

# Poverty Reduction and Promotion of Social Equity

Strategy Document



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# Foreword

In response to the challenges facing Latin America and the Caribbean, the various commitments established in recent Summits including the Millennium Development Goals, and the need to ensure development effectiveness, the Inter-American Development Bank (IDB) has elaborated a renovated strategic framework. This is consistent with the Institutional Strategy and the mandates of its most recent Capital Replenishment. Sustainable Economic Growth, and Poverty Reduction and Promotion of Social Equity are defined as the two overarching goals of the Institution. These two goals are advanced through four priority areas of comparative advantage for Bank activity: Modernization of the State, Competitiveness, Social Development, and Regional Integration. In addition, the Environment is considered as crosscutting and is addressed in each area in order to ensure the sustainability and preservation of the natural capital.

To make this new framework operational, the IDB has prepared an integrated and consistent set of seven new strategies (two for the overarching objectives, four for the priority areas, and one for the Environment). Each strategy defines priority lines of activity, which will help to focus Bank actions, enhancing its developmental impact. The strategies take into account the Bank's leverage and comparative advantages in the region, as well as the lessons learned from past experiences and the current situation of the countries of Latin America and the Caribbean. This renewed strategic framework proposes actions to improve the well being of the region's people, placing special emphasis on the poorest. It does so within the framework of democratic governance, global competitiveness, social inclusion and cohesion, the new regionalism, and mainstreamed environmental sustainability. The Bank's comprehensive efforts recognize the double causality between poverty reduction and sustainable economic growth, and the many interrelationships between the priority areas of action being addressed, highlighting the importance of an integrated approach.

The Strategy for Poverty Reduction and Promotion of Social Equity included in this document is one of these seven new strategies. Its objective is to attain more rapid progress in the reduction of poverty, by tackling its root causes, and to foster greater inclusion and social equity, in order to improve the living conditions of the poor. This strategy has a multidimensional focus. It establishes the relationships between the Bank's priority areas and the general objective of reducing poverty, and identifies the actions that the Bank should take to optimize its support to the borrowing countries in order to make progress in poverty alleviation and towards the Millennium Development Goals.

This strategy recognizes the importance of activities to promote and support policies and programs that will lead to sustainable economic growth and macroeconomic stability, as necessary conditions for reducing poverty and inequality. However, it also notes that economic growth is not sufficient and that complementary and decisive targeted actions are needed. Therefore, the Bank will promote and support the development of *comprehensive national poverty reduction strategies*, to ensure consistent poverty

reduction efforts in its member countries. It will also support the creation of economic opportunities for the poor, through investments to improve the *competitiveness* of poor areas helping to incorporate them into the productive process. The Bank will also give priority to *social development* initiatives to promote social inclusion and the human capital of the poor. Economic and social development require improved democratic governance, the development of social capital, and the political inclusion of the poor, which the Bank will promote through *modernization of the State* activities. To reduce poverty, the Bank will also support *regional integration* activities with appropriate measures to increase opportunities and access to regional markets. All the actions that the Bank undertakes in support of the countries of the region will take into account country specific conditions and will give prominent attention to the cause and effect relationship between poverty and the environment. The strategy also includes activities for social protection in order to deal with the vulnerability of the poor, for example, to economic crisis or natural disasters. In all, the set of actions cover the various dimensions needed to be addressed for poverty alleviation.

For the elaboration and coordination of the new strategies, an Inter-Departmental Working Group was conformed including the Office of the President, the Office of the Executive Vice President, the Regional Operational Departments, the Strategic Planning and Budget Department, the Integration and Regional Programs Department, the Private Sector Department, the Research Department and the Sustainable Development Department (Chair). In turn, for the preparation of each sector strategy document, a specific team was established. In the case of this new Strategy for Poverty Reduction and Promotion of Social Equity, the team was coordinated by the Poverty and Inequality Unit of the Sustainable Development Department and had extensive public consultation.

The implementation of the new strategies offers valuable opportunities to tie with the Country Strategies and with other initiatives seeking to increase development effectiveness. The aim is to fulfill the Bank's mandates, addressing current challenges and contributing to the development of Latin America and Caribbean Countries.

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## Acronyms

WB:	World Bank
PRS:	Poverty Reduction Strategies
IMF:	International Monetary Fund
HIPC:	Highly Indebted Poor Countries
IIRSA:	Initiative for the Integration of Regional Infrastructure in South America
MECOVI:	Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean
MDG:	Millennium Development Goals
UN:	United Nations
PAIS:	Project Alert Identification System
PCR:	Project Completion Report
PPMR:	Project Performance Monitoring Report
PPP:	Purchasing Power Parity
PPMR:	Project Performance Monitoring System
PRAF:	Family Allowance Program
PTI:	Poverty Targeted Investments
SEQ:	Social Equity Enhancing
VIH/AIDS:	Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome

# Executive Summary

## OBJECTIVE

The objective of the Strategy for Poverty Reduction and Promotion of Social Equity, in a manner consistent with the Bank's Eighth Capital Replenishment and Institutional Strategy, is to promote faster progress in the reduction of poverty by tackling its root causes and fostering inclusion and greater social equity, as an essential element of development. The current strategy updates the previous poverty reduction strategy (GN-1894-3), which was approved in 1997. It identifies the actions that the Bank should take to optimize its support to the borrowing countries in order to reach the Millennium Development Goals. Of particular concern is the goal of reducing in half the number of people living in extreme poverty by 2015, with respect to 1990. The strategy highlights key actions in the four sector priority areas—competitiveness, social development, modernization of the State and regional integration. The intent of these actions is to improve the living conditions of the population living in poverty.

## DIAGNOSIS

The region has begun the 21<sup>st</sup> century with one third of its population (roughly 180 million people) living in poverty (as measured by the percentage of the population earning less than two dollars a day in purchasing power parity). While lack of income does not capture poverty in all its dimensions, various studies have shown there has been a reduction of just over 10 percent in the share of the population living below the poverty line since the early 1990s. However, because of population growth, the absolute number of poor did not decline in the past decade and available figures show that current poverty incidence is higher than at the beginning of the eighties. Additionally, recent evidence indicates that some of the modest gains

made in the 1990s were reversed as a result of the economic slowdown and crises in various countries during the past two years. It is important to highlight, however, that the region has accomplished improvements in a significant number of indicators of well-being proposed by the UN Millennium Development Goals (MDGs). Despite these improvements, most countries in the region could fall behind in their efforts to achieve the goal of poverty reduction measured by income, if firm actions are not taken to address it.

Income indicators also show that the Latin American and Caribbean countries have the most unequal distribution of income worldwide. At the end of the decade, the richest 20 percent of the population accounted for around 60 percent of the region's income, while the poorest 20 percent received around 3 percent. In most countries, inequality is greater than what would be expected given per capita income levels. This is due mainly to great disparities in assets and, in particular, to the level and quality of human capital and its returns. The persistent inequality in the region not only hinders efforts to reduce poverty with growth, but also is limiting the countries' growth rates.

## LESSONS LEARNED

The strategy adopts a multi-dimensional vision of poverty, which comprises several interrelated aspects of well-being and recognizes that progress along several fronts is required to overcome it. To reduce poverty, in addition to sustainable economic growth, macroeconomic stability and democratic governance, targeted activities are also required, such as: creating productive opportunities for the poor and excluded populations; providing better access to physical and social infrastructure; addressing structural inequities in the distribution of assets (particularly in the area of education);

establishing comprehensive social protection systems and dealing with social ills that disproportionately affect the quality of life of the poor; eliminating the social barriers that leave ethnic groups and women at a disadvantage; and promoting a more efficient and effective State, that is more inclusive and sensitive to the needs of the poor, more accountable, and better recognizes the human rights of the poor. Likewise, a successful poverty reduction strategy requires that environmental sustainability explicitly be taken into account. An increasing number of studies show that effective policies to fight poverty and inequality could also contribute to growth. Specific actions to improve the living conditions of the poor and the policies to increase per capita income and productivity are not necessarily inconsistent, instead, in many cases they are complementary.

In recent years, a considerable share of the Bank's lending and non-financial products have been directed toward poverty reduction and equity promotion, in pursuit of the Eighth Replenishment indicative lending targets. In addition, the Bank has played an important role in increasing the information available for poverty assessments and analyses and the design of targeted projects through the Program for Improvement of Surveys and Measurement of Living Conditions in Latin America and the Caribbean (MECOVI). The Bank has also supported the preparation and implementation of national Poverty Reduction Strategies (PRS), in the framework of the Heavily Indebted Poor Countries (HIPC) initiative, and has begun to support strategy preparation in other countries. This strategy recognizes the importance of supporting comprehensive approaches to poverty reduction. In the past, actions to reduce poverty were limited by their focus on individual operations without a comprehensive strategic focus.

## AREAS FOR BANK ACTION

In accordance with the Eighth Replenishment recommendations, and taking into account the diagnosis and lessons learned described above, the priorities for Bank action to reduce poverty

and promote social equity are: (i) the promotion of policies and programs for sustainable economic growth and macroeconomic stability as a necessary prerequisite for reducing poverty and inequality (issues addressed in the Sustainable Economic Growth Strategy); (ii) support for *comprehensive poverty reduction strategies* that promote consistency in the various efforts. The strategy will also support targeted initiatives to reduce poverty and increase equity through the Bank's four priority areas of comparative advantage, by fostering: (iii) the productive inclusion of the poor through investments in *Competitiveness*; (iv) productive inclusion by improving access to regional markets through *Regional Integration*; (v) initiatives to promote human development and social inclusion through *Social Development* activities; and (vi) activities to promote democratic governance, the development of social capital, and political inclusion of the poor through the *Modernization of the State*. The Bank will also assist countries to (vii) strengthen *multi-sector social protection systems* to reduce the vulnerability of the poor. The cause and effect relationship between poverty and the environment is taken into account in all these activities; the environmental factors that directly affect the quality of life of the poor in rural and urban areas will be considered.

Since there are considerable differences among countries in the issues and factors that affect poverty, the Bank has tailored its support to country-specific priorities. These priorities will be spelled out in the IDB Country Strategies, and will be developed from a careful diagnosis of the causes of poverty and inequality, making use of the Bank's comparative advantages. Diagnoses of the situation in each country will be made in the context of country poverty documents or National Poverty Reduction Strategies, when available. Given the importance of these *comprehensive poverty reduction strategies* for Bank programming activities and the need to coordinate activities with other multilateral agencies, as well as with efforts undertaken by the countries themselves, the Bank will place special emphasis on supporting countries in developing and implementing these strategies, which should include: a thorough analysis of the main determinants of poverty and



clearly-defined priorities, developed with a long-term view in each country context; the selection of quantifiable and feasible poverty reduction goals based on the Millennium Development Goals and other regional commitments; an action plan for pursuing these strategies that considers coordination among international financial institutions and donor organizations in funding specific projects and programs; and a mechanism for supervising and assessing program and project impact.

The Bank's contribution in the four priority sectors may be important for the countries' progress in attaining their goals to reduce poverty and social inequity, however, its capacity for action will always be insufficient to address all the needs of the countries. Thus, the Bank will favor financial support for actions that contribute directly to strengthening the productivity and income generation potential of the poor and excluded groups, including the expansion of physical and social infrastructure and the development of their human capital. Additionally, the Bank will emphasize strengthening of the State's capacity to implement policies and programs for poverty reduction and social inclusion, evaluate the activities carried out, and apply the lessons learned during implementation of the programs.

Poverty reduction in Latin American and Caribbean will require a strategy that combines improvements in the overall *Competitiveness* climate with targeted measures to tackle constraints on the productivity of the poorest workers and small producing units. The overall actions for competitiveness are described in the Sustainable Economic Growth Strategy. The targeted actions, which are the subject of this strategy, include: enhancing access to financial resources for small producers and poor workers through the strengthening and modernization of micro finance; strengthening of property rights of the poor; improving employment opportunities for poor workers with emphasis in improving training systems for micro entrepreneurs and rural producers; promoting productive inclusion through infrastructure services for the poor (water, energy, transport and communications, etc.); developing access, assimilation and

generation of new technologies for the poor with emphasis in the development of technologies for micro enterprises and rural producers; and enhancing cooperation between public and private sectors to increase the productivity of the poor. Likewise, Bank action in the area of competitiveness includes crosscutting policies and programs targeted to improve the productivity of rural workers through access to land, export promotion and strengthening of managerial capacity; and of micro and small enterprises, through managerial development and support services, access to market information, and promotion of networks and subcontracting chains.

In keeping with its track record and recognized leadership in the social sectors, the Bank will continue to promote *Social Development* by identifying new areas and approaches for tackling the region's demographic and social challenges and securing more equity and greater benefits for the poor in social sector lending. This includes policies, programs, and initiatives that: emphasize human capital development in the areas of education and health through sector reform, the expansion of coverage and quality, and the promotion of demand; enhance the quality of life of the poor through interventions in the housing sector promoting financing and construction of low income housing; ensure effective transitions along the poor's life cycle, emphasizing prevention and taking advantage of the synergies between education, health, nutrition, and employment programs; end social exclusion and strengthen the countries' capacity to prevent social ills that take a disproportionate toll on the poor through the development of social capital and actions to eliminate discrimination; and comprehensive interventions to assist low-income populations in local territories through the improvement of marginal neighborhoods and local development in indigenous and afro descendant communities.

