

**Building Opportunity  
for the  
Majority**

**Inter-American Development Bank  
Washington, D.C.**

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The principal authors by chapter were:

Introduction: Elizabeth Boggs Davidsen, Pablo Alonso,  
Sarah Howden, Dana Martin

Chapter 1: Mia Harbitz, Suzanne Duryea, Claudia De Colstoun

Chapter 2: Sandra Darville, Álvaro Ramírez, Tomás Miller,  
Dieter Wittkowski, Maria Teresa Villanueva,  
Steven Wilson, Greg Watson, Angela Paris, Sarah Fandell

Chapter 3: Bernardo Guillamon, Jacqueline Mazza,  
Juan J. Llisterri, Fabrizio Operti

Chapter 4: Silvia Sagari, Felipe Targa

Chapter 5: Danilo Piaggese, Andrés Garrett

Chapter 6: Eduardo Rojas, Morgan Doyle, Steven Wilson,  
Michael Jacobs

Chapter 7: Elizabeth Boggs Davidsen, Sarah Howden,  
Dana Martin, Ana-Mita Betancourt

The Office of the External Relations Advisor was responsible for the editorial production of the publication.



# CONTENTS

<b>Foreword</b>	v
Introduction	
<b>Building Opportunity for the Majority</b>	1
Chapter 1	
<b>Hidden in Plain Sight: Identifying the Majority</b>	11
Chapter 2	
<b>Spreading Financial Democracy in Latin America and the Caribbean</b>	23
Chapter 3	
<b>An Enterprise Compact for the Majority</b>	43
Chapter 4	
<b>Reaching the Majority by Improving Access to Basic Infrastructure Services</b>	57
Chapter 5	
<b>Connecting the Majority: Empowerment through Digital Dividends</b>	73

◆ Contents

Chapter 6	
<b>Housing Challenges and Opportunities at the Base of the Pyramid</b>	91
Chapter 7	
<b>Partnerships and the Way Forward</b>	111
<b>Bibliography</b>	123



## FOREWORD

We live in an era of unprecedented promise and prosperity. Innovation and technology enable countries and cultures to leap continents and to skip generations. It is now possible to double national per capita income in a single decade rather than over several centuries. But there are also great challenges. While information drives globalization full speed ahead, global competition ruthlessly divides workers, industries, and nations into winners and losers . . . *whether we like it or not.*

Progress is sometimes so astonishing that it evokes the term previously reserved for the supernatural: “miracle.” But not everywhere, and not for everyone. And, for the majority of people in Latin America and the Caribbean, not yet.

Why not?

The Inter-American Development Bank has been grappling with this question since its inception, working to reduce poverty and lift the social and economic condition of the general population. To be sure, there have been substantial advances in recent years in key human development indicators, democracy, macroeconomic stability, and legal and regulatory reform. But, for all the progress, clearly it has not been enough.

Today, virtually every country in the hemisphere is demonstrating the same troubling phenomenon: overall mac-



◆ Foreword

roeconomic performance is improving, sometimes dramatically. Yet the majority of the population typically is not experiencing the benefits usually associated with such levels of growth. Simply put, we need to redefine the possible for the average household, as well as the region's overall economy. We need to do much better, and we need to do it urgently.

Toward this end, the IDB is launching an initiative, Building Opportunity for the Majority, which will become a new organizing principle and focal point for many Bank activities. We are beginning this effort by "Mapping the Majority," establishing benchmarks, and setting specific goals to be reached over the next five years (2007–2011). During this period, the IDB will work with all levels of government and engage more directly the private sector and civil society as partners to reach the scale necessary to effect fundamental change.

Obviously, the IDB cannot do everything, nor should it try. Therefore, we have established some specific priorities for the first stage of this initiative, centered around core areas of citizen identification, financial democracy, employment generation and entrepreneurship, basic infrastructure services, information and communication technology, and housing. These areas have been selected given their potential to create inclusive growth and generate measurable results.

*Luis Alberto Moreno*  
President  
Inter-American Development Bank



INTRODUCTION

## Building Opportunity for the Majority

**I**t is one of the profound lessons of economic history that democracy and free markets together provide the best foundation for both economic prosperity and a vibrant civil society. These systems reinforce each other when markets provide opportunity for the vast majority of citizens to participate effectively in economic life as both producers and consumers. When markets empower the majority economically, societies can flourish and compete successfully in the global marketplace.

It is also true that markets do not always reach and empower the majority. Bad policies and weak institutions too often limit vibrant market activity to only those at the top of the economic pyramid, excluding a country's majority from full participation in economic life. Keeping the majority on the periphery of economic opportunity has a negative impact on economic growth, since it reduces domestic market potential and squanders the skills, energy, and ambition of the population. It is also damaging to civil and political life, as it breeds a sense of alienation and resentment on the part of the majority.

  
 Introduction

Over the last quarter century, the Latin American and Caribbean economy has been characterized by extreme volatility, largely resulting from continued dependence on external markets and commodities. The results of this pattern of boom-bust cycles can be seen in the region's statistics on poverty and income. Compared to 1980, the percentage of people living below the poverty line today is significantly higher, and inequality has grown.

But even if the period of uninterrupted growth from 1960 to 1980 were included, there would still be no improvement in poverty or inequality, despite a 95 percent real growth in per capita gross domestic product over the past 45 years. This lack of broad-based growth manifests itself in social and economic exclusion. Typically, exclusion refers to minority groups that are marginalized because of race, ethnicity, or gender. Economic exclusion for the region, however, applies to the majority in a number of ways, all with devastating consequences: high inequality, informal economies, and inadequate access to basic services.

Workers are forced to turn to the informal economy, where conditions are precarious and income from jobs is low—often just enough to survive. The divisions between the formal and informal economies further segment society and deter the poor from fully participating in the development process. Moreover, informality places significant constraints on a business's potential growth, reducing access to financial and other inputs, including public services. It also limits the kinds of contracts and investments the firm can make. Being unemployed or having an informal job excludes workers from basic services and benefits such as social security, further mar-

ginalizing the majority and placing additional strain on already stressed governmental assistance programs. For many countries, underemployment is actually a more pervasive challenge than unemployment.

Capital formation flows toward a handful of industries and is highly concentrated in geographically limited “hot zones,” while the rest of the economy stagnates. Poor road networks, lack of reliable energy supplies, and inadequate information networks affect the ability of the region’s majority to develop economic opportunities. Rural areas, in particular, are crippled by the lack of adequate infrastructure. In sum, those at the base of the economic pyramid have limited access to what they need to earn a decent livelihood for themselves and their families. It is a frustrating reflection of the region’s economy that so many young people feel compelled to go abroad in order to find work and send remittances back home. Indeed, for too many countries, their leading export is young workers.

The IDB has an urgent challenge to confront more forcefully and effectively the historic lack of broad-based economic growth, which is needed to generate shared societal benefits in Latin American and Caribbean countries, for which it is creating a Building Opportunity for the Majority Initiative. Six areas have been identified for the launching of this initiative: citizen identification, financial democracy, employment generation and entrepreneurship, basic infrastructure services, information and communication technology, and housing. These areas are the focus of this volume and the international conference to be held in Washington, D.C., in June 2006 entitled “Building Opportunity for the Majority.” The volume and the conference provide a number of examples to help illustrate what works in

  
 Introduction

reaching the majority, how, and under what circumstances, as well as suggest a way forward for the IDB.

These areas have been selected given their potential to directly create inclusive growth and generate measurable results over the next five years (2007–2011). Focus on these priorities will serve as an organizing principle for the IDB's activities in these areas. But it must be noted that these priorities constitute only the first stage of this initiative and will be followed by many others in the coming years. In this regard, the selected focus areas represent only a portion of the many sectors and programs needed to address inequality and poverty in the region, such as health and education reforms, modernization of the state, citizen security initiatives, rural development, and sustainable environmental management programs.

### **Identifying the Majority**

The consequences of lacking documentation in the region can be severe and are not limited to populations lacking legal status. Basic identity documents, including national ID cards and birth certificates, are critical for engaging in economic or productive activities as well as accessing basic services and exercising citizenship rights. Lack of proper documentation feeds the poverty cycle. A lifetime of invisibility and exclusion for those working and living at the base of the pyramid typically starts at birth, with the lack of a registered birth certificate. Citizens who lack identity documents are excluded from holding formal sector jobs, accessing credit, opening a savings account, and inheriting property. Voting and being elected to office may also be

restricted. The lack of identity documents reduces the capacity to raise productivity early in the life cycle.

Chapter 1, “Hidden in Plain Sight: Identifying the Majority,” describes the problems that arise from inadequate formal identification and provides a diagnosis of the status quo in Latin America and the Caribbean. It also explains how the problem can be better addressed through developing improved methods of measurement and registration. Finally, it details what role the IDB should play in disseminating good practices, fostering research, and supporting registration.

### **Financial Democracy**

Life outside the financial mainstream is very expensive for the region’s majority. Families cannot access competitively priced financial services that would enable them to save, borrow, leverage their assets, mitigate risk, or transfer resources sufficiently or safely. The out-of-pocket costs of financial informality are very high—but the foregone opportunities for wealth accumulation are higher still. A lack of financial democracy results in lost opportunities for asset creation on an enormous scale and an “intermediation gap” reflected in shallow and narrow financial markets.

The region’s formal financial systems have largely overlooked the business opportunities of targeting the lower socioeconomic strata of the population. Profitable opportunities have existed at the apex of the economic pyramid, and traditional banking products and systems were designed to reach these markets. Too often conventional calculations of profit



◆ Introduction

and risk have led financial businesses to overlook the market right under their noses: the majority of the population in their countries. This market offers great potential for growth but is still largely untapped. Realizing the potential of the unbanked is a key step in reaching the majority.

Chapter 2, “Spreading Financial Democracy in Latin America and the Caribbean,” provides a brief assessment of how the lack of access to financial services affects those at the base of the pyramid, looks at three key areas deemed critical to expanding financial democracy for the majority, and proposes an action plan to broaden financial democracy in the region.

### **Enterprise Compact**

Perhaps the region’s greatest socioeconomic challenge is to generate enough good-quality employment. Currently, the majority of the population earns low wages and works in the informal sector without benefits or protection.

The principal challenge facing the region’s businesses is the need to increase productivity of those at the base of the pyramid. To do this, investments are required and new partnerships are needed to stimulate the growth of opportunity-based businesses; develop worker skills through better training, education, and job placement services, and establish new value chains between groups of firms, both large and small.

Chapter 3, “An Enterprise Compact for the Majority,” discusses the causes of low productivity and wages and job precariousness. It also takes a glance at the effect of globalization in the sector and the role of entrepreneurship and alliances as

crucial elements to increase competitiveness and innovation to reach the majority. An “Enterprise Compact for the Majority” proposal is advanced around two ideas: financing innovative projects in key areas for jobs in the most productive companies and incorporating new approaches into existing instruments and programs in order to expand possibilities for improving the productivity of workers and of companies.

### **Basic Infrastructure Services**

Inadequate access to basic infrastructure services has a negative impact on poverty and inclusion levels. Access, for example, to rural roads results in lower travel times to markets or places of work and reduces transportation costs. These translate into increases in agricultural productivity, farm employment, and wages. These multiplier effects are also associated with the generation of new economic opportunities and diversification of income-generating activities, including increased nonfarm employment and productivity. Improved infrastructure services also contribute to social aspects of human development, including empowerment of communities and improvements in health and education. For instance, better access to roads also tends to increase access to basic social and public services, improving the living conditions and well-being of the majority, and freeing up productive time to be spent in other income-generating, productive, or human development activities.

Unfortunately, access to basic infrastructure services in the region is still deficient. To change this trend, a number of



◆ Introduction

approaches are needed, including the promotion of innovative, flexible, and low-cost technologies.

Chapter 4, “Reaching the Majority by Improving Access to Basic Infrastructure Services,” assesses the causes of low access to basic infrastructure and its effects on poverty and exclusion. By means of describing a number of successful examples, it highlights a number of common characteristics of successful interventions that should be taken into account in the design and implementation of future IDB projects.

### **Connecting the Majority: Digital Dividends**

The rapid advances and pervasive diffusion of information and communication technology (ICT), combined with the growth of the Internet and other global networks, have led to deep transformations in economic, social, and institutional structures. ICT applications affect the performance of businesses and the efficiency of markets, foster the empowerment of citizens and communities as well as their access to knowledge, and contribute to strengthening and redefining governance processes at all institutional levels.

The levels of ICT penetration in the region, along with the absorption capacity of the countries, continue to fall short of those of industrialized nations. In 2005, only 15.2 percent of the population of the region had access to the Internet, compared to 68.7 percent in the United States and over 50 percent in member countries of the Organisation for Economic Co-operation and Development. Such indicators reveal the need for concerted actions by various stakeholders and sectors

of the region (e.g., public, private, and civil society) to create the conditions that will allow for the diffusion of ICT, while promoting and ensuring the functioning of the market, which alone cannot fully overcome the challenge at hand. These concerted actions should address a number of factors such as limitations in institutional capacity to coordinate and promote public policies for the dissemination of ICT, the limited coverage of connectivity and ICT access costs, and the need for widespread digital alphabetization.

Chapter 5, “Connecting the Majority: Empowerment through Digital Dividends,” analyzes how ICT can assist in rescuing the majority from the cycle of poverty and exclusion and lays down an agenda for future IDB action in the sector.

### **Housing the Majority**

Years of economic reforms have failed to extend the benefits of a formal market economy to the majority of people in the region. Nowhere is this clearer than in the housing sector, where at least 65 percent of the population is denied the use of formal markets to buy, build, sell, improve, or borrow against their homes.

The human and economic costs associated with inadequate housing in the region are enormous. Inadequate housing and overcrowding are associated with a variety of public health issues, such as poor sanitation, contagious disease, domestic violence, and high levels of psychological stress. Insecure property tenure goes hand in hand with poor security and high crime, as police and other authorities often ignore informal



◆ Introduction

settlements. A variety of other social indicators, such as primary educational enrollment and labor force participation, are also affected by the degree to which families enjoy adequate and secure housing.

The status quo in housing also precludes millions of families from accumulating wealth. Most people cannot easily buy, sell, or borrow against their housing, thereby denying them the benefits of financial leverage in real estate, a means of upward mobility for many in other regions.

Chapter 6, “Housing Challenges and Opportunities at the Base of the Pyramid,” looks at the challenges that poor and inadequate housing poses for the poor and excluded and the economy in aggregate. It explains what the IDB can do to improve housing conditions in the region by means of rationalizing of urban land markets; helping poor families to access secure, titled, legal serviced plots; improving the ability of urban areas to plan for projected urban growth; supporting home improvement; fostering access to microcredit; and fostering the capacity of private businesses to help serve the low-income housing market.



## CHAPTER 1

### Hidden in Plain Sight: Identifying the Majority

**B**asic identity documents, including national ID cards and birth certificates, are critical for engaging in economic or productive activities as well as for accessing basic services and exercising citizenship rights. The consequences of lacking documentation can be severe, and not just for those individuals lacking legal status. An identity gap can restrain an entire national economy. A lifetime of invisibility and exclusion for those working and living at the base of the pyramid typically starts with the lack of a registered birth certificate.

In many countries in Latin America and the Caribbean a significant number of citizens do not officially exist. According to the United Nations Children's Fund (UNICEF, 2006), 15 percent of children under five years of age in the region lack a registered birth certificate, the first contract between the state and individuals that establishes an identity and link to parents and community. National estimates of the underregistration of births vary sharply: in Peru, 8 percent; in Bolivia, 23 percent;

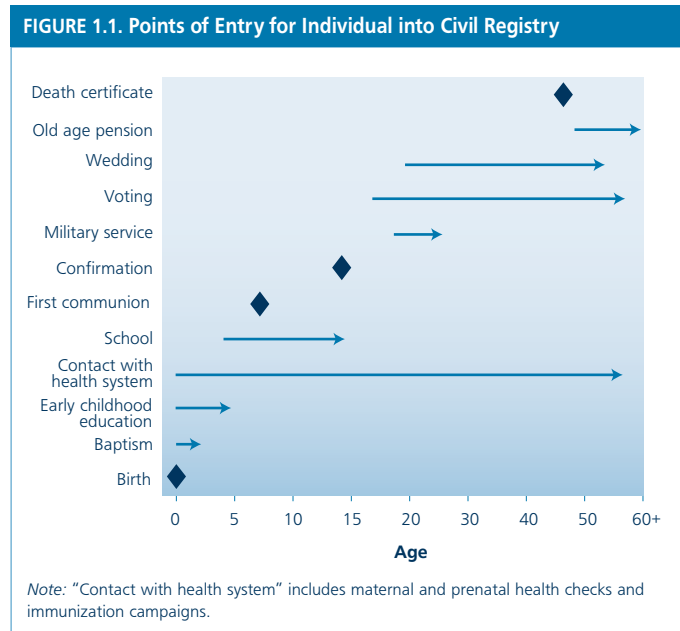
and in the Dominican Republic, 26 percent (Duryea, Olgiati, and Stone, 2006).

