

The Path Out of Poverty

THE INTER-AMERICAN

DEVELOPMENT BANK'S

APPROACH TO

REDUCING POVERTY



Inter-American
Development Bank
Sustainable
Development
Department

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The countries of Latin America and the Caribbean have recovered much of the economic ground lost during the 1980s and are stronger as a result of structural reforms. However, as we begin the next millennium, many of the deeply rooted historical problems of the region remain to be resolved. Perhaps the most compelling task that our societies will face is the imperative of significantly reducing the unacceptably high levels of poverty founded, in large measure, on an unequal distribution of income and assets.

This report seeks to put the issue of poverty in practical terms of what we know about poverty and what can be done to eliminate it. Framing these issues in this way is no easy matter. Our knowledge of the social condition of the poor is woefully lacking and the practices and policies recommended are often untested. In its pursuit of policies to confront poverty, the Bank has learned from experience that often the process of project design, preparation and implementation is as important as its results. Greater community participation, effective dialogue with all the sectors of society, and more open and transparent processes are essential to sustaining development.

In the search for the most effective means to address poverty, the Bank continues to sharpen the focus of its lending. In the mid-1970s, agriculture and urban development were leading sectors in this effort; in the 1980s, the Bank helped fill the financing gap created by the debt crisis; and in the early 1990s, it took the lead in supporting the economic reform programs of its borrowing members. Today, the Bank has a greater focus on poverty reduction than at any time in its history. Lending to the social sectors is at all-time highs, the range of poverty-reducing initiatives is growing, and the Bank has built-in mechanisms to advance the concerns of women, children, indigenous groups, and other minorities in its lending operations. These efforts are still a work in progress, as this document highlights.

I am pleased that we can share the insights we have learned about poverty with a broad audience, since I am convinced that the collaborative effort to reduce poverty will be one of the great achievements for Latin America and the Caribbean in the next century.

Enrique V. Iglesias
President,
Inter-American Development Bank
April 1998

HIGHLIGHTS

After a decade of losing ground in the 1980s, poverty levels in Latin America and the Caribbean may be leveling off. In the 1990s, the share of the population living in poverty has begun to fall in a number of countries, even as the region has been buffeted by a major structural transformation.

Still, the gains in poverty reduction have not been dramatic or universal. Today, at least 150 million people live in poverty, and both the incidence and absolute level of poverty are higher than they were in the 1980s.

Even more troubling is the persistence of income inequality, which is the worst of any developing region in the world. In the 1990s, there has been a modest narrowing in the gap between rich and poor. However, poverty has remained far above what would be expected given the region's per capita income.

Today, poverty is more concentrated within specific groups and sectors in society. Poverty is becoming more urban (although rural poverty remains more severe). Poverty is increasingly prevalent among women, transmitted from parent to child, and concentrated in certain ethnic and racial groups.

All these factors make poverty a more complex problem than ever. Dealing with it requires new thinking and new approaches.

A cornerstone for reducing poverty over time is sustained economic growth; yet growth alone is not enough. In addition, investments in people are needed to raise their level of education, training, and health. Efforts are required to help the poor earn their way out of poverty and improve their quality of life. Steps must be taken to increase the participation of the poor, not only in specific projects, but in the public policy-making process. Taken together, these efforts form the foundation for a successful poverty-reducing strategy.

To build on this foundation, the IDB has expanded its use of instruments and financing alternatives, and has broadened its range of clients. It has created new tools to improve the quality and quantity of its poverty lending. Today, the Bank's lending has a greater concentration in the social sectors and a larger impact on the poor.

The Bank's disbursements to the social sectors are the highest in its history, and it has a portfolio of social loans estimated at \$10 billion lined up through the end of the decade. In all, since 1961, the IDB has lent over \$37 billion (in 1997 dollars) to the social sectors. These loans have pioneered new areas in education, health, microenterprise, urban development, water and sanitation, environmental protection, and science and technology.

While the Bank's annual lending capacity is substantial, its ability to meet the sizable financing needs of the region is limited. Social sector lending in coming years will amount to \$6.60 per person annually — a meager amount compared to the income needed to lift the region's poor out of poverty. Thus, the Bank is leveraging its resources with additional funding from local and international sources. At the same time, it is targeting its programs to those areas with the greatest impact on alleviating poverty and improving social conditions. And it is promoting mechanisms to ensure the greatest benefit for the poor from its programs.

The Bank's support in the form of loans and technical assistance is well known. However, it has another channel of aid that is perhaps more important: its agenda of research, best practices, studies, and public information. Bank loans are a small fraction of targeted government expenditures in any country. By contrast, the Bank's research and programming dialogue with governments can help shape priorities and change perceptions, with an impact on poverty many times greater than the value of its lending.

In the coming years, the results of efforts by the IDB and its local, national, and international partners to reduce poverty may occur more slowly — but could ultimately prove more important, as investments in education, health, and other social areas pay off to improve the well-being of this and future generations.



Latin America and the Caribbean face a paradox. For too many people in the region, poverty amidst plenty remains a daily reality. While much of the region has registered important economic and social gains, poverty has become more persistent and more concentrated within pockets of society. Today, at least 150 million people in Latin America and the Caribbean are considered poor, and both the incidence and absolute level of poverty remain higher than they were in the 1980s. (See Chart 1). Therein lies the challenge.

THE CHANGING FACE OF POVERTY

in Latin America
and the
Caribbean

WHAT IS POVERTY?

Poverty is not just an economic condition: the lack of daily necessities—of adequate food, water, shelter, or clothing. It is the absence of the capabilities and opportunities to change those conditions.

Good health and longevity; adequate education; access to land, credit, or other productive resources; supportive families and communities; justice; freedom from discrimination, abuse and violence: these are elements often missing from the lives of the poor.

Thus, measuring poverty is not so simple. Not only is it difficult to pinpoint the number of poor and their locations, but the definitions of poverty and methodologies used to measure it vary widely. Most methodologies use minimum income or expenditure measures as a proxy for the ability of a household or individual to meet basic consumption needs. In the discussion of general poverty trends here, this is the approach that is used.

But poverty is not just an economic condition; it is a human condition. This broader definition of poverty cannot be calculated in dollars and cents. Consequently, in addition to income-based measures of poverty, the profile of poverty presented in this document also provides information on other quality-of-life indicators.

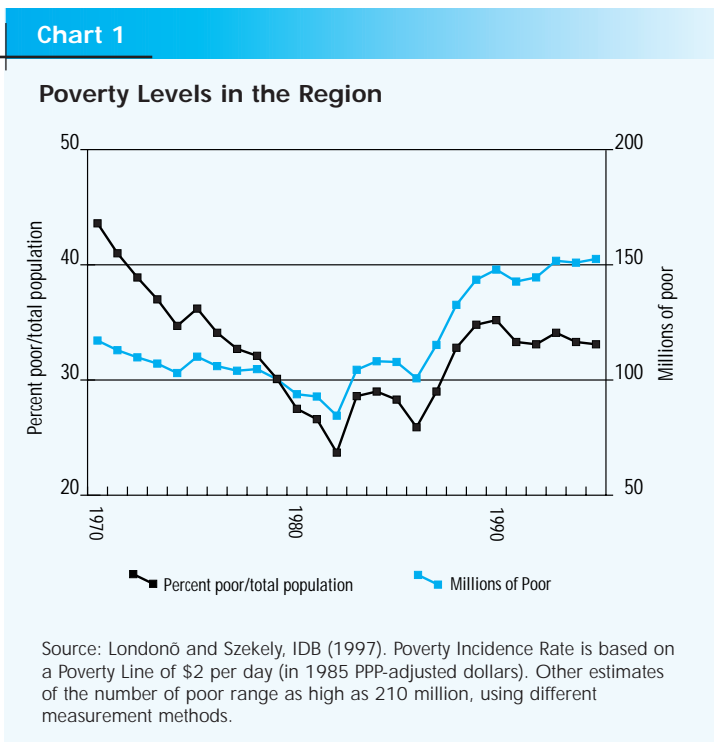
In spite of modest improvements in the 1990s, income inequality remains the worst of any developing region in the world. The lowest fifth of the population in Latin America and the Caribbean received 4.5 percent of national income, while the highest fifth received 55 percent. Severe income inequality is underpinned by extreme inequality in the distribution of assets, notably land and human capital. As a result of this wide disparity between rich and poor, poverty has

been far above what would be expected given the region's per capita income.

Still, there is also genuine progress. After a decade of losing ground in the 1980s, poverty levels in the region may have leveled off in the 1990s. In recent years, the share of the population living in poverty has begun to fall in a number of countries, even as the region has been buffeted by a major structural transformation. (See Box, p. 10). There are two main reasons for these

improvements: the control of inflation, and the resumption of more stable and rapid growth in a number of countries. These results, however, are fragile. Some of the biggest gains have come from reductions in inflation, which are one-time events, and even these gains in lowering poverty may be hard to maintain, as the recent experience of Argentina and Costa Rica demonstrate.

Both the incidence and absolute level of poverty are higher than in the 1980s...but poverty may be leveling off in the late 1990s.