Poverty reduction requires a democratic, effective and efficient State that is responsive to the needs and aspirations of the poor and excluded populations; that is accountable to them; that gives them a voice and influence in institutions of governance; and that provides access to economic

opportunities. Consequently, the Bank has identified actions in the area of ***Modernization of the State*** that should further the goals of reducing poverty and improving social equity. These actions include strengthening democratic systems and political inclusion of the poor through the promotion of their representation in electoral systems, parliaments, local governments and community institutions; promoting the rule of law and increasing access to justice by the poor through the increase in transparency, the reduction in corruption and the modernization of justice administration; strengthening the relationship between the State, the market and social equity, through the strengthening of regulation and the support to the formalization of economic activities; and supporting public management for equity through the improvement in public spending management, the modernization of public institutions and the participation of poor beneficiaries in policy formulation.

The various actions that the Bank will implement to accelerate the process of ***Regional Integration*** will attempt to maximize the benefits of integration for the well-being of the population in general and the poorest populations, in particular. Activities will include actions to consolidate regional markets that take into account the economic inclusion of the poorest and enhance the positive impacts of regional trade; the development of regional infrastructure with social effects to offer people living in less developed areas an alternative for communication and progress; the institutional strengthening of entities in charge of negotiating integration agreements and regulate international trade in order to ensure that there are adequate institutional frameworks to permit balanced and inclusive integration that will yield benefits to the poorest regions and marginalized groups; and the development of regional cooperation to support the creation of regional public goods that, among others, will contribute to reduce poverty and inequality.

The actions included in the four priority areas pay special attention to structural factors associated with poverty and inequality. In addition, it is necessary to consider a social

protection scheme to improve the ability of poor populations to protect themselves from the recurrence of crises and natural disasters. The lack of capacity of these populations to protect themselves from adversities and hardship could severely compromise improvements in poverty reduction. Consequently, the Bank will support and promote the strengthening of multi-sectoral ***social protection systems*** in the countries of the region to reduce short- and long-term vulnerability, taking into account informal social protection arrangements used by the affected populations as well their participation in civil society organizations. Thus, the Bank will promote the strengthening of social protection against economic crisis through instruments that diminish the pro cyclic nature of social spending and crisis protection programs such as temporary employment programs; against natural disasters through emergency credit lines, insurance systems, and the improvement of the capacity to prevent, detect and respond to disasters; and against individual risks through, for example, the extension of the coverage of social security.

Bank activities in each of the areas described above will also include a focus on ***environmental*** issues. Details of these actions are presented in the Environment Strategy, which provides a comprehensive framework and basic priorities for Bank action in the environment focusing on the needs and well-being of the poorest populations.

## **OPTIONS FOR BANK SERVICES AND IMPLEMENTATION GUIDELINES**

The strategy for Poverty Reduction and the Promotion of Social Equity provides a framework that defines the general principles to guide the Bank's priority actions. In order to implement this strategy effectively, the activities described in the actions plans of each of the four priority areas will be implemented together with the actions defined in the cross-cutting Environment Strategy. The instruments to support Bank action to achieve poverty reduction will be integrated through programming processes in the countries with selective criteria, taking into consideration

each country's needs, the Bank's comparative advantages and the comparative efficacy of the various interventions. In this regard, it is important to formulate strategic frameworks in each country according to the guidelines approved by the Board, GN-2020, with strong analytical and procedural aspects as recommended in the document. Such documents outline an implementation framework in key actions at the programming, design, and project execution levels. Similarly, the strategy outlines support to these key activities in the areas of research and analysis, identification of best practices and knowledge dissemination. The Bank will seek to use the dialogue and Country Papers as focal points of the strategy and will promote the development of National Poverty Reduction Strategies and Poverty Documents by country to reinforce the relevance of poverty reduction and social equity promotion in the documents and key actions to guide the programming activities.

#### **MONITORING, EVALUATION, AND PERFORMANCE INDICATORS**

The strategy adopts a results-oriented approach, which implies the ability to monitor and evaluate the Bank's actions in the countries. This task will be supported by the work currently being carried out by the Bank to improve the measurement of the development effectiveness of operations (i.e., consolidation of each phase of the project cycle; programming and design of projects with a goal-oriented focus; and results-based project execution). The monitoring of the strategy's

implementation will be performed, in principle, through indicators to measure outputs, outcomes, and impacts. Specifically, with regard to output indicators, by the year 2005 the Bank will aim to complete all Country Poverty Documents, support countries in the elaboration of Strategies for Poverty Reduction, and increase the proportion of loans directed to achieve the MDGs. With regard to outcome indicators, the Bank will monitor the specific contribution to poverty reduction and the promotion of social equity of projects and non financial products. With regard to impact indicators, the Bank will monitor progress in reducing poverty and promoting social equity in its borrowing member countries (with indicators such as the MDGs, regional and national poverty rates measured with international 1 and 2 purchasing power parity dollar per day poverty lines, income distribution coefficients such as the Gini coefficient and the participation of the lowest quintile in national income, among others). Finally, it is important to note that the implementation of the strategy will depend, among others, on the priorities established with the countries, the circumstances affecting them, and the resources available. The evaluation of the strategy will be done five years after its approval.



# Objective

The Bank's firm commitment to poverty reduction and the promotion of social equity in Latin America and the Caribbean has been manifested in its successive capital replenishments. In continuing pursuit of those priorities, in the framework of the institutional strategy, poverty reduction and social equity enhancement and sustainable economic growth are singled out as the Bank's two overarching objectives. The institutional strategy further states that the Bank will pursue cross-cutting initiatives in four priority areas—competitiveness, social development, modernization of the State, and regional integration—to help improve living conditions for the region's population, emphasizing those living in poverty.

Heads of State from the region recently pledged renewed efforts to achieve the Millennium Development Goals, specifically the target of halving, between 1990 and 2015, the proportion of the population living in extreme poverty. On the social equity front, there is a need to reduce disparities in income, assets (including human capital) and other multiple aspects of well being that are impediments to the region's social and economic progress.

The objective of this strategy is to promote faster progress in the reduction of poverty by tackling its root causes, fostering inclusion and greater social equity as a sine qua non of development. The strategy's starting point is an examination of

recent developments in the region and lessons learned in combating poverty and social inequity and it updates the Bank's previous Poverty Reduction Strategy (GN-1894-3), approved in 1997.

The strategy takes a multidimensional approach to poverty, looking at a number of interrelated issues that have a bearing on human welfare: income and asset levels too low to meet basic needs; low human development; the inability of the poor to shield themselves against and manage shocks that can erode their income or assets; vulnerability to social problems; and barriers to economic, political, and social participation on an equal footing. A comprehensive poverty reduction strategy requires specific action on all these fronts. Such a strategy also requires explicit consideration of environmental sustainability.

This strategy document proposes a series of priority actions to guide the activities and services in this area of the IDB Group, underpinned by a diagnostic assessment and lessons learned about effective poverty reduction and social equity promotion policies and programs. All of the Bank's financial and nonfinancial activities, particularly its support in the four priority areas of the institutional strategy, should effectively help the region's countries achieve their poverty reduction and social equity goals. The document also proposes guidelines and actions for implementation, and includes indicators to track progress in this regard.

## Diagnosis

According to the most recent data, Latin America and the Caribbean achieved a relative reduction in poverty in the 1990s, but the gains were modest. Taking as a poverty yardstick the percentage of the population earning less than two dollars a day in purchasing power parity, the region is beginning the twenty-first century with one third of its population—roughly 180 million people—living in poverty.<sup>1</sup> On average, their income is 45 percent below the poverty line. Poverty incidence is highest in the low-income countries, among them the heavily indebted poor countries (HIPC). However, most of the poor are concentrated in the largest and middle-income countries. The five most populous Latin American and Caribbean countries have around 70 percent of the region's total poor.

Different studies point to a reduction of just over 10 percent, since the early 1990s, in the share of the population subsisting below the poverty line.<sup>2</sup> However, because of population growth, the number of absolute poor did not decline in the past decade. Moreover, the incidence of poverty is higher than at the outset of the 1980s. Additionally, recent evidence indicates that some of the modest gains made in the 1990s have been reversed as a result of the economic slowdown and crises in various countries during the past two years.

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<sup>1</sup> Estimated from household surveys in the region. The two-dollar purchasing power parity (PPP) daily poverty line is considered to be an adequate basis for poverty comparisons among the countries of the region, given their relative development level. The base year is 1985. The region's poverty profile summarized in this section was constructed using that poverty line. Note that both the one-dollar and two-dollar PPP per day thresholds are being used for Millennium Development Goal tracking purposes.

<sup>2</sup> The characterization of poverty trends faces methodological issues. Nevertheless, recent studies using different methods all point to a moderate decline in poverty in the 1990s.

Poverty is most acute in the countryside, the incidence of rural poverty in the region (59.1 percent) being more than double the urban figure (26.1 percent). Nevertheless, given the rapid urbanization and rural-urban migration throughout the region in the past few decades, the numbers of rural and urban poor are very close, accounting respectively for 49.6 percent and 50.4 percent of the total population living in poverty. Poverty is concentrated in households whose heads are employed in agriculture and in the urban nonfinancial services sectors (35.5 percent and 29.1 percent, respectively, of the region's poor).

Poverty in the region is strongly associated with low levels of education. The incidence of poverty in households headed by persons with no more than primary education (41.3 percent) is more than eight times higher than in households headed by individuals who hold a post-secondary diploma (5.1 percent). The incidence of poverty is also more predominant among indigenous and Afro-descendant groups. In countries like Brazil, Guatemala, and Peru, poverty levels of these groups are double the figure for the rest of the population. In urban settings, poverty is higher among female heads of household (30.4 percent) than among their male counterparts (25 percent). Even further, these figures do not consider possible gender inequity within the household.

A number of factors are behind the region's limited progress in poverty reduction in the past decade. A succession of economic crises and natural disasters in some countries worsened poverty and underscored the vulnerability of large segments of the population. Renewed economic growth in a number of countries did little to reduce poverty because of the increase in wage and income disparities associated with skilled-biased technological change and the transitory impact of trade and financial market liberalization. Income inequality measured by the Gini coefficient increased or remained constant in most countries in the region between 1990 and 1999. Sufficient progress has

not been made in reforms in support of more effective tax collection and better management of public social spending. In particular, increases in public social expenditure in most countries had only a modest impact because of its insufficient level; insufficient program targeting, and, in some cases, inefficient allocation and use.

The countries in the region are among the most inequitable in the world. In the late 1990s, the wealthiest 20 percent of the population received some 60 percent of the income, while the poorest 20 percent only received about 3 percent of it. In most countries, inequity is higher than the expected levels corresponding to per capita income levels. This is due mainly to the fact that, despite major political and institutional changes over the past decades, large disparities persist in asset distribution between high- and low-income groups, various ethnic groups, men and women, rural and urban areas, and/or more developed and less developed regions. In particular, although inequities in ownership of and access to land and credit are significant, several studies show that a very significant part of income inequity is due to important differences in the level and quality of human capital and returns on that capital, and to gaps in compensation associated with gender and ethnicity.

One important consideration from the outset is that poverty and inequity involve more than just income shortfalls and disparity. That being the case, the income measure of poverty does not capture the important strides made by the region's countries in other spheres of human welfare. Their significant gains in human development indicators are a case in point. The region's declines in child mortality are among the sharpest in the developing nations. Average years of schooling have risen. As part of the growing urbanization trend, countries have extended coverage of basic utility services, attending to some basic needs of the poor.

Consequently, the region has made progress toward a significant number of the United Nations Millennium Development Goals. However, without determined action to reverse current trends, many countries of the region could potentially fall short of poverty reduction targets. The following is a snapshot of the current state of progress to-

ward some of these goals, from recent preliminary statistics:

- *Halve, between 1990 and 2015, the proportion of the population living in extreme poverty.* Progress toward this goal has been too slow in the past decade. There has been about a 10 percent reduction in the share of the poor in the total population measured by the poverty line of under one dollar a day PPP (purchasing power parity), and roughly a 13 percent drop using the yardstick of less than two dollars a day PPP.
- *Achieve universal access to primary education by 2015.* The region has made adequate progress toward this universal access goal, its net primary enrolment ratio having climbed from 89 percent in 1990 to 97 percent in 1998. The recent Summit of the Americas proposed a more demanding goal for 2010, incorporating issues such as the quality of education, universal access, primary school completion for both boys and girls, and 75 percent secondary school coverage for youth. With respect to the advance on this goal, almost 60 percent of children in secondary school age in a group of countries of the region were enrolled in school at the end of the nineties.
- *Eliminate gender disparity in primary and secondary education by 2005.* This goal will mean consolidating the gains achieved in the majority of countries in the region, which by the early 1990s had virtually closed the basic-education enrollment gender gap. Between 1990 and 1998 the ratio of girls to boys attending primary and secondary school held at around 99:100.
- *Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.* Since 1990 the region has made fairly rapid progress on lowering these indicators. By 2000 the under-five mortality rate stood at 36.7 per 1,000 live births, down 26 percent from 1990. In infants (children under one), a 30 percent decline in mortality, to 29 per 1,000 live births was achieved by the close of the decade.