As difficult as it is for some countries to gather data for children, it is a much greater challenge to get information about adults. Whereas a standard method for measuring the documentation status of children has been developed by UNICEF, measuring undocumented adults remains an uncertain process. Registering adults is more complex than registering children, because they may hold numerous identity documents, some of which may require renewals at regular intervals or updating with life changes (see Figure 1.1). Mothers accurately answer questions about children in household surveys, but the same cannot be said about an adult providing information regarding other adults in the same household. The search continues for accurate indicators.

### **Unleashing Hidden Assets**

While the exclusionary consequences of underdocumentation are often denounced in terms of human rights, the limitations placed on earning potential and economic growth are less often spotlighted but also merit strong consideration. Identifying the undocumented and making them visible through registration will assist in unleashing the hidden assets in the region.

Consortium Pro Citizen Participation, a project financed by the United Kingdom's Department for International Development, calculated in 2002 that between 750,000 and 2 million Bolivian citizens were "functionally undocumented" (Ardaya and Sierra, 2002). In Peru the national registry of identification



and civil status (RENIEC) recently estimated that there are over 2.5 million adults who legally do not exist. The Nicaraguan Demographic and Health Survey for 2001 included a question on the documentation status of all household members. Among the population over 15 years old, 17 percent reported that they lacked a national identification card (Duryea, Olgati, and Stone, 2006).

Lack of documentation can severely depress earning potential. Citizens who are without identity documents are excluded from holding formal sector jobs, accessing credit,

opening a savings account, and inheriting property. Voting and being elected to office may also be restricted. A lack of identity documents reduces the capacity to raise productivity early in the life cycle. It may exclude vulnerable candidates from job training or retraining. Conducting national censuses is not enough. A person counted in a census does not necessarily have an identity document, as censuses are anonymous. Several countries in the region have made considerable efforts to update and maintain their civil registries, but with mixed results. It is an expensive undertaking and requires considerable effort with regard to interagency coordination.

Studies have demonstrated that children are regularly excluded from school and social programs when their parents cannot produce birth certificates for them. While practices vary across countries, the pattern for Nicaragua is widely reflected regionally. Children are permitted to attend school provisionally but are not allowed to receive the diploma for finishing the primary level, nor are they permitted to enroll in the secondary level, if they cannot provide a birth certificate. In Honduras, children may enter first grade but will not be promoted to second grade unless a birth certificate is presented (Ordóñez and Bracamonte, 2006).

Distinguishing between civil registration and citizen documentation is important. When parts of the population pyramid are systematically excluded from data collection, concerns arise about the introduction of biases. For example, if populations with systematically higher infant mortality rates are more likely to be omitted from birth or death registries, biases may be introduced into the estimation of the national infant mortality rate. A recent report by an international group

of statistical experts expressed concern at the status of the civil registry in Bolivia and asserted that its coverage is insufficient to serve as a basis for monitoring progress toward achieving the Millennium Development Goals (Paris21, 2004). Improving civil registration is recommended as an important way to improve monitoring of such progress.

### **International Conferences**

Two international conferences earlier in the decade on ethnic groups in the censuses were milestones in promoting the advancement of knowledge about the enumeration of traditionally marginalized groups. The first conference, “We All Count,” was hosted by Colombia’s National Statistics Administration (Departamento Administrativo Nacional de Estadística) in Cartagena in 2000 with the objective of bringing together officials of national census organizations with representatives of indigenous and Afro-descendant groups from each country in the region in order to identify the best methods for collecting more accurate data on traditionally excluded groups.

Two years later, the “We All Count II” conference was hosted by Peru’s National Statistics Institute (Instituto Nacional de Estadística) in Lima. Among its objectives were to share the experiences of countries in collecting data on ethnic groups in the 2000 census and to analyze systematically the methods employed. The conference proposed that data be used as a tool to help define social policies. The approaches employed by different countries in identifying and counting indigenous peoples and Afro-descendant groups vary widely across the region.

Yet censuses have improved in general with respect to counting members of ethnic groups as awareness of its importance grows.

Awareness raising and dissemination of good practices are first steps to resolving underdocumentation. Based on the successful experiences of the two “We All Count” conferences, the IDB proposes to support a similar initiative, “Todos Somos” (We All Are), to be undertaken no later than 2008 to bring together policymakers and researchers to address the challenges and the extent of underdocumentation in the region. The preparation for the 2010 round of the censuses may present another opportunity to coordinate and extend these activities.

### **Best Practices**

Social investment projects undertaken by the IDB and other international organizations in cooperation with individual countries have the potential to incorporate strategies and activities to enumerate and register otherwise invisible citizens. Documentation activities are best incorporated in the design stage of a project. For instance, a project aiming to reduce fraud and corruption may require a documentation component. Benefits of the project can thereby be extended to groups that were not necessarily the intended beneficiaries in the original concept of the project. This has been accomplished in a number of countries in the region that have social network programs in execution.

The promotion of registration, as well as support to overcome procedural obstacles for obtaining nationally recognized

identity documentation, can be a relevant subcomponent in a vaccination project or a maternal health project. Registration can also be promoted in early childhood interventions and education projects. Likewise, there is a potential synergy in disaster relief programs when documents are destroyed or lost and in microcredit programs. Applicants for microcredit typically need identity documents to secure such credit. Although gender differences in underdocumentation are almost negligible at the national level, anecdotal evidence suggests that in some geographic regions, boys tend to be registered more than girls. There is enough evidence to warrant special attention to gender-specific issues in some areas.

The recently approved IDB-financed Plan Familias, a conditional cash transfer program in Argentina, has been exemplary in examining the baseline conditions of underdocumentation. A survey in two municipalities during the design phase found that 14 percent and 17 percent, respectively, of intended beneficiaries lacked national identity cards. As a consequence the program incorporated procedures for the beneficiaries and their families to follow to obtain national identity documents.

In Nicaragua an IDB-financed project known as PAININ (Programa de Atención Integral a la Niñez Nicaragüense), aimed at providing comprehensive child care for young children, found that one in four of the country's children lacked birth certificates. A new phase of the project, recently approved by the IDB's Board of Executive Directors, will provide legal assistance to families to facilitate children's receiving birth certificates.

Chile has one of the most successful civil registries. Its nearly universal coverage reflects an extremely integrated sys-

tem that reaches every corner of the country through mobile units, including a boat, that are linked via satellite to the central registry. Individuals receive a unique identification number, the RUN (Rol Único Nacional), when they are registered at birth. They can use it for information systems and identity documents throughout their entire lives. Biometric markers (digital fingerprints) are also used to verify identity.

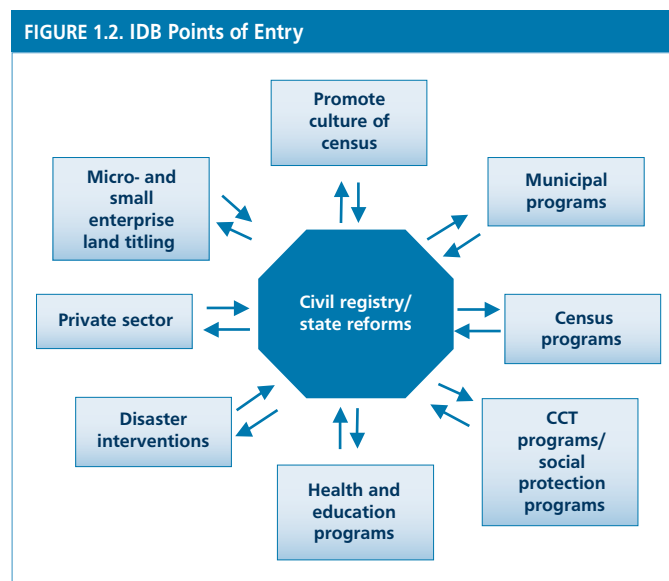
Clearly, the most vulnerable among the undocumented are the children. Unless methodologies are developed to reach them so that they can be registered, they may be destined to a lifetime of invisibility. UNICEF and Plan International have supported noteworthy efforts by individual countries to run registration campaigns, particularly birth registration campaigns. There is a need for more comprehensive efforts. Short-term registration campaigns have limitations. They may be manipulated during election periods or may lead to only temporary increases in coverage. Structural reform of civil registries should be a priority.

### **Role of the IDB**

Countries can move forward with activities to promote and sustain economic and social development only if they know how many citizens they have and where they are. The IDB is in a unique position for raising awareness of the national importance of efficient systems to comprehensively document a country's citizens and can significantly help governments that are grappling with the modernization of antiquated civil registry systems.

The IDB's strategic efforts will concentrate in two main areas: mainstreaming the issue of documentation and enumeration through dissemination of information and further research, and supporting the modernization of civil registry systems. To complement these two activities, documentation and registration will be incorporated as specific objectives in other IDB programs, such as those in education, health, and micro- and small enterprise projects.

While loan programs aimed at the modernization of civil registration systems have the highest potential for long-term impact on reducing underregistration, there are many other opportunities for engagement (see Figure 1.2). The IDB's expertise



in the area of data collection puts it in a position to support projects to strengthen institutional capacity to collect and analyze data, to develop new methodologies to reach the excluded, and to improve access to credible data in the region. Over the past years the IDB has supported projects to improve data collection in Bolivia, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Suriname, and Venezuela. In Nicaragua, the IDB developed a methodology to reach all ethnic groups in the country by working with community leaders during the design and trials of the census in 2004.

Governments are the main actors in registry and census data collection. Since the cost associated with updating and maintaining these systems is considerable, the IDB could provide financing and encourage transparency, information sharing, and collaborative partnerships to achieve an identity for all.

### **IDB Goal and Action Plan**

An estimated 8.5 million children under age five in the region lack registered birth certificates. Undocumented citizens lack access to even the most basic needs and services, and this is a serious challenge for efficient public policies and private sector development. To address this problem, the IDB aims to reduce the number of individuals living in invisibility by pursuing the following activities:

- Create by the end of 2006 a multiagency task force to promote wider awareness of the implications of citizen underregistration.
- Develop an action plan by early 2007 for addressing the issue based on recent comprehensive analysis of the issue in Honduras, Nicaragua, Colombia, Ecuador, Peru, Chile, and Brazil.
- Host the “Todos Somos” conference in 2008, with the objective of bringing together policymakers and researchers to exchange experiences and set a region-wide agenda on the issue of undocumented citizens.
- Support integrated programs for citizen identification/civil registry in at least six countries by 2011, with at least two by each operational department, and conduct additional country-level studies.
- Work with country-level institutions to develop and refine instruments and methodologies to determine the number of undocumented youth and adults.
- Continue to integrate documentation and registration as objectives within relevant lending programs (such as conditional cash transfer programs, education and health sector initiatives, small and medium-sized enterprises, etc.), based on current experiences in Argentina, Nicaragua, Ecuador, and Peru.

Ending the economic, political, and social exclusion of undocumented citizens requires new approaches and project designs. More accurate information and research may help clarify assertions of exclusion by some groups that are difficult to document and may not be true. The IDB will engage countries

  
 Chapter 1

in the region in a meaningful dialogue on these and other issues that generate urgency in resolving the challenges of citizens' underdocumentation. The IDB will similarly engage with international organizations, including regional development banks, to promote awareness and define policy actions. Subsequently, the IDB will move in partnership with its member countries to generate improved investigative techniques and better-targeted projects.

### **Summary**

Lack of sufficient identity documentation for many at the base of the pyramid is a significant restraint on the economic and social development of the region. The IDB will assist in the modernization of civil registries as a primary objective and incorporate the resolution of documentation deficiencies as a secondary objective in other related lending and technical assistance programs. The IDB will adopt a communications strategy to raise the awareness of the importance of resolving underdocumentation issues and support additional efforts in research.



## CHAPTER 2

# Spreading Financial Democracy in Latin America and the Caribbean

**M**ost of the population of Latin America and the Caribbean lives outside of the financial mainstream. Many of the region's people have little familiarity with or trust in banks and their products, preferring informal, personal financial services. Most continue to use cash for daily transactions. The cost of this financial informality is high. Families cannot access competitively priced financial services that would enable them to save, borrow, leverage their assets, mitigate risk, or transfer resources sufficiently or safely.

At the macroeconomic level, poorly developed financial systems have meant that the benefits of recent economic growth in the region continue to disproportionately accrue to the few, while an unfair share of the costs is borne by the many. One deficiency reinforces the other. Lack of participation by millions of citizens in the financial system results in narrow and shallow financial markets, representing the loss of development opportunities. Broad-based and inclusive development requires

that all segments of society have access to the appropriate range of competitively priced financial services. Small and medium-sized companies, an important source of employment and economic growth, are hit especially hard by the lack of financial democracy. Their expansion is curtailed because of the lack of a sound framework for pledging collateral as a means to secure credit.

At the same time, the region's formal financial systems have by and large overlooked profitable business opportunities that have long existed in the lower socioeconomic strata. Credit for microbusiness, consumer services, and housing is growing, but large markets remain untapped. The lack of financial democracy has resulted in lost opportunities for asset accumulation on an enormous scale.

Despite the challenges, the region's financial system is well positioned today to offer low-cost, innovative services to millions of previously unbanked clients. Reforms have created an environment that can support the expansion of innovative financial systems. The technologies exist: point-of-sale technology, automated teller machines (ATMs), cell phone technology, and the Internet can deliver dramatic savings on transactions and enable outreach unimagined by traditional banking models. The region is home to some of the world's most sustainable and successful market innovators in serving the base of the economic pyramid. Its microfinance sector is a prime example of an industry that can use technology to serve customer needs, innovating with new vehicles and products, from banking services to the channeling of remittances into housing, savings, and other economically viable uses.

## Deficient Regulatory Framework

Markets function within the rules, laws, regulations, and organizational frameworks that channel incentives into market opportunities. When the system functions well, private firms become adept at linking incentives to human capacities and pursuing the business of innovation. Healthy institutions and incentives generate economically inclusive opportunities for the majority of the people.

But where institutions are deficient, market systems cannot offer ladders of opportunity to the majority. In Latin America and the Caribbean, a web of inadequate legal and regulatory systems greatly impedes broader participation in the financial system:

- Insufficient legal vehicles for the creation of formal, regulated institutions with the agility and streamlined processes needed to serve the larger market.
- A fragmented remittances marketplace throughout the region with a variety of regulatory complexities and a proliferation of models and challenges with regard to compliance with international rules.
- The lack of an efficient and effective system throughout the region for pledging and securing real and movable property. This has resulted in low levels of private credit, especially curtailing small businesses that are under-capitalized and need to rely on asset-based systems for leverage.

These constraints are often particularly acute in the larger countries of the region, such as Brazil, Argentina, Mexico, and

Venezuela, where even the microfinance industry has been significantly slower to develop. Private microfinance institutions have limited capacity to compete with bigger state-sponsored programs that provide subsidized loans and grants. Tax-related costs that make these institutions' microcredit too expensive and regulatory barriers, such as the lack of appropriate legal vehicles, inhibit growth. The majority of the region's microfinance institutions lack retail and technical capacity. Their national secured transactions framework is poor. To make matters worse, the central government and the traditional private sector often fail to recognize micro- and small enterprises as critical actors in the national economy. It is no surprise, therefore, that only a limited number of microfinance institutions have become prominent financial institutions.

### **The Challenge for Microfinance**

During the last few decades, specialized microfinance institutions have developed and refined a variety of successful methodologies for profitably extending credit in very small individual amounts to millions of microenterprises, small business clients, and self-employed individuals. In Latin America and the Caribbean, this industry is estimated to serve more than five million individuals with an annual lending volume of about US\$5 billion. Likewise, many microfinance institutions have been able to all but abandon their dependence on donors and international cooperation agencies by creating a wealth of savings instruments that mobilize deposits from all sectors of society, providing resources to further expand their lending

activities. Leading microfinance institutions have incorporated cutting-edge information technologies to take financial services to remote regions, reduce transaction times and costs, and ultimately offer better products to previously unbanked clients. In many markets microfinance institutions are among the most profitable and fastest growing of all financial intermediaries.

Despite these impressive achievements, just 8 percent of the total demand for credit and 18 percent of the demand for deposit services is being met. Nevertheless, this sector has been growing by more than 25 percent annually for several years with no slowdown in sight. Microfinance institutions have also perfected their products and improved productivity to better satisfy the financial needs of their growing clientele. This has resulted in lower costs, increasing competition, and a broader range of services. New participants enter the market every day, especially commercial banks attracted by this proven market opportunity. Yet the supply of microfinance services in the region is still inadequate relative to the potential market, particularly for rural households and agricultural producers.

### **Opportunities for Commercial Banks**

Only through the aggressive entry of commercial banks—with their resources, leverage, outreach, infrastructure, and technology—can the latent demand for microfinance be fully met. Commercial banks are also uniquely positioned to offer the secure savings instruments demanded by the region's low-income households and microentrepreneurs.

## ◆ Chapter 2

Some pioneering commercial banks have already begun to play a major role in several Latin American countries where nongovernmental organizations (NGOs) and other specialized microfinance entities have traditionally led the market. In Peru, Banco del Trabajo and Banco de Crédito now dominate the formal private microfinance market, having entered the sector only after seeing the large unmet demand for microfinance in several areas of the country and the large margins being earned by the specialized microfinance bank MiBanco and by the Cajas Municipales, popular municipal financial institutions. Some innovative banks, such as Banco del Trabajo in Peru, have broadened their services, offering new products like microinsurance (see Box 2.1).

