a proportionately higher impact on the poor regardless of where they live. As a result, efforts to promote environmental sustainability can contribute to reducing poverty and increasing the overall quality of life. These efforts affect social development and poverty through various channels. Investments in environmental improvements and natural resource preservation create jobs and increase incomes. The quality of life is improved by addressing health concerns that are rooted in substandard water, air and soil quality. Finally, addressing issues of environmental sustainability can reduce the physical vulnerability to natural disasters and environmental risks that also have a disproportionate impact on poor communities.

Despite substantial progress, *environmental governance* (the development of environmental legislation and institutions) remains a challenge in the region. Governments have relatively little capacity to develop and sustain credible environmental institutions, and enact and enforce effective laws and regulations. In its broad definition, environmental governance is the process that links and harmonizes policies, institutions, procedures, tools, and information to make it possible for local communities, NGOs, and private and public sector agents to make fundamental decisions, manage conflicts, seek consensus, and be accountable for their actions. It is based on clear public and private responsibilities, respect for and compliance with laws, and local empowerment. Without strong environmental governance, the additional pressures associated with increased infrastructure investment, trade liberalization and regional integration will exacerbate the serious environmental problems that the region already faces.

Environmental sustainability cannot be isolated from the national processes of modernization of the State. It is important that the countries of the region develop and consolidate a framework for environmental management that is transparent and

participatory, and that will lead to strengthening institutions and civil society participation; strengthening regulatory frameworks; and developing effective environmental management instruments. The most fundamental challenges in the region today are centered around the need to strengthen functions for monitoring, oversight, compliance and conflict resolution; setting clear norms, standards, procedures and guidelines to enhance the environmental quality of public and private investments; developing effective instruments for environmental management, including *incentive and market-based instruments*; and improving access to environmental information at all levels to facilitate decision making and governance.

The work of the Sustainable Development Department lies in the context of the great challenges facing the countries of Latin America and the Caribbean, and the role of the Bank in assisting them. These inter-related challenges include: increasing economic growth; promoting social cohesion and expanding the social dividends of growth; strengthening democratic governance; promoting science, technology and innovation as a source of economic, social and political development; strengthening regional integration; and ensuring environmental sustainability. In addition, as detailed in the previous three sections, there are sector-specific challenges that fall within these broad categories.

As noted in chapter 5 and in the strategies for the overarching objectives and priority areas of the Bank, *increasing economic growth* remains a challenge for the region. Meeting this challenge requires an improved business climate. It requires assisting the countries to consolidate those economic reforms that have yielded positive results, review and modify those that have not, and push forward pending reforms to increase growth and improve equity and environmental sustainability. This challenge also implies: strengthening public finances, in particular, reverting declines in public investment; increasing savings to foster private investment; strengthening financial systems; and improving the confidence of markets and citizens by stimulating a favorable economic environment for investment. Another implication of this challenge is to expand and strengthen human capital and basic infrastructure to increase productivity via a more robust social and physical infrastructure.

Promoting *social cohesion* is also an important challenge, as noted in chapter 4. Social cohesion is particularly important to the success of efforts to promote sustainable and equitable development. Social cohesion is fundamental for social progress, for reducing poverty, and for promoting a more equal and inclusive society. It conveys the basic concept of a society ruled by a widely accepted social contract between a transparent and accountable government, guided by the principles of fairness



and solidarity and empowered citizens with defined rights and responsibilities. Although there have been substantial gains in terms of democratic governance and citizen participation, the lack of a broad-based and politically sustainable social contract is still a problem in the region. Pervasive income inequality, racial and ethnic heterogeneity, a poorly structured civil society and a large informal economy are manifestations of this problem in the region. Another facet of strengthening social cohesion is increasing the fiscal capacity of the State so that it can, not only invest in more infrastructure and human capital, but also enact proactive and inclusive development policies.