POVERTY AND INEQUALITY TRENDS IN THE 1990s

Poverty has fallen in much of the region, according to a recent IDB and UNDP analysis. The study concentrated on 12 countries with reliable poverty data from the late 1980s to the mid-1990s.¹

Almost universally, those declines in poverty were accompanied by economic growth. Yet the gains for the poor were tempered by high and—in some countries—growing inequality. In more than half the countries or locales, income became more concentrated or its distribution remained unchanged. In other cases where growth was low or declined, poverty worsened.

Trends varied among regions and among age, occupation, ethnic and gender groups, as well as between the moderate and extreme poor. For example, in Colombia, while urban poverty fell sharply between 1978 and 1995, rural poverty increased. In Mexico, while aggregate extreme poverty fell slightly between 1989 and 1994, it rose significantly in the south and southeastern regions of the country. Acknowledging and understanding the causes of these differences is important for policy design.

Another pattern emerges from the data. Much of that economic growth was unstable — and volatility in growth rates translates into sharp turns in poverty rates. Adverse shocks, such as Mexico's devaluation, periods of fiscal retrenchment, and high inflation, resulted in rising poverty. Years of bonanza and of rapid decline in inflation were accompanied by poverty reduction. This has implications for policy, as discussed in Chapter 2.

¹ These countries are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Paraguay, Peru, and Venezuela. Together, they contain about 90 percent of the region's people. Of these twelve, nine have information for urban and rural areas, while three (Argentina, Bolivia, and Paraguay) have information for metropolitan or urban areas only. Exceptions to the trend were Venezuela and metropolitan Buenos Aires, Argentina, where the incidence of poverty rose, and Mexico, where it remained unchanged.

Social indicators for Latin America and the Caribbean are generally better than those for other developing regions (with the exception of East Asia and the Pacific). There have also been notable improvements in social indicators across the board over the past decades (See table, opposite). However, regional averages mask differences both between and within countries. Social indicators for poor rural areas of Latin America, such as northeast Brazil, are as severe as those for Sub-Saharan Africa.

Another feature of the economic landscape is problematic: economic growth has been unsteady and has not led to a sufficient rise in employment. In 1997, open unemployment for Latin America was estimated at 7.5 percent—considerably higher than the 1991 rate of 5.8 percent. A disproportionately high share of unemployed workers are poor — and young.

Meanwhile, for those with jobs, the wage disparity between the skilled and unskilled has risen, widening an already unequal gap in income.

Today, poverty is more concentrated in specific groups in society, and the one-time gains from falling inflation have already been realized. Thus the impact of future efforts to reduce poverty may occur more slowly — but could ultimately prove more lasting, as investments in education, health, and other social areas pay off to improve the well-being of this and future generations.

Table 1

The Quality of Life is Improving in the Region

	Latin America & Caribbean	East Asia excluding China	All developing countries	Industrial countries
Life expectancy is increasing (years)				
1960	55.3	54.5	46.0	68.6
1994	69.0	71.5	62.1	73.8
Infant mortality rate has fallen (per 1,000 live births)				
1960	107	84	149	39
1994	38	17	64	14
Access to safe water is higher (percent)				
1975-80	60	70	41	—
1990-96	75	94	69	—
Adult literacy rate is increasing (percent)				
1970	72.0	—	43.0	—
1994	86.0	96.7	64.0	98.5
School enrollment ratio is higher (gross enrollment ratio, 6-23 year-olds)				
1980	59	65	46	—
1994	70	79	56	83
Women's share of the labor force has increased, but is still low in Latin America (percent)				
1970	24	37	37	40
1990	32	41	39	44
Maternal mortality has risen (maternal mortality ratio per 100,000 live births)				
1980	128	50	—	11
1990	155	92	471	7
Urban population is higher (percent)				
1960	50	36	22	61
1994	74	79	41	75

Source: UNDP, "Human Development Report 1997"; Maternal mortality, WISTAT 1994 (UN).

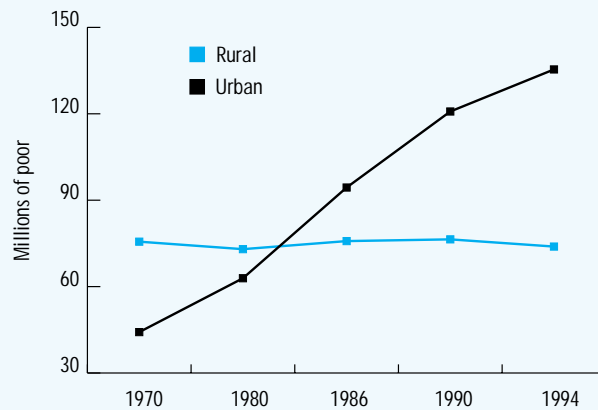
The Changing Face of Poverty in Latin America and the Caribbean

Who are the poor? They are likely to be less educated and to work in the informal sector. Indigenous groups and blacks are more likely to be poor than whites. The poor tend to live in larger households with more dependents, whose head has little or no education. Some poor households are headed by women; others by men: no general pattern emerges as to gender of the head of poor households. Children and young workers are more likely to be poor. In several countries, the incidence of poverty is higher for those households whose heads are 60 or older. Many of the poor are peasants or self-employed. These tendencies are examined more fully below.

Poverty is now more urban than rural...

Chart 2

Urban versus Rural Poverty



Source: ECLAC, "Panorama Social 1997."

The urban poor now outnumber the rural poor.

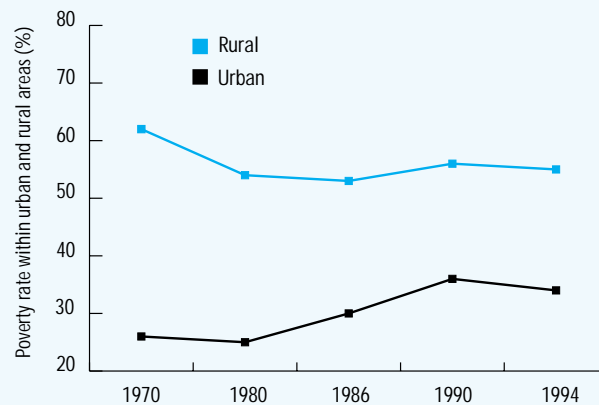
In the 1980s, for the first time, the urban poor (primarily female heads of household, fathers with little or no formal education, and unemployed youth) outnumbered those in rural areas for the region as a whole. (See Chart 2).

The preponderance of urban poor, nearly double their rural counterparts, places additional demands on municipal services. Solutions for education, health, urban transport, housing, water and sanitation must account for the special needs of the urban poor.

...but rural poverty is more severe.

Chart 3

Incidence of Urban and Rural Poverty



Source: ECLAC, "Panorama Social 1997."

Rural poverty is most severe.

In spite of their fewer numbers, the poor in rural areas make up a relatively larger share of the poor in some countries: over 60 percent of the poor in Mexico, Central America and the Andean countries live in rural areas. Moreover, rural poverty is more severe, and in some cases has increased substantially. (See Chart 3). Some two-thirds of the rural poor are small farmers; the remainder are landless workers. Approximately half the rural poor have very limited access to productive resources with which to generate sufficient earnings from agricultural production. This situation takes on even greater importance considering that the rural poor without access to agricultural resources are projected to grow faster than those with sufficient access.

The rural poor need employment opportunities, including alternatives to agriculture; better nutrition, health services and educational opportunities; and access to productive resources, including land.

Poverty is transmitted from parent to child.

Nearly six out of ten children in Latin America and the Caribbean — some 58 million children under 15 years of age — are poor. Some 20 million of them reach school age without having received meaningful developmental attention that would, among other benefits, prepare them for school. Most can be expected to leave school without the basic skills needed to earn a decent income and escape the destitution into which they were born.

Although the number of children in poverty is not growing significantly and may even be declining in the 1990s because of declining fertility and economic growth, the numbers at high risk of economic failure are almost certainly growing substantially. One risk factor is particularly crucial, and seems to be worsening; the children of the poor disproportionately fail primary school and hence fail to clear the first hurdle in the path out of poverty.

Adolescent motherhood is a troubling trend.

Just over one out of three adolescent girls in the region gives birth before age 20. The region has had a disappointing performance in reducing adolescent fertility rates, especially given its level of development and its performance in reducing overall rates. The incidence of early pregnancy is higher among the poor, and the consequences are more severe. Rural, less-educated women are more likely to give birth as adolescents. Increasingly, births to adolescents also take place outside of marriage, leading to single motherhood and families with absent fathers. At the same time, adolescent pregnancies have a direct impact on perpetuating poverty, limiting the educational and economic opportunities available to young mothers and increasing the nutritional and other risks of their children.

Working women are more likely to be poor.

Women have made important gains in quality of life over the past twenty years, but this progress has occurred in the context of persistent inequality, limited opportunities and growing poverty. Longevity has increased, birth rates have fallen, and school attendance has increased. These positive gains are overshadowed when indicators are disaggregated by country and population groups. Disparities in women's quality of life in poor countries compared to rich countries continue — and for certain indicators, such as maternal mortality, have widened.

Notwithstanding the strides in education, labor force participation and health, the growth in female economic responsibility for family well-being and the feminization of low wage jobs are areas of concern. Holding other factors constant, working women have a higher probability of belonging to the bottom 20 percent of the income distribution when compared to working men.