### **The Rural Challenge**

Despite its successes, microfinance has not been a solution for many customer groups, particularly rural and agricultural clients, for whom different techniques and higher risk thresholds are required. This is a major gap, since most of the region's poor live in rural areas. To reach these client groups, traditional lending models can be adapted through unique partnerships with cooperatives, producers' associations, consumer credit programs, retail entities, and banks, enabling sound banking techniques and tailor-made products to be distributed through new channels. One method for addressing the financial needs of poor rural clients, particularly agricultural producers, is to work through the productive chain. Producers' associations and cooperatives can be effective vehicles for reaching rural

**BOX 2.1**

**Altas Cumbres Group—Banco del Trabajo:  
Low-Cost Insurance for Microenterprise Owners**

Banco del Trabajo in Peru currently has 78,000 microcredit clients and 1.4 million total clients. In addition to microloans, it offers credit cards, consumer loans, remittances, and mortgages. Besides credit and savings products, it also offers seven types of insurance policies to its microfinance clientele. Two are mandatory life insurance policies to protect loans in case of death of the debtor, thereby decreasing risk of loss and improving access to credit.

Approximately 60 percent of clients also buy voluntary insurance products offered by the group. One of these, Vida Bien Segura, pays out double the loan amount to the survivors of the policy owner. Another, Muerte Accidental, covers the loan in case the borrower has an accident and becomes disabled. Other insurance products include Asistencia Técnica Médica, which provides medical advice through call centers, and Asistencia Técnica del Hogar and Asistencia Técnica de la Empresa, which provide policyholders with advice through call centers.

customers. Not only do these organizations know the client well, but they also are familiar with the agricultural business, the market, and the quality and production scale of each member of the group. Nevertheless, even though these organizations are widely participatory and inclusive, many still must improve management and financial capacities in order to

become responsible and sustainable associative enterprises that effectively intermediate financial resources to reach small rural producers.

Another way to expand access to the financial resources of the rural poor is through their suppliers and buyers. Many companies that buy from micro- and small businesses fund their suppliers' working capital through advance payments or through strategic alliances with financial institutions, substituting the buyer's payment capacity for that of the small supplier and offering purchase contracts as credit guarantees. Other companies use specific supplier credit products, either directly or in alliance with financial intermediaries, to allow small producers and artisans, who are usually rural and poor, to acquire productive assets, inputs, and services. Similarly, there are enterprises willing to financially support micro- and small entrepreneurs interested in participating in their distribution channel. An interesting example is EcoLogic Finance, which promotes environmentally friendly production (see Box 2.2).

### **Leveraging the Financial Impact of Remittances**

The transmission of remittances—money transfers across and within borders—has become a singularly important financial tool for many families in the region. There are currently an estimated 25 million adults born in Latin America and the Caribbean now living outside their country of origin. Approximately 65 percent of them send money home on a regular basis, typically between US\$200 and US\$300 a month, result-

**BOX 2.2**

**EcoLogic Finance:  
Value Chain Financing for the Rural Poor**

EcoLogic Finance is a nonprofit development finance institution that provides affordable credit and financial education to rural organizations in environmentally sustainable communities in Latin America and Africa. Founded in 1999, it finances loans in the range of \$25,000 to \$500,000 to commercially viable businesses that do not meet traditional requirements for accessing credit from local financial institutions. With over US\$13 million in low-interest capital from over 65 private investors and multilateral investors, the institution has made available 200 loans with a gross value of US\$32 million to rural organizations located in Mexico, Central America, Peru, Bolivia, Ecuador, Brazil, Kenya, Rwanda, Uganda, Ethiopia, and Tanzania, benefiting more than 30,000 producers and microentrepreneurs.

EcoLogic Finance has emerged as a “trusted broker” between end users such as Starbucks, Green Mountain Coffee, and a host of fair trade organizations and very isolated, poor, small producers of commodities such as coffee, cocoa, honey, tea, spices, certified wood, wild-harvested rain forest products, and fish. It also supports microentrepreneurs engaged in ecotourism. EcoLogic Finance lowers transaction costs by working in alliances, using conservation as a selling point to obtain “green” pricing premiums for producers and service providers, and aggressively raising low-cost capital. Its purpose is to serve as a model for other financial services providers in the countries where it is active so that they can adopt innovative credit facilities and financial instruments that are both profitable and supportive of rural economic development.

ing in about 200 million separate transactions a year, nearly half outside the formal financial system.

Currently, fewer than 10 percent of remittance recipients are estimated to have access to savings accounts, loans, or other basic financial services. If the financial system opened itself up to the scale and scope of remittances to the region, it could create a very powerful development tool to multiply the economic impact for millions of families.

The IDB has been a leader in creating awareness of the impact and economic potential of remittances, especially by quantifying the annual volumes transmitted, challenging the traditional fee structures, and encouraging innovative uses and applications of remittances to leverage families' wealth and options. There have been important achievements in terms of reducing transaction costs, enhancing competition, and acknowledging the importance to economic development of these flows.

### **Remittances as a Vehicle for Investment**

There is still a great deal to be done to leverage the impact of remittance flows, bringing them into the formal financial system, enhancing the borrowing and investing capacity of their senders and recipients, and converting a portion of these flows into longer-term investments. The process of sending and receiving remittances is undergoing dramatic changes, yet they remain financial flows in search of financial products. Over the next five years the system can be transformed with increased use

of technology and more competition, including the full-force entry of banks into the market.

A new survey by the Multilateral Investment Fund shows that on average 54 percent of remittance recipients in the region physically retrieve their remittance at a bank branch, credit union, microfinance institution, or other type of financial institution. Typically these financial institutions are acting as agents for the money transfer companies, and they do not offer account services to the remittance-receiving population. Banks in the region need to capitalize on this ready-made market and craft appropriate products to enlist a profitable new clientele. Remittance recipients should no longer be forced to “come in the back door” to pick up their cash at a bank. They should be offered accounts. A concerted, dedicated effort on the part of bank managers is needed to recognize and capture this market.

By the end of this decade, remittances to Latin America and the Caribbean can move from the current “cash-to-cash” system into the electronic or digital transfer system of “accounts-to-accounts.” Millions of new clients can be brought into the financial system, and remittances can be leveraged by sending them to banks and other institutions, linking these flows to savings accounts, home mortgages, and even the securitization of bonds for on-lending to local small businesses.

Traditional banks throughout Central America, Mexico, the Andean Countries, and, to a lesser extent, the Southern Cone of South America are already generating new clients by serving the remittances market. Remesas Dominicanas, a remittance firm affiliated with Banco Hipotecario Dominicano in the Dominican Republic, launched a prepaid VISA-ReD card

  
 Chapter 2

to facilitate reception of remittances and the use of remittance funds, making the processes quicker, secure, and convenient. Federación de Cooperativas de Ahorro y Crédito de El Salvador (FEDECACES), the most important federation of credit unions in El Salvador, through alliances and efficiencies, reduced the transaction costs of remittances while quadrupling volume in three years. Banco Solidario of Ecuador has partnered with Cajas de Ahorro of Spain to serve transnational families with an array of financial services (see Box 2.3).

### **Strengthening the Secured Transactions Framework**

The success of microcredit techniques in Latin America and the Caribbean is an important introductory step in bringing new borrowers into the financial system. As businesses grow into small and medium-sized firms, acquire assets, and develop a track record, well-functioning credit markets normally begin to offer greater access to myriad financial products, including secured credit that enables borrowers to obtain larger loans at lower costs. Unfortunately, this progression has not occurred in the region, which ranks among the world's worst in terms of formal credit to the private sector, averaging 28 percent of gross domestic product (GDP) in the 1990s, compared with 84 percent in developed markets and 72 percent in Asia. Surveys in the region consistently rank lack of access to credit as the number-one impediment to growth facing small and medium-sized companies.

**BOX 2.3**

**Microfinance Institutions: Expanding into Remittances with Key Partnerships**

Ecuador's Banco Solidario, a leading regulated microfinance institution, entered the remittances market in 2001, undertaking a joint initiative with the Spanish Cajas de Ahorro. The two built a joint system for channeling the remittances of the approximately 140,000 Ecuadorians who live and work in Spain efficiently and safely through Banco Solidario. Banco Solidario itself also entered into a partnership agreement with the network of credit cooperatives in Ecuador to distribute these remittances throughout the country. The fact that both ends are linked through the formal banking system made it possible for Banco Solidario and Cajas de Ahorro to process their remittance transactions through lower-cost generic transmission systems such as the worldwide recognized "Swift" system, which is a secure/coded data transmission system. This allowed both sides to transmit funds at no cost, enabling the remitters to use the savings for other needs, including the servicing of mortgages and loans. To date, Banco Solidario has remitted a total of \$167 million in 208,400 transactions.

Many factors explain this deficiency. The most critical is the lack of an appropriate secured transactions framework to allow the efficient creation, perfection, and enforcement of security interests to support financial transactions. A large volume of empirical evidence suggests that the ability of creditors to exercise their rights efficiently has a significant impact on the development of credit markets. A recent analysis carried out

by the IDB highlights the broad gap in financing of small and medium-sized enterprises, compared with better opportunities enjoyed by larger firms, in countries lacking creditor rights and judiciary efficiency (IDB, 2004). Small and medium-sized firms have a special need to effectively pledge movable assets, such as receivables and inventory, since these are likely to be their most substantial assets. The region suffers from dysfunctional systems that impede the willingness of banks to lend against assets. Laws do not provide clear priority to lenders. Recording registries are normally inadequate. Enforcement of creditors' rights is slow and expensive, taking from three to five years.

Not only do these poor frameworks inhibit credit, but they also increase lending interest rates, boost transaction costs, and increase risk. Most importantly, the dysfunctional secured transactions framework impairs small businesses' capacity to create collateral and obtain financing to increase their economic activity, diminishing their ability to compete in an increasingly competitive market.

The Organization of American States and other organizations have undertaken multiyear efforts to help countries recognize the importance of strengthening the secured transactions framework with relevant reforms. This goal is also part of the IDB's Business Climate Initiative. Prospects for reform may be better now than in the past, mainly because of the work completed on studies, draft laws, and registry computerization. Groundwork has been laid for comprehensive future legal reforms.

## **Proposed Action Plan to Broaden Financial Democracy**

The IDB has an important opportunity to partner with the private sector and achieve a genuine breakthrough in improving access to banking and financial services for the majority. With the right reforms and technical assistance, the region's financial sector can adapt its systems, products, techniques, and distribution channels to reach underserved segments with modern and wide-ranging financial services. As the major multilateral participant in regional banking reform, the IDB has a pivotal role to play in promoting a transformation that in many areas has already begun.

Carrying out the IDB's wide-reaching strategy for financial market development in the region, its action plan will promote specific activities with vanguard private partners and governments, targeting three critical areas to help meet the needs of the majority: access to finance, remittances, and secured transactions reform. These are areas in which the IDB Group, having developed expertise and a track record, can have a substantial impact. The action plan will mobilize a range of products: research and dissemination, private sector financing, technical assistance, and public sector lending. It will establish, track, review, and adjust measurable indicators in each category.

To expand financial democracy for the majority, action must be taken in three main areas. First, access must be broadened to financial services and products provided by commercial banks, credit unions, microfinance institutions, and other financial vehicles. A second area of expansion is to enhance the development impact of money transfers, both domestically and

internationally. Third, the regulatory environment and institutional capacity within countries must be improved to permit the expansion of secured transactions and the resulting growth of small and medium-sized enterprises.

### ***Increasing Access to Finance***

The IDB will track a variety of indicators, including the percentage of clients with savings or bank products. The goal will be to see a major increase in market penetration of credit for microenterprises within five years for a variety of actors, especially commercial banks, and to measure outreach through other indicators to be determined.

The IDB will initiate a strategy for supporting the expansion and deepening of financial services to enable them to sustainably reach the unbanked majority. The main goal will be to enable the entrance of private capital, which is required to reach scale. This strategy will complement and build on the IDB's traditional microfinance programs, in which it has been a market leader, particularly in support of nonregulated microfinance institutions and in assisting these nonprofit lending organizations in transforming into for-profit, regulated financial institutions. The IDB will

- Work with commercial banks and other regulated financial intermediaries to adapt microfinance technologies as a mainstream business activity.
- Promote increased outreach to ever-greater numbers of people, especially rural poor and those in more remote locations.

- Promote incentives for the development, testing, and mass introduction of innovative complementary financial products—in addition to credit and savings—tailored to the needs of microenterprise and low-income sectors.

### ***Mobilizing Remittances***

The IDB's overall focus in this initiative will be to measure, through survey techniques, outreach through remittances and “banking” of previously unbanked clients. The IDB will track the percentage of recipients who pick up their remittances at a bank, as well as numerous other indicators, such as the total number of bank branches delivering remittances.

The IDB will develop a “second-generation” program for remittances, focusing on the interaction of remittances with formal financial products, especially the development of complementary products such as insurance, health care, education, and housing. It will pursue activities in the following areas:

- Financing, through grants, loans, and equity programs, of pilot projects that use remittances as a gateway into the financial system.
- Conducting periodic research and surveys to help the market understand the scope and potential demand for new services, as well as creating transparency and competition through wide dissemination of the results.
- Placing remittances on the agenda of the IDB's work with governments, in particular, central banks.

◆ Chapter 2

- Working to expand linkages between remittances and mortgage finance for both senders and receivers of remittances.

### ***Secured Transactions Reform***

The goal in this initiative is to fully implement a program for the reform of laws and institutional capacity for secured transactions in the region. This program would take advantage of pilot programs financed by the IDB, those developed by other international institutions, and IDB projects that are underway. The IDB will re-energize its prior activities in this area by explicitly establishing secured transactions reform as a principal objective of its work with the region's governments.

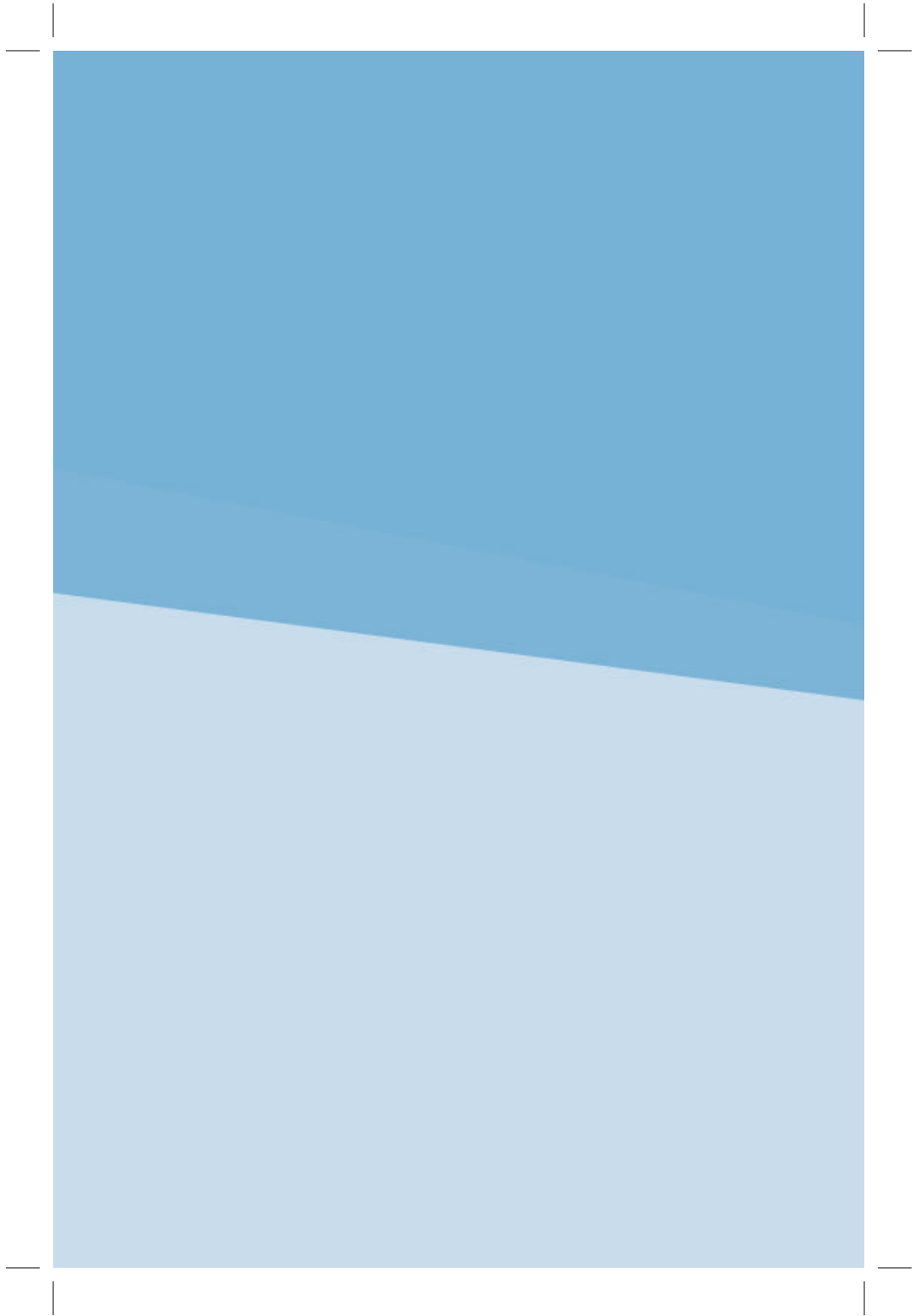
Initially, the IDB will try to finance a reform program in two countries as test cases, using lessons learned from other experiences to ensure that incentives are in place for change. It will also work actively in coordination with other participants involved in this area—particularly the Organization of American States, the World Bank, and the International Finance Corporation—in order to leverage research and awareness. The initiative will

- Raise awareness among the region's chief stakeholders as to the costs, intermediation spreads, and opportunity losses of current regimes.
- Disseminate experiences from other regions of the world where reform has been successful and track results of the IDB's own programs.