- *Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate.* Unfortunately, the figures available on maternal mortality are not reliable. The statistics available for the past five years suggest that the relative progress that had been made in the region in the early 1990s has leveled off. However, given the increasing trend in the coverage of reproductive health programs, prenatal care, and the proportion of births attended by skilled health personnel, there are prospects for improvements provided the leading risk factors for maternal mortality are addressed.
- *Halt by 2015 and begin reversing the spread of HIV/AIDS, malaria, and other major diseases.* Over the last four years, HIV/AIDS prevalence in adults between 15 and 49 in Latin America appears to have stabilized at a rate ranging between 0.5 percent and 1 percent, but in the Caribbean region the rate is around 2 percent. Overall, the HIV epidemic is more widespread in men, though the infection rate in women is rising quickly. In other epidemics, such as malaria and dengue, some progress was made during the 1990s, although the infection rates in certain geographic areas remain a cause for concern.
- *Ensure environmental sustainability.* International targets for this goal and for the global partnership for development goal await further refinement of their quantitative goals and performance indicators. Among the issues raised at the last Summit on Sustainable Development held in Johannesburg, it was noted that the region has made considerable progress in providing safe water and sanitation service to more of its people and that the percentage of the population without access to those basic services dropped by one fifth from 1990 to 2000. However, results were not as promising in other areas, for example, one serious concern for the region is that in

the 1990s 14 of its countries were on the list of the 40 nations with the fastest deforestation rates in the world.

It is important to understand that regional averages for country indicators in Latin America and the Caribbean mask wide disparities in income, assets (including human capital), social indicators, and quality of life between countries that are at differing stages of development in the region and, particularly, disparities within individual countries. For instance, while the poorest 20 percent have completed only four years of schooling on average, the wealthiest 20 percent have completed ten years. Primary school enrollment ratios are generally lower for children of indigenous and Afro-descendant families, and young people from these households have higher repetition and dropout rates. Gender gaps are also significant, particularly where ownership rights to family assets are concerned. Child mortality and malnutrition rates in the poorest areas and among low-income groups are typically significantly higher than in the more prosperous regions and segments of the population. In countries for which data are available, child malnutrition is more than three times more prevalent in the bottom income quintile than in the top fifth. Under-5 mortality rates are usually higher in the countryside than in towns and cities. The poorest also are the least likely to have safe running water.

These huge disparities are a barrier to poverty reduction and economic and social development in the region. As will be discussed later, these persistent inequities in the region not only make it far more difficult to achieve poverty reduction with the attained economic growth but can also dampen countries' growth potential. This is why economic and social development goals for the region also need to encompass specific goals for the poorest population groups, the excluded, and the geographic areas that are lagging behind.



## Lessons Learned

A comprehensive poverty reduction strategy requires a cohesive package of actions on the economic, social, and political front to make sure that the poor population shares in the fruits of progress.

How quickly growth reduces poverty depends on the initial level of inequality and the pattern of growth. Since many of the region's nations are among the most unequal in the world, the region will need a considerable growth effort to achieve significant reductions in poverty. With no change in the income distribution, the region will need annual growth in per capita income of at least 4.0 percent, more than double the average in the 1990s, to achieve the goal of halving, by 2015, the percentages of the population living on less than one dollar and less than two dollars a day (in purchasing power parity). For countries with a high poverty incidence, the growth effort will be even stronger. Central American per capita growth rates, for instance, will have to be almost three times the average of the region in the 1990s to reach the goal.

Evidence from a number of studies and experience in the fight against poverty show that while sustainable economic growth, macroeconomic stability, and governance are key ingredients for poverty reduction, they are not sufficient. What is needed, also, are *specific actions* to promote greater equity and to increase the impact of growth on poverty. To this end, the strategy includes a set of activities designed to simultaneously create productive opportunities for the poor and excluded; give them better access to physical and social infrastructure; tackle structural inequities in the distribution of assets (particularly in the area of education); address social ills that disproportionately harm the quality of life of the poor; lower the social barriers that leave ethnic groups and women at a disadvantage; promote a more efficient, effective State that is more inclusive and sensitive to the needs of the poor, more account-

able, and better recognizes the human rights of the poor; and establish comprehensive social protection systems. A large part of these activities will address the main aspects of the high inequality in the region.

The specific actions to improve the living standards of the poor, like the ones included in the previous paragraphs, and policies for sustainable economic growth that increase overall per-capita income and productivity do not necessarily oppose, and in many cases complement each other. As pointed out in the Sustainable Economic Growth Strategy, an increasing number of studies indicate that effective and targeted policies to combat poverty and inequity may likewise contribute to growth. For example, addressing the limitations that the poor face when market imperfections are combined with fixed investment costs and a minimum profitable scale increases the ability to invest in physical, human, natural or social capital, key factors for economic growth. In addition, addressing the limited access of the poor to productive and financial activities improves competition and efficiency in resource allocation, promoting economic growth. The development of the physical and social infrastructure of excluded groups and communities, and the elimination of discrimination, which reduces the returns on their investments, may help increase productivity. Poverty and inequality can also dampen countries' growth potential by virtue of their relation to social and political equilibria. The kinds of social problems that are sometimes linked to poverty and inequality—crime, substance abuse, violence, and so on—can trap the poor and exact high economic costs that block a country's growth prospects. In an environment of social injustice, discrimination, weak recognition and protection of human rights and lacking in political participation avenues, poverty can trigger social upheaval and threats to public safety, once again dimming a country's chances for growth. Distributional conflicts can beget popu-

list redistribution policies or inefficient political practices (inefficient tax systems, unproductive spending, and corruption) that weaken capital accumulation incentives and lead to sub optimal investment equilibria. Addressing these issues would have a positive impact on growth.

From the reasons listed above, comes the conclusion that a lack of direct attention to problems of inequity and social exclusion may lead to situations of persistent poverty and inequality, and of low levels of growth, which indicates the double causality.

Drawing on these considerations, two sets of factors are necessary to reduce poverty reduction and promote social equity. *General requirements* have to do with core elements comprising a framework for sustained poverty reduction: sustainable economic growth, macroeconomic stability, and democratic governance. *Specific requirements* refer to actions needed at the micro and meso level to promote social equity and directly assist the poor to become partners in growth and share in its benefits, by creating economic opportunities, fostering their human development, leaving them less vulnerable to negative shocks and social problems, and eliminating their political and social exclusion.

## **GENERAL REQUIREMENTS**

### **Sustainable Economic Growth**

A necessary condition for faster poverty reduction in Latin America and the Caribbean is a return to sustainable growth. The reform programs launched in the early 1990s speeded up growth in a number of countries in the region, albeit with mixed results. Deeper, “second generation” reforms would help propel growth, but ways must be found to ensure that growth benefits more disadvantaged population groups, generate an environmentally sustainable framework for growth, and reduce its vulnerability.

As noted above, the impact of growth on poverty reduction depends on the initial level of inequality and the pattern of growth. In order for the poor to participate and contribute more to growth, the direct and indirect links between economic growth and poverty reduction must be strengthened.

This includes policies to increase the impact of growth on the generation of employment for the poor and specific activities designed to reduce the disparities in access to and the accumulation of assets by the poor and excluded and to increase returns on those assets. Evidence from recent studies shows that growth has a greater impact on poverty reduction when it includes geographic areas or sectors where the poor population is concentrated, and when the initial educational and infrastructure conditions are more favorable. Thus, there is a need for growth that will promote more balanced regional development. Moreover, through the increase in fiscal resources, growth can also help reduce poverty by promoting an increase in social spending targeted to the poor, particularly by way of programs designed to improve their assets and productivity.

At the same time, it is important to ensure that economic growth is environmentally sustainable in order to attain poverty reduction. The poor are disproportionately affected by environmental degradation. The growth of urban agglomerations in the region is posing health risks caused by air pollution from vehicle emissions and industry, surface water and groundwater pollution, lack of access to safe water, and inadequate sanitation and solid waste management systems. These factors are associated with higher incidences of disease and death among the poor, and affect their quality of life. Furthermore, a large portion of the poor in rural areas depend on natural resources as their only asset for consumption and the generation of income, which frequently leads them to overexploit these resources, causing impoverishment and environmental degradation that jeopardizes sustainable development. It thus is important to develop ways to manage natural capital in an economical and sustainable manner, introducing specific measures to avoid environmental degradation (these issues will be addressed in detail in the Environment Strategy).

### **Macroeconomic Stability**

Reducing growth volatility and inflation are necessary conditions for lowering poverty levels in the region. Over the past twenty years Latin America and the Caribbean have weathered a succession of macroeconomic crises, which (apart from wars and natural calamities) have been the

chief cause of the surge in poverty. Such upheavals can severely curtail human capital accumulation, particularly in the poorest households, when family members become malnourished or have to cut short their schooling. Inflation also hurts the poor more than the upper income brackets, since their meager financial holdings are non-diversified and cash-heavy. Likewise, the poor are more likely to be dependent upon government cash transfers, subsidies, or pensions that are not adjusted for inflation.

The persistently high volatility and inflation levels in some countries in the region can be attributed in large measure to unsustainable fiscal and monetary policies and political instability. However, several countries that accompanied their sweeping structural reforms with responsible, sustainable fiscal and monetary policies were battered by severe macroeconomic crises, some of them set off by financial contagion. Action thus is needed to lessen the volatility of capital flows toward the emerging economies, such as measures to improve the international financial architecture, in coordination with other agencies. The countries, for their part, need sound monetary and fiscal policies that will be sustainable in the long run. These include: exchange-rate regimes suited to the structure of their economies; tax reforms; efficient public expenditure schemes; decentralization approaches that assure fiscal discipline; international regulatory standards for banks, other financial institutions and for large corporations; the development of domestic capital and equity markets; and moves to broaden and diversify countries' export base, with the aims of improving the competitiveness of the economy and the incentives to invest in productive activities; and reducing the variability of tax revenues among others. (The Sustainable Economic Growth Strategy covers these issues.) Countries need a combination of sound macroeconomic management and fiscal policies that give the State enough resources to adopt anti cyclical measures, and to help build economic and social infrastructure and make real inroads against poverty and inequality.

### **Democratic Governance**

There is growing recognition of the fact that the consolidation of public institutions and political stability, key elements in what is known as gov-

ernance, is indispensable for ensuring sustained growth accompanied by a reduction in poverty and inequity. To achieve this requires harmony and complementarity of the functions of the state, the market, and civil society. The state must assume a central role in the ordering and functioning of the markets, to facilitate the development of the private sector as an engine for the modernization of economies and inclusion in the global economy, and must promote justice and social equity. For its part, civil society must play an enabling, active, and participatory role in the process of economic modernization and public administration.

Governance facilitates economic growth, empowers the poor, and helps directly to ensure that growth is broad and participatory. Although there are a number of definitions of the concept of governance, its general requirements include accountability, transparency, application, and respect for the law. The validity of governance requires that the state has the capacity to promote, articulate, and coordinate the participation of all social actors in democratic and transparent processes that define public policies. There are considerable differences in political systems both in the policy arena and in the avenues each system offers to ascertain and respond to public concerns. Generally speaking, however, representative democracies with broad-based public participation afford stronger assurances of accountability, transparency, and respect for the law than alternative systems such as authoritarianism. Representative democracy can thus help tip the scales in favor of the poor, while also making a general contribution to human development. These systems offer greater opportunities for systematic representation of the interests of the poor as public policy is developed and implemented. Thus the spread of representative democracy in recent decades has been an important development for poverty reduction in the region.

It is also essential that the formulation, adoption, execution, and evaluation of public policies take place in an institutionally solid environment, and that the principles of governance referenced above apply to substantive processes to reduce poverty and promote social equity.

## SPECIFIC REQUIREMENTS

### Create Economic Opportunities for the Poor

Some of the reasons why market reforms have done little to reduce poverty are the poor's scant access to goods and services and financial markets, their meager asset base, and an unbalanced regional development, which limit the poor's potential to generate income. Insufficient access to assets is also a major reason for the low quality of life of millions of the region's poor, particularly in rural areas, who have no running water or sewer connections, electricity, and transportation infrastructure. The accelerated development of information technology affords important opportunities but also poses challenges for poverty reduction and increased equity in the region.

Action is needed on multiple fronts to give the poor better access to national and international goods and services markets, increase their productivity, and improve their quality of life: lowering transportation costs to and from remote or largely inaccessible areas; implementing programs to give the poor access to marketing networks and new telecommunications and Internet technologies; promoting investments in basic physical infrastructure (roads, electricity, water and sanitation, irrigation canals, etc.); and promoting stronger ties between the productive activities of the poor and the dynamic sectors of the economy.