Poverty is more prevalent among members of indigenous groups.

Poverty and ethnicity are strongly related. One-quarter of all Latin Americans living in extreme poverty are indigenous. In the Andean and Meso-American countries—which account for most of the region’s 40 million indigenous people—the incidence of poverty is as high as 60 percent of the population. Over 90 percent of indigenous people are sedentary subsistence farmers, and they are generally located in areas considered to be the least hospitable of the region: the arid mountainous regions of the Andes and Meso-America and the remote tropical rainforest areas in the Amazon and Orinoco watersheds and in Central America.

The ethnic dimension of poverty must be better understood and more systematically addressed if extreme poverty is to be lowered in the region. Indigenous peoples often have a strong attachment to communally held and managed land and natural resources, which form the basis of their subsistence as well as their social and cultural integrity. As a result, many of the changes induced by economic development can put indigenous people in an especially disadvantageous position.

Poverty is more complex than ever.

All these trends and factors — the urbanization of poverty and its persistence in rural areas; its prevalence among women, children and ethnic groups; and the wide disparities between rich and poor in the region — make poverty a more complex phenomenon than ever. Dealing with it requires new thinking and new approaches, as discussed in the rest of this report.



2

A cornerstone for reducing poverty over time is sustained economic growth; yet growth alone is not sufficient. In addition, investments in people are needed, to raise their level of education, training, and health — and thus, over time, their well-being. Efforts are needed to help the poor earn their way out of poverty and improve their quality of life. Steps must be taken to increase the participation of the poor, not only in specific projects, but in the process of making public policy. Taken together, these efforts are the foundation for a successful poverty-reducing strategy. These themes are discussed below. In addition, some areas of concentration, where energies and resources can be applied most effectively to reduce poverty, are identified.

CURBING POVERTY:

Where

High Impact

Improvements

Can Be Made

Providing Broad-Based Growth, Jobs, and Safety Nets for the Poor

The importance of sustained growth should not be overlooked. On average, countries can cut poverty by between 1 and 4 percent a year by sustaining a 1 percent rise in consumption per person. Yet, as noted, growth alone is not enough. Without policies to redistribute income to the poor and programs to target their needs, growth may lower poverty only slowly. At yearly growth rates of 3 percent per capita, it could take from nearly fifty years to more than a century—depending on the country—to completely eradicate poverty as measured by those living on less than \$2 a day.

Without policies to redistribute income to the poor and programs to target their needs, growth may lower poverty only slowly.

Equally important is the type of growth. Growth that creates jobs is key to reducing poverty. Consider the contrasting cases of Costa Rica and Brazil between the early 1960s and the late 1970s. In that period, Costa Rica's poverty level fell substantially more than Brazil's — even though its per capita income growth was lower. This disparity in outcomes resulted from Costa Rica's heavy investments in the social sectors and labor-intensive growth.

Growth must be sustained to truly help the poor. Economic shocks, instability, and uncertainty have been persistent features of the region's economies. Events of the mid-1990s show that the region is still subject to these vulnerabilities. Shocks manifest themselves in sudden changes in international capital flows or falling commodity prices; the transitional costs of economic reforms; or the impact of natural disasters, such as El Niño. The impact of these events on the poor is especially devastating, as bad things tend to happen simultaneously to them. Seasons with bad weather, for instance, tend to lower employment and wages for farmers or fishermen at the same time. The incidence of disease often rises, too, affecting the ability of household members to work.

To defend themselves in times of economic emergency, the risk-prone poor tend to set up informal arrangements. However, community-based risk-sharing arrangements can have serious limitations. In particular, they break down when adverse shocks affect the community, region, or country as a whole. These factors call for public actions to partly mitigate the impact of shocks on poor people's income and employment, with safety nets and programs for social protection.

Breaking the Intergenerational Cycle of Poverty

Those born into poverty are likely to remain poor. There is a life cycle of social problems, beginning with inadequate prenatal care, followed by a disadvantaged childhood and troubled youth and evolving into a constellation of dysfunctional behaviors, including adolescent motherhood and single parenthood, alcoholism and substance abuse, and violence. To cite one troubling example, adolescent girls in extreme poverty, particularly in urban marginalized and rural areas, become pregnant earlier and more frequently than their better-off counterparts. Thus the cycle continues.

Social problems like these are costly, undermine the social fabric, and slow down economic growth. At the same time, these factors point to the types of programs that are needed to break the transmission of poverty from one generation to the next. Broadly, effective approaches include investments in human capital, greater access to assets and earning opportunities, and steps to strengthen the social networks of the poor.

Investing in People

Making high quality health and education services more accessible to the poor is a linchpin of any anti-poverty strategy.

A country's most valuable resource is its people. In the long run, one of the most effective ways of breaking the cycle of chronic poverty is investing in people.

Improving the poor's access to high quality health and education services is a linchpin of any anti-poverty strategy. While the benefits are not immediate, these investments yield some of the highest economic returns in terms of reducing poverty.

Over the last thirty years, there have been important gains in schooling and health indicators in Latin America and the Caribbean. Yet levels for education and health remain below what would be expected given the region's income level. Moreover, it is increasingly apparent that the effectiveness of social service delivery systems bears little relation to the level of public expenditures. As a percentage of GDP, Latin American countries spend more, through their public sectors, on education and health than do other developing nations, and private expenditures in health far surpass their equivalent GDP share in other developing countries.

The issue then is the distribution of social spending, rather than its absolute amount. To benefit the poor, delivery systems must offer equitable access to quality services, and dedicate more resources to basic health and education, as opposed to directing greater subsidies to universities and favoring complex health care that unduly benefits high-income groups. Some important areas for intervention are reviewed below.

Investing in People

Investing in Education

The education of women has extremely powerful effects on poverty.

In spite of greatly improved coverage throughout the region, educational quality has suffered, especially for the neediest students. There is a tremendous disparity in the amount spent on poor students compared to their wealthier counterparts. Furthermore, on average, rural children receive a lower quality of education than urban children, and they abandon school earlier. In part, disparities between rural and urban areas are attributed to the higher cost of providing education to

small, often poor and isolated communities. This situation raises issues of quality that trouble education authorities.

The education of women has been shown to have extremely powerful effects on poverty. The higher the educational level of women, the better the educational and nutritional level of their children. Of particular concern is the education of girls in rural areas, who are overrepresented among the illiterate and dropouts, and

whose completion rates are lower than boys. This situation is worst in countries with large indigenous populations. Hence, investing in the education of women is a way of breaking the tragic intergenerational transmission of poverty. As well, reaching children even before they enter school with early childhood attention helps to ensure that they can take advantage of their schooling later on.

Investing in Health

Governments can improve the living conditions of the poor by providing better access to quality health services.

The burden of disease and ill health is most severe for the poor. They suffer the greatest incidence of disease; they have the smallest amount of insurance protection when disease strikes a breadwinner; and malnutrition and sickness are most likely to afflict their children, reducing their learning potential.

Latin America has quite favorable regionwide indices of health compared to those of most other developing regions. Yet there is an enormous disparity in access to health services across the

region. In Argentina, Chile, Costa Rica, Jamaica, and Uruguay, more than 90 percent of the population has access to health services. This contrasts sharply with the situation in most of the countries with large indigenous populations.

Past experience with inappropriate targeting, inefficient operations, and lack of access by the poorest of the poor have led governments to reexamine their role in providing health services. Reforms focus on strengthening the regulatory function of the ministries of

health by separating financing from delivery functions, and by stressing the delivery of cost-effective interventions aimed directly at the poor. These efforts can not only improve the living conditions of the poor, but also raise their productivity and capacity to learn.

Expanding the Poor's Income-Earning Opportunities

A key means of reducing poverty is creating better jobs — and increasing the growth in jobs well above the growth in the labor force. Creating new and more productive work, mainly in the private sector, requires complementary, long-term investments in human capital to raise the skill levels of workers, as well as a favorable climate for economic growth and business activity. Equally important are a host of markets that offer the poor access to jobs and productive assets. Among these are credit markets to finance small businesses, housing, education and training; effective labor markets that open up job opportunities; and land markets that permit owners to upgrade their housing and make effective use of farm land. Some of the most critical areas with high poverty-reducing impact are examined below.

Supporting Microenterprise

Microenterprise lies at the center of the economies of the region, and supporting them should be a major part of a poverty-reducing strategy.

From the street vendor to the machine shop operator to the seamstress and the peasant farmer, micro-entrepreneurs come in all types. Microenterprises are an important source of jobs for the poor, employing one third of the region's labor force and accounting for 80 percent of all businesses. Given the flexibility of the microenterprise sector and its proven role in employment and income generation for

the poor and for female heads of households, support for microenterprise should be a key component of a poverty-reducing strategy.

A critical barrier to the growth of microenterprises, however, is lack of access to financial services and credit. Less than 5 percent of Latin American microentrepreneurs have access to formal financial services. Banks do not serve

this sector well because most microenterprises lack the required collateral, and because the cost of providing small loans is relatively high. Expanding and diversifying sources of credit for this sector is a major challenge that is being met by strengthening the NGOs that work in this area, and by helping banks reach smaller clients.