- Design and fund innovative solutions for private sector operations that involve secured financing as demonstration projects for the region's financial intermediaries to use as interim vehicles in the absence of full reforms.
- Disseminate results of research, private sector findings, and feedback from pilot projects in an annual conference for the analysis of secured transactions reform in Latin America and the Caribbean.

### Summary

In order to receive the benefits of growth, the majority in Latin America and the Caribbean needs to drastically increase its participation in the region's formal financial system, which in turn must be transformed into a vehicle for expansion and change. To promote financial democracy, the IDB Group will focus on accelerating this transformation in three specific areas: achieving greater access to financing by those at the bottom of the pyramid, developing a secured transactions framework, and mobilizing international remittances to a much fuller productive potential.





## CHAPTER 3

# An Enterprise Compact for the Majority

**I**n order for the majority in Latin America and the Caribbean to advance out of poverty and social exclusion, more firms need to generate higher-paying, better-quality jobs, and more workers need to be given the skills to access them. Too often, past policies have focused on either firm growth or human capital investment and not how they work together.

Firms do not grow in isolation but in combination with growing linkages with other firms, markets, and acquired technologies and financing. Human capital development must be conceived more as a “system” whose component parts are education, training, and employment. In this way workers advance their skills and productivity continually over time, moving from education to work to training and among the three parts over their lifetimes.

This rarely happens for the majority of the workforce in Latin America and the Caribbean. More typically its members receive poor and incomplete education, work in jobs below their capabilities, and have little access to either jobs or training

that upgrades and advances their skills. Compared with the more competitive economies of Southeast Asia, those of Latin America and the Caribbean invest much less in human capital over a worker's lifetime.

Micro-, small, and medium-sized enterprises (MSMEs) by far create the most jobs and develop the majority of innovations in the region. MSMEs comprise the immense majority of the region's companies, provide between 20 percent and 40 percent of jobs in the formal sector, and produce a minimum of 30 percent of the region's gross domestic product. Their activity, however, is insufficient to embrace a majority of the workforce in the face of growing unemployment and persistent underemployment. Their growth is further hindered by the excessive number of days that it takes for an informal firm to register and become formal. In Latin America and the Caribbean it takes three times as long to register a new firm as in high-income industrialized nations: 63 days, compared with 19 days in the nations of the Organisation for Economic Co-operation and Development (OECD).

A large proportion of the region's poor have limited access to the more productive companies or work in the informal sector with a very low degree of labor productivity and without social security benefits. Informal sector employment now comprises one-half of all employment in the region, mostly at low levels of productivity and wages. MSMEs have a very high growth potential and capacity to serve as a driving force for innovation and better-quality jobs. Productivity is the greatest challenge for the region's businesses. Total productivity decreased at an annual rate of 0.62 percent from 1996 to 2002, and the region records some of the world's lowest levels of competitiveness

(World Economic Forum, 2004). With greater productivity, growth, and sales, businesses can expand employment and pay better wages.

While many factors influence productivity growth and investment, two will be especially important for Latin America and the Caribbean in the coming years: integration of value chains and development of human capital through skills development and entrepreneurship oriented to MSME demand. These two areas will be the focus of the IDB's proposed Enterprise Compact for the Majority. Integration of the value chains will result in greater productivity and growth for firms. Human capital development will improve the performance of labor markets and workers within these markets.

### **Improving Human Capital Investment**

While Latin America and the Caribbean invests significant sums in training, the majority of this investment is inefficient and of poor quality and frequently fails to target market needs. Even before workers enter the training system, they are ill prepared by poor-quality schools and low levels of completion of secondary education. In brief, the majority of workers exit formal education without the basic skills needed for work. Once they enter the labor market, there is little learning on the job, and most of the existing training systems fail to adequately prepare them for more productive jobs in a competitive market.

With few exceptions, in-house training by firms—the most productive type of training—is highly limited, particularly that offered by MSMEs, which have greater difficulties reaching econ-

omies of scale to pay for training without some form of public financing. Many of the region's governments continue to impose payroll taxes on formal companies to fund state occupational training institutions, many of which are extremely inefficient and out-of-date. These institutions provide little training within firms, the type advocated here, or training in combination with technical assistance for firm growth. Brazil's job training institutions, which include SENAI (Serviço Nacional de Aprendizagem Industrial)/SENAC (Serviço Nacional de Aprendizagem Comercial), are an exception. The success of SENAI/SENAC can be attributed to strong private sector participation. Payroll taxes can create a disincentive for these same firms to invest in more productive training themselves. Whatever financing method is chosen, it is important not to discourage firms from investing in their workers. Some systems give credits to employers on their payroll taxes if they provide training in house, for example. The Enterprise Compact's stress on increasing the more productive types of training requires demarcation and distinct strategies for youth- versus adult-level training.

Underlying the poor preparation of the majority for lifelong employment is the state and progress of secondary education. Poor basic skills in reading, writing, arithmetic, organization, and conceptual thinking translate into lower productivity in the workplace. It is much more expensive to invest in adult literacy training than in secondary education; that is, it's more cost-effective to prepare youth than to invest in compensatory education for adults later in life. In Latin America and the Caribbean, only 65 percent of the potential secondary students are enrolled, and in some countries the rate is well below 50 percent. Completion rates are even lower. On average, only 43 percent of 20- to

21-year-olds have completed secondary education, and in some countries, the figure is under 20 percent (e.g., Honduras, Guatemala, and Haiti). Although the quality of secondary education in the region is uneven and needs to be upgraded, a higher completion rate and the introduction of community colleges would be fundamental steps needed in equipping the majority with the basic skills for entry-level employment.

The rise in informality has created new obstacles for increasing human capital investment in the region. Persons working in the informal sector typically have fewer resources and more limited access to training and education. Given the precarious nature of their firms, owners of informal businesses do not spend resources investing in the training of their employees. By its nature, informal work is nonregulated. Despite progress in women's education levels, the region's labor markets continue to be among those most segmented occupationally, with a strong concentration of women in domestic work, teaching, and office jobs (IDB, 2003). Women, who comprise the majority of the informal sector in some countries, find themselves trapped in low-productivity jobs relegated exclusively to women. Discrimination and job barriers also cut deeply along all racial and ethnic lines in the region, with indigenous peoples and Afro-descendants in important countries comprising between 68 percent and 80 percent of those who earn wages under the poverty line, more than twice the rate for whites (Duryea and Genoni, 2004).

In addition to low levels of investment and poor-quality systems of training and education, the job market often fails to apportion employment to the most qualified or to do so on a timely basis. There are few large and comprehensive

systems of job placement. The success of one's job hunt often depends more on personal contacts than on job qualifications. Evidence indicates that the turnover rate for personnel in Latin America and the Caribbean is also higher than in other regions. While a certain degree of turnover is inevitable, it could also be restraining productivity and undermining labor market efficiency.

The region's experience shows that training in firms, designed and carried out through public-private cooperation, offers important examples of utilizing training as part of a strategy to foster business growth and productivity. Training youth is a prime goal. The performance of a worker on his or her first job has a lasting impact over a worker's lifetime. Unemployment among youth in the region is twice as high as among adults, contributing to crime and violence. Chile Joven, Argentina Joven, and Perú Pro-Joven are models of successful public-private partnerships, supported by the IDB, with subcontracting programs that combine youth training with internships in companies. These programs have demonstrated improvements in the rates of job placement and income for youth receiving training.

The wealth of nongovernmental organizations (NGOs), which are more directly connected to the region's majority, can play an important role in job training and placement. Peru's employment service combines government resources with those of NGOs, private companies, and training institutions, all of which have access to the same base of job seekers while attending to their own geographical and specific technical spheres of activity. Recent data on this program's performance show that the system has contributed, by expanding the range of job list-

ings and base of applicants, to improving the efficiency of all the stakeholders and providers, including the public sector. An NGO in El Salvador, Fundación Nacional para la Educación Integral Salvadoreña (FEDISAL) (Salvadoran Foundation for Comprehensive Education) screens the personal backgrounds of job candidates and works directly with small and medium-sized companies to obtain listings. The NGO Technoserve in El Salvador has successfully carried out mentoring projects for young entrepreneurs (see Box 3.1).

**BOX 3.1**

**Technoserve El Salvador**

Martina Palacios grew up in a rural village 45 minutes' walking distance from the nearest town, where she still lives with seven relatives, including her daughter. When Martina went to buy her daughter's sports uniform for school, she had to pay a high price and wait far too long to receive it. She realized that something could be done about that. At the local business school, Martina took a course sponsored and taught by Technoserve and the National Foundation for Teaching Entrepreneurship. The training inspired her to come up with the idea of creating Lidorsport, a line of sports uniforms for rural schools. The idea turned into a business plan developed during the one-year training course. Martina's proposal was later presented to a Technoserve panel of experts, where it won first place, and Martina was awarded \$1,000 in seed capital to start up her operation. At the end of its first month of operations, the enterprise had generated \$3,000 in sales.

Improving labor productivity and wages in the region will require expansion and growth of firms along with increases in worker skills aligned with growing private sector demand. This must be achieved together with improvements in the ability of the job market to allocate labor more efficiently. Thus, meeting the challenges of labor productivity, better remuneration, and skills development will require reforming education systems, training, and labor intermediation services as well as further efforts to integrate marginalized segments of the labor force.

The private sector, the driving force behind the region's economic activity, plays a critical role in job training. Without adequate private sector follow-up, investments in training can be easily lost. The region has experimented with several types and modes of training and must continue to do so, especially for new skills in sectors of emerging importance in the region.

### **Integration into Value Chains: Targeting Firm Growth**

One way for small companies to successfully overcome difficulties in gaining access to ever-expanding markets is to join together with other small or large companies. By distributing the work, each company specializes in one or more segments of the productive process and gains access to markets through parts, components, or services integrated into other products. Increasingly groups of companies, as well as individual firms, compete in end markets.

There are two main concepts used to refer to groupings of companies that access markets: value chains and clusters. The two notions do not mutually exclude one another. Rather, they place their emphasis on one aspect or another of such collaboration. The concept of clustering places greater emphasis on the set of links established among companies and institutions related to one-and-the-same business in a given territory.

The concept of value chains focuses on the “chained” relationships of vendors and customers: raw materials and other inputs are transformed through manufacturing, then packaged, marketed, and distributed for final sale in markets. Value chains can be of different size and complexity, national or global, and vertical or horizontal. In vertical value chains the position of each company with respect to the market determines in large measure the relations of governance and hierarchy compared with other companies in the chain and the flow of information among the companies. Horizontal linkages can help contribute to small firms’ competitiveness and bargaining power, for instance, through bulk buying as a group. Critical in both types of chains, vertical and horizontal, is the reduction in transaction costs and building trust among companies.

Collaboration can be among companies of different sizes, large and small, and alliances can be formed by both national and international companies. The Costa Rica Provee Program illustrates the potential of foreign direct investment in sophisticated technology and alliances of companies of different size (see Box 3.2).

Through interaction, companies achieve greater collective efficiency. The route to competitiveness and productivity

**BOX 3.2**

**Successful Alliances between Big and Small:  
The Lessons of Costa Rica Provee**

During 1999 the more than 200 multinational companies established in Costa Rica acquired only 7 percent of their purchases locally. In other countries, such as Ireland and Taiwan, local purchases exceed 40 percent of multinational companies' total purchases. Development of Vendors for High-Tech Multinational Companies, or Costa Rica Provee, was a \$1 million project supported by the Multilateral Investment Fund of the IDB designed to correct this imbalance.

*The results.* By the end of its implementation, Costa Rica Provee made 131 successful links, more than triple the project's target, for more than \$5 million in total sales by small and medium-sized companies (SMEs) to high-tech multinational companies. Provee achieved institutional permanency through its absorption by the Costa Rican Foreign Trade Promotion Agency.

for small firms is through relationships and alliances that will enable them to innovate and change, and thus to make better and more-specialized products with greater value added: goods and services marketable in value chains or clusters that are more competitive at a global level. The role of public policies and programs instituted by the international community must support and serve as a catalyst for these interentrepreneurial relations.

**BOX 3.2 (continued)**

*The lessons.* An external evaluation of the project noted the need for better diagnostics in regard to the needs of small suppliers and multinationals in order to improve the structure of a work plan and to manage expectations of a targeted project like Provee. Management capacity, not technology, proved to be the biggest constraint for the Costa Rican firms. Once successful links are developed, they tend to evolve and grow.

*Incentives.* The project applied a partial results-based remuneration mechanism, linked to the payment of a success fee, with the SMEs selecting the providers of the advice services they received.

*Necessary flexibility.* The project's operational guidelines had to be modified on several occasions during the implementation period in accordance with the realities the project adapted to. This did not affect the basic objectives or principles of the project. Challenges were resolved as they arose, demonstrating that the operational guidelines should not be carved in stone.

**Enterprise Compact: IDB Call to Action**

The Enterprise Compact for the Majority will spur an expansion of IDB financing and projects on two tracks: promoting the growth of MSMEs and developing effective labor markets. The IDB Group is developing a proposal to support this effort with \$1 billion in financing using fast-track procedures. Loans will be both with and without government guarantees. The

projects will be cohesive, integrated, innovative, and evaluated. They will be rooted in several experiences that have already proven successful in Latin America and the Caribbean and will be targeted at achieving specific goals in the next five years in joint efforts with the borrowing member countries.

In addition the IDB is proposing to increase its financing of training and labor market development from a baseline of \$1.4 billion (2000–2005) to \$2.1 billion in new lending from 2006 to 2011. It is estimated that 50 percent of the resources will be dedicated to training youth and adult workers based on private sector demand. At least three major labor market programs will be financed in three different countries.

The challenges of the Enterprise Compact for the Majority are as follows:

- Increase the productivity (sales per employee) of smaller firms, those in the bottom two deciles.
- Reduce the number of days it takes to register a business in the region.
- Increase secondary school quality and increase secondary school completion rates (measured as youth 20 to 21 years of age who have completed secondary education).
- Reduce informality by adding workers to the social security rolls, or other forms of formal insurance.
- Start closing the wage gap by increasing the average wage of the majority.

To increase small business productivity, the IDB will mobilize loans and technical assistance to support the expansion of

“locomotive” companies in clusters, develop enhanced integrated training systems of companies, finance innovation and technology, and generate new opportunities opened through trade agreements. The IDB will support the integration of 125 strategic business clusters in 10 countries, supporting 25,000 small and medium-sized businesses.

To reduce the time required to register a company, the IDB will finance programs that establish “one-stop shops” for business registration and simplification of steps needed to open a business in at least 10 major cities.

To upgrade employment, increase wages, and reduce informality, the IDB will develop comprehensive labor projects in three countries that support increased skill development for nonmanagerial workers and will seek to monitor salary levels prior to and after the projects. The IDB support for these projects, selected according to member country need and demand, will include improvement of labor intermediation services geared to expanding the client base and efficiency and placing greater numbers of workers in suitable employment. In addition, the IDB will develop projects in at least three countries to introduce changes in social security systems or the creation of alternative systems to achieve greater access and coverage of the majority.

To help attain the goal of increasing secondary completion rates, the IDB will develop projects in five countries to improve secondary school quality and student retention with emphasis on groups and areas with lower rates of school completion. In accordance with national government demand, the IDB will support as well the extension of effective conditional cash transfer programs designed to keep youth in secondary schools.



◆ Chapter 3

It will further support the creation of community colleges in at least three countries in partnership with the private sector.

### **Summary**

The path to better-quality jobs and better income in Latin America and the Caribbean will be found through substantial upgrading of the competitiveness of and opportunities for MSMEs in the context of sustained economic growth. An effective approach must be integrated along two tracks: upgrading human capital through skills development based on program designs with proven effectiveness and improving the integration of business value chains. The IDB will make substantial new coordinated investments to achieve targeted results in these two areas.