There is a real need to increase the social dividends of growth and avoid repeating the patterns of exclusion of the past. The pervasiveness of inequality and exclusion calls for quick action on multiple fronts if the Millennium Development Goals are to be achieved. Recent regional developments create an enabling environment for change and open “windows of opportunities” for effective action in the social sectors, within a social cohesion agenda. These developments include: a turnaround in economic activity; the resurgence of democratic governance; innovations in social protection and social inclusion policies; advances in trade and regional integration; and attention to the demographic transition that the region is currently undergoing. Taking full advantage of these opportunities to support pro-poor growth requires the combined efforts of governments and citizens to create an environment that fosters social equity and promotes more vigorous measures to reduce poverty and encourage social inclusion. Special emphasis should be placed on implementing effective social development and poverty reduction policies through integrated approaches that maximize synergies across interventions. This also requires policies that promote greater efficiency in social spending and strengthen social sector reforms. Investments in human capital (health and education) to benefit poor and excluded persons should be a chief priority. Reforms in these areas should substantially increase the coverage, quality and cultural relevance of basic social services. This effort needs to be paired with labor and financial market interventions (particularly microcredit) to increase assets, expand opportunities and prevent discrimination and exclusion. Women, indigenous peoples, Afro-descendants, and other disadvantaged groups should be a special focus of these efforts. In particular, we need to achieve sustainable gender equality and development with identity. Social and poverty reduction programs should be focused on obtaining results.

An additional challenge is to *strengthen democratic governance* to create a politically stable environment, to promote economic growth and to build more inclusive societies

(as noted in chapters 4 and 5). Political stability is important to improve long-term legal certainty and thereby stimulate savings and investment. It is significant to create adequate incentives to improve the competitiveness and efficiency of markets, and to ensure that public policies respond to general societal interests. In a context of “democratic deficits,” there are weak legitimacy for solid tax receipts and diminished possibilities for efficient fiscal allocations. Special attention should be paid to the independence of the branches of government and the balance of power among them. It is also important to strengthen the rule of law in order to create an impartial, reliable and efficient judicial system with broad coverage. A strong system of democratic governance requires the establishment of a modern and professional civil service based on merit (to improve transparency and efficiency in public administration). Democratic governance is characterized by well-functioning institutions, particularly supervisory and control agencies and those that promote competitiveness. Efforts should focus on the rationalization of the decentralization processes in order to strengthen their democratic underpinnings, improve the provision of services, and eliminate fiscal distortions. A strong system of democratic governance requires increased citizen participation.

Yet another challenge is to promote *science and technology for development* (as noted in chapter 5). While the region has acknowledged the critical role of science and technology for development, and has begun to strengthen its efforts in this area, there is still a pressing need for further action. Recent developments in Latin America and the Caribbean indicate that technological innovation is being increasingly seen as a critical factor to enhance productivity and competitiveness, to reduce poverty, and to reinforce the democratic system. The absence of a vigorous science, technology, and innovation sector has limited growth opportunities in the region. Because the science and technology sector is highly dynamic and efforts to promote it require great persistence, taking a short-term view of the issue will only lead to a loss of opportunities and increased costs. These costs will be reflected in lower economic growth, general welfare losses, and reduced progress in the fight against poverty. The region enjoys great opportunities in the area of science and technology because, among other things, it is generously endowed with natural resources; however, those opportunities cannot be realized if they are not included among national priorities. It is important to promote structural reforms and stronger alliances, as well as increased coordination between the public, private, and academic sectors in order to achieve this goal. Specifically, this implies a need to consolidate and strengthen institutions, improve education systems and create stronger linkages between the academic and productive sectors. It also

means the need to redirect resources and spur efforts to reach a critical mass, avoiding dispersion and volatility in technological investment. The challenge is to identify the comparative advantages of each country and build upon their potential, ensuring positive economic and social rates of return, and choosing the areas of greater concentration. The region needs a new paradigm for science and technology that provides a more pragmatic approach and a deep systemic change.