International trade integration should bring about opportunities and direct net benefits to the population living in poverty. To this aim, the increase in access to world markets and foreign investment should take into account the abundant factors in the region (labor) and should be accompanied with measures to strengthen the cooperative and export capacity of micro and small enterprises and rural producers, as well as support to the vulnerable population temporarily affected by job losses.

Efforts to give the poor easier access to production markets should also include measures to improve regulatory systems, particularly at the micro level and in the labor markets. This will mean, for instance, removing barriers to the formalization and growth of micro enterprises and

small businesses, and promoting competitive pricing of basic utility services like power and water. In the present context following the privatization of many companies and utilities in the region, there is a need to ensure that low-income groups' access to basic services is not curtailed by their capacity to pay.

Although the insufficiency of incomes to emerge from poverty relates fundamentally to human capital insufficiency (an issue examined in the section on human development) and the lack of complementary assets (particularly capital and infrastructure), recent studies show that labor regulations are also keeping workers, especially the less educated, out of higher productivity jobs. To improve the access of these workers to better jobs, countries need policies that simultaneously lower recruitment and termination costs and help create more jobs. Necessary adjuncts to such policies are improvements in instruments for social protection and intermediation and employment training programs to help displaced workers find new jobs in dynamic sectors of the economy.

After a decade of reforms, most of which included deep liberalization of financial markets, the region still must find a way to give the poor better access to saving and credit markets. Some avenues to that end are micro finance programs, incentives for financial institutions to diversify their product and service offerings to reach out to low-income customers, improvements in loan security information systems, and products to lessen the risk exposure of the poor. In this context, alternative mechanisms must be explored for financing productive activities such as support for traditional land leasing practices, community work, and horizontal and vertical interchange of products and services in indigenous communities, and the use of emigrants' remittances for investment.

One of the priorities for poverty reduction should be augmenting the asset base of the low-income population. Over 40 percent of the rural poor have limited or no access to productive resources, including land, to generate sufficient income through their own agricultural production. These assets can be increased by improving property ownership rights and their family-based and individual use (particularly by women) and/or collec-

tive use (as in the case of many indigenous or Afro-descendant communities) and the legal security of real property, the promotion of access to land through cost-effective market mechanisms such as sustainable agrarian reform programs and land leasing, and programs to give the poor access to housing and financial saving products.

The high incidence of poverty in rural areas requires special emphasis on specific actions to increase opportunities for the poor in the rural sector and to promote a more balanced development in the region. Small producers account for the majority of the rural poor, followed by landless inhabitants and indigenous persons. A significant proportion of small-scale agricultural producers are smallholders with limited opportunities to emerge from poverty through agricultural development. Consequently, the fight against poverty in rural areas requires a set of specific actions to boost the productivity of small-scale farmers with agricultural potential (improvements in access to land and ownership rights, irrigation, research and technology transfer, development of rural financial markets, coordination with the market), and to generate employment and increase the incomes of small-scale farmers without agricultural potential and other rural inhabitants (development of land markets, rural micro enterprise, rural private investment in activities that add value to primary production, and training).

The gender dimension is another key element in creating economic opportunities for the poor. Investing in women—in developing their capacities and improving their access to basic services and economic opportunities—will strengthen the effectiveness of investments in the physical and social infrastructure, as well as have a direct impact on women's welfare. In addition, economic resources, such as access to land and agricultural inputs or income from work, in the hands of mothers have a greater positive impact on family nutrition than resources and income in the hands of fathers. Thus, increasing the social and economic status of women will help enhance social equity and reduce poverty.

Environmental policies, for their part, need to include specific measures to alleviate the harm that environmental degradation does to vulnerable communities and to promote environmentally

sustainable productive practices, including recovery and use of the traditional knowledge and practices of indigenous populations. To that end, there is a need to promote innovative approaches to the sustainable management of ecosystems that are the site of economic activity and home to poor populations such as indigenous communities and other marginalized ethnic groups (for example through sustainable crop practices, eco tourism, and the use of medicinal plants).

## **Human Development**

Given that labor is the main productive factor of the poor, a critical element in the fight against poverty and inequality is the strengthening of human capital investments, from early childhood through adulthood. This has been reaffirmed by the Heads of State in their commitment to the Millennium Development Goals and in other regional summits.

There is solid empirical evidence indicating that education is a key area where public policy has the most potential on reducing poverty and inequality. Human skills and potential are developed largely in early childhood and are significantly affected by the learning environment in the home, school, and local community. The poor population's investment in education is limited because of insufficient savings, child labor, and/or because of credit market constraints. Returns to education in the region have been increasing greatly, reflecting, for one thing, the stronger demand for workers with post-secondary schooling. This has worsened inequality in labor income and also means that a poor family has to keep spending for its children's schooling beyond the basic secondary level to offset the loss of income and other costs associated with school attendance. The equity gaps in education go beyond access to education. Poor children have weaker academic performance because of the inferior quality of the education they receive at school and the low educational background of their parents, which affects what they learn at home. Indicators on repetition rates, pass rates, and the quality of education for the poor are substantially lower than the average for the population. Thus, students from poor families have a harder time finishing primary school, and their learning levels put them at a clear disadvantage to access and complete sec-

ondary school or go on to higher education. The inadequate quality of instruction, its limited relevance to the world of work, and its unsuitability to a culturally diverse population therefore represent core obstacles to the poor accruing any of the high returns of quality education or better employment opportunities, severely limiting the potential contribution of education to social mobility in many of the region's countries.

Good health also yields important benefits: a healthy workforce is a more productive one, fewer days are lost to illness and good health contributes to a higher standard of living. Poor nutrition during the fetal stage retards growth and increases the infant mortality. Since catch-up potential after age 2 is limited, malnourished children have weaker cognitive skills that in turn, minimize their prospects for human capital accumulation and their productivity as adults. Poor households in which the mother or father dies, or family members are stricken with AIDS or other endemic diseases like malaria or tuberculosis are devastated by the loss of income and the high cost of medical care. Costs of private care, the poor's limited access to health centers—because of distance, cultural factors, a lack of information or some combination of these problems—and the substandard quality of public health services are fundamental constraints for poor families' investment in health.

All these factors make for sub optimal education and health investment and hence low human capital accumulation in countries with high poverty and inequality levels. This contributes to the intergenerational transmission of poverty and inequality.

Public spending on health and education has had only a limited impact on improving this state of affairs. Though public spending increased in the 1990s and is moderately progressive in most of the countries, it has not realized its entire potential due to inefficiencies in its allocation and use. No significant changes have been made in the mechanisms for financing social spending with regard to the need to link such spending to indicators of the quantity and quality of the services provided. Progress in the design of systems to transfer resources that promote greater equity (based on poverty indicators, for example) has

been limited. Administrative decentralization of spending at the local level has not been accompanied by greater autonomy in fiscal revenues and in local and participatory management of the delivery of social services. In some countries, higher-education subsidies are still being appropriated preponderantly by better-off families. Health spending is still too heavily concentrated in medical treatment and hospital care rather than on more preventive interventions that are more cost-effective and benefit the poor above all. A large proportion of budgets still goes to personnel, with weak performance levels, and there continues to be severe shortages of basic materials needed to operate and maintain schools and health centers.

For all of these reasons, improved management of public social spending and in the supply of quality education and health services should be a chief priority on social policy and reform agendas. It is essential that social policies and programs go beyond achieving universal access and include the goals of equity and quality in education and health, especially for the poor. This approach will mean combining comprehensive programs to improve the coverage and quality of the supply of education and health services; policies and systems designed to improve equity, efficiency, and effectiveness in social spending, and programs to promote demand and investment in these services on the part of the poor. Recent experience and the evaluation results of programs that tie cash grants to household's use of health and basic education services (for instance, the Progresia Program in Mexico, Bolsa Escola and Bolsa Alimentação in Brazil, PRAF in Honduras and the Red de Protección Social in Nicaragua) shows them to be an effective way of easing poor families' financial constraints and encouraging them to invest in human capital. Thus, these programs should be a key element in the alleviation and fight against structural poverty and inequality. One way to make human development programs more effective is to create linkages needed for successful transitioning from one life-course stage to another—for instance, between infancy and childhood, primary and secondary education, school and the workplace. Early intervention and prevention are priorities here, as are actions to exploit natural synergies among sectors.

Recent experience shows that actions specifically oriented toward promoting women's development and empowerment are key to poverty reduction. The education of the mother is vital in order for the children to achieve adequate levels of nutrition and education, improve health for the whole family, and is associated with a decrease in fertility rates in the region. Accordingly, addressing the demand for reproductive health services and actions to increase the educational level of the children, adolescents, and women of child-bearing age are important factors in breaking the intergenerational transmission of poverty and reducing infant and maternal mortality. Actions are also necessary to facilitate the involvement of women in the work force, including training and the establishment of childcare centers. Women must also have a preponderant role in the implementation of programs to fight poverty. For example, programs in which monetary transfers are conditional upon the demand for education and basic health are more effective when channeled through women in households.

### **Social Protection and Prevention**

One of the stiffest obstacles to poverty reduction in the region is the poor's excessive exposure to risk. The poor have no shield against idiosyncratic shocks in their personal lives such as illness, unemployment, or poor harvests or against systemic risks like economic crises, epidemics and natural disasters. There are several reasons for their vulnerability: (i) few of the poor have access to social security plans (since they do not belong to any contributory system either because their employers will not cover them or by virtue of legal or de facto restrictions) or private insurance, and they have difficulty borrowing because of problems of adverse selection and moral hazard; (ii) they have little capacity for precautionary saving and the opportunity costs of such savings are high; and (iii) they are more or less powerless to promote government-funded programs targeted to the poor or social safety nets during episodes of fiscal adjustment.

The region needs to redouble efforts to develop sound institutional responses to cushion the impact of adverse shocks on the poor. Social-protection policy interventions can improve the welfare of poor people faced with sharp drops in

income or consumption and possible erosion of human capital investment. Apart from these equity improvements, social protection for the poor can spur growth in so far they can afford to take riskier, but with higher returns, activities in the production sphere and labor market. Lastly, if the poor are shielded from income fluctuations associated with the lowering of trade barriers and flexible labor markets they will be more likely to back liberalization programs and pro-growth reforms.

In order to improve social protection systems so as to guard from aggregate risks like economic crises, countries should promote actions to reduce economic volatility, make social spending more counter cyclical, and strengthen social safety nets for times of upheaval. The vulnerability from the threat of natural catastrophes can be eased both ex ante and ex post through programs to institute early warning and information systems about adverse weather events, build basic infrastructure to mitigate the effects of disasters, resettle communities living in risk-prone areas, enhance the disaster response capacity of State institutions, and promote financial instruments to fund post-disaster construction projects. Initiatives that can leave the poor less vulnerable to idiosyncratic shocks include preventive health programs, programs to extend social security and social assistance (particularly for the disabled and elderly living in poverty) and health insurance coverage through public and/or private plans, individually funded retirement plans, minimum pensions for the low-income population, and emergency employment programs that especially include the most vulnerable groups, such as women and youth.

Another dimension of poverty in the region is the vulnerability of the poor to crime, social and domestic violence, unwanted youth pregnancy, child labor, the issue of street children, alcoholism, substance abuse, and other social ills. There is evidence that these social ills take a disproportionate toll on the physical, human, social and cultural capital of low-income groups. In several major Latin American cities, for instance, the poor and the disadvantaged are disproportionately the victims of violence and certain types of crime. Women who are victims of domestic violence see their income plummet and their children's school

performance suffers. Crime and social violence in general cloud the business climate and investment prospects (including human capital investment) and dim prospects for employment and income increases in communities. Unwanted youth pregnancy is associated with a dramatic deterioration in young mothers' socioeconomic status.

Measures are needed, especially of a preventive nature, to reduce the incidence of crime, violence, and other social ills in low-income groups, by improving access to law enforcement, information, counseling, programs for at-risk children and youth, and policies fostering peaceable coexistence and integration on a local, national, and regional scale.

### **Political and Social Inclusion**

An effort on multiple fronts is needed in countries' institutional apparatus to achieve more accountable, transparent and rule-of-law political systems with a greater capacity to reduce poverty and inequality. The workings of government need to be revamped so public agencies can better meet the needs of the poor and to ensure more accountability. For one thing, public service delivery is frequently skewed toward the upper income brackets. Another vital set of initiatives has to do with the participation of the poor in decentralization processes in the region. Political systems with a tradition of centralized authority need mechanisms to demand more accountability from local authorities as well as to assure genuine political participation at the local level. There is a pressing need to make the region's legal and justice systems more accessible to the poor. Poor people are more likely to be victims of certain crimes and human rights violations but have virtually no legal recourse to do anything about this. A restructuring of judicial processes with an eye to assisting the poor should be on State reform agendas throughout Latin America.

Another way to make meaningful improvements in the lives of the poor is to remove societal barriers to their participation and to help build social capital at the local and national levels. Substantive changes in laws and institutions are needed to help include excluded groups, including the strengthening of government institutions responsible for developing and overseeing regulations

with respect to minority ethnic groups and the coordination of indigenous legal systems and customary rights with national laws and jurisprudence. Social capital can go a long way toward reducing poverty, but active support from government institutions is frequently needed for social capital formation. One essential condition here is an enabling climate and regulatory environment to promote genuine participation of community organizations of the poor.