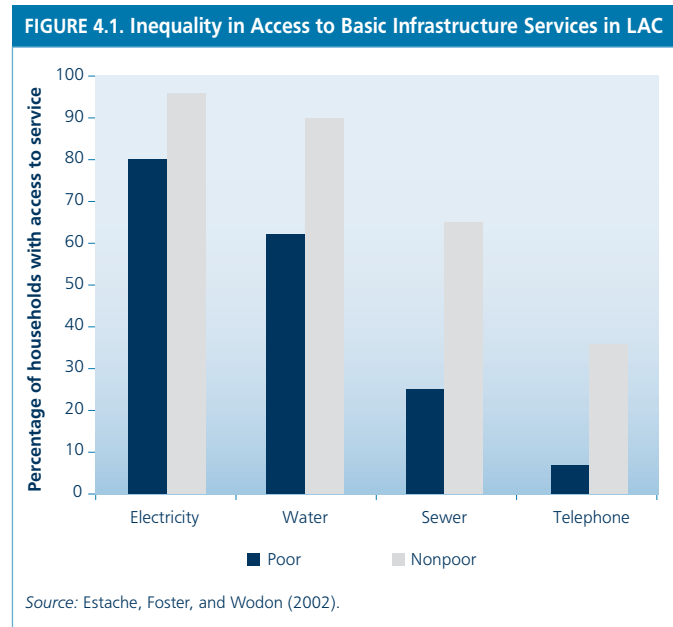


## CHAPTER 4

# Reaching the Majority by Improving Access to Basic Infrastructure Services

**O**ne of the major obstacles to improving the quality of life in Latin America and the Caribbean is the lack of access to basic infrastructure and its poor quality: 130 million persons live without adequate sanitation services, and approximately 70 million still lack access to modern energy supplies. The lack of access also has broader implications in terms of health and education. For instance, the lack of adequate access to safe and reliable infrastructure services not only increases the risk of health problems, but also restricts the availability of time for education and other productive activities.

Studies have shown that poorer households in the region generally have lower rates of access to infrastructure services (Clarke and Wallsten, 2003; Komives, Whittington, and Wu, 2003). Poverty and inequality are often pervasive in isolated rural areas where access to infrastructure services is less frequent. For instance, rural access to water in Brazil and Chile is 58 percent, even lower than in some poorer countries (Fay and



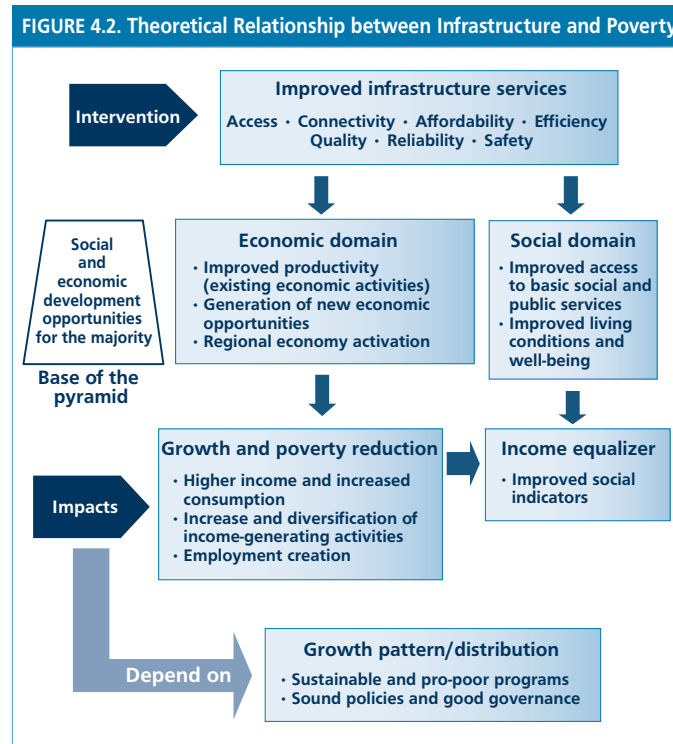
Morrison, 2005). Figure 4.1 depicts the relationship between access to basic infrastructure services and poverty in Latin America and the Caribbean.

### Conceptual Framework

Improvements in infrastructure have a multiplier effect in bringing direct and indirect economic and social development opportunities to the majority. For instance, not only will an

investment in rural roads result in shorter travel times to markets and places of work and reduced transportation costs, but it will also increase agricultural productivity and raise incomes and farm employment opportunities for the rural poor. This in turn will lead to higher economic growth, affecting the supply and prices of goods. Spillover effects could also diversify off-farm industry in rural areas. Multiplier effects may also result in increased nonfarm employment and productivity. Additional investments could be induced by a better business climate and enhanced regional competitiveness. Industries could make use of better markets and productivity. Figure 4.2 provides a conceptual framework that summarizes the complex interactions and multiplier effects of infrastructure investments. It also shows the channels through which improved infrastructure services may bring social and economic development opportunities to the majority, reducing poverty and inequality.

In the social domain, improved infrastructure services contribute to human development through the empowerment of communities and improvements in health and education, as well as through other nonincome benefits, such as social interaction and political participation. For instance, better access to roads increases access to basic social and public services, improving the living conditions and well-being of the poor and freeing up time to be spent in other income-generating, productive, or human development activities. These indirect effects on welfare brought about by improved infrastructure services are sometimes regarded as income equalizer effects, described as follows:



- *Education:* Better roads and transportation services result in travel time savings that can allow children living in remote areas to attend school and devote the travel time saved to educational activities. Access to electricity also allows the use of educational tools and increases the effective time children can spend studying and reading.

- *Health:* Access to potable water and sanitation services brings substantial health benefits to underserved communities. According to one estimate, bringing water and sanitation coverage to 100 percent in the region would decrease child mortality by 22 percent (Jahan and McCleery, 2005). Similarly, when transportation access is improved, health centers are easier to reach, and isolated poor communities can obtain health care more readily. Access to modern energy sources can also decrease health risks associated with the use of unclean fuels.
- *Empowerment:* Improvements in infrastructure can link isolated communities to the rest of the world, giving them greater access to and influence over political and local decision-making processes (Jahan and McCleery, 2005).
- *Economic resilience:* Adequate access to basic infrastructure services can also ameliorate the effects of economic shocks on poor communities and reduce vulnerability to natural disasters (Calvo et al., 2001).

### Asia's Experience

Studies of Asian countries illustrate the importance of access to basic infrastructure services as a fundamental determinant of economic growth and poverty reduction, with investments in rural roads having the stronger comparative effect. Likewise, investments in rural roads and water and sanitation emerge as critical determinants for improving the well-being of the poor-

est population. Evidence from China, for example, suggests that increases in road density have significant effects on agricultural gross domestic product (GDP) per worker, nonagricultural employment, and agricultural wages (Fan, Zhang, and Zhang, 2002). Similarly, a separate study in China found that a 1 percent increase in road kilometers per capita led to a 0.08 percent increase in household consumption (Jalan and Ravallion, 2002). Other studies dealing with determinants of rural poverty reduction in China, India, Thailand, and Indonesia have concluded consistently that investments in roads and education have been the main drivers of rural poverty reduction, in addition to agricultural research and development (Cook, 2003). In Indonesia, the impact of growth on reducing poverty was found to be almost four times higher in provinces with high levels of road provision compared with provinces with poor levels of provision (Kwon, 2000). Finally, in Vietnam, it was found that poor households living in rural communes with paved roads had a 67 percent higher probability of escaping poverty than those in communes without paved roads (Glewwe, Gragnolati, and Zaman, 2002).

Studies of transportation and energy investments in China, India, and Thailand have also shown the indirect effects of such investments in the social domain. Road investments bring improved access to health and education, leading to improved school attendance, greater availability of trained teachers, better health conditions, and community changes, such as new village markets, increased availability of goods, increased social participation in politics and community bodies, and improved security (ADB, 2003). Electricity access also provides more time for study and better hygiene.

### Latin America's Experience: The Case of Peru

Research on the impact of infrastructure investment and economic and social growth in Latin America has been more limited than in Asia. However, an analysis of the results of an investment by Peru in rural roads in 1995 yields results similar to those found in Asia. A study of the first phase of Peru's rural roads program—cofinanced by loans of \$50 million each from the IDB and the World Bank—found that the costs of freight and passenger transportation fell by 59 percent and 29 percent, respectively. In a survey of beneficiaries, 67 percent of the people interviewed said that access to education had improved. The percentage of families with access to health services was higher among program beneficiaries than among nonbeneficiary families (82 percent vs. 73 percent), and beneficiaries conducted more commercial transactions outside their communities than nonbeneficiaries (71 percent vs. 42 percent).

The Peruvian rural roads program demonstrated the importance of a multisectoral approach in infrastructure development, integrating rural roads investment with mechanisms for civil society participation, partnerships with the private sector, and coordination among government agencies and donors. The program not only rehabilitated 11,250 kilometers of mostly unpaved rural roads, but also resulted in the establishment of 416 microenterprises to maintain the roads, with a sustainable cofinancing mechanism for routine maintenance and the implementation of low-cost technologies which reduced the cost of maintenance to approximately one-fourth of the cost of other alternatives, such as paving.

## ◆ Chapter 4

Community-based workshops provided a vehicle through which civil society could set priorities and identify works. The second phase of the program is expected to rehabilitate over 12,000 kilometers of roads with 322 new maintenance microenterprises; 30 percent of the workers will be women.

The Peruvian rural roads program, which benefited an estimated 2.8 million rural dwellers, was assisted by a pilot project whose experiences created a road map for the second and third phases of the program, applying lessons learned. Among other results, this led to greater emphasis on technical assistance, adequate financial mechanisms, and institutional strengthening to enable municipalities to take full responsibility for road management in a framework of decentralization.

Use of low-cost technologies, public-private partnerships, decentralization, and civil society participation have been the hallmark of other successful infrastructure projects in Latin America and the Caribbean.

### **Best Practices: Brazil, Chile, Colombia**

#### ***Rural Electrification***

Chile's National Program of Rural Electrification, launched in 1994, doubled the number of rural households connected to the electric power network, from 9,500 households per year in 1992 to 19,000 per year by 1998. Results from the 2002 census show that national coverage of electric power services increased from 53.1 percent in 1992 to 85.7 percent in 2002.

Rural electrification has been an integral part of the government strategy to reduce poverty and improve the quality of life in rural areas, expanding social and economic development opportunities. State subsidies for network extensions provide an incentive for private companies to meet government goals of expanding coverage. Eligible projects must meet the demand of local communities, have a positive net social value, and conform to the priorities of the regional planning process. Tariffs must cover operational, maintenance, and administration costs throughout the life cycle of the projects. Administration is decentralized, with regional governments authorizing local technical units to contract electric power works through private distribution companies. Cooperatives and private companies may self-generate their own projects.

### ***Water and Sanitation***

Brazil pioneered the development of a successful low-cost condominium model in the early 1980s for connecting groups of houses with water and sanitation services in the cities of Brasília, Salvador, and Parauapebas. Water and sewerage lines were extended along sidewalks and inside lots, as opposed to being installed in the streets. Rather than each individual house having a connection to the public network, a connection point was created for a group of houses (block), as if it were a condominium. This approach substantially reduced the cost of network expansion, in particular because of smaller pipe diameters, fewer pipes, shallower trenches, and lower operating costs.

### ***Urban Transportation***

Pioneering cost-effective bus rapid transit (BRT) systems developed in Bogotá, Colombia, and Curitiba, Brazil, have revolutionized the concept of rapid transit provision around the world. Rather than a single concept, BRT encompasses a variety of applications designed to improve the level of service of bus-based mass transit options. Operationally, BRT applications can vary from buses running on an exclusive right-of-way with dedicated stations and preboarding fare payment to buses operating in mixed traffic lanes on city arterials. The capital costs of the BRT systems in both localities were advantageous compared with rail alternatives.

Bogotá invested in an extensive BRT network in 1999 as part of an integrated strategy to address mobility challenges, reclaim public spaces for pedestrians, and increase access of city residents to green space (Targa and Rodríguez, 2004). In a public-private partnership, the government financed the infrastructure and oversaw long-term planning, and private contractors bid for the operation of BRT lines on a cost-plus basis. With a flat fare of approximately \$0.36 in 2003 dollars, revenues are sufficient for the participating private bus companies to be profitable. The system, serving a city of 6.5 million inhabitants, comprises specialized infrastructure, including exclusive lanes for high service capacity and articulated buses with an off-board fare collection system. This network is expected to cover 80 percent of the daily transit trips in the city by 2015. Impact evaluation studies suggest that Bogotá's BRT system has generated a 32 percent reduction in average travel times, significant reduction in accident and air pollution levels

along the busway corridors, and a rise in the value of residential properties (Rodríguez and Targa, 2004).

Curitiba began the modernization of its transit system in 1974 with the establishment of the first dedicated bus lanes on the city's north-south corridor. The Integrated Transit System (RIT), launched in 1980, added transfer terminals and a single-fare system that enabled riders to pay only once to travel anywhere in the integrated RIT area. Today, the 30-year, non-subsidized, privately owned transit system serving a city of 1.6 million persons stands as a model recognized internationally. Financed in part by the IDB, Curitiba's transit system has the highest user satisfaction rates of all such systems in Brazilian state capitals, and studies highlight the appreciable reduction in air pollution and travel times and the improved quality of service.

### **Model for Infrastructure Services**

A model to increase access to basic infrastructure services while bringing social and economic development opportunities to the majority will depend on specific country and sector context conditions. Nonetheless, some general recommendations can be made based on the analysis of best practices:

- The public and private sectors must combine efforts.
- Strong leadership and commitment is needed from the whole spectrum of stakeholders, among them politicians, policymakers, nongovernmental organizations (NGOs), communities, donors, and the private sector.

## ◆ Chapter 4

- Poor people need to have their stake recognized, and their perspectives need to be integrated into decisions about basic infrastructure provision.
- Innovation, flexibility, and experimentation must be promoted to achieve low-cost technologies.
- Competition and bidding mechanisms can be combined to serve the poor in combination with coverage targets.
- Pilot projects can pave the way for future successful models on a larger scale.
- Subsidies, when introduced, should be well designed and target the poor.
- An infrastructure strategy needs to be mutually inclusive, multisectoral, and interrelated with other strategies sharing a common goal: to create inclusive, mutually beneficial business processes through which the private sector and local communities build economic, social, and environmental value.

### **Building Infrastructure for the Majority: The Role of the IDB**

The magnitude of the challenge of infrastructure development facing the region is enormous, requiring efforts from all stakeholders. The IDB proposes to target its programs to achieve a minimum level of improvement of access to infrastructure services for the majority, as outlined in Table 4.1.

The IDB's actions can be classified in three groups: deepening the understanding of the main issues; supporting project

<b>TABLE 4.1. Target Indicators</b>			
<b>Sector</b>	<b>Population without access</b>		<b>Target increased access Millions</b>
	<b>%</b>	<b>Millions<sup>a</sup></b>	
Electricity	7.8	41	1
Sanitation	28.8	153	5
Piped water	19.7	105	11
Transport <sup>b</sup>	n.a.	n.a.	53

Note: Data from 21 Latin American and Caribbean countries from 2003–2004 household surveys, except for Argentina, Bahamas, Haiti, and Nicaragua (2001) and Bolivia (2002). No data from Barbados, Belize, Guyana, Suriname, and Trinidad & Tobago. Data from Argentina and Uruguay are only for urban areas.

n.a. = not available.

<sup>a</sup>Value for countries with missing data projected at weighted average of remaining countries.

<sup>b</sup>Refers to urban transport and rural roads.

design, implementation, and financing; and adopting a special instrument in support of the initiative to reach the majority by improving access to basic infrastructure services.

### ***Deepening Understanding of the Main Issues***

Decision makers need the right information in order to understand and evaluate the implications of the different models of infrastructure development to expand opportunities at the base of the pyramid. The IDB has already taken one step forward by assembling and publishing data to help define the parameters of development challenges and possibilities facing the region. This effort consists of an exercise to map the majority as a

◆ Chapter 4

socioeconomic atlas, which contains key economic and social indicators for many sectors and countries of the region that will be updated periodically.

***Support for Project Design, Implementation, and Financing***

The IDB will renew and strengthen its support for infrastructure project design, implementation, and financing, areas in which it has been active since it was first established.