Still another challenge is *strengthening regional integration* (as noted in chapters 4, 5, and 6). The generalization of democratic regimes favors advances in efforts to achieve judicial, political and institutional integration, making it possible for the region to move beyond customs and trade issues. It also creates an opportunity to proceed with ambitious physical infrastructure projects such as the Plan Puebla-Panama and the Regional Infrastructure Initiative for South America (both of which would make possible an increase in the flow of goods, people, and services). In addition, it should crystallize the benefits of a truly inclusive hemispheric free trade accord. It should also enable joint efforts on regional public goods in areas such as health, education and financial markets.

As noted in chapter 6, the environmental challenges that the countries of Latin America and the Caribbean face include promoting *environmental sustainability*, strengthening environmental governance, and enhancing policy integration and the development of an appropriate incentives framework to ensure that the environment is taken into consideration in policy decisions. The interaction between the environment and other priority areas (e.g., economic growth, social development, modernization of the State, and regional integration) makes it a crucial factor in the region's sustainable and equitable development. Because the comparative advantage of many countries lies in their rich natural resources, environmental sustainability is key to improved competitiveness and reduced poverty. Thus, some of the challenges for environmental sustainability are to enhance the productive value of natural resources, develop markets for environmental services, and tap global and regional environmental markets. Another facet of addressing environmental sustainability involves reducing the physical vulnerability to natural disasters and environmental risks. It is crucial to strengthen regional institutions that effectively address and coordinate issues of environmental management. Environmental sustainability cannot be isolated from the national process of modernization of the State. Important challenges in this area are the need to strengthen functions for monitoring, oversight compliance and conflict resolution; setting clear norms and standards; and developing effective incentive and market-based instruments for environmental management.

## **THE CHALLENGE FOR SDS**

In order to assist the countries of the region as they face the challenges described in the previous sections, the Bank has strengthened its resource base and identified new and more flexible operation modalities. At the same time, the Bank has progressively increased its capacity to provide technical assistance and improve dialogues and nonfinancial activities to promote the enactment of better development policies and practices. In doing so, the Bank can take advantage of the lessons learned from its long development experience in the region. The role of the Sustainable Development Department is placed squarely within this broad context of the Bank's work vis-à-vis the challenges facing Latin America and the Caribbean.

The Sustainable Development Department will continue to provide conceptual and technical support to the operational departments in order to strengthen their abilities to respond financially and technically to meet the needs of the Bank's borrowing countries. SDS will continue to develop its analytic and research capacity, particularly in the areas of best practices and lessons learned, to support the Bank's dialogue with member countries. Specifically, SDS work will remain centered on three key areas of responsibility: development and implementation of sector strategies, policies, and guidelines; knowledge creation and dissemination; and project design, support, and review. Additionally, SDS has adopted a results-oriented approach, in line with the importance of measuring the development effectiveness of Bank activities.

### **Sector Strategies, Policies and Guidelines**

Sector strategies establish the Bank's priorities for action and constitute a frame of reference for the Bank's development policy dialogue with its member countries, as well as for the financial and technical activities of the regional operations departments. SDS will continue to focus on updating and implementing the Bank's strategic framework by directing efforts toward the consolidation of sector strategies and, fundamentally, their implementation. As part of mainstreaming the sector strategies, SDS will collaborate closely with the regional operations departments to update, develop, and implement new policies, operational guidelines, and toolkits.

SDS will provide enhanced sector support to the regional operational departments in line with the new instruments, such as placing greater emphasis on contributing to sector-wide approaches (SWAp). SDS will also participate in the development of national sector strategies and programs, country governance and institutional diagnoses, environmental analyses, and poverty documents. The

department will continue to support the development of sector performance indicators (baselines, benchmarks, targets, etc.), and contribute to institutional strengthening efforts at the country level, particularly with regards to building national capacity for monitoring and evaluation.