Expanding the Poor's Income-Earning Opportunities

Helping the Rural Poor

Expanding opportunities for the rural poor requires a variety of policies. Governments need to eliminate artificial barriers and costs imposed on agriculture and, at the same time, provide necessary investments in social capital. To help the poor who work in agriculture, policies are needed that augment the productivity of the sector

and its ability to support adequate living standards. These steps include improving access to technology, credit, water and other inputs; securing property rights through titling; and investments in infrastructure such as roads and irrigation. A key determinant of rural poverty in many countries is access to sufficient land.

For the landless poor, one solution is to create a land market and help them acquire their own land. Meanwhile, public and private efforts are needed to create new employment options, to attract private investment, and to boost training.

Promoting Urban Development

The reform of land use policy and improvements in urban transportation services play a key role in allowing the urban poor greater access to the economic development opportunities of the cities. Legalization of land tenure in poor settlements allows

households to mobilize income from their largest asset and affords them the mobility required to relocate to take advantage of employment opportunities. More flexible land use and building regulations allow households to put their homes to productive use

such as microenterprise. Affordable and efficient urban transportation services are also necessary to link the poor to markets, jobs and basic health and education services.

Strengthening the Poor's Social Networks

Family and kin, communities, civil associations, and broader groups provide a foundation for strengthening the quality of life of the poor. Local communities, for example, can provide inputs in the design and implementation of poverty-reducing projects. Conversely, when these social linkages are broken, they lower the quality of life of the poor and perpetuate the cycle of poverty. Some cases of these broken links are examined below.

Curbing Violence— and Preventing It

The social fabric that is so important to the poor is being frayed by violence throughout the region. Violence subverts features of social organization like trust, norms, and association. It also affects the well-being of all citizens and is a serious threat to democracy.

The costs of urban violence as a proportion of regional GDP more than doubled over the past two decades: from 0.8 percent of GDP in the early 1980s to 1.6 percent in the mid-1990s. The mortality and morbidity attributable to street violence represents the loss of three

working days yearly for each Latin American, a figure three times higher than for the rest of the world. While specific data are not available, the costs of preventing urban violence should be sizably lower than treating the consequences of violence.

The same can be said of domestic violence and violence against children, which is widespread in the region. Recent sample surveys from different countries reveal that about one woman in five suffers some form of physical violence and another 25 to

30 percent some form of psychological violence. The direct costs of domestic violence include the value of goods and services—such as health care, police, and judicial services—needed to treat or deal with it. Indirect costs include the value of goods and services lost because of domestic violence—through job loss, decreased productivity in the workplace, or increased absenteeism for abused women — and even increased infant mortality. Indeed, these indirect costs may dwarf direct costs.

Intervening Early to Break the Cycle of Dysfunctional Behavior

While these social problems are not new to the region, and some have deep historical roots, their incidence appear to have risen sharply in recent years, leading to pervasive citizen concern and public insecurity. They reflect under-investment in women, children, and ethnic minorities. They are likely to increase in severity in poor countries and among the poor, who bear more

children than the non-poor. Common features of these dysfunctional behaviors are their complexity and interrelationships. They have multiple causes rather than a single explanation. In addition, they have costly intergenerational consequences. Disadvantaged adolescent motherhood reproduces disadvantages in the next generation. Childhood abuse is a powerful predictor of adult

violence. Rising violence that is not stopped locks societies into escalating spirals of violence.

Early intervention is a cost-effective way of breaking these cycles. It is, for instance, desirable to invest in mothers and intervene early in childhood to enable poor children to escape poverty through schooling.

Policy Tools and Approaches to Reduce Poverty

A main factor in the success of poverty reduction programs is the manner in which they are executed. Notably, proper targeting and attention to incentives, adequate participation of the poor and the garnering of political support, careful decentralization, and adequate information for appropriate policy design all affect the long-term sustainability of anti-poverty programs.

Sensible Targeting

To maximize the impact of scarce resources, targeting of investments for the poor is important. Such characteristics as gender, age, ethnicity, and even geographic location have been shown to correlate strongly with poverty. In specific cases, these offer cost-effective targeting indicators. Moreover, they can minimize unwanted effects of more traditional targeting tools, like means testing, that can alter behavior, such as a household's choices regarding work in order to qualify for benefits. The following are important groups to target.

Sensible Targeting (cont.)

Investing in women is investing in children. Such investments are a key way to break the transmission of poverty from one generation to the next.

Women

A poverty-reducing strategy should include measures to secure women's access to economic resources such as credit, training, and child care. Steps to reverse discrimination and segregation in the labor markets and in schooling (especially in rural areas) are also important. Maternal health care will improve the chances that the next generation will be healthy and productive. Day care not only frees up women to work, but provides attention and stimulation for youngsters, increasing the likelihood that they will succeed in school and thus later in life.

Children

Investing in children is particularly important. Children are the future of the region. Failure to address their problems today will only worsen the next generation's problems. Importantly, the cost of addressing the main sources of deprivation suffered by poor children is surprisingly modest. Raising pre-school, primary and secondary schooling and basic health services for poor children to the average level of non-poor children would range in cost from less than one-tenth of one percent of GDP for Chile to about three percent for Nicaragua.

Indigenous Groups

Although indigenous peoples make up only 10 percent of the population, they constitute 25 percent of the region's poor. At the same time, indigenous communities have undergone a strong process of cultural renewal. The resurgence of powerful indigenous movements, combined with high population growth rates and the increasing presence of indigenous groups in urban areas, have brought indigenous demands to the forefront in the development agenda of many countries. Securing access to the lands they have traditionally occupied, and improving their education, training and local institutions, are effective means of raising the economic and social conditions of indigenous communities, and protecting their cultural heritage and ethnic identity.

Effective Participation

Poverty reduction is a national issue, but its solution must be local, forged in partnerships in the public and private sectors.

Community participation is not just a tool or process, but an end in and of itself.

Informal networks of kin or community provide their own safety net and social protection mechanisms, which are often more important and effective than government programs in helping poor households. Moreover, small-scale projects that are locally

based, designed and implemented often provide a direct means to target the poorest, while fostering local ownership—thus improving results. (See discussion on Social Investment Funds in Chapter 4).

Strengthening the “voice” of the poor, not only in specific projects, but in the larger processes of public policy

dialogue, serves to encourage social equity and hold governments accountable to their entire constituencies. Poverty-reduction approaches are most effective when they result from the combined efforts of governments, citizens, and civil society organizations. Together, they provide the best hope for finding a path out of poverty for the region.

Careful Decentralization

The regional trend of decentralization of authority means that local governments are increasingly responsible for many of the services that are critical for the survival strategies of the urban poor. This process offers both potential gains and increased risk. There are potential gains in the efficacy of poverty reduction programs by increasing local

community participation and adding flexibility to adapt solutions to local needs. Meanwhile, there is the risk that local governments lack the capacity to deliver these services. Local governments must help provide education, training and health care, along with infrastructure in water, sewerage and refuse management. To be effective, it is necessary that local

agencies have the right structure, incentives, adequate resources, and ownership that ensure they can perform as needed. Furthermore, the right incentives must be in place for policymakers so that they are held accountable to those whose lives are affected by the results of their decisions.

Availability of Information for Policy-Making

Appropriate information must be available to analyze poverty-related problems and tailor solutions to them.

Policymakers must be able to track the profile of the poor in a given country or region over time to address the different causes and consequences of poverty.

Good information can also help reduce waste of resources and identify the correlates of poverty and targeting criteria. Hence, information on poverty, better measured and better

disseminated, can improve the effectiveness of policy decisions. Yet an enormous gap in knowledge still exists regarding how best to evaluate the impact of different poverty-reducing investments. Generating reliable information that is comparable over time and across regions on a regular basis will facilitate the undertaking of such evaluations.

The Inter-American Development Bank has participated in the process of development in Latin America and the Caribbean for nearly forty years. In that time, the IDB has sought ways to bring the lessons learned in poverty reduction to bear on the social and economic problems confronting the region. In the next two chapters, the role of the Bank and examples of its activities in poverty reduction are highlighted.



THE IDB'S ROLE in Fighting Poverty

Over the years, the Bank has built up a sizable portfolio of loans and technical assistance to address poverty. These lending and advisory services are complemented by information-gathering, research, and dissemination activities. Together with the lessons learned from nearly four decades of operational experience and an ongoing dialogue with stakeholders, these are powerful tools to reduce poverty and improve social equity.