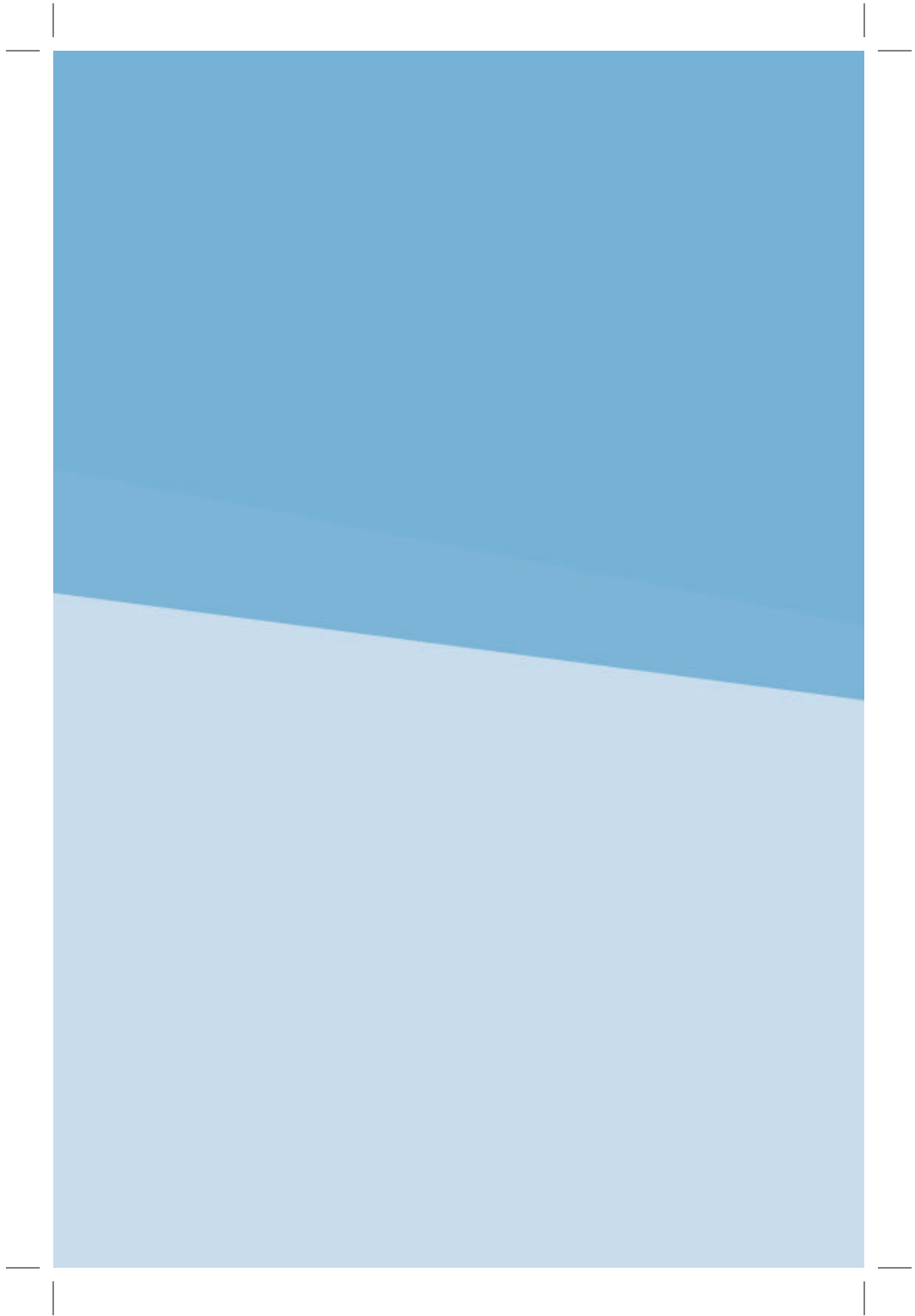
***Special Instruments in Support of the Initiative***

In addition to making use of the array of lending instruments already available to its borrowing member countries, the IDB will also explore the possibility of introducing changes to some of these instruments as a signal of the special effort that it is putting forward to bring social and economic development opportunities to the majority through improved access to basic infrastructure services. For example, the IDB will explore the possibility of incorporating special features into the performance-driven loan (PDL) instrument when used in poverty-targeted basic infrastructure projects. PDLs are particularly attractive instruments in this field, because disbursements are released against results and loan amounts are determined on the basis of estimated expenditures to reach established goals. This provides incentives to achieve targets applied to basic infrastructure development objectives. The IDB may consider increasing the maximum allowed initial disbursement from 20 percent to 40 percent of the total loan amount to allow for

an effective introduction of funding to meet the demand for infrastructure services.

### **Summary**

The IDB is well positioned to act as a catalyst to bring real change in the lives of millions of disadvantaged persons in the region through improvements in infrastructure. The vectors of actions are several: deepening the regional knowledge of the main issues to promote better understanding and evaluation of the different models of infrastructure investment that support expansion of economic and social development at the base of the pyramid; financing the design and implementation of projects capable of producing strong demonstration effects, based on models that provide better infrastructure access to the majority; building on successful partnerships between the private and public sectors; and maximizing the potential of the array of instruments to promote the socioeconomic development of the region.





## CHAPTER 5

# Connecting the Majority: Empowerment through Digital Dividends

**T**he rapid advances in information and communication technology (ICT), combined with the growth of the Internet and other global networks, have led to deep transformations in economic, social, and institutional structures. ICT applications and their widespread diffusion affect the performance of businesses and the efficiency of markets, empower citizens and communities, increase knowledge, and contribute to strengthening and redefining of governance processes at all institutional levels.

As with all major and wide-ranging technological advances, the ICT revolution poses daunting challenges as well as enormous opportunities. It has the potential to increase productivity and wealth; generate new activities, products, and services; and improve the well-being of the population, notably in education and health. At the same time, the uneven distribution of such opportunities can lead to further alienation of neglected communities and a worsening of existing socioeconomic inequalities. A balanced access and effective use of ICT

tools and networks in the new global economy, along with an integrated process of technological innovation, are critical for reducing poverty, increasing social inclusion, and improving living conditions for all.

Numerous studies have focused on the direct contribution of ICT to socioeconomic development. While their findings and conclusions vary according to the context and application, there is an overall agreement that access to information can transform production processes, increase income potential, and improve the living conditions of the poor. ICT is an effective tool that increases competitiveness and contributes to economic growth, social development, and poverty reduction, especially when supplemented with investments in other assets such as innovation, education, health, and infrastructure.

Indeed, ICT is changing the way people live and do business globally, creating new social and economic development opportunities for lower-income populations. It enlarges markets and facilitates greater access to information, public services, and economic activity. Yet these opportunities cannot be effectively and fully realized if left to market forces alone. The public and private sectors and civil society must undertake active and integrated efforts toward the development of an inclusive information society.

### **ICT and Social Development**

The “digital divide,” a phrase coined in the 1990s, describes the perceived growing gap between those who have access to information and communication technologies and the skills to

use them and those who for socioeconomic and geographical reasons have limited or no access to these technologies and skills. It raises the concern that the emergence of ICT could widen existing inequalities in access to information and that certain groups could face additional disadvantages because of their geographic location, age, gender, culture, income level, and status. Moreover, the phrase reflects the prevalence of socioeconomic and structural inequalities at the regional, national, and local levels, which are characterized by insufficient infrastructure, relatively high access costs, inappropriate or weak policy regimes, inefficiencies in the provision of telecommunication networks and services, lack of local content, and uneven ability to derive economic and social benefits from information-intensive activities.

The United Nations Millennium Declaration recognizes that harnessing the power of ICT and creating “digital opportunities” can be a powerful tool in expanding the reach, scope, and impact of education, health services, and training. It can also create opportunities for improving gender equality and citizens’ participation. Achieving the Millennium Development Goals by 2015 will go hand in hand with closing the digital divide.

### **ICT in Latin America and the Caribbean**

The countries in Latin America and the Caribbean have made considerable progress in expanding ICT in recent years, exceeding the pace of other regions of the world. For example, the penetration of the Internet in the region increased by 272.8

percent between 2000 and 2005, while the use of personal computers and mobile lines increased by 65.3 percent and 171.5 percent, respectively, between 2000 and 2004. As can be seen in Table 5.1, these figures show double-digit annual compounded growth rates that highly exceeded those of the United States, the European Union (EU), and members of the Organisation for Economic Co-operation and Development (OECD).

In spite of such progress, the levels of ICT penetration in the region and the absorption capacity of the countries fall short of those in industrialized nations. In 2005, only 15.2 percent of the population in the region had access to the Internet, compared with 68.7 percent in the United States and at least 50 percent in OECD countries. Only 8.1 percent of the population in the region had some access to a home computer in 2004, compared with 74.1 percent in the United States and 45.0 percent in OECD countries. Similar lags remain with respect to ownership of fixed and mobile phone lines.

As can be seen in Table 5.2, Internet penetration in the region (15.2 percent) as of 2005 exceeded the overall figures for the Middle East (9.6 percent), Africa (2.5 percent), and Asia (9.9 percent). Nevertheless, the region's level is way below that in the high-performance Asian economies of Hong Kong, Singapore, Taiwan, and the Republic of Korea, whose levels of Internet use are near 60 percent. Similar differences are perceived with respect to fixed and mobile telephony and personal computer ownership.

Such indicators reveal the need for concerted actions by various stakeholders and sectors of the region to promote greater use of ICT. These actions should address a number

TABLE 5.1. Information and Communication Technology Penetration, 2000–2005 (per hundred inhabitants)

	2000	2001	2002	2003	2004	2005	Accumulated growth	Annual compounded growth
<b>Fixed lines</b>								
LAC <sup>a</sup>	14.6	15.7	15.9	16.1	17.3	NA	18.1%	4.2%
US	66.4	67.2	65.1	62.4	59.9	NA	-9.8%	-2.6%
EU	53.7	49.8	48.9	48.0	46.5	NA	-13.3%	-3.5%
OECD	59.4	52.7	52.1	51.4	49.5	NA	-16.6%	-4.4%
<b>Cellular subscribers/lines</b>								
LAC <sup>a</sup>	12.1	14.7	20.0	24.6	32.9	NA	171.5%	28.4%
US	38.9	45.0	48.9	54.6	61.0	NA	56.7%	11.9%
EU	61.2	65.0	73.9	82.2	91.2	NA	49.1%	10.5%
OECD	52.2	62.0	67.9	74.0	81.0	NA	55.1%	11.6%
<b>Personal computers</b>								
LAC <sup>a</sup>	4.9	5.8	6.4	6.5	8.1	NA	65.3%	13.4%
US	57.2	62.4	66.0	66.0	74.1	NA	29.5%	6.7%
EU	25.7	26.8	30.0	31.9	38.3	NA	49.4%	10.6%
OECD	30.2	33.6	36.6	37.7	45.0	NA	49.0%	10.5%
<b>Internet access</b>								
LAC <sup>a</sup>	4.1	5.7	8.9	11.3	14.4	15.2	272.8%	30.1%
US	44.1	50.1	55.2	55.6	62.3	68.7	55.9%	9.3%
EU	25.0	26.7	31.7	36.0	45.8	50.0	100.0%	14.9%
OECD	32.3	31.7	36.2	39.2	48.3	50.9	57.6%	9.5%

Source: IDB (2006).

Note: NA = not available.

<sup>a</sup> Includes only the IDB's borrowing member countries of the Latin American and Caribbean region.

TABLE 5.2. World Internet Penetration, 2005

World regions	Population (percentage of world)	Internet users (millions)	Internet penetration (percentage)	Percentage of world users	Accumulated growth, 2000–2005
Middle East	2.9%	18.2	9.6%	1.8%	454.2%
Africa	14.1%	22.7	2.5%	2.2%	403.7%
LAC <sup>a</sup>	8.5%	79.0	15.2%	7.8%	272.8%
Asia	56.4%	364.3	9.9%	35.7%	218.7%
Europe	12.4%	290.1	35.9%	28.5%	176.1%
Oceania/Australia	0.5%	17.7	52.9%	1.8%	132.2%
North America	5.1%	225.8	68.1%	22.2%	108.9%

Source: IDB (2006).

<sup>a</sup> Includes only the IDB's borrowing member countries of the Latin American and Caribbean region.

of challenges that cannot be left to the market alone, such as high ICT access costs, the need for widespread digital alpha-betization, limited coverage of connectivity, and limitations in institutional capacity to coordinate and promote public policies for the dissemination of ICT.

### **Enhancing Development Opportunities through ICT**

ICT can be applied directly to the advancement of disadvantaged sectors of the population by offering innovative and cost-effective solutions to overcoming challenges in the areas of education, health, job opportunities, and participation in government. It offers new tools such as distance education, telemedicine, and e-government. Microfinance institutions can apply ICT solutions to identifying reliable customers who otherwise would have been overlooked. Near-universal access to the Internet via low-cost networks enables teacher training, enhances student access to traditional teaching materials via Internet distribution, and allows the introduction and use of new and advanced multimedia resources and learning tools. The younger generation takes readily to computers and such resources, and there is evidence that classroom access to ICT tools can improve learning and help motivate students to stay in school.

Outside the classroom, affordable and near-universal access to information—via government or commercial voice-driven systems and the Internet—enables lifelong learning and encourages the habit of searching for information to support personal and family decision making. For many adults, voice-driven information sources and services in local languages that

**BOX 5.1**

**Committee to Democratize Information and Communication Technology in Brazil**

The Comitê para Democratização da Informática (CDI), a nongovernmental, nonprofit organization, fosters the social inclusion of less-privileged social groups through the use of ICT as a tool to encourage education and active citizenship. It works to create opportunities for young people to free themselves from poverty and social exclusion through the implementation of community Computer Science and Citizenship Schools (EICs). CDI views computer literacy as a vehicle for creating employment opportunities and promoting civic participation, formal education, literacy, concern for the environment, health, human rights, and nonviolence. CDI invests in the community's capacity to organize its own educational programs.

Since its inception in Rio de Janeiro in 1995, CDI has provided support to 130 communities in the establishment of autonomous and financially self-sustaining EICs. In order to promote digital inclusion, CDI enters into partnerships with national and international philanthropic organizations, companies, government agencies, and individual donors. There are currently 965 EICs using the methodology and model developed by CDI. In a recent evaluation, 86 percent of the students stated that CDI schools had had a positive impact on their lives in areas such as school attendance, making new friends, and staying away from drugs. The experience has been adopted throughout the world, and today CDI operates in Argentina, Chile, Colombia, Guatemala, Honduras, Mexico, and Uruguay, as well as in Angola, Japan, and South Africa. (See <http://www.cdi.org.br/>.)

are accessible via telephone are important means for improving their access to information. There is also evidence that informal learning outside the classroom is strongly enhanced by affordable access to the Internet. This informal learning is driven, in part, by the growing availability of information on the Internet and the increasing organization of such information by search engines. There is also a growing use of interactive systems, from “chat” systems and e-mail and text messaging to Weblogs and other interactive Web-based systems.

### **ICT in Health Services**

Improvement in the delivery of health care services in geographically remote and rural areas is one of the most promising and clearly demonstrated applications of ICT in social development. ICT is being used in many developing countries and communities for remote consultation, diagnosis, and health treatment through the use of digital cameras to download images onto a computer and transfer them to doctors in nearby towns. Physicians collaborate and exchange information through ICT, while medical research data from clinical trials are transmitted by satellite. Health care professionals can keep abreast of advances in medical knowledge and have access to centralized data through ICT networks.

Moreover, ICT provides considerable benefits and capabilities when applied to disease prevention and response efforts during epidemics. The Internet is an effective means for disseminating public health messages and disease prevention techniques in developing countries. It also enables better

**BOX 5.2**

**Alerta DISAMAR:  
An Innovative Disease Surveillance System in Peru**

Real-time reporting of disease outbreaks as well as ordering of medicines and supplies via software such as the Voxiva, Inc. tool set pioneered in Peru, has dramatically increased the efficiency of health services delivery. Alerta DISAMAR is a pilot disease surveillance program initiated in 2002 by the Peruvian Navy. It relies on novel technology from Voxiva. Alerta DISAMAR allows users to collect, store, disseminate, and analyze data on diseases under surveillance that are reported by telephone or through the Internet. Designated users receive automatic notification of selected reports via e-mail, voice mail, or Short Messaging Service (SMS) message. Health officials can communicate with remote health professionals using voice mail messages as if they were e-mails to individuals or to predetermined groups of users. The system sends timely automatic reports on the number of cases, comparing the previous three weeks and monitoring cases that do not yet have a final diagnosis.

Alerta DISAMAR has demonstrated a sustained improvement in coverage, data quality, baseline incidence rates, and outbreak detection capability. Alerta is a flexible and stable program with minimal recurring costs. It is a prime example of sustainable technology transfer for improving public health in a country with limited resources. More than 18,000 health events have been reported so far using this program. In addition, 18 outbreaks have been detected that have led to recommendations for improving vector control and food procurement processes. (See <http://www.voxiva.net/news/121603.asp>.)

monitoring and response mechanisms. ICT is being applied to help improve the efficiency of public health systems and medical facilities by streamlining medical procurement and creating and managing patient records.

### **ICT in Finance**

The data systems and electronic delivery offered by ICT provide valuable tools for driving down transaction costs of financial services. They have been successfully applied by microfinance systems and by a variety of competing financial institutions that have reduced the costs of migrants who send remittances to their home countries in the region. Nonetheless, there is still much more to do. Transaction systems adapted to serve low-income communities via text messaging over mobile phones have been successful in Asia and Africa and may prove useful in Latin America and the Caribbean as well.

ICT technology offers several approaches to expanding access to electronic transactions and banking services via remote-transaction devices for microfinance that work over mobile phone networks. Smart cards can store account balances, transaction histories, and positive identification instruments, such as fingerprints. The next generation of mobile phones may be capable of conducting transactions automatically via very-short-range radio, potentially turning phones into electronic wallets. Expanding ICT-based financial services and electronic commerce to low-income communities will provide greater market access, economic value added, improved household security, growth opportunities for microenterprises, reduced

vulnerability to theft, and greater participation in the formal economy by the majority.

### **Wireless Technologies and Community-Based Communications Services**

Largely for reasons of cost, most rural communities and many low-income urban communities lack effective and affordable local phone systems. These communities usually rely on a few pay phones or shared mobile phones, which are used sparingly, and most calls are made to numbers outside the community. Yet historically, 60 percent of all phone traffic is within a community when an affordable phone system exists. A low-cost local phone system can make universal access a reality in many communities in the region.

The technological potential to provide such a low-cost system has now emerged via local wireless fidelity networks (WiFi) and Voice-over-Internet Protocol (VoIP) telephony using peer-to-peer systems. Technologies such as Skype, which offers free phone calls over the Internet, are having a global impact on long-distance calling. In addition to making a wide range of voice-driven e-government and commercial services accessible and affordable, low-cost wireless networks, VoIP, and high-capacity broadband networks enable access to a great variety of Internet services and information via a computer or another converged device.