Reforms of key political institutions in the region could pave the way for much broader participation by the poor and make sure that their interests are duly represented as public policies take shape. Modernizing Latin American legislatures could be a force for poverty reduction and social equity promotion. Electoral system reform could help put serving the needs of the poor, more notably on the agendas of parties.

Poverty and inequality in the region have historic, geographic, ethnic, racial and gender roots. Social exclusion is rooted in unequal regional development, the uneven opportunities of human development, the uneven distribution of factors of production, unequal access to credit, and lower returns on productive activity of excluded groups, frequently due to discrimination. For instance, the inferior school quality that reduces returns to education and the gap in access to higher education between the excluded segments of the population and the rest of it limit the accumulation of human capital in such segments. Discrimination in returns to physical and human capital also removes incentives for their accumulation. Residential segregation can saddle the poor with low levels of human capital stemming from underfunded schools in poor communities, squandered group learning externalities, and a dearth of mentors or role models. Experiences with slum renewal and neighborhood upgrading and indigenous and Afro-descendant community development programs show what can be accomplished by integrated interventions and by addressing cultural facets of development especially with regards to making programs and the institutions responsible for them sensitive to culture. Accordingly, comprehensive interventions to break the intergenerational transmission of poverty and inequality among excluded groups are key for poverty reduction.



## RECENT BANK ACTION

In recent years a considerable share of the Bank's lending and non financial products have been directed toward poverty reduction and equity promotion, in pursuit of the Eighth Replenishment indicative lending targets. Social equity enhancing (SEQ) loan approvals between 1994 and 2001 accounted for 44.6 percent of overall lending in volume terms, exceeding the 40 percent cumulative target. In terms of number operations, over that same interval, SEQ loans made up 46.2 percent of total approvals, still short of the 50 percent cumulative target. But the percentages are trending up: between 1994 and 1998, SEQ loan approvals accounted for 41 percent and 42.4 percent of total lending by volume and number of operations, respectively, fulfilling only the indicative target for volume; between 1999 and 2001 the respective figures rose to 51 percent and 51.9 percent of total lending, surpassing both targets. Meanwhile, poverty targeted investment (PTI) lending in recent years has accounted for over 30 percent of the total by volume and over 40 percent by number of operations. The Multilateral Investment Fund (MIF), for its part, has devoted a sizable share of its resources to projects in the areas of microenterprise, microfinance, youth employment training, and migrant remittances, with important benefits to poor populations. Other IDB Group lending products, such as Inter-American Investment Corporation (IIC) operations to foster the development of small and mid-sized businesses in the region, contributed indirectly to poverty reduction in the region. For the most part, the benefits of social sector operations have accrued preponderantly to the poor. Nevertheless, for the Bank to heighten its contribution to poverty reduction, nonsocial sector operations should more directly benefit the poor, particularly in the areas of infrastructure, productive sectors and modernization of the State.

Recent years have seen an improvement in the use of targeting systems in poverty reduction projects, chiefly in the social sectors, thanks to a combination of factors: the more detailed data now available to be able to locate groups living in poverty and develop projects to benefit them directly; the use of in-house operating guidelines for these purposes; growing expertise in poverty

issues in the operations departments; and the advisory role of the central departments. However, support is needed for countries to make greater use of beneficiary identification systems, in order for social and poverty reduction programs to be more effective. It is also necessary to deepen the lessons learned from the design and targeting of projects, with greater use of a rigorous assessment of their poverty impact. There needs to be heavier emphasis on project impact monitoring and evaluation to more accurately gauge the Bank's contribution to poverty reduction. The most frequent difficulties in the implementation of SEQ/PTI operations are mainly associated with the fact that most of the projects are in the social sectors. The relative difficulty of implementing social projects can be explained by the vulnerability of local counterpart financial resources to economic crises and fiscal adjustments and the institutional weakness of local executing agencies. The main measures to address these issues include: promoting mechanisms to protect social spending during periods of crisis or fiscal adjustment; and, increasing technical capacity and the institutional importance of the social sectors in national government agencies.

The Bank has played an important role in enlarging the body of information available for poverty assessments, analyses and the design of targeted projects. A key achievement in this respect is the improvement of household surveys, promoted through the Program for Improvement of Surveys and Measurement of Living Conditions in Latin America and the Caribbean (MECOVI). Bank's support to this program will continue to play an important role in its future implementation.

On the other hand, in recent years the Bank has supported the preparation and implementation of national poverty reduction strategies (PRS) in the framework of the Heavily Indebted Poor Countries Initiative, and has begun to support strategy preparation in other countries. Consequently, the Bank will strengthen this strategic support to the countries for the development of comprehensive poverty reduction strategies, building that objective explicitly into its programming process, policy dialogues and country strategy development. This is important since in some cases, the Bank's support for poverty reduction has been confined

to individual operations, not necessarily with a comprehensive country-specific poverty reduction strategy focus. Supporting the countries in the formulation of comprehensive strategies for poverty reduction has therefore been identified as a priority area of activity for the Bank.

Since 1997, Bank action for poverty reduction has been guided by the Poverty Reduction Strategy approved that year. The strategy emphasized that economic growth was a necessary factor but was not sufficient to reduce poverty and that specific actions for the poor were needed. The strategy stated that human capital formation was key to reduce poverty and included other important aspects that are central to the fight against poverty. In addition to the areas of activity proposed in that strategy, based on experience over the past few years, the strategy proposed herein includes the following core elements to guide future Bank

action for poverty reduction: multidimensional, comprehensive assessment of poverty; greater emphasis on the issue of equity and its relationship to the low impact of growth on poverty reduction; a more comprehensive treatment of social protection mechanisms and the dimensions of gender and social exclusion by race and ethnicity; stronger focus on the institutional capacity of the State to finance, design, and prepare poverty reduction programs; a comprehensive strategic approach to poverty reduction, promoting poverty reduction strategies in the borrowing countries; greater emphasis on Bank programming to fully integrate poverty reduction into its activities; consistent, explicit linkage with other core strategies for Bank action in its priority areas of activity (competitiveness; social development, modernization of the State, regional integration and environment) and efforts to monitor and evaluate progress in poverty reduction.

## Areas for Bank Action

Consistent with the Eighth Replenishment recommendations, and taking into account the above-described diagnostic and lessons learned, this section proposes the areas for Bank action to reduce poverty and enhance social equity.

This objective will be achieved by assigning priority to: (i) policies for sustainable economic growth and macroeconomic stability as the prerequisites for reducing poverty and inequity (issues addressed in the Sustainable Economic Growth Strategy); and (ii) support for *comprehensive poverty reduction strategies* that promote consistency in the various efforts. The strategy will also address the needs mentioned in the section above through selective support for initiatives for poverty reduction and equity promotion in the Bank's four priority areas. Specifically, the Bank will promote the creation of economic opportunities for the poor by supporting (iii) productive inclusion of the poor in production through investment for *Competitiveness*; and (iv) productive inclusion by means of access to regional markets through *Regional Integration*. The Bank will also provide support for (v) initiatives to promote human development, social capital, prevention of social ills, and social inclusion for the poor through *Social Development*; and (vi) activities to promote democratic governance and political participation of the poor through *Modernization of the State*. The Bank will also assist countries in the region to (vii) strengthen *multi sector social protection systems* to reduce the vulnerability of the poor. The cause-effect relationship between poverty and the environment is recognized in all these actions. Thus, the environmental factors that affect directly the means and quality of life of the poor will be handled transversally, in both urban and rural areas. The Environment Strategy recognizes these relationships explicitly.

The strategy presented here lays out general guidelines for the design of instruments to pursue the above areas of action. Since there are consid-

erable differences in the face of poverty from one country to another in the region, the Bank's selective support under the country strategies should be tailored to country-specific priorities, developed through careful diagnosis of the causes of poverty and inequality, and making use of the Bank's comparative advantages. Table 1 in the Annex, summarizes the actions described below.

### COMPREHENSIVE POVERTY REDUCTION STRATEGIES

The multidimensional nature of poverty requires a wide array of policies and programs on the economic and social front that address its multiple causes and manifestations. It is important to assure that all the programs and actions are articulated in a cohesive package to avoid the waste of resources, duplications or even incompatibilities across programs.

Thus, the Bank will provide special support to the region's countries to develop and implement their comprehensive poverty reduction strategies in a participatory framework. Such strategies should include a thorough analysis of the chief determinants of poverty and the ensuing clearly-defined priorities, developed with a long-term view in each country context; the selection of quantifiable, realistic poverty reduction goals based on the Millennium Development Goals and other regional commitments; an action plan for pursuing these strategies that considers coordination among international financial institutions and donor organizations in funding specific projects and programs; and a mechanism for supervising and assessing program and project impacts.

The Bank will support the improvement and implementation of national strategies in the countries that already have them, based on the guidelines specified in this strategy paper, and will promote their development in countries where no significant progress has yet been made. With respect to middle-income countries, the Bank will

be selective in terms of emphasizing support for regional and/or sector strategies, with a comprehensive focus that addresses geographical areas with a greater incidence of poverty, and their principal determinants. The Bank's support for poverty reduction strategies will emphasize crosscutting initiatives in social and nonsocial sectors, with priorities defined in the four areas of comparative advantage of the institutional strategy and the development of comprehensive social protection systems. All these actions should be environmentally and fiscally sustainable and take gender and ethnic considerations into account.

### **ACTIVITIES IN THE SECTORS FOR BANK ACTION**

It should be noted that although the Bank's contribution in the four priority sector areas may be important for the countries' progress toward attaining their goals to reduce poverty and social inequity, its capacity for action will always be insufficient to address all the needs of the countries. Thus, the Bank will favor financial support for actions that contribute directly to strengthening the productivity and the income generation potential of the poor and excluded groups, including the expansion of physical and social infrastructure and the development of their human capital. Additionally, the Bank will emphasize strengthening of the State's capacity to implement policies and programs for poverty reduction and social inclusion, evaluate the activities carried out, and apply the lessons learned during implementation of the programs.

#### **Competitiveness**

Poverty reduction in Latin American and Caribbean countries will require combined actions that address the need to improve the overall competitiveness climate (topic included in the Sustainable Growth Strategy) with measures to tackle constraints to the productivity of the poorest workers and small producing units. The pressing actions needed to increase overall competitiveness include: improving access to credit and capital markets; access to human resources, training, and labor relations; the availability of infrastructure (roads, ports, energy and telecommunications, etc.); access, assimilation, and generation of knowledge and new technologies; the quality of

Government institutions related to the functioning of private productive activities, and the productive and sustainable administration of natural capital. Below we present the actions targeted to the poor, which are the subject of this Poverty Reduction Strategy, and which include initiatives to increase their asset base, productive capacities, and their access to labor and financial markets and goods and services.

*Financial markets for small producers and poor workers.* Lending to small producers and micro entrepreneurs is an unattractive proposition for most traditional financial institutions largely because such loans are expensive to administer and track. To give easier access to credit and other financial services to small producers, who bring together a significant proportion of the poor population, the Bank, in cooperation with regional and national banking supervision organizations, will support programs that improve and expand short-, medium-, and long-term access to financial services for these groups; support the expansion and improvement of the services of micro finance institutions for micro entrepreneurs and small-scale producers; strengthen legal and regulatory frameworks governing micro finance organizations adapting them to incentives and market risks; develop a credit registry system; identify and disseminate best practices in the micro finance sector; develop financial alternatives for indigenous groups, and advise governments to design and implement policies that promote access to financial services, including channeling remittances from immigrants, for micro entrepreneurs and small-scale producers.

*Property rights of the poor.* According to the evidence, the poor could possess significant capital in some cases, but its productivity is limited because laws and institutions do not help protect or recognize individual or collective property rights. Thus, the poor can seldom use their capital as loan collateral or as transactional assets. The Bank can help alleviate this problem through programs designed to: clarify real property rights, especially in rural and marginal urban areas; rewrite land-use laws, removing current legal barriers to transactions in land, real estate and urban construction; and afford enduring legal certainty of ownership by linking modern cadastre systems with decentralized, moveable and real property

registers that do not discourage the registration of transactions in marginal areas. The Bank will also support actions to strengthen indigenous management or co-management of their territories and (in cases where the land cannot be used as a guarantee) to explore the possible use of guarantee funds, joint ventures, and other financial facilities, including strengthening traditional systems of mutual self-help and redistribution to invest in productive activities that are socially and culturally appropriate.

*Improvement of employment opportunities for poor workers.* An efficient labor market is crucial in opening up more opportunities for the poor through gainful employment, particularly for workers with little education and within the informal sector. To this end, the Bank will support actions to raise the level of training of poor workers; modernize the contents of training programs to adapt them to the needs of the productive sectors; develop training programs tailored to the conditions and needs of micro and small enterprises and independent producers; improve labor market regulatory frameworks aiming at removing elements that are keeping low educated workers out of the employment mainstream; promote technical assistance programs for the labor authority to improve the adoption and enforcement of internationally accepted core labor standards; improve job placement and employment assistance systems to make them more effective and improve training systems through private provision of supply and strengthening of public regulation.