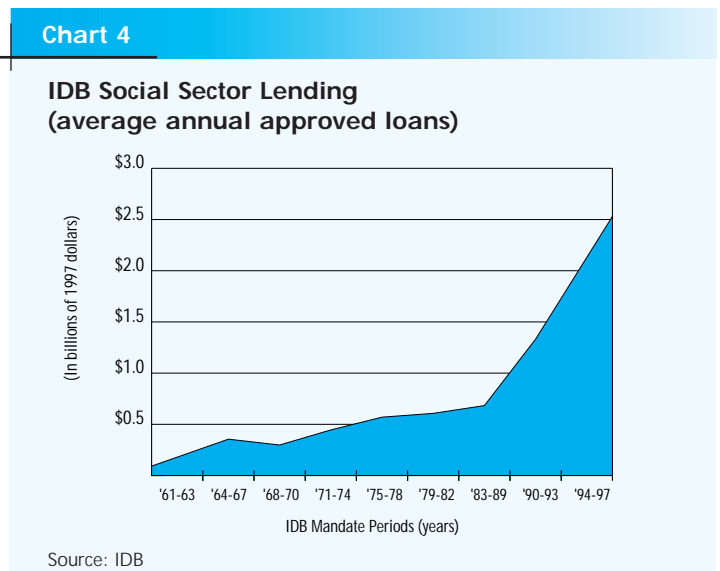
From its first loan in 1961 for a sanitation project in Peru through its latest reform-minded loans for health and education, the Bank has approved \$37 billion (in 1997 dollars) in assistance to the social sectors. These loans have pioneered new areas in education, health, microenterprise, urban development, social investment funds, water and sanitation, environmental protection, and science and technology.

Today, the Bank's disbursements to the social sectors are the highest in its history, and it has a portfolio of social sector loans estimated at \$10 billion lined up through the end of the decade. These loans will not only finance projects; they will also promote programs that address common regional concerns; offer technical assistance needed to strengthen institutions and improve regulations; provide training; and support the preparation and evaluation of projects.

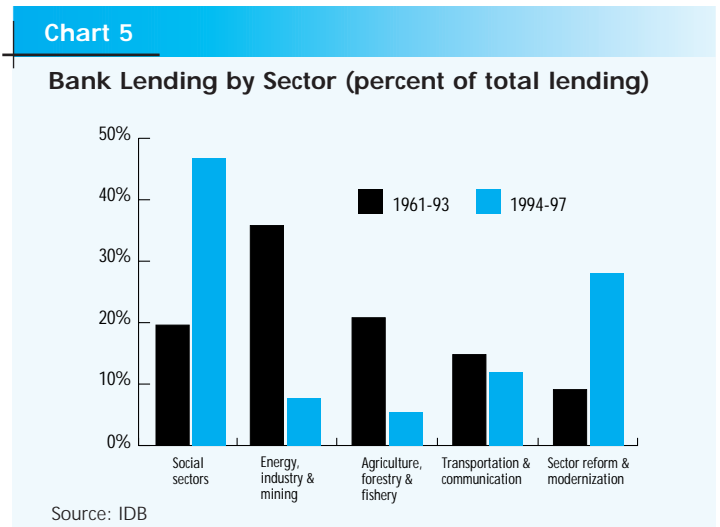
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These activities are funded through a variety of arrangements, with terms and conditions designed to ease repayment by the poorer borrowing countries. At the same time, to enhance their impact on the poor, Bank programs are targeted to reach specific groups or activities, and are geared toward those sectors that have the greatest ability to reduce poverty and improve social conditions.

The volume of social lending has risen dramatically since 1990...



...while social sector lending has become the leading sector of Bank activity.



Expanding the Poverty Focus

The Bank's lending today has a greater concentration in the social sectors and a larger impact on the poor.

The Bank has expanded its use of instruments and financing alternatives, and has broadened its range of clients. In its earliest days, it dealt mainly with governments, and supported planning, project preparation, and the creation of institutions able to implement infrastructure projects and social programs. Its main instrument was highly concessional loans with very low interest rates and long payback periods. More recently, the Bank has directed financial and technical resources to the public and private sectors, national and local governments, and civil society organizations. The range of financial instruments has also widened, ranging from large sector reform loans to small-scale loans to microenterprises, from debt financing to equity to grants.

The Bank's orientation toward improving social conditions and reducing poverty heightened in the late 1970s, when the region was buffeted by two oil price shocks. In 1979, the Bank specifically identified the poor as the main beneficiaries of its lending. To reach the poor, the Bank combined its large concessional funding resources, totaling some 50 percent of its lending at that time, with specific targets for rural and urban development programs. Special emphasis was placed on activities to increase productive employment. During the 1980s, the Bank gradually expanded its social lending, even as governments cut back spending in the wake of the debt crisis and concessional resources became more scarce. By the mid-1990s, the share of social lending was at a record level as were the estimated benefits to the poor, based on the historical relationship between social lending and benefits to the poor. (See Chart 4).

In recent years, the Bank has employed a variety of means to expand the poverty focus of its lending program.

New Tools, New Directions, and New Financing to Reach the Poor

The Bank has created new tools to improve the quality and quantity of its poverty lending. These include more flexible instruments, such as Social Investment Funds, which have evolved into a major means to rapidly funnel financing to impoverished communities. Safety nets safeguard the poor during economic downturns or natural disasters. (See Chapter 4). Even the sector lending of the early 1990s focused mainly on the poorer, smaller countries, offering balance-of-payments support and incentives for structural and regulatory reforms that provide the basis for sustainable growth and permanent poverty reduction.

Special efforts are being made to bring women, children, and indigenous people into the mainstream of society.

Another important shift has occurred on the sectoral level. Since 1994, social sector lending has been at the forefront, taking top place from the productive sectors (mainly energy, industry, and mining before 1990), and sector reforms in the early 1990s. (See Chart 5).

Within the social sector, the nature of lending has changed, as well. Originally the Bank focused mainly on investments in infrastructure, such as universities, schools, and clinics. This has given way to a focus on the quality of service delivered, and on sector reform. Increasingly, the Bank engages in policy dialogue with borrowing countries to help put in place the necessary incentives to deliver quality social services, and to help design systems that will be self-sustaining. A greater poverty focus has also been achieved by the choice of investments within sectors. For example, lending for higher education has declined dramatically from levels in the 1980s, giving way to primary and secondary education, which doubled its share of Bank education lending in the 1990s.

Special financing mechanisms have been devised to raise demand for Bank assistance from its poorest borrowers and to increase demand for loans to reduce poverty. In 1983, the Bank introduced interest rate subsidies on its nonconcessional financing. Borrowing countries could benefit from these subsidies if they fell below a low per capita income ceiling and were ranked among the least developed of the Bank's members. Meanwhile, the number of countries that could receive concessional loans was gradually limited to only the poorest. Today, while these funds account for less than 10 percent of Bank lending, they are targeted to: Bolivia, Haiti, Honduras, Guyana, and Nicaragua. The Bank has also raised its share of financing for projects when the majority of the beneficiaries are poor. Based on a new formula, in place since 1990, the Bank can finance up to 90 percent of the costs for these poverty-targeted projects in its poorest borrowers, such as Bolivia, Guatemala, and Paraguay.

Another boost to the Bank's poverty-reducing goal came in 1994, when the Bank replenished its capital and was able to raise its lending capacity to \$7.5 billion a year for the foreseeable future. At that time, the Bank's governing body directed it to redress the region's "social debt" — the unfunded social needs that had resulted from the debt crisis and weak growth of the 1980s. Special efforts were to be made to bring specific groups, such as women, children, and indigenous peoples, into the mainstream of society.

Bank Lending and Advisory Services to Reduce Poverty

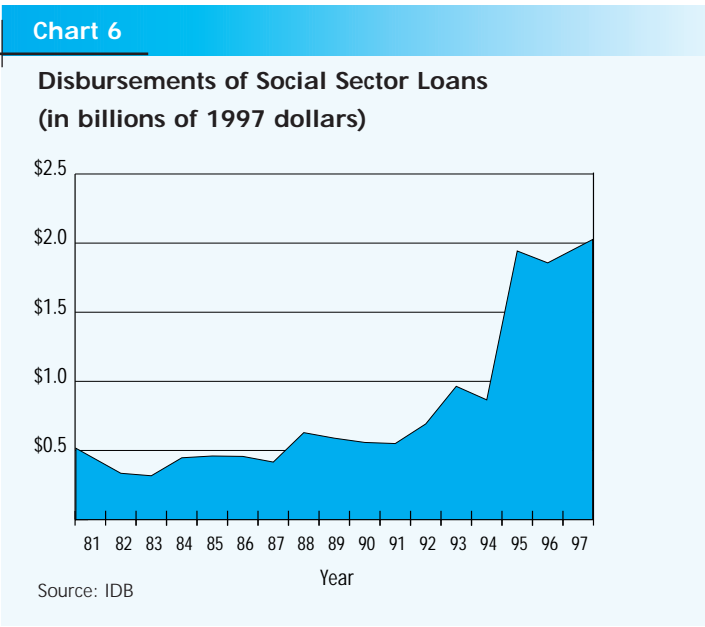
The Bank's main channel to reducing poverty in the region is through loans and technical assistance. Loans have backed steps to build social infrastructure, design sector reforms in health and education, and carry out smaller-scale investments in microenterprises and small businesses, for example. A special focus has been on poorer women, youth, and indigenous people.

Lending to the social sector has increased dramatically since 1990: more than one half of the Bank's cumulative real lending to the social sectors in the past four decades has occurred in the last eight years. More importantly, in terms of its impact on poverty, is the concomitant rise in disbursements in the 1990s. During the past eight years, disbursements to the social sector were 2.5 times those of the 1980s in real terms. (See Chart 6).