One of the benefits of voice-driven or voice-accessible services—especially if they are also made available in indigenous languages—is overcoming barriers to literacy and achieving

computer skills. These tools reduce rural isolation, enhance family solidarity, increase access to information and services, and improve chances to find employment. At the community level these services, which can be made a reality through affordable computers and Internet access, can result in higher economic capacity and productivity and wider citizen participation in democratic and economic processes. Local entrepreneurs or community access facilities, such as telecenters, can assist in broadening computer and Internet usage.

Nevertheless, only a few countries in Latin America and the Caribbean have made VoIP telephony legal or removed restrictions to its use. Likewise, few countries have made frequencies available for unrestricted WiFi use. Nor have most countries permitted open competition for telecom and Internet services or allowed competitive community-based systems. Beyond regulatory restrictions, the business environment in many countries still poses barriers to entrepreneurs and the creation of small businesses. There have been few pilot projects that promote best practices with rapidly emerging ICTs. As a result, the region still lags behind many Asian and even some African countries in realizing the potential development benefits from widespread ICT access and emerging wireless and nonconventional communication technologies.

### **IDB Action Agenda: Empowering the Majority through ICT**

The IDB will continuously update its financial and technical assistance instruments to effectively promote a more inclusive

socioeconomic development that extends benefits of ICT development to the poor. It will establish IDB-led public-private partnerships for ICT development that will enable stakeholders to capitalize on lessons learned through concrete experiences, best practices, and innovation. Pilot projects will be developed that can demonstrate new technologies and pathways for applying ICT to the benefit of the majority, generate opportunities for the private sector to participate in poverty reduction and inclusive development, and create tools for the exchange of information and ideas. The IDB will strengthen its support for advanced ICT research in partnership with the public and private sectors.

In all cases, pilot and demonstrative projects undertaken by the IDB and its partners will contribute to setting the stage for IDB loan and technical assistance operations to mobilize greater resources for the application of ICT to promote overall modernization and reform and advances in education, health, finance, connectivity, and other activities that benefit the majority.

In education, the IDB will support and facilitate the extension of broadband connectivity to all schools, especially those in rural areas, in addition to promoting curriculum development and extensive teacher training to make effective use of expanding online knowledge resources. Extensive computer literacy programs will be carried out, including support for pilot projects demonstrating the use of ICT tools for educational use. The IDB will strengthen its support for the establishment of telecenters as access points for connectivity, while also supporting policy reforms enabling school-based community “hot-spot” networks as communications centers.

In health, the IDB will support network extension to connect health care facilities and provide mobile access for all health workers, software development and applications to enable real-time reporting, and the extension of telemedicine networks to rural and geographically isolated locations. The IDB will contribute to the modernization of the sector through pilot projects for the deployment of electronic billing models, emergency system use of mobile personal health records and other technologies, and dissemination of public health information via electronic platforms widely utilized in access points, including community centers and clinics.

In financial services, the IDB will continue to consolidate its support for the modernization of the financial sector in the region, promoting efforts to extend the reach of financial services to rural and marginal areas through the deployment of various connectivity and wireless network solutions. These activities will capitalize on the potential of ICT as an enabler of local economic development and growth. Concrete models of smart automated teller machines (ATMs), electronic transactions, and Internet-based applications adapted to local conditions will be tested and adopted as an overall part of technical assistance actions in direct collaboration with telecom carriers, bank regulatory agencies, the private sector, and other stakeholders. The IDB will continue assisting the countries of the region in encouraging the application of ICT to lower transaction costs of electronic remittances to the benefit of individuals, microcredit institutions, and entrepreneurs.

In the area of modernization of the state, the IDB will support the application of ICT to the re-engineering and integration of government processes to enable efficient and

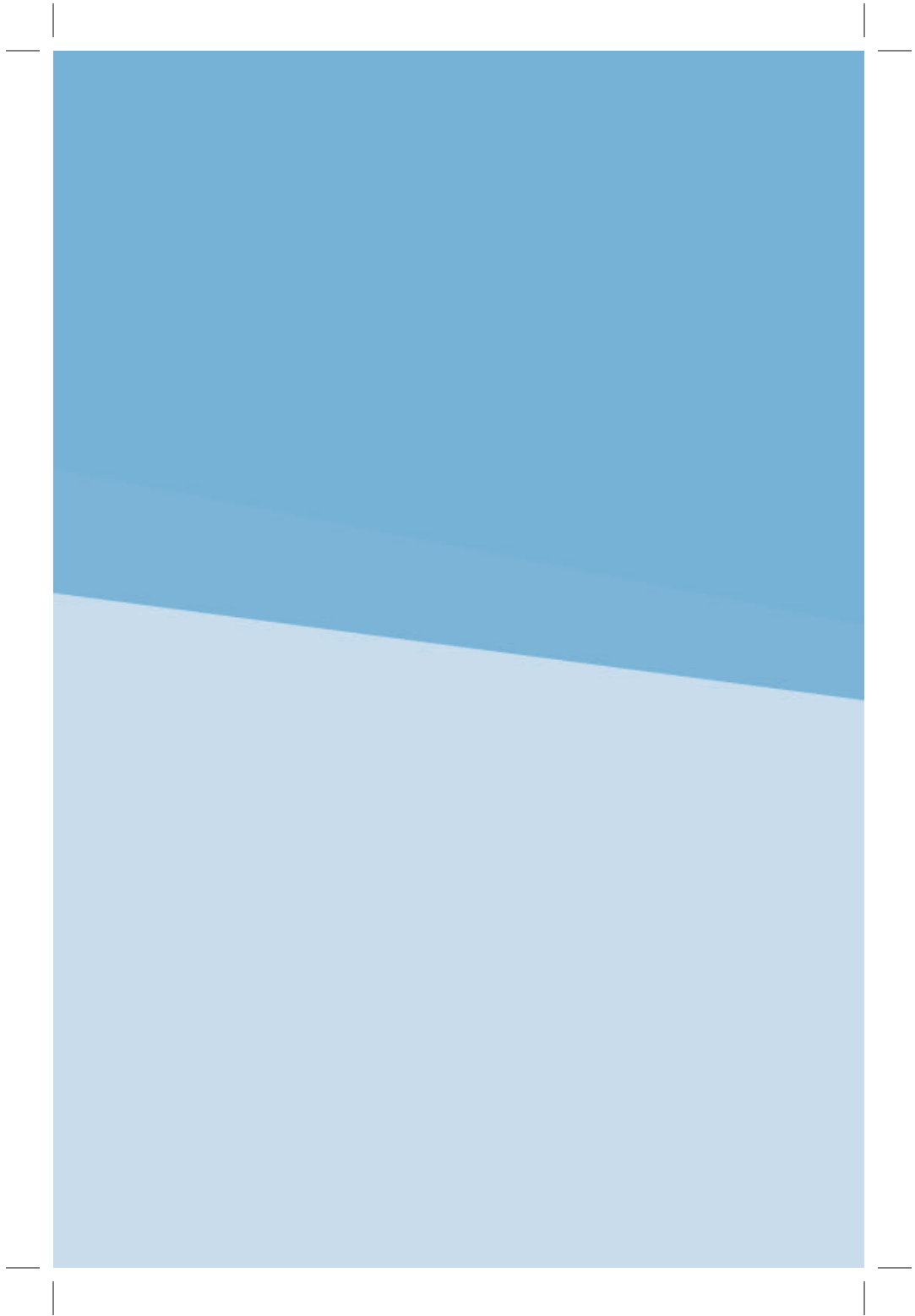
modern customer-oriented e-government services. Moreover, the IDB will continue to support policy design and reform to guarantee the full deployment of ICT in public administration, addressing emerging issues such as media convergence, establishment of electronic payment and clearing systems—both public and private—and creation of a normative framework for e-commerce, e-government, and connectivity development, among other areas of action. The IDB will support projects that are designed to create a regulatory environment that will allow the establishment of new ICT access that can effectively bring greater connectivity to underserved communities, particularly in rural areas.

These actions are also consistent with the Plan of Action for the Information Society in Latin America and the Caribbean (eLAC 2007) ratified by the countries of the region during the second phase of the World Summit on the Information Society held in Tunis in November 2005, and with respect to, among others, (a) reducing the national average user base per community center for Internet access; (b) creating the conditions for the creation of alternative technologies and connectivity; (c) in the context of social inclusion, exchanging criteria to address issues surrounding software and applications code; (d) providing ICT literacy training to at least 2.5 percent of the working-age population annually and formulating and disseminating ICT training programs; (e) developing and expanding regional research and education networks; (f) creating and strengthening instruments for exchanging experiences in electronic government; (g) promoting and strengthening the linking of national education portals and the development and dissemination of local content; (h) encouraging the design and

implementation of ICT in justice systems (e-justice); (i) promoting and strengthening national action plans for the information society; (j) evaluating financing needs in ICT and undertaking initiatives aimed at the deployment of effective financial instruments and optimizing the use of resources; and (k) supporting and fostering the identification and deployment of indicators to monitor the progress and impact of ICT, with strong emphasis on social development and progress toward the Millennium Development Goals.

### **Summary**

Development of ICT for the base of the pyramid has made important advances in Latin America and the Caribbean but is far below its potential. When developed fully, ICT can play a pivotal role in promoting economic growth through inclusion, assisting the growth of microenterprise, providing educational opportunities, connecting populations, reducing the isolation of rural areas, and offering health and other social benefits to previously excluded groups. The IDB will apply its full range of tools to support a greater effort to bring the benefits of ICT to the majority, focusing on partnerships with the private sector, innovation and research, pilot projects, and regulatory reform.





## CHAPTER 6

# Housing Challenges and Opportunities at the Base of the Pyramid

**H**ousing is the single most important asset for the majority of families, providing shelter and serving as a critical hedge against unexpected personal financial shocks. Housing also serves as the location for many microenterprises, the major form of employment across the region. The sector offers many untapped market opportunities for the majority. The IDB recognizes housing as a critical component of any strategy aimed at building assets among the poor and gives it special emphasis in this new IDB initiative. This approach intends to support housing sector development, promoting interventions specifically tailored to the needs of households in the lowest two quintiles of the income distribution structure.

Many challenges lie ahead. Years of economic reforms have failed to extend the benefits of a formal market economy to the majority of people in the region. Nowhere is this clearer than in the housing sector, where at least 65 percent of the population is denied the use of formal markets to buy, build, sell, improve,

or borrow against their homes. Without access to formal credit markets, lower-income families in the informal housing sector must build their homes over extraordinarily extended periods of time, paying as they go. Poor health, overcrowding, and vulnerability often result. Numerous barriers to entry in the formal economy prevent the entrepreneurial energy in the informal housing sector from being transformed into broader economic multipliers and opportunities.

In the current environment, low household income is the major barrier that prevents the majority from acquiring privately produced housing. Even where the financial sector supplies mortgages and the real estate sector faces few market barriers, households earning less than \$500 per month (and often those earning less than \$1,000 per month) cannot obtain mortgage financing. In some countries, low-income households can acquire minimum-cost housing through government programs that mobilize individual savings, subsidies, and small loans. However, these programs are generally confined to households earning more than \$200 per month, thereby leaving millions to house themselves.

While housing remains a drag on economic growth and social development in Latin America and the Caribbean, the informal housing sector is ripe with potential market opportunities. Even though the majority living in the low end of the housing market is poor, this group constitutes a potentially rich market for those entrepreneurs and businesses that can meet its housing needs.

## **The Current State of Housing in Latin America and the Caribbean**

In most developed market economies, effective financial frameworks and enabling institutions have made housing an engine of growth, generating employment and creating a strong demand for goods and services that drives many profitable businesses. In contrast, in most of the countries of the region, most households live outside of formal housing markets. Poor families cannot obtain mortgage finance because their low incomes disqualify them from formal credit. Legal and regulatory systems prevent the subdivision of land with secure tenure at affordable cost or the extension of credit to the majority of citizens. Hence, the poor join the ranks of informal land occupants and self-builders, constructing and improving their homes as resources permit over extended periods of time. Often exposed to the elements, with inadequate sanitation and few other services, and with little security in tenure, families such as these across the region face precarious lives.

While most people in the region are housed in some fashion, there is a large qualitative and quantitative housing deficit. A third of the populace in higher-income countries of the region lives in inadequate structures. In low-income countries, more than one-half of the population lives in poor housing conditions. Despite significant progress in some countries, more than 20 million households are sharing dwellings, and 30 million households live in inadequate homes.

The human and economic costs associated with inadequate housing in the region are enormous. Inadequate housing and overcrowding are associated with a variety of public health

issues, such as poor sanitation, contagious disease, domestic violence, and high rates of infant mortality. Insecure property tenure goes hand in hand with poor security and high crime. A variety of other social indicators, such as primary educational enrollment and labor force participation, are also affected by the degree to which families enjoy adequate and secure housing.

Inadequate housing also prevents millions of families from accumulating wealth. Most people cannot easily buy, sell, or borrow against their housing. They are thereby denied the benefits of financial leverage in real estate, a means of upward mobility for many in other regions. Poorly functioning housing markets produce low levels of financial intermediation and constrain the development of financial and capital markets. As a consequence, most businesses and investors in the housing sector cater to the minority of wealthier owners in the formal housing sector. New and cost-effective housing and improvement loans, rental property, building materials, repair services, and other housing products tailored to the majority remain undeveloped across the region.

Recognizing the inequities and inefficiencies embedded in the current situation, the IDB is designing actions to improve housing benefits for the region's majority. These actions seek to support and improve the way the majority gains access to housing: occupying plots in informal settlements without most services and building and improving their homes gradually over extended periods of time with their own savings and sweat equity. The IDB Group will focus initially on three interrelated areas that are essential to improving the supply of affordable housing for this population:

- Rationalization and expansion of urban land markets.
- Support for progressive construction and home improvement (phased building).
- Private capacity building.

Addressing these issues will require a departure from some of the more traditional approaches to housing. But the economic and social returns on actions in these areas offer promise for millions of families who live in substandard housing, often without legal title or basic services.

### ***Rationalization and Expansion of Urban Land Markets***

All housing begins with land, and urban land markets in Latin America and the Caribbean are notoriously deficient. In most countries, improving the private supply of affordable urban land must be a basic element in any inclusive housing policy. While certain environmental and social regulations are necessary, most urban land is subject to excessive and often nontransparent regulation governing land division, titling, servicing, minimum infrastructure, reserves for public areas, maximum lot occupation, and construction, among other areas. These requirements become insurmountable barriers facing the poor, driving land prices beyond the reach of the great majority of families. In addition, urban growth drives up the prices of lots with services, reinforcing a process whereby lower-income people are forced to occupy the least-desirable—and often untitled—land.

Regulatory streamlining is a cost-effective way to expand housing supply. But housing does not exist in isolation. The economic and social value of a house is determined in part

by its connection with local services, including water, roads, sewerage, drainage, electricity, open spaces, playgrounds, and police and fire services, among many others. Land reforms must be accompanied by investment in the urban infrastructure needed to expand the supply of serviced land and to open more land to development. Well-designed taxation systems also encourage a more efficient land market. Measures to discourage land speculation also may be needed to bring more land into the market, as well as efforts to capture land appreciation for reinvestment in infrastructure and urban services that will increase land supply.

In Latin America and the Caribbean, both the public and private sectors have a large stake in rationalizing urban land policies. Public-private partnerships (PPPs) are essential for promoting land development, increasing transparency in real estate transactions, and advancing enabling regulatory reforms. PPPs can help develop facilities for funding residential infrastructure—including water, electricity, and sewerage—and can hasten the rehabilitation of neighborhoods suffering from urban blight and promote the recycling of vacant and underutilized urban land. PPPs are also prime vehicles for increasing knowledge through research, gathering and disseminating information, developing financing mechanisms for smaller construction firms and developers, and helping to elevate housing and land issues to the level of national economic policy.

Several attempts have been made across the region to increase access to affordable residential land. Where incentives are right, private developers have been an important part of this process. A case in point is El Salvador, where an enabling

environment has created opportunities for entrepreneurs and nongovernmental organizations (NGOs) to deliver housing solutions, including the provision of plots with basic services for the urban poor (see Box 6.1). One developer, ARGOZ, surveys the lots on the edges of cities, where urban land subdivision requirements are less stringent, and provides basic road access and housing finance in the form of a lease with a purchase option. When the last payment is made, the lot becomes the property of the household. This offers dramatic progress for the urban poor, who are now able to obtain fully legal building sites close to the city without having to wait for all the basic services to be in place. The case of ARGOZ provides a clear example that marketing housing solutions to the poor can be a profitable undertaking.

Local governments have several tools with which to expand access to affordable residential land. An example of an effective public-private partnership is that formed by the municipality of Porto Alegre in Brazil with “social developers.” The municipality altered incentives in order to encourage illegal operators to become legal social developers of urban land for low-income households. These previously informal companies have become formally registered and are now awarded permits to develop designated lands for low-income housing.