*Promoting inclusion through basic infrastructure services for the poor.* Since most of the factors of production are complementary, the labor productivity of the poor can be improved substantially if they gain better access to basic infrastructure such as running water, electricity, transportation or telecommunications service. The Bank will promote programs to: give low-income groups access to basic utilities and concurrently take steps to ensure that such services (particularly electricity and water service) will be sustainable; foster the adoption of appropriate power generation and telecommunications technologies in rural areas where conventional technology would not be efficient; promote local management of basic infrastructure and transportation system programs; and

adapt the identification, design, and maintenance of small infrastructure works in ethnic areas to local culture. Whenever the provision for a basic service has been privatized, the Bank will factor in the need to ensure that the access of the low-income stratum is not limited by the lack of capacity to pay or due to residence in remote regions.

In some countries of the region targeted and participatory instruments such as social investment funds may be effective for providing basic infrastructure to marginal communities with a high incidence of poverty, to the extent that they are framed within comprehensive poverty reduction strategies that are fully incorporated in the structure of the State and contribute to the process of strengthening local capacity and decentralization of the State. Use of these instruments should include activities to ensure their sustainability over time and monitoring and evaluation of their effectiveness and impact.

*Access to science and technology for the poor.* The Bank will also support the diffusion of new technologies to ensure access of small enterprises and rural producers to technological information and technical assistance; cooperation in research and development among enterprises and technical institutions; the development and diffusion of quality standards for products and; strengthening of the capacity to identify, generate and adopt environmental sustainable technological innovations suitable to rural activities; the expansion of the Internet infrastructure through phone cabins, rural telephone centers or community information centers; training in the use of these new technologies by small enterprises owners and small rural producers. The Bank will also support pilot programs and innovative efforts aim to develop new technology applications that benefit the poor, especially in information technology.

*Cooperation between the public and private sectors to increase the competitiveness of the poor.* The Bank will support the development of associative efforts among enterprises of different sizes and sectors, among them universities and the public sector. The associative capacity among micro-entrepreneurs, small entrepreneurs, and small rural producers will be strengthened to help promote local integral and participative programs.

The Bank will also encourage the support to clusters and the strengthening of productive chains.

*Other specific actions to support rural development.* The actions described above to improve competitiveness will have a positive impact on the productivity of rural workers. These actions are very important, given the high incidence of poverty and low levels of competitiveness in the rural areas. On the other hand, the specific conditions of the rural sector require additional Bank emphasis on: Access to land through cost effective mechanisms; development and promotion of agricultural exports; strengthening of the management capacity of the small and medium scale agro entrepreneurial sector; and actions for the rational use of natural resources, particularly water (comprehensive watershed management, rehabilitation and improvement in the operation and administration of irrigation systems).

*Other specific actions to support micro enterprise.* Similarly as in the case of the rural sector, the actions described above to improve competitiveness will have a positive impact in the productive capacity of micro enterprises, which employ a high percentage of poor workers. To take advantage of the specific opportunities to increase micro enterprise sector productivity the Bank will place additional emphasis on: facilitate the technical knowledge and information that will make it possible for micro enterprises to increase their productive capacity, competitiveness, and access to markets for their products and services; provide business development services to micro entrepreneurs (including training, technical assistance, commercialization and marketing); improve information systems on the input supplier market, local and international market trends, consumers, among others; provide access to technology and an increase in innovative capacity; promote clusters, networks, and subcontracting chains in order to take advantage of economies of scale in the procurement of inputs, mass production, and the provision of finished products; and promote cost reducing interventions

*From the environmental perspective,* the importance of creating competitive conditions between poor sectors that depend on the management of their natural resources or the environmental ser-

vices available in their territories is highlighted. In this sense, the Bank will promote the creation of optimal conditions for the increase of income generating opportunities and increase in productivity on the basis of sustainable natural resources in marginalized, rural and indigenous communities.

## **Social Development**

In keeping with its track record and recognized leadership in the social sectors the Bank has identified new areas and approaches on Social Development with the goal of promoting equity and expanding the benefits of the social portfolio for the poor tackling the region's current demographic and social challenges. This includes policies, programs, and initiatives that emphasize human capital development in the education and health spheres, enhance the quality of life of the poor through housing interventions; ensure effective transitions along the life cycle; end social exclusion and strengthen the countries' capacity to prevent the proliferation of social ills that take a disproportionate toll on the poor; and support integral interventions for low income populations in circumscribed territories. Specifically, the Bank will address the needs of the poor and the excluded through actions in the following areas of social development:

*Reduction in the inequality in access to education, health and housing services.* The Bank will put central emphasis on programs that address the challenges embodied in the Millennium Development Goals and other global and regional summit commitments. The Bank will continue to complement its core support for basic education and health infrastructure with sector operations supporting institutional reforms and innovative approaches to health care and education delivery, at adequate standards of quality, in poor communities, and with targeted human development programs that offer subsidies tied to demand for these services. The education and health reforms should strengthen management of the system and efficiency in spending according to equity standards; and promote financing mechanisms and incentives linked to performance thereby promoting interagency coordination, evaluation capacity, and ongoing dialogue with key stakeholders, including the very poor and excluded.

In *education*, the Bank will support actions that, based on the major achievements in universal enrollment at the primary level, will improve its quality and gradually expand access of the poor to quality secondary education. These activities will seek to improve the efficiency and equity of education systems in order to guarantee learning and development of the skills necessary for poor children and youths to become active citizens and to participate effectively in economic development. Support will be provided for direct interventions, targeted on low income families and areas, to improve primary and secondary school instruction and learning and to help increase access to post-secondary education, such as updating and adapting curricula to the needs of a changing labor market with greater cultural diversity and the participation of women and the disabled. The Bank will support comprehensive and targeted investment programs centered on schools to provide the material, financial, and human resources necessary to guarantee the conditions to effectively implement the curricular reform; empower teachers as responsible agents for student learning and principals as responsible managers for academic performance in the schools; improve teaching conditions and hours of instruction in the schools; and promote proper systems for monitoring learning and teaching practices in the classroom. Modern information and telecommunications technology resources can also be tapped for this purpose, to bring access to good-quality education (for example through distance learning approaches, including television-assisted secondary education programs) and promote training specifically on the use of such technologies in isolated schools in poor communities. The Bank will also support programs for multicultural bilingual education for indigenous communities.

In order to achieve the Millennium Development Goals in *health*, reduce the gap faced by low-income populations, and in particular, reverse the leveling off in the reduction in the existing high levels of child and maternal morbidity and mortality, the Bank will place a renewed emphasis in quality primary health care and effective public health services. Health reforms should strengthen the systems for organization and financing of services; linking them to specific country needs and goals; reorganizing highly complex ones; promoting cultural adjustment for indigenous groups;

and developing new types of care in areas with little State presence. Based on the epidemiological profile of each country the Bank will support actions to ensure consistently high basic vaccination levels; effective implementation of the Comprehensive Strategy for Childhood Diseases in association with other international development agencies; and mass information, education, and outreach campaigns on health for vulnerable groups. The Bank will also support activities in the area of environmental health, which has a major impact on certain transmissible diseases, by providing financing to projects for basic sanitation and the access to safe drinking water, an issue that was assigned high priority at the Johannesburg Summit, and related activities. In addition, the Bank will strengthen its support for reducing maternal morbidity and mortality, which mainly affects poor women, through continued financing for reproductive health, basic obstetric care, and related activities, in order to reduce the economic, cultural, and geographic barriers to health care services. The Bank will also continue to emphasize the decentralization of health services; development of community health systems; and prevention and treatment of transmissible diseases such as HIV/AIDS, tuberculosis, malaria, and dengue, and other diseases that disproportionately affect the poor.

The Bank will support actions that promote the important role of women and the fight against poverty. Greater emphasis will be put on health and nutrition specifically through early intervention programs, such as prenatal care for pregnant women, child nutrition, and preschool childcare.

The Bank's action in *housing* will continue to support governments to expedite the functioning of housing market and to target public spending in lower income households. The Bank will support strengthening of the regulatory capacity of state institutions and promote the conditions for the private sector to take over housing construction and financing. The Bank will support reforms in the housing sector to promote private financing and construction for housing for the poorest populations and increase the availability of land authorized for residential usage at affordable prices for the poorest households. The Bank will also support programs to expand direct access to housing solutions for low-income house-

holds. In order to improve the quality of the existing housing stock, the Bank will promote programs to provide financial and technical support for gradual improvement of housing.

*Equal opportunity during the life-cycle.* The poor and the excluded may be ill-served by physical and human capital development programs that fail to create the linkages needed to successfully manage the transition between different life-course stages—from infancy to childhood, primary to secondary school, school to the workplace, and the workplace to retirement. Interventions to improve the health and education of the poor will not be truly effective or sustainable unless they address those crucial transitions, understand the importance of early intervention and prevention, and exploit natural cross-sector synergies. The Bank will support programs to help the poor navigate these critical life-cycle transitions, with particular attention to synergies within the health sector (for instance, combining reproductive health programs, pediatric services and programs to combat malnutrition); between health and education (e.g. comprehensive programs providing services for families, preschoolers and infants); between school or university and the workplace, and between jobs, especially taking into account women's transition into the labor force (for instance through early interventions to assist young people from poor families, and childcare centers).

*Elimination of social exclusion and other social ills.* The Bank will supplement the activities to create opportunities and promote social development for the poor with social inclusion initiatives and programs that ensure that benefits reach groups that have found themselves excluded by reason of gender, ethnicity or race, disability or AIDS. This includes building capacity in national statistics bureaus to gather data on social problems and excluded population groups. In addition, the Bank will include specific actions in operations to expand the asset base, create market opportunities and strengthen public management so as to expand their benefits for excluded groups and geographic areas, and will support the development and enforcement of anti-discrimination legislation and social campaigns in collaboration with the private sector. It will support country

initiatives to eliminate the stigma and discrimination against persons with disabilities or AIDS.

The Bank will foster initiatives to prevent crime, violence and other social scourges. Specifically, it will support institutions responsible for programs to curtail child labor and address the issue of street children, domestic violence prevention initiatives, community violence-prevention actions, social promotion and public education campaigns and education advocating peaceable coexistence, substance and alcohol abuse prevention, treatment and rehabilitation for young people, and prevention of unwanted youth pregnancy.

*Support to the integral development of circumscribe territories as key elements for poverty reduction* (e.g. municipalities, indigenous territories, autonomous regions). The Bank will continue to support comprehensive programs in circumscribed territories that tackle the roots of poverty and exclusion, and promote balanced regional and local development, with a participatory focus. This would include slum renewal and neighborhood upgrading programs offering a package of services to improve living and environmental conditions and give the urban poor more opportunities; policies to reduce residential segregation and support economic, social, and physical rehabilitation of deteriorated cities; and sustainable local development programs for indigenous and Afro-descendant communities to augment their physical, cultural and social capital.

*Social development actions with positive impact in the environment* will be promoted by the Bank to attack the roots of environmental degradation processes that affect the quality of life of the poorest populations (elimination of solid waste, polluted water, air pollution inside and outside homes, soil degradation, etc). Bank action will contribute to better life opportunities and less vulnerability to environmental risk for these low income populations.

### **Modernization of the State**

One condition for poverty reduction is a democratic, effective and efficient State that is responsive to the needs and aspirations of the poor and excluded, is accountable to them, and gives them a voice and influence in institutions of govern-



ance and access to economic opportunities. Therefore, the following priority areas for Bank activity in the area of Modernization of the State geared towards the reduction of poverty and promotion of social equity have been identified:

*Democratic system and social inclusion of the poor.* The Bank will strengthen actions to promote the political inclusion of the poor. Actions will be taken in the following areas: Strengthen the structure and institutional capacity of the legislative branch in order to facilitate the voice and effective participation of excluded groups; modernize electoral system in order to ensure equal opportunities to all citizens; strengthen the capacity of institutions of control and supervision to assure greater transparency in public management and avoid discrimination; support decentralization processes that allow the integration of marginal sectors and involve the affected groups in decision processes; strengthening the capacity of community organizations of the poor, vulnerable groups and/or traditional excluded groups, and their connection with decentralization processes; and foster values of democratic inclusion in society at large.

*Rule of law and access to justice of the poor.* For the consolidation of the rule of law in the countries of the region, the Bank will step up its support for the broadening and consolidation of the institutional reforms needed to make sure that all citizens possess and can effectively exercise their fundamental rights, including recognition of the rights of indigenous and other ethnic groups. In this context, the Bank will support programs to widen the access of the poor to justice. Bank efforts will include modernization of justice procedures to diminish barriers and costs of access, including the simplification of norms; promotion of alternative mechanisms for conflict resolution, including local judges; and promotion of access of the poor to people and assets registries. To strengthen the rule of law, the Bank will support programs to address the institutional weaknesses that foster corruption, especially those that negatively affect the income and access to basic judicial services for the poor, as well as programs to foster citizen security and reduce the exposure of the poor and excluded population to violence.