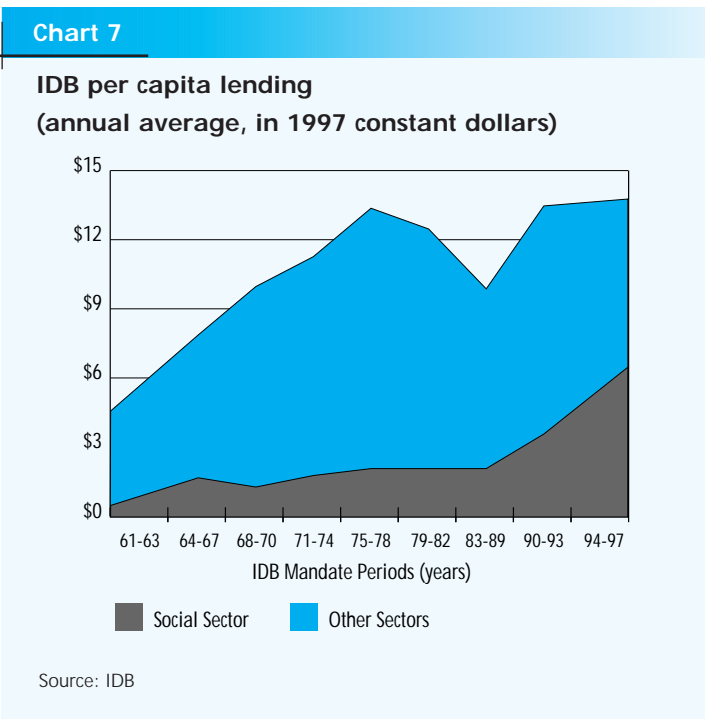
While the trend in lending is unmistakable, it is more difficult to gauge its impact as precisely. A clear example of the benefits generated are the jobs created for low-income workers through support to microenterprises. (See Chapter 4). Other benefits for the poor, however, go beyond purely income-based measures. At the local level, for example, Bank-supported Social Investment Funds have helped poor communities overcome the social and economic costs of structural adjustment policies by providing critical infrastructure and local social services. Similarly, projects in education, health, urban development, water and sanitation and the reform of the state are not intended to raise the income of the poor, but rather to improve living conditions in the broader sense. Sector loans in education for example, improve the delivery of services, while other components, such as teacher training, raise the quality of education. Over time, these improvements are expected to result in increased earning power for graduates. At the country level, debt reduction programs, such as those in Bolivia and Guyana, have lowered the debt burden for future generations and encouraged greater spending on social sectors—with payoffs in the future.

Although the Bank's annual lending capacity of \$7.5 billion is substantial, its ability to meet the sizable financing needs of the region is limited. Social sector lending in coming years will amount to \$6.60 per person annually — a meager amount compared to the income needed to lift the region's poor out of poverty. (See Chart 7). Clearly, the Bank must leverage its resources with additional funding from local and international sources. At the same time, it must target its programs to those areas with the greatest impact on alleviating poverty and improving social conditions. And it must promote effective mechanisms to ensure the greatest benefit for the poor from its programs.

The disbursements of social sector loans reached their highest historical levels in 1997.



Both overall per capita lending and social sector per capita lending have reached their highest historical levels.



Information, Best Practices and Dissemination

While the Bank's support in the form of loans and technical assistance is well known, it has another important channel of aid that is sometimes overlooked: its agenda of research, best practices, studies, and public information.

Bank loans are a small fraction of targeted government expenditure in any country. By contrast, the Bank's research and programming dialogue with governments can help shape priorities and change perceptions, with an impact on poverty many times greater than the value of its lending.

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The Bank has a vigorous agenda of research, studies, and programs to disseminate best practices. These activities center on state-of-the-art approaches to issues and challenges in specific sectors and subsectors that have yielded proven results and lessons. For example, empirical work on poverty assessments in several countries has proven useful in informing governments and the public on the conditions of the poor, in identifying programs to help the poor, and in focusing Bank activities to address poverty.

In its discussions with stakeholders, the Bank can also draw on its unique ties to the region. Its borrowing member countries are majority shareholders, and its organization mirrors the region. These close ties foster trust and facilitate discussion on the delicate theme of poverty, in both the public sector and civil society. Notably, the Bank can use its analysis of poverty to help governments design projects with a poverty focus and formulate policies with a significant impact on the poor. The Bank has also been instrumental in promoting Social Policy Dialogues in Ecuador and Guatemala, acting as a facilitator for an open discussion between all members of society in an effort to find common solutions to their country's social problems.

Finally, the Bank serves as a sounding board for new ideas and an important source of training and dissemination on social policy and poverty reduction issues. To cite different examples: the Inter-American Institute for Social Development (INDES) trains policymakers, social sector managers, and opinion leaders in the area of social policies and programs. The Bank spearheaded a public information campaign on domestic violence that helped bring that issue to the forefront of public understanding. To improve the estimation and analysis of poverty and inequality, a current program offers training on household surveys of living conditions. The IDB also organizes training programs for microfinance practitioners. All these outreach efforts are part of ongoing activities that deepen knowledge and discussion of social topics in the region.



4

Clearly, no single approach or policy will suffice in combating poverty. Rather, experience shows that successful social development is the result of informed trial and error. This experimental approach is required, in part, to respond to the changing demographics, the structural transformation of economies, and cyclical macroeconomic trends confronting the poor.

Clearly, too, addressing the problem of poverty requires a broad set of actions. Most basically, steps must be taken to foster growth and create jobs. Policies are needed to improve the poor's access to economic resources. Social infrastructure must be strengthened in such areas as education, health, nutrition, and urban development. Efforts are also needed to target specific groups, such as women, adolescent girls, children, indigenous groups, and the rural poor.

This chapter highlights some of the Bank's endeavors to find a path out of poverty. These initiatives are not comprehensive, but they suggest the complex institutional issues and incentives that must be addressed in order to reduce poverty.

A SURVEY OF PROMISING PRACTICES that Benefit the Poor

Helping the Poor Earn Their Way Out of Poverty

Promoting Microenterprise Development

PROBLEM:

Microenterprises often lack the financing and business development services they need to prosper

APPROACH:

Support policies and institutions that provide financial and technical support

Since the late 1970s, when the sector was made a priority, the IDB has implemented a steadily increasing number of activities to support microenterprises. In the past two decades, the Bank has extended considerable financing and technical support to microfinance institutions in almost all countries of the region. Many of these institutions have grown substantially and today serve thousands of microentrepreneurs. In the 1990s alone, the IDB's microenterprise programs have reached 600,000 microentrepreneurs and supported the creation and strengthening of 1.8 million jobs.

Most recently, the Bank launched an ambitious program—MICRO 2001—to raise its level of investment in micro-enterprise development to \$500 million over five years. IDB loans will provide funds to formal financial institutions, such as credit unions and commercial banks, which in turn can make small loans to microentrepreneurs.

Bank equity investments through the Multilateral Investment Fund will help transform NGOs into formal regulated financial institutions that can expand their lending and extend the range of financial services they offer to microenterprises.

To reach the smallest firms where the need for support services is particularly acute, the Bank offers specially designed projects for NGOs targeting marginal groups. In addition to financing, the IDB provides technical support to microfinance institutions and business development institutions to strengthen their operations and improve the quality of services they offer microenterprises. Finally, the Bank engages in policy dialogue and supports various reform programs. In Jamaica and Trinidad and Tobago, for example, the Bank is backing measures to strengthen the credit union industry and reform the legal, regulatory, and supervisory structure that defines the framework for credit union operations.

Addressing Challenges in Vocational Training

PROBLEM:

Inadequate vocational training

APPROACH:

Back innovations in vocational training

Meaningful technical education and vocational training promotes a quick and effective incorporation into the labor market for those students that will not enroll in higher levels of education. The majority of these students are from families on the lower rungs of income distribution. Thus, the IDB's strong role in these areas provides a powerful impetus from the standpoint of equity. A project approved in 1997, for example, is launching a major upgrade of technical

education in Brazil — one that ensures that vocational training students will receive the same academic training as those enrolled in the traditional secondary level.

IDB vocational training programs promote contracting out for training in the competitive marketplace. Innovative components in projects such as *Chile Joven* and *Proyecto Joven* (in Argentina) have propelled discussions about similar schemes for Peru. Venezuela is already

initiating a project along these lines. These programs effectively link quality training with the needs of the productive sector with promising results. Change and reform has also occurred in public institutions in the field, especially since the 1980s. The new market-based approaches, along with traditional public institutions, offer options for a diversified and flexible approach to vocational training that can be fitted to local conditions.

Generating Income-Earning Opportunities for Women

PROBLEM:

Unequal pay for equal work and unequal access to resources jeopardize many women's prospects

APPROACH:

Support training, legal reforms, child development programs, and reproductive health care, and provide incentives to employers to hire and promote women

The IDB is backing steps to increase women's access to resources, offer more and better opportunities for training, and address the barriers to employment and sources of discrimination against women.