Improving the quality of housing also requires the upgrading of neighborhoods. Housing policies must concentrate on the provision of basic urban services and infrastructure. While these areas might be viewed as outside the strict domain of housing, they are essential to the quality of housing and play a large role in the eventual formalization of lower-income neighborhoods. Municipalities are key actors in the provision

**BOX 6.1**

**Giving the Urban Poor Access to Land with Services:  
ARGOZ in El Salvador**

ARGOZ is a private firm created in 1977, and its projects are in high demand. This company has developed a for-profit model that allows poor families to gain legal access to a plot of land, the first step in building their homes over time. ARGOZ subdivides privately owned urban land on the edges of Salvadoran cities with minimal services, then sells these plots to low-income families. The plots are financed through a “lease-to-purchase” contract with little or no down payment and no additional collateral and at terms up to eight years. Commercial rates of interest are charged, and a life insurance policy for the buyer covers any outstanding debt. The subdivisions have very few services and only meet the requirements for rural land apportionment. The company allocates 18 percent of its profits to the provision of basic services for the subdivisions it has helped to develop. In the past 29 years, it has provided legal building plots to more than 300,000 families—almost 2 million people—the bulk of whom are in the lowest income quintile. Obtaining a plot of land is the first step on the road to home for the majority, who must self-finance “progressive housing,” or homes built over an extended period of time. The ARGOZ strategy is complemented by a number of NGOs that provide technical assistance to lenders for the provision of microcredit for progressive housing improvement loans. This is a profitable business, with assets reaching over US\$150 million at the beginning of 2005. ARGOZ has demonstrated that helping the poor to obtain land, basic services, and housing can be a profitable business.

of well-located, basic urban services, such as health, education, and recreational facilities, as well as basic infrastructure, including roads, potable water, and sewerage, all essential to the well-being of the population. Successful upgrading programs range from simple improvements in basic infrastructure to the provision of secure tenure and more complex interventions. Effective urban development and environmental planning, including the enforcement of land use and subdivision regulations, helps mitigate environmental risks in urban settlements. An important challenge is to develop low-cost and reasonable environmental rules that are enforceable while avoiding the drawbacks associated with informal settlements, such as lack of basic services, overcrowding, poor accessibility, and poor lighting and ventilation in the dwellings. More appropriate forms of risk management, such as simple disaster-resistant building codes and well-enforced no-build zones, are needed. To be effective, these require that legal urban land be available elsewhere. Housing agencies should also be encouraged to work with organizations responsible for hazard mapping and municipalities in improving land use planning.

### ***Support for Phased Housing and Home Improvement***

The poor in Latin America and the Caribbean generally obtain housing only gradually, building their homes as resources become available, usually over an extended period of time. Without access to formal loans, households finance such incremental building from many sources: individuals, group savings, personal labor, small loans from the neighborhood and money lenders, barter arrangements, communal self-help, and remit-

tances from abroad. Many families also manufacture their own building materials. These forms of financing prolong construction and force households to live in substandard conditions for long periods of time.

Phased building—also called self-building and progressive housing—proceeds through four typical stages. First, families occupy land, construct a temporary shelter, and obtain potable water. Second, they gradually improve their dwellings and the neighborhood. Third, families band together to lobby government for secure tenure, although not necessarily full title, as well as the provision of water, sewerage, drainage, and paved roads. Finally, families lobby for health, education, and recreation services. Significant economic and social gains can be achieved by making the process shorter, less expensive, and more efficient. This can be accomplished through (a) technical assistance aimed at building capacity for self-builders, developing cost-effective building materials, and assisting lenders in developing and marketing microcredit for phased home construction and improvements, and (b) assistance to public authorities to rationalize codes, standards, and regulations in order to facilitate gradual home improvements.

An excellent example of a private initiative to facilitate phased construction is Patrimonio Hoy (Wealth Today), an innovative program sponsored by CEMEX in Mexico (see Box 6.2). This program supports progressive housing through technical assistance for self-building home improvement, short-term microcredit, and the channeling of remittances into building materials.

**BOX 6.2**

**CEMEX/Patrimonio Hoy and Construmex—Suppliers of Credit with Technical Assistance**

CEMEX, a multinational Mexican company with operations in 50 countries and more than US\$26 billion in assets, has developed an innovative program to support progressive housing in Mexico. The Patrimonio Hoy (Wealth Today) program, a part of CEMEX's corporate social responsibility program, provides technical assistance for home improvement projects, short-term supplier credit, and support for organizing self-financing mechanisms. By participating in the project, families have slashed their home construction times (from 48 to 16 months), reduced their construction costs by one-third, and improved construction quality. More than 95,000 families have participated in the program, adding the equivalent of 33,000 110-square-foot rooms to their existing dwellings. Credit is provided using a methodology based on traditional savings groups, and on-time payments exceed 99 percent of the outstanding loan balance. CEMEX is seeking to expand this program, as it has contributed to increased brand loyalty as well as demand for its products.

CEMEX also offers the Construmex program, whereby Mexican migrants living in the United States pay for building materials that are delivered through its large network of more than 2,000 retail stores in Mexico. This is an innovative system to channel "in-kind remittances" into home improvement. As of 2004, more than 38,000 emigrants had benefited from the program.

### ***Expanding Housing Microfinance***

The development of housing finance systems for the majority must be a centerpiece of any longer-term housing strategy. However, as mentioned previously, mortgage finance will remain beyond reach for the majority of the region's poor for some time to come. Microfinance is well suited for financing the most immediate basic housing needs of the poor, such as phased construction and housing improvements. Housing microfinance allows poorer families to quickly improve their housing situation, while repaying an investment over time in a series of installments. Microfinance takes many forms, whether administered by NGOs specializing in housing or by a range of formal and regulated microfinance institutions. Increased efforts should be made to assist microfinance institutions in identifying and servicing clients in the lower end of housing markets in the region.

### ***Building the Capacity of the Private Sector***

The formal banking sector and other mainstream businesses have by and large overlooked the opportunities in the provision of housing to the poor, despite profitable possibilities in supplying building materials, financial services, and consumer goods to the majority of the population. Yet under the right conditions, the private and public sectors, working together with consumers at the base of the pyramid, have demonstrated they can make it happen, whether the private sector entity is a multinational corporation, such as CEMEX of Mexico, or a national firm, like ARGOZ of El Salvador.

More steps need to be taken, with the active support of the IDB, to promote greater private sector participation in providing housing for the majority. In addition to direct demand-side subsidies that reduce the credit risk presented by low-income households, other measures include developing mortgage risk assessment and management tools, such as mortgage insurance, title insurance, and hazard insurance; strengthening the capacity of private sector associations and training institutions to increase the skills needed among workers for housing, such as carpentry and masonry; facilitating flows of housing market information to lenders, insurers, and businesses; and assisting small firms in regulatory compliance, among other activities.

The unique social and economic importance of housing requires that governments continue to play a pivotal role in affordable housing. What is new, however, is the recognition that the needs of even the poorest households can be better addressed through partnership between the public and private sectors. This partnership is essential, to provide both adequate housing and greater economic opportunities as well.

### **Going Forward: The IDB Housing Mandate**

Housing in Latin America and the Caribbean falls far short of the sector's social and economic potential. A host of intertwined disincentives plague the informal housing market: widespread poverty, burdensome regulations, severe credit constraints, a lack of secure tenure, and ill-defined property rights are among the factors that consign the majority to informal housing in marginal conditions. The public sector often lacks capacity to

craft housing policies or to devise frameworks for mortgage finance and other mechanisms to facilitate the flow of housing credit.

The IDB's main goals in the housing sector are to improve housing conditions for low-income populations, to improve public sector efficacy, and to promote sector-wide efficiency. To this end, and in view of the arguments advanced, the IDB will leverage the full set of tools at its disposal to address public and private incentives and help governments and private actors to acquire new capacities to expand the supply of affordable housing for the households in the two bottom quintiles of the income distribution structure and catalyze market opportunities in this segment of the housing sector. Given the enormity of the challenges in housing and the related areas of urban infrastructure, significant public sector resources and private sector financing will be required to expand affordable and adequate housing supply and catalyze market opportunities. Here the IDB is able to use in an integrated way an array of grants, investments, equity financing, and guarantees, as well as research and dissemination that can pilot new approaches and methodologies, develop new partners, and prepare the ground for major IDB loan operations.

### **Proposed Action Plan for Pro-poor Housing in the Region**

The IDB will challenge countries to increase the number of housing solutions produced yearly by the formal sector. An ambitious goal will be to double in five years the number of

units produced per year from approximately 1.2 million to 2.5 million. The IDB action plan for pro-poor housing will assist countries in responding to this challenge by establishing, tracking, reviewing, and adjusting measurable indicators and will deploy the full range of available IDB products and tools and their application in a large number of projects. At least 75 percent of the total volume of lending and technical cooperation in housing will be aimed at programs and projects that benefit the poorest segment of the majority, the lowest two quintiles of income distribution.

### ***Rationalization of Urban Land Markets***

The IDB will assist countries in putting in place reforms improving aspects of urban land markets and access to urban land, lowering land costs, and improving services and infrastructure. The goal in selected cities and countries will be to show demonstrable improvement in all such areas within five years.

The initiative will promote in borrowing member countries

1. The formation of PPPs between city governments and business consortia to increase the supply of affordable land for low-income housing, improve planning for urban expansion, and expand investment in basic infrastructure in rapidly growing cities. [*Goal: Support PPP initiatives in at least five countries*]
2. The building of consensus among city and national governments and developers in order to promote new mechanisms for lowering the cost of minimally serviced

land. [Goal: Support consensus-building initiatives in at least five countries]

3. Collaboration with member governments and other donors—such as the World Bank and bilateral donors—in promoting legal and regulatory reform to improve the functioning of registries and cadastre systems and to undertake widespread titling programs. [Goal: Modernization of at least five registry systems, including strengthening of connections to cadastres]

### **Support for Progressive Construction and Home Improvement**

The IDB will fully support progressive housing as the dominant housing paradigm in the region for the majority. Its overall five-year goal in the action plan is to incorporate this type of program in at least five housing loans aiming at supporting over 100,000 poor families in financing and executing the progressive construction and improvement of their houses. Indicators and metrics will be used to assess progress and credit flows for families receiving microfinance or technical assistance to self-construct or improve homes. Additional goals include increasing the targeted improvement of existing neighborhoods' access to basic services.

The initiative will support actions to

1. Work with construction supply companies to improve building materials and their capacities in the provision of supplier credit, as well as technical assistance to self-builders across the region. [Goal: Through national

*industry associations, build capacity in 20 construction supply companies of at least eight countries in the region]*

2. Provide technical assistance to microfinance institutions in order to help them develop appropriate credit products, improve risk management techniques, and implement necessary oversight expertise to increase the provision of microfinance for housing. *[Goal: Build capacity in at least 15 microfinance institutions for developing housing loan products for the poor]*
3. Work with national authorities and microfinance institutions (MFIs) to develop viable liquidity windows, collect and disseminate performance data, and form national MFI associations. *[Goal: Create three new facilities and three new MFI associations]*
4. Work with city and national governments as well as external partners to increase, as integral components of housing sector development projects, the already significant neighborhood upgrading work currently underway. *[Goal: Launch five new national or city programs involving at least 100,000 families]*
5. Work with governments to design and finance new programs to supply expandable basic housing solutions to the poor. *[Goal: Launch at least five national programs benefiting at least 80,000 households]*

***Capacity Building to Help the Private Sector  
Target Urban Low-Cost Housing***

The IDB's overall goal for the majority will be to increase the delivery of appropriate products and services for low-income

housing by the private sector. It will partner with national governments, business consortia, civil society, public-private partnerships, and other private sector stakeholders to improve capacities to serve lower-income housing. Indicators and metrics will be used to demonstrate the flow of new products and services, business start-ups, increased employment in the housing sector, and new forms of financing and marketing.

The initiative will support actions to

1. Provide technical assistance to help smaller developers and construction firms develop products and services for the low-income housing market. [*Goal: Launch 10 national programs to create capacity in at least 500 enterprises to serve the low-income housing market*]
2. Build capacity in private sector associations and training institutions to increase worker skills needed for housing, such as carpentry and masonry. [*Goal: Launch 10 national programs in vocational skills for construction and related activities*]
3. Promote the acquisition and dissemination of knowledge on applied building research to the private sector and facilitate flows of housing market information to lenders, insurers, and businesses. [*Goals: Launch at least eight national building technology competitions and build capacity in eight countries in best practices in housing insurance, mortgage standardization, risk return metrics, and related activities*]
4. Work with the private sector to identify business opportunities arising from the transition of public entities from housing providers to housing market enablers.

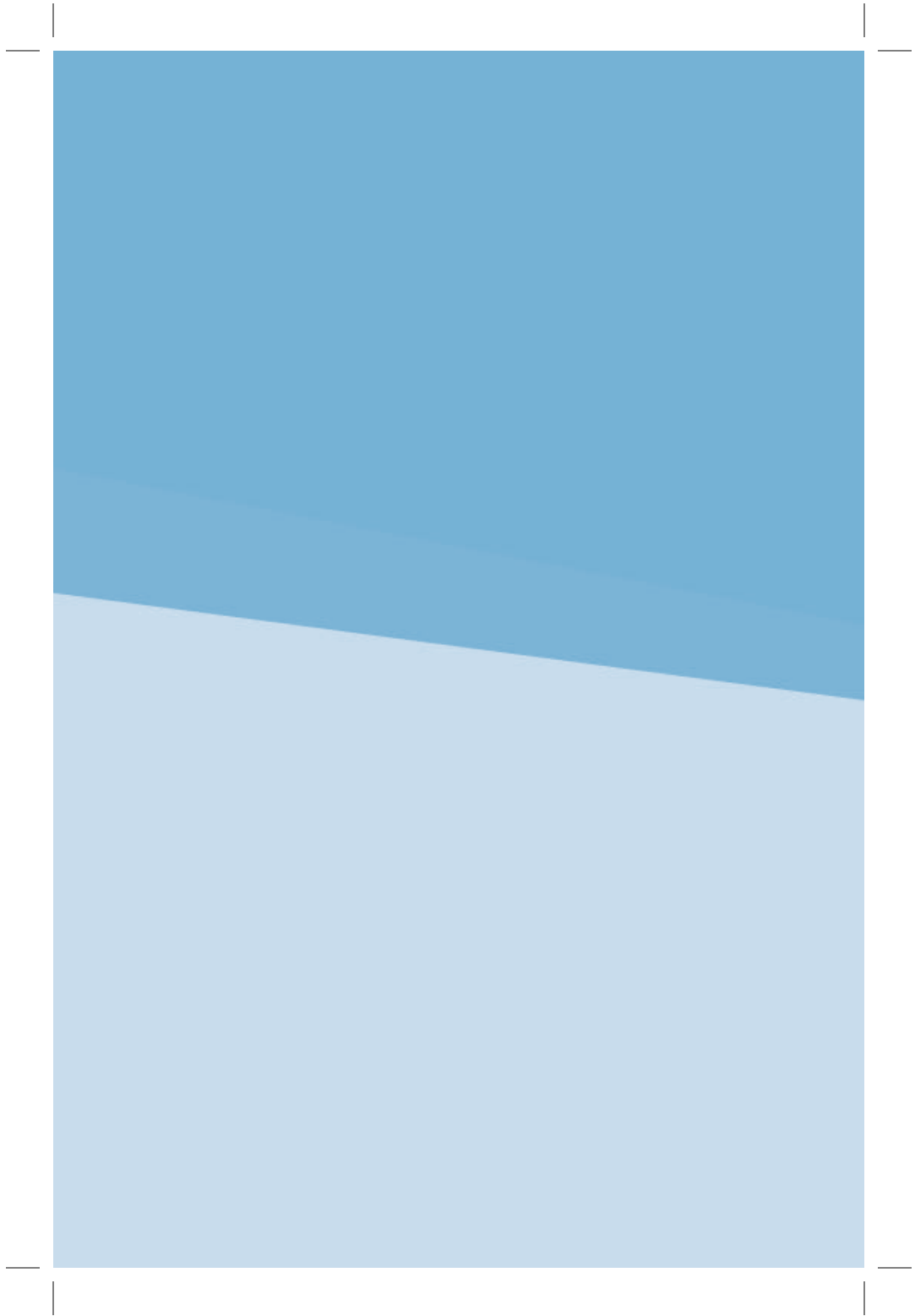
*[Goals: Disseminate best practices among firms in the housing sector and fund international forums to promote business in the low end of the housing market]*

5. Assist lenders and other businesses in leveraging migrant remittances into housing finance products, building supplies, and other housing-related applications. *[Goal: Build capacity in at least 100 businesses in the region to leverage remittances into housing products]*

## Summary

The costs of addressing the diverse and vast housing sector in Latin America and the Caribbean will be high; the costs of not doing so will be much higher. There is a strong case for optimism. Settlement upgrading programs, phased housing assistance, microcredit, and innovative partnerships at all levels of government have yielded valuable lessons that can be applied to achieve better results. Expanding access to affordable housing across the region offers a tremendous opportunity to improve the lives of many while generating economic opportunity.

The proposed approach represents a departure from traditional housing programs. The mainstreaming of support for progressive housing, a focus on the fundamental role of land markets, the emphasis on opportunities in the low-income housing market, and the mobilization of public-private partnerships to achieve concrete goals are steps designed to tap into the potent mix of public experience and private initiative that will be needed to ignite greater benefits for the majority in this vital sector.





## CHAPTER 7

# Partnerships and the Way Forward

**A**ll sectors of society have come to recognize that