### **Knowledge Creation and Dissemination**

SDS will continue to improve the focus of its nonfinancial products, providing greater analytical support to the regional operational departments. More emphasis will be placed on lessons learned, operational guidelines, and other tools to enhance the quality of Bank operations. In particular, SDS will improve the use of best practice, lessons learned, and technical papers by developing more extensive dissemination mechanism, including improving electronic dissemination through its website. (Recent improvements in the SDS website have increased the focus on development topics.) The thematic networks that SDS coordinates will be promoted in order to increase the number of participants, and improve coordination between specialists in the different areas of Bank activity.

SDS will continue to provide support to regional initiatives (such as the Summits of the Americas, the Euro-LAC Summits, and other international conferences related to topics such as the implementation of the Millennium Development Goals), enhancing development effectiveness, and improving the monitoring and evaluation of operations as well as management for development results.

### **Project Design, Support and Review**

SDS will center its efforts in this area on improving project design through the Management Review Committee and the Committee on Environment and Social Impact.

The Department will give priority to providing sector technical support to projects by moving the review process upstream, increasing its participation at the programming level, contributing to the development of IDB Country Strategies, and participating in meetings of the Management Review Committee for project concept documents. SDS will continue to participate in project teams. It will also review projects through its coordination of the Committee on Environment and Social Impact, and participation in the Programming, Loan, Private Sector, Coordination, and Audit and Evaluation committees of Management.

SDS will continue to design regional technical cooperation projects in innovative areas, such as regional public goods, and micro, small and medium enterprises, as well as operations for the Multilateral Investment Fund, the Social Entrepreneurship Program and trust fund operations.

SDS also participates in Bank-wide efforts and initiatives to retool Bank operations, improve the Bank's development effectiveness, and modify the lending framework to be more responsive to the needs of the region.

## **IN CLOSING**

The Sustainable Development Department will continue to adapt to the changing needs of the region. Its aim is to contribute to reducing poverty and promoting sustainable economic growth. It seeks to strengthen its contribution to deepening the role of the private sector in promoting sustainable economic growth and generating income in a manner conducive to sustained poverty reduction. It aims to support an enabling environment for business and specific private sector projects, and engage the private sector in corporate social responsibility. It seeks to assist and finance the social cohesion agenda, including actions for social, economic, and political inclusion. In addition, SDS will advance the Bank's agenda to assist countries in the implementation, monitoring and achievement of the Millennium Development Goals. The work of the Poverty and Inequality Unit, the Private Enterprise and Financial Markets Subdepartment, and the Social Development and Public Governance Subdepartment will be crucial for this.

SDS will intensify its support to the region in the area of science and technology. Reflecting the importance of this area to promoting sustainable economic growth and reducing poverty in the region, the Bank has created a new subdepartment within SDS to monitor these issues (the Education, Science and Technology Subdepartment). During policymaking, dialogue and country programming exercises, SDS, through the new subdepartment, will emphasize the links between science and technology, competitiveness, and social and political development. The aim of these efforts is to assist the countries of Latin America and the Caribbean to improve their global competitiveness and social conditions. With the new subdepartment, SDS has been restructured to respond better to the needs of the Bank and the region.

This book has presented an overview of challenges facing Latin America and the Caribbean, as well as SDS activities in support of Bank efforts to address them. The accompanying CD-ROM provides a comprehensive collection of SDS knowledge creation and dissemination efforts. A review of the material presented under each topic

makes it clear how SDS work has evolved in the various development areas. For example, research has shifted from an analysis of the advantages and disadvantages of privatization to discussions of second-generation reforms. In the social areas we see an extension of concerns with gender and indigenous peoples to a broadening of research and activities to include, as well, Afro-descendants and persons with disabilities, and to the promotion of efforts to enhance social cohesion. This broadening of the scope of the issues that are relevant to sustainable social and economic development in the region is also apparent in the organizational makeup of the department, which now includes expertise in social inclusion, HIV/AIDS, natural disasters, business climate, science and technology, information and communication technology for development, civil society, governance and justice issues. This shift reflects the mainstreaming of the topics. We expect that future editions of this compilation of SDS resources will continue to reflect SDS support to the activities of the Bank and the needs of the region by highlighting cutting-edge development issues.