Microenterprise and credit programs are vital means of increasing women's income-generation capacity. (Bank activities in this area are explored elsewhere in this paper.) At the same time, the Bank is committed to education and training programs. Bank-backed programs in six countries, for instance, promote high-quality training for young

women alongside young men. A regional program to strengthen technical and professional training for low-income women aims to develop new training methods and encourage the participation of women in technical jobs. The results of this program in Argentina, Bolivia, Costa Rica, and Ecuador will be evaluated and disseminated to regional training institutions.

The Bank also addresses other human development needs that affect women, such as child care and reproductive health. A Bank-backed program in Nicaragua, for example,

targets children under six years of age who live in poverty, and seeks to improve their welfare through a program of early childhood development and day care services.

Future directions for the Bank include working with governments to revise outdated legislation that limits women's participation in the work force. The Bank will also undertake a critical review of labor conditions for women.

Improving the Poor's Quality of Life

Social Investment Funds

PROBLEM:

Impoverished communities need a rapid infusion of funds to address priorities

APPROACH:

Promote Social Investment Funds

Social Investment Funds are perhaps one of the region's, and the Bank's, most important contributions to development. Poor communities that never before had a decent school or safe water now have both, thanks to Fund projects. Communities that never before had seen a representative from the central government have been able to formulate projects of their own choosing, present them to the government, and help in their implementation. These are important activities, and help explain why all the countries in Latin America and several in the Caribbean are now home to Social Investment Funds (or variants), and why they have been so strongly supported by international financial institutions, particularly the IDB.

The Funds began as *ad hoc* responses to ameliorate the effects of the structural adjustment policies of the 1980s. Increasingly, these "emergency" funds are being fitted with longer term objectives for poverty reduction, and have effectively become the

primary means by which many governments in the region undertake actions in poor communities.

A strong feature of the Funds is their ability to tailor themselves to changing circumstances without sacrificing their efficiency and effectiveness. In different times and different places they have taken on a variety of roles. For instance, they have acted as social safety nets in times of economic downturns; served as efficient and effective procurement agents for the construction of social infrastructure; and more recently, acted as social laboratories for the piloting of innovative programs.

The IDB has been the principal external backer of the Funds in the region, supplying about half of all the external financing that they have received. The IDB has financed Funds in 16 countries, for a total of \$1.3 billion. Bank support has gone far beyond financing. These programs have been successfully implemented in countries ranging from Haiti and Guyana – on one end of the income scale — to

Colombia and Venezuela. The IDB has provided substantial technical assistance and expertise. In all, the IDB's efforts have played a central role in contributing to the development and dissemination of this model throughout the region.

In many respects, the Funds represent a significant institutional and operational improvement over traditional government programs and have helped to alter the climate of apathy toward social policies, showing that government programs can work. Through their closer contact with poor communities, the Funds have opened new avenues for social action and have increased public awareness of poverty issues. Moreover, these programs are largely community-based. As a result, they can improve the sustainability of infrastructure investments by empowering the poor to design and select projects.

Safeguarding the Poor from Economic Shocks and Natural Disasters

PROBLEM:

Poverty increases sharply when countries suffer from adverse shocks caused by economic, political and natural factors

APPROACH:

Back safety nets and social protection

The absence of robust mechanisms to cushion the poor from the impact of external shocks is a glaring weakness in the region. To offset this weakness, the Bank has worked with governments to address various crises. In Mexico, for example, the IDB provided emergency support following the unexpected devaluation in late 1994. The program for \$500 million helped to protect essential social services to the poor in such critical areas as health and education. Other measures focused on labor force training, temporary employment, and nutrition

programs. A similar program in Argentina provided \$450 million to support short-term job opportunities, immunization for children, housing, and water treatment efforts aimed to eradicate cholera, among other programs.

In 1997, the IDB, together with the World Bank, launched emergency loans to help Peru and Ecuador cope with the impact of El Niño; IDB participation totals some \$255 million. Funds have been earmarked for areas with a high concentration of poverty, with a flexible menu of options

tailored to help the poor cope with the impact of the storms. Possible steps may include public health interventions, repairs to infrastructure, or measures to protect small-scale fishermen from income losses. It is hoped that by providing these funds before the damage from El Niño occurs, the appropriate steps can be taken when needed to speed relief to those most affected and least able to withstand the debilitating impact of the storm.

Curbing Domestic and Social Violence

PROBLEM:

Violence lowers the region's quality of life and its ability to achieve sustainable and equitable growth

APPROACH:

Make the prevention of domestic and social violence a priority

Until very recently, multilateral lending institutions paid relatively little attention to the levels of violence in developing countries. Yet there is mounting evidence that levels of societal violence are important determinants of a society's ability to achieve sustainable and equitable growth. To mobilize support to curb domestic and societal violence, the Bank has launched several initiatives:

Informing the public and gathering expertise.

The IDB sponsored two international conferences in 1997: one, in Rio de Janeiro, on urban violence; and the other, in Washington, D.C., on domestic violence. The Rio Conference included presentations from both the IDB and the World Bank on the socioeconomic impacts of urban violence, as well as a roundtable on specialized topics. In Washington, some 400 experts from 37 countries attended the conference. More than a

dozen radio stations and talk show hosts took calls from listeners and interviewed conference participants, broadcasting to 25 million listeners in the United States and Mexico. The papers presented at the conference will be the basis of a book to be published by the IDB later this year. More importantly, the conference identified this as a priority area for the Bank and member governments, which will undoubtedly lead to future projects.

Improving the Poor's Quality of Life (cont.)

Curbing Domestic and Social Violence (cont.)

Regional technical cooperation programs and lending.

The IDB has recently undertaken four regional projects to combat domestic violence. The first resulted in a video to educate both men and women about the damage wrought by domestic violence. The video will be aired on television stations throughout Latin America, and debates and town hall meetings will be organized around the video. A second project educates

judges and other judiciary personnel in five Latin American countries about women's issues to ensure that their human and civil rights are protected. The third project creates service networks in six countries to prevent domestic violence and offer treatment to those women who continue to suffer abuse. The fourth project will identify and support best practice programs that either prevent domestic violence or offer services to its victims.

The Bank is also processing two loans to improve the security of citizens, especially in urban areas: a \$100 million program in Colombia and a \$17 million program in Uruguay. Meanwhile, the Bank plans to incorporate projects to combat domestic violence in the areas of health, judicial reform, education, and modernization of the state.

Promoting Low-Income Housing Programs

PROBLEM:

Poor households need affordable housing solutions

APPROACH:

Support a new generation of housing programs

A new generation of housing projects emphasizes reforms to develop efficient private mortgage finance for middle and low-middle income families. Recent projects in Guatemala and Ecuador, for example, offer mechanisms to increase the poor's access to the housing market through directed subsidies or through credit to buy or renovate houses. In addition, reforms in land market legislation aim to simplify land titling procedures and to register properties in informal settlements. In Guatemala, the Bank's \$60 million loan will help provide some 40,000

households with housing subsidies of up to \$2,000, while 50,000 households in the informal sector will receive legal titles to their properties through regulatory reform.

To improve shelter for families living in illegal and substandard settlements, the Bank also backs settlement upgrading programs that offer secure land tenure, sanitation services and assistance. Some of the most innovative programs to finance low-income neighborhood improvement have been carried out in Brazil, yielding lessons that

the IDB will apply to other Latin American countries. In the past two years, the IDB approved three projects to upgrade the *favelas* in the cities of Rio de Janeiro and São Paulo. In these programs, the Bank seeks to improve housing systems through better targeting of services to the poor by means of household surveys and targeting selection methods.

Increasing Access to Potable Water and Sanitation Services

PROBLEM:

The poor suffer most from inadequate access to potable water and the lack of sanitation services

APPROACH:

Modernize the provision of services

Badly operating water and sanitation services unduly hurt the poor and high-risk groups. The IDB has had a long-standing commitment to improve water and sanitation services, investing over \$10 billion in this area in the past 38 years. Recent efforts have broadened to include the reform of public institutions, more appropriate pricing and greater community involvement.

An important step to improve service has been the move to greater decentralization and toward more public-private sector partnerships. Two recent projects exemplify Bank support for this trend. In Guayaquil, Ecuador, the Bank is supporting the expansion of these services by the private sector under a long-term concession arrangement. In Bogota, Colombia, the Bank has also provided funds to guarantee private investors in a wastewater treatment plant

against some project risks – the first such deal by a multilateral lending institution.

The IDB's investments to expand and improve coverage are combined with Bank support for reforms in regulation and planning institutions. These steps are needed to attract private sector interest and ensure an appropriate public participation so that projects are viable in the long term. In Venezuela, for example, a \$30 million loan is building up the regulatory and legal framework to encourage greater private sector participation.

At the same time, the Bank has undertaken events that help build consensus about reform and the changes needed to improve the provision of water-related services. These help foster innovative forms of private and public participation that can improve service.

Breaking the Intergenerational Cycle of Poverty

Early Childhood Development

PROBLEM:

Children born into poverty face critical disadvantages that greatly reduce their chance of succeeding in school and thus ever breaking out of poverty

APPROACH:

Support initiatives in early childhood development

Anti-poverty activities in the region place special attention on children and youth, since they represent the future.