*State, market and equity.* The development of efficient and inclusive markets requires actions to remove obstacles that dissable the poor population and excluded groups to effectively access market opportunities. To that end, the Bank will support institutions that broaden the opportunities for excluded sectors and regions. The Bank will also support actions to facilitate the legal incorporation of informal economic activities, particularly those of small and micro-enterprises, and simplify the enforcement of contractual obligations; promote social regulation of basic services that ensures the rights of the poor and citizens that are excluded from these services; and support the development of instruments that facilitate the adequate representation of the interests of low-income consumers and those affected by the reforms , in the process of public policy formulation.

*Public management for equity.* The Bank will support an integral management of the cycle of policies that emphasises the prioritization of resources for poverty reduction and the promotion of social equity, the institutionalization of the poverty reduction policies, an efficient social public expenditure management through accountable and service oriented institutions, and the development of the fiscal capacity of the State to ensure investments that contribute to poverty reduction. Particularly, the Bank will support the development of capacity to coordinate and formulate state policies for poverty reduction, including targeting of programs and participation of relevant social actors; transparency in management of resources; budget resources allocation systems that promote equity (for instance, based on poverty indicators) and efficiency (for instance, linking expenditures to the quantity and quality of services); streamlining public institutions through the establishment of a merit based civil service and management capacity building; modernization of public services management, incorporating the participation of beneficiaries through community organizations; administrative decentralization of expenditure management, with strengthening of the institutions that coordinate multisectoral actions in disadvantaged regions; and the use of new technologies to improve access of poor and marginal populations to public services.

Due to the fact that attacking the environmental problems that affect the poorest populations requires *the improvement of environmental governance* among local communities, the Bank will promote the creation of capabilities for local environmental management and effective community participation mechanisms for the decision-making process regarding natural resources. Likewise, the Bank will support the development of instruments that allow local government and communities to take directly decisions on the management of the resources. All these aim to create mechanisms of environmental governability that empower local communities, indigenous groups and in general all deprived groups in the process of environmental decision-making.

### **Regional Integration**

Regional integration affords the member countries secure, rule-based market access and preferential free trade. At the recent Conference on Financing for Development in Monterrey, Mexico, the importance of increasing the access of exports from developing countries to all markets was acknowledged. In this sense, the Bank addresses different actions with regard to regional integration to accelerate subregional, as well as panamerican and interregional integration and to maximize the benefits of such integration on the well being of the population in general and of the poor and excluded. These include:

*Consolidation of the positive effects of regional markets* on the welfare of the poor. The Bank will support programs that promote the consolidation of regional markets taking into account the economic inclusion to the poorest and boosting the positive impacts of regional trade on these populations. These programs will put emphasis on increasing access to global markets through activities in which comparative advantages exist; promoting investments that increase opportunities and direct benefits to marginalized populations; promoting the dynamic transformation effects of the integration process while attempting to minimize the deviation of trade and loss of employment; consolidating the positive effects that regional markets have on modernization of technology, taking into consideration the abundant factors in

the region (labor); and addressing the negative effects of integration on income disparities. Finally, the actions to be undertaken in this area will consider the establishment of national support mechanisms for the most vulnerable populations affected temporarily by the integration process. Special attention will be rendered to communities located in vulnerable border areas, such as those with indigenous inhabitants.

*Developing regional infrastructure.* The Bank will continue its support for regional infrastructure. Projects designed to link urban or industrial poles by way of infrastructure corridors may have a significant social impact because they may traverse other less developed areas, whose residents thereby gain new communication resources and opportunities of progress. Support for regional infrastructure expansion will center on establishing development corridors, such as the South American Regional Infrastructure Integration Initiative (IIRSA) and the Puebla-Panama Plan. A number of sub regional integration groups also have launched border integration initiatives that are benefiting marginalized populations in those areas.

*Institutional strengthening for integration.* The Bank will promote the institutional strengthening of the organizations that are entrusted with the negotiation of integration agreements and the regulation of international trade with the objective of having an adequate institutional framework to facilitate a balanced and inclusive integration process that provides benefits to the poorest regions and most marginalized groups. These institutional strengthening programs will include specific components to promote an institutional bargaining capacity that takes into account social equity and balances and diminishes the negative impacts of integration on the poor; strengthen the capacity of small and microenterprises to participate into export-oriented production chains; support protection instruments to offset the negative tax impacts of integration agreements on the poor; and strengthen institutions for social dialogue that include the most underprivileged sectors.

*Developing regional cooperation in public goods that benefit the poor.* In the area of regional cooperation, the Bank will support the creation of regional public goods that contribute, among others, to the reduction of poverty and inequality such as knowledge on the causes and identification of best policies to address these problems; initiatives in the financial sector to protect and promote the access of the most vulnerable sectors and the poor to savings and credit; identification of policies to develop border areas in depressed regions; and actions to support negotiation forums and the mobilization of financing, as well as other mechanisms to benefit the most underprivileged populations.

The Bank will promote actions to *address the environmental dimension of regional integration*, emphasizing marginalized zones that depend mainly on their natural resources base. Many of these communities rely on biological corridors with no borders. The Bank will promote the inclusion of these communities placing especial attention to the protection and adequate use of their natural resource base and environmental services generated in their areas.

### **MULTISECTOR SOCIAL PROTECTION SYSTEMS**

The actions included in the four priority areas emphasize attention to structural factors associated with poverty and inequality. In addition, it is crucial that the region's social protection systems be expanded, since recurring economic crisis and natural calamities and the inability of the poor and the vulnerable to shield themselves against those aggregate risks or against idiosyncratic risks can severely hamper the fight against poverty. This requires a comprehensive set of actions to prevent, mitigate, and address the impact of these adverse shocks. The different components of social protection systems should be set up with sufficient anticipation and flexibility to facilitate a rapid and effective response. Consequently, the Bank will support and encourage counter cyclical measures and the strengthening of multi sector

*social protection systems* in the countries of the region to better address short-term and long-term vulnerability, incorporating informal safety nets that affected populations have already woven for themselves and civil society participation.

*Social protection systems to weather economic crises.* To improve social protections against economic crises, the Bank will foster implementation of prudent policies to avert crises, instruments to protect social spending and make it more counter cyclical (through vehicles such as Fiscal Stabilization Funds) and programs to assist the population facing sharp drops in income (such as targeted transfer programs and emergency employment programs, especially for the most vulnerable groups).

*Social protection systems to contend with natural disasters.* The Bank's support in this area will emphasize programs to improve the State's institutional disaster-response capacity; investment in basic infrastructure to reduce the risk of significant damage during disasters; regional and national early warning and information systems for weather events; emergency credit lines for post-disaster rebuilding of basic infrastructure; and financial products and access to capital markets (in coordination with other multilateral organizations) to provide insurance and financing for reconstruction (including calamity funds and insurance). These aspects will be strengthened in the Bank's policy and Action Plan for natural disasters.

*Social protection systems to cushion against idiosyncratic risks.* The Bank will promote programs to improve this kind of social protection systems, such as programs to extend social security coverage for health and pensions, private health and unemployment insurance, and retirement plans that take in the informal sector and assure minimum consumption levels for the indigent elderly. It is also worth noting that all Bank programs that take aim at structural poverty leave the poor less vulnerable to personal and aggregate risks by increasing their self-insurance capacity.

## Options for Bank Services and Implementation Guidelines

This Strategy for Poverty Reduction and Promotion of Social Equity provides a framework, which defines general principles to guide different priority areas supported by the Bank. The effective implementation of this strategy will occur through the execution of the action plan hereby defined in each one of the strategies of the four priority areas of Bank activity: Competitiveness, Modernization of the State, Social Development and Regional Integration, as well as those defined in the Environment Strategy that has a cross cutting nature. As previously stated, these strategies are aimed at the promotion of actions and policies needed to achieve poverty reduction and promote social equity. The services provided through Bank activity are defined by the organizational framework of the IDB Group, which includes: the Bank's public and private action; and coordination with the Inter-American Investment Cooperation and the Multilateral Investment Fund (MIF.)

The IDB Group can deploy its toolkit of financial and nonfinancial products to help reduce poverty and inequality in the region's countries. Financial products that can directly support countries' development and poverty reduction programs and policies are (national and regional multiphase) investment loans, sector loans, emergency lending, loans to the private sector, the Social Entrepreneurship Program, the Bank's new flexible lending instruments, technical cooperation loans and non reimbursable technical cooperation. A very sizable share of the Bank's lending program will be directed to poverty reduction and social equity enhancement, in pursuit of the Eighth Replenishment indicative targets of 50 percent of the number of operations and 40 percent of total loan approvals for those purposes. Among its non financial products are technical assistance and support for country-specific diagnostic assessments of the state of poverty and its causes, and support for the design and implementation of comprehensive poverty reduction strategies; policy dialogues; workshops, seminars, conferences and

forums; social management training; research work; and generation and dissemination of information, good practices and lessons learned.

This strategy envisages the need for the Bank to tailor its selective support to the region's countries using a mix of its financial and nonfinancial instruments, deciding between them in accordance to careful, country-specific diagnostic assessments of the causes of poverty and inequality in each specific case, and the Bank's comparative advantages. Therefore, the instruments for support possessed by the Bank will be integrated through programming processes in the countries, having as resources the National Poverty Reduction Strategies, if available, as well as the country poverty documents contemplated in the Eighth Capital Replenishment. It is important to highlight that the priority and implementation activities contemplated in this strategy will be carried out in tight coordination with other country institutions, and bilateral and multilateral development agencies to avoid duplication of effort and tap the synergies of complementary interventions, thereby promoting a division of work according to the comparative advantages of each institution. Recent experience in coordination with the IMF, the World Bank and other donors in the framework of preparing the Poverty Reduction Strategies, the experience with donors' round tables in countries in Central America and the Andean region, cooperation in improving information systems (such as the MECOVI program), and cooperation in monitoring and adapting the Millennium Development Goals to the reality of the region are examples of promising experiences of inter institutional coordination of actions to fight poverty and social inequity.

In the context of Country Strategies, programming priorities and actions must be identified in order to ensure quality design and successful execution of projects, so as to strengthen the effectiveness of the Bank's contribution. The Country Strategy Guidelines approved by the Board of

Executive Directors (document GN-2020) define the appropriate operational framework for implementing actions at the country level, in accordance with the mandate set out in the Institutional Strategy (GN-2077). In this regard, it is essential that the strategic framework be formulated for each country according to these guidelines, with the analytical and procedural rigor required, in the key actions in terms of: programming; design; and execution of operations. Likewise, the present section specifies necessary activities to support these key actions in the areas of research, information gathering on the status of poverty, identification of best practices and diffusion of knowledge.

*Programming Activities of the Bank.* In the context of programming, the Bank has found support in dialogue instruments that have given quick response to government's demands. However, in line with document GN-2020 a more strategic programming framework based in detailed diagnosis on the causes of poverty and its possible solutions is required. Consequently, the Bank will strengthen the thematic of poverty and inequity reduction in the key documents and actions that guide its operations in the borrowing countries: country poverty papers, dialogue papers, high-level meetings for policy dialogue (*encuentros*), country strategies and country strategy updates, work plans, and portfolio reviews.

*Country Dialogue and Strategy Paper as focal point of the strategy.* In order to transition, in some cases, from having an agreement on a set of individual loans to having a more integral strategy for poverty reduction and promotion of equity, it is important to center on the country dialogue and strategy, and agree with the countries on lines of action based on an adequate diagnostic of the causes of poverty and inequality, integrated, when possible, to a National Strategy for Poverty Reduction that would allow defining the specific priorities and sequence of actions for Bank activities in the country. In their dialogues with country authorities, country divisions, in cooperation with the functional divisions, central departments, and the country offices, will stress strengthening activities for poverty reduction, including the formulation and implementation of poverty reduction strategies, improved targeting of public spending on the poorest groups, and

consolidation of the many programs designed to reduce poverty. To carry out these activities, it is important to strengthen the technical capacity of the country divisions in the areas of poverty and equity.

*Country poverty papers.* As mandated in the Eighth Replenishment, the Bank will analyze in its borrowing member countries the causes of poverty and social exclusion as well as constraints to social progress. The core resource for the diagnostic assessments will be a series of studies (produced by the country, the Bank, or other agencies), that will include, among others, an analysis of the current state of poverty and its determinants, taking into account, the conceptual framework described in this strategy paper and the gaps for the achievement of the Millennium Development Goals. The focus of these papers should be to come up with country-specific Bank action priorities. They will be basic inputs for fully incorporating poverty reduction and equity promotion issues into the country programming process, particularly into the Bank's country strategies, and supporting the possible development and implementation of comprehensive poverty reduction strategies. These papers will have first priority in countries that lack integral poverty reduction strategies fully integrated into the Bank's country strategy.