Increasingly the Bank is financing free-standing programs that target poor children in their earliest years. These programs provide a range of services, from prenatal care for mothers to child care for youngsters, including complementary nutrition, health and school-readiness activities. Integrated programs, like one for

rural Bolivia, offer child care centers along with family and community training and education in health care, nutrition, safety, and child development.

This new generation of operations seeks to avoid damaging experiences to children at risk, promote their educational success, and build links to other programs. Another important aspect is the empowerment of the communities and families

served. This strengthens the accountability of service providers — and ultimately, their performance. The programs also encourage the provision of services by NGOs and local agencies, which strengthens civil society and allows the programs to build on successful experiences.

Improving Education in Rural Areas

PROBLEM:

Rural areas lag behind other locales in the schooling of their children

APPROACH:

Use technology in rural classrooms

Traditional solutions to improving the quality of rural education, such as hiring more teachers or constructing more schools, are often precluded by budget constraints. With the IDB's support, education authorities are embracing innovative solutions, such as introducing information technologies to education. New multimedia technologies hold the promise of improving the quality of teaching and student performance in rural areas. At the same time, methods of distance learning based on these technologies

offer a cost-effective way for reaching rural and isolated communities.

To disseminate these methods and technologies, the IDB has financed key regional events and seminars. In addition, the IDB has an active portfolio in this area. Two recent examples are a project to support distance education in Mexico and a program to support education technologies in El Salvador. The Mexico loan provides \$171 million for a program that will use educational television to broaden and improve the

quality of instruction for both youth and adults in Grades 7 through 9 in communities that previously lacked instruction because of their isolation and dearth of resources. The program in El Salvador will use \$73 million to help expand and improve basic education through the use of new technologies to reach 24,900 new students.

These projects finance the introduction of various technologies, including distance education based on television and interactive radio, and computers to

teach specific subjects, such as mathematics and natural sciences. Perhaps as important as the financing of equipment, the IDB has insisted on a comprehensive approach to issues of implementation and evaluation. To maximize the educational value of these new technologies,

considerable resources have been devoted to adapting curricula; providing adequate materials and infrastructure; training teachers in the use of technology and the application of innovative teaching methods; and involving the community in the purchase and

maintenance of the equipment. To test new methods and techniques, many of the activities are planned at the pilot level. Both the pilot and full-scale efforts include proper evaluation aimed at measuring student performance.

Integrated Social Services for Adolescents in Extreme Poverty

PROBLEM:

Adolescent girls in extreme poverty have a higher risk of early pregnancy than their better-off counterparts

APPROACH:

Provide social services aimed at postponing the first pregnancy and helping those young women who have children

Low-income young women need a significant expansion of schooling and income-earning opportunities. They also require quality reproductive health education and services, with a view to delaying childbearing. If they become mothers, they need support to cope successfully with their lives. The Bank is working with a variety of public, private, and nongovernmental organizations to develop a package of essential services. Both formal and informal

approaches will be used for service delivery. The effort will build on lessons learned by organizations already working in impoverished urban and rural areas, and these same organizations will be recruited to deliver the package. Girls living in extreme poverty will be enlisted in the program from age 10. A series of small and focused interventions are anticipated in order to develop the needed trust and rapport with the young women and their families.

The Bank has already supported small-scale activities to provide services to teen mothers in Brazil and Argentina. In the medium term, the Bank plans to back these efforts through a variety of approaches: as stand-alone projects; as a credit line from which small projects can be implemented through NGOs; or as specific components in projects aimed at reforming health, education, or social security.

Breaking the Intergenerational Cycle of Poverty

Promoting Indigenous Development

PROBLEM:

One-quarter of all Latin Americans living in extreme poverty are indigenous

APPROACH:

Address the ethnic dimension of poverty in programs and policy dialogues with governments

Reaching indigenous populations is a challenge. The Bank has shifted from the reactive approach that characterized the mid-1980s, when the philosophy was to avoid or mitigate the negative impacts of Bank-financed projects on indigenous communities. The Bank is now pursuing a more proactive approach aimed at seeking out opportunities to foster the social and economic advancement of indigenous communities.

Bank practice regarding indigenous issues has developed three ways. First, the Bank aims to mainstream indigenous needs, concerns, and demands into its regular operations, particularly in projects addressing the social sector and environmental management. For example, primary education programs in Mexico, Costa Rica, and Guatemala include multi-cultural and bilingual components, and a project in Nicaragua promotes social forestry.

Second, the Bank is undertaking stand-alone initiatives developed specifically for indigenous communities. A Bank-backed leadership training program in Guatemala will benefit indigenous women in the areas most affected by the civil war, and a facility for small projects will improve economic and social benefits for indigenous groups in southern Mexico.

Third, the Bank is continuing to strengthen its procedures and actions in an effort to avoid, mitigate, and compensate for negative impacts on indigenous communities. Particular attention is paid to the effects of roads, dams, and other large infrastructure projects, and the impact of structural reform programs.

The Bank played a decisive role in the creation of a regional Indigenous Peoples Fund, which serves as an international forum for the exchange of information,

strategy, negotiation, and conflict resolution, and provides technical expertise to identify and design genuinely indigenous projects. The IDB is currently supporting the creation of an endowment fund to be administered by the Bank, which will ensure the financial sustainability of this innovative institution.

Helping to Shape Policy on Poverty Reduction

Gathering Good Information about the Poor

PROBLEM:

Most countries in the region have better information about the position of their foreign exchange reserves than the condition of the poor

APPROACH:

Improve measurement of living standards

Both the IDB and the countries of the region need better information about the impact their social activities and programs are having on their citizens, particularly the poor, and need to target their efforts to reach the poor better. Thus the Bank is committed to help develop and maintain an adequate social and poverty database. The IDB — in conjunction with the World Bank and the Economic Commission for Latin America and the Caribbean — has initiated a multi-year project to collect and maintain a set of social indicators and recent household surveys. This data will provide basic information on changes in poverty and levels of education and health in the region. In addition, it will be a valuable resource for those interested in an in-depth analysis of poverty, labor market conditions, and human resource development.

Once a collection of better household data is in place, the Bank will be able to monitor progress in poverty reduction in the region. Up-to-date surveys will provide the necessary data to compare current estimates of poverty and inequality, and to measure the progress being made with poverty trends. As well, the data will permit an assessment of how equitably growth is shared by comparing poverty outcomes against the predicted outcomes if all families shared equally in growth. This comparison will provide a clear indication of which countries are pursuing a progressive growth strategy and are succeeding in reducing poverty. Local poverty maps will facilitate targeting of affected groups, and better measurement of living standards will aid in the design and evaluation of projects to reduce poverty and inequality.

In addition, the Bank is also supporting regional workshops and training courses to raise the level of knowledge and awareness in the region regarding the latest methodologies in survey design and implementation, and in the use of household survey data in the analysis of social policies.

Helping to Shape Policy on Poverty Reduction (cont.)

Training Policy-Makers, Social Managers, and Opinion Leaders

PROBLEM:

Policymakers and social managers need training to strengthen social policies and programs, particularly for the poor

APPROACH:

Provide training through INDES (the Inter-American Institute for Social Development)

INDES is the IDB's training institute for policymakers, social sector managers, and opinion leaders in the area of social policies and programs.

Founded in 1994, the Institute uses courses, workshops, forums, and other programs to disseminate concepts and techniques that can make social policies and programs more democratic, equitable, and sustainable, and more beneficial to the poor.

INDES trains policymakers and social managers from the public sector and from non-governmental organizations in the region. The Institute trains about 1,500 people a year on the formulation of social policy and management techniques in the social sectors.

Moreover, INDES helps create awareness among key groups — including legislators, business people, professional groups, labor unions and journalists — of their critical role in the social

policy process, and mobilizes them to support well-conceived and well-executed social policies and programs. INDES offers a four-week core course in Washington, D.C., as well as targeted courses throughout the region. The Institute also runs seminars for journalists; special courses to train trainers; and workshops for specialized groups, such as trade union leaders, parliamentarians, and high-level authorities in public agencies.

Among the areas that INDES concentrates on are social policy design, decentralization of service delivery, participation by members of civil society, strategic planning, electronic information exchange and updating, targeting, intergovernmental management and negotiation, and evaluation techniques.

Over the past decades, much progress has been made in reducing poverty; yet much more remains to be done. Two messages are clear. First, reducing poverty requires multiple efforts across a range of sectors and activities. As such, it involves a variety of participants, institutions, and tools, none of which in isolation can work as effectively as they do together. The role of the Bank is to help forge these alliances and look for the synergies that help these programs succeed. A second message is that the state of knowledge about poverty and the impact of the poverty-reducing strategies is incomplete. To achieve lasting solutions, a greater effort is needed to document the extent and nature of poverty. At the same time, the impact of poverty policies is not fully understood. Thus, in some cases, the success of some programs proposed here still must be proven. Nonetheless, experience and analysis indicate that successful programs require adequate information, targeting to those most affected, effective community participation, and appropriate decentralization.

In this task, the Bank can offer its resources, technical knowledge and experience. The Bank will collaborate with local, national and international partners to promote innovative approaches to improve the well-being of the region's citizenry. This continuing effort to eradicate poverty in Latin America and the Caribbean will be one of the greatest challenges of the next century.

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