*Design and Implementation of integral strategies and targeted initiatives.* To help its member countries design and implement comprehensive poverty reduction and equity promotion strategies and targeted initiatives, the Bank will make available its current facilities for the production of studies and for program and project development. These include country poverty papers, pre-investment loans, the Project Preparation Facility, technical cooperation operations, and lending products. In its support to countries the Bank will focus primarily, though not exclusively, on areas in which it has identified its strongest comparative advantage: social sector development, modernization of the State, fostering competitiveness, and support for integration initiatives. The Bank's operations in support of targeted initiatives and comprehensive strategies for poverty reduction will center on human capital investment (to reach the Millennium Goals for education, gender parity and health), nonsocial areas (infrastructure,

production sectors, institutional quality enhancement), reducing social exclusion by reason of ethnicity, gender, disability, or AIDS; and social protection, including mechanisms to protect the unemployed, emergency employment programs, social safety nets, health insurance, pensions, and social spending protection protocols, among others. To improve program targeting, progress must continue to be made in the development of cost-effective systems for beneficiary identification.

*Project and Program Design.* The Bank must support actions aimed at improving and encouraging quality in the design of projects and programs. This means identifying and implementing incentives to promote more systematic work with regard to: timely and appropriate access to financing resources for project design; systematic incorporation of lessons learned and the dissemination of information and best practices; coordination/integration of cross-cutting themes among operational divisions and departments within the Bank as well as with bilateral and multilateral financing agencies.

*Access to technical cooperation financial resources for the design of projects.* At present, the project team and technical counterparts in the countries do not always have readily available resources for the design of projects in terms of amounts available, or restrictions on the scope and priority of technical assistance based on the fiduciary fund that supports it. Therefore, while implementing the strategies of priority areas and country strategies it is important to identify processes that might reduce transaction costs for the use of these resources and those that increase the flexibility of technical assistance.

*Coordination and integration of horizontal themes.* It is necessary to improve the framework of coordination between financing agencies (bilateral and multilateral) and between the Bank's divisions and departments, particularly in critical integrative areas such as rural development, modernization of the state and decentralization, the management of local development funds, and environmental management. This improvement will avoid the duplication of efforts and will also avoid giving contradictory signs over the priority processes of poverty reduction and social equity promotion. To reach this goal, the establishment

of an incentive-based mechanism that promotes, rewards and guarantees the coordination and integration of efforts in the design of the projects is required.

*Execution of operations and programs.* The executing agencies and the Country Offices of the Bank must have the technical, professional, and financial instruments at the country level to ensure attainment of the established objectives. These instruments should include: expeditious access to technical assistance during program execution; formalized technical audits of the operations; systematization of lessons learned and feedback for new projects; and training of professionals in line with demand for new projects.

*Support for strategy, policy, and program monitoring and evaluation.* As established at the recent Conference on Financing for Development in Monterrey, measurement and monitoring of the effectiveness of actions in support of development requires special attention. To that end, mechanisms need to be established to monitor the implementation progress of poverty reduction strategies and activities, with indicators and monitoring and evaluation systems for policy, program, and development target tracking. The Bank's resolute support for monitoring and evaluation capacity development, with participatory elements, is crucial to be able to improve, adjust and adapt poverty reduction policies on the strength of lessons learned. This includes strengthening the monitoring and evaluation of projects financed by the Bank. The action plan proposes impact evaluations, in concert with the countries, of representative projects in the different sectors of Bank activity. As part of their design these projects should include elements needed for a careful evaluation of their impact, such as baseline construction and the use of control group techniques.

*Research and Analysis.* The necessary underpinning for the design of poverty reduction and equity enhancement policies and programs is a solid understanding of poverty and its determinants. The Bank will spearhead the generation and dissemination of knowledge about poverty and inequality in the region and policies to combat them. Critical items for the research agenda include: the relation between economic growth, poverty and

inequality; the need for robust social safety nets to protect against personal and collective risks; the tie-in between human capital investment and the reduction of the generational transmission of poverty and inequity; the effects of trade reforms on labor markets; the relationship between financial markets and poverty; the roots and costs of race- and ethnicity-based social exclusion and inequality, and the policies to fight it; the relationship between gender and intra-household poverty and inequality, including the impact on children; innovative remedies for basic infrastructure deficits that are a problem largely for groups living in extreme poverty; the distributional impact of public service privatization and deregulation; the relationship between decentralization and quality of basic services; public sector reform and poverty; social capital and poverty; and the development of rural economies, among others.

*Support for generating information on the poverty situation.* Monitoring and evaluation of actions to combat poverty, and an adequate analysis of its causes, requires adequate generation of information on poverty and its determinants. The Bank will put special emphasis on programs to improve information systems on socioeconomic conditions in the region, including programs to improve living standards surveys (such as the MECOVI program) and censuses, and to strengthen national statistics institutes. The Bank's action in this field will place priority on generating reliable disaggregate data (by income level, place of residence, ethnicity, and gender) on the levels and characteristics of poverty, and progress on effort indicators and results relating to the Millennium Development Goals and other regional commitments, with special emphasis on countries with less capacity in the field.

*Good practices and lessons learned in policies, programs and projects.* The Bank will identify good practices and lessons learned in policies, projects and programs that have taken aim at the different dimensions of poverty, and will disseminate them through its various activities for dissemination and training in public administration. There should be special emphasis on identifying good practices for poverty reduction in non-social areas, such as financial products for the poor, infrastructure, and modernization of the State. Another focus of special attention will be

the development of good practices in innovative interventions, such as targeted human development programs, early intervention, social protection and social inclusion programs, and the use of information technologies by the poor. To step up the ongoing effort to identify policy, program and project good practices, more evaluations will be made available of the impact of public poverty reduction initiatives in the region.

*Dialogue and knowledge dissemination: conferences, forums, networks, seminars, and workshops.* The poverty reduction and social equity promotion objective should figure high on the regional policy agenda and on individual country agendas. One of the Bank's advantages is its capacity to promote and maintain long-term agendas in the region, particularly in the context of changes in government as a result of power changing hands. The Bank will continue to foster and facilitate dialogue and consensus-building in pursuit of that objective, bringing the following products to bear: organization of regional policy dialogues among senior public officials in the poverty reduction and social equity sphere, regional forums like the Social Equity Forum, and regional seminars and conferences on issues pertaining directly to poverty and social equity.

*Action plan.* The implementation proposed here to tackle the priority objective of poverty reduction and social equity promotion will be done through the actions described in the four sector strategies of Competitiveness, Social Development, Modernization of the State, Regional Integration and the Environmental Strategy which has a cross cutting nature. This section highlights some particular elements required to strengthen the relation of the strategy with the programming exercises and the impact of the Bank actions in poverty reduction and social equity promotion, in the framework of the Eighth Replenishment mandates, and in close coordination with other national, bilateral, and multilateral development agencies. The following are the specific activities proposed:

- Make headway in the preparation of country-specific poverty papers for the borrowing member countries, as mandated in the Eighth Replenishment. These papers will enable poverty reduction and social equity issues as

well as the Millennium Development Goals and other regional commitments to be fully incorporated into the country programming process, including the Bank's country strategies. One condition for this activity to be viable will be to strengthen the regional department country divisions, adding poverty specialists.

- Strengthen the support to the development and implementation of comprehensive poverty reduction and social equity promotion strategies at the national, sub-national, or sector level in borrowing member countries.
- Strengthen the support to the improvement of household surveys, and poverty and living condition indicators in borrowing member countries through the MECOVI program.
- Integrate and disseminate best practices and strengthen support to implement targeting systems for poverty reduction programs.
- Raise the share of Bank operations directly oriented to the objective of reducing poverty and promoting social equity, giving importance to those loans directly intended to help reach the Millennium Development Goals;

promote social inclusion of marginalized groups; promote the creation of opportunities for the poor through activities in nonsocial areas (infrastructure, micro enterprise, rural development, and modernization of the State) and strengthen the capacity for the development and implementation of policies and programs to reduce poverty and enhance social equity; and give the poor access to social protection.

- Advance in the impact evaluation on poverty and social equity of Bank's projects in the priority areas mentioned above.
- Strengthen inter- and intra-departmental coordination within the Bank to achieve adequate harmonization and use of lending instruments and windows focused on the objective of poverty reduction and social equity, and especially in the achievement of the goals in the areas previously specified.

The comprehensive implementation plan of the group of sector strategies includes the efforts required to strengthen the emphasis and priority of the objective of poverty reduction and promotion of social equity in Bank activities as well as a timetable to implement those activities.



## Monitoring, Evaluation, and Performance Indicators

The monitoring of the implementation of the Poverty Reduction and Social Equity Promotion Strategy will be carried out by way of output, outcome, and impact indicators. Monitoring will be supported by the work being done to improve measurement of the development effectiveness of the operations throughout each phase of the project cycle, including programming, goal-oriented design, and results-oriented execution. Output indicators include information from the operations program; outcome indicators provide information on direct results of Bank activities, and impact indicators include information on key variables, which measure the accomplishment of the ultimate purpose of the strategy and the actions taken by the countries of the region. Apart from continuing to monitor the Eighth Replenishment indicative lending level targets for poverty reduction and social equity enhancement (SEQ), the Bank will monitor the percentages for the priority areas listed in the action plan in the previous section.

*Output indicators:* Number of country poverty papers the Bank produces; number of countries receiving Bank support for comprehensive poverty reduction strategy development and implementation; number of countries receiving Bank support to improve household surveys through the MECOVI Program and to improve targeting systems; number of nonfinancial products deployed in the area of poverty reduction and social equity; number of project impact evaluations; proportion of Bank lending for human capital investment that is directly intended to help reach the Millennium Development Goals; proportion of Bank loans intended to promote social inclusion of marginalized groups; proportion of Bank SEQ lending to nonsocial areas designed to create equal opportunities for the poor and strengthen the capacity for the development and implementation of policies and programs to reduce poverty

and enhance social equity; and proportion of SEQ lending for priority social protection programs for the poor. In particular, it is proposed to complete the poverty documents by country in 2005.

*Outcome indicators:* Summary of SEQ and PTI project results, which include monitoring of changes in social indicators, living standards, and the institutional environment identified in the projects and strategies of the country, and of outcomes of nonfinancial products that help reduce poverty and promote social equity. A central focus will be the findings of Bank projects evaluations, including their impact on poverty and social equity; which will serve as lessons learned to refine or adapt the areas and programs given priority in this strategy.

*Impact indicators:* Regional and country poverty rates, measured against the international poverty lines of one dollar and two dollars a day (in purchasing power parity), income distribution coefficients such as the Gini index and bottom-quintile share of national income, and indicators of the severity of poverty such as the mean income gap of the poor, and other indicators from the strategies of the priority areas, which are directly relevant to poverty and inequality, and to the monitoring of the Millennium Development Goals. Though changes in these indicators could not be attributable directly or entirely to specific Bank activities, the indicators, broken down by income groups, gender and ethnicity, will be important referents to guide Bank action in the future.

The Bank's annual reports on activities to reduce poverty and promote social equity will include advances in the implementation of this strategy starting in 2004. An evaluation of the strategy will be performed five years after it enters into effect.

# Annex: Summary of Areas for Bank Action

**Table 1**

<b>POVERTY REDUCTION AND PROMOTION OF SOCIAL EQUITY</b>
<p><b>Support for the formulation of national strategies for poverty reduction</b></p> <p><i>Analyze poverty determinants</i>  <i>Select priority activities and objectives based on Millennium Development Goals (MDGs)</i>  <i>Define action plans</i>  <i>Support supervision and evaluation</i></p>
<p><b>Competitiveness</b></p> <p><i>Expand financial resources for the poor</i>  <i>Improve property rights of the poor</i>  <i>Improve poor workers' employment opportunities</i>  <i>Promote inclusion through basic infrastructure services for the poor</i>  <i>Access to science and technology for the poor</i>  <i>Cooperation between the public and private sectors to increase the competitiveness of the poor</i>  <i>Productive use of natural resources in marginalized communities</i></p> <p><b>Social development</b></p> <p><i>Reduce inequality in access to education, health and housing services</i>  <i>Equal opportunity during the life-cycle</i>  <i>Eliminate social exclusion through the development of social capital</i>  <i>Local and territorial levels as key elements for poverty reduction</i>  <i>Social development and attention of environmental degradation in poor areas</i></p> <p><b>Modernization of the State</b></p> <p><i>Consolidate the democratic system and the political inclusion of the poor</i>  <i>Promote the Rule of law and the access of the poor to justice</i>  <i>Improve the links between the state, markets, and equity</i>  <i>Support public management to promote equity</i>  <i>Environmental governance at local level</i></p> <p><b>Regional integration</b></p> <p><i>Promote the positive impact of regional trade on the poor's welfare.</i>  <i>Invest in regional infrastructure in less developed areas</i>  <i>Adequate institutions for the negotiation and implementation of balanced agreements aware to economic inclusion</i>  <i>Promote regional cooperation in regional public goods that benefit the poor</i>  <i>Environment in marginalized transborder zones</i></p>
<p><b>Social protection systems</b></p> <p><i>Promote social protection against economic crises</i>  <i>Promote social protection against natural disasters</i>  <i>Promote social protection against individual risks</i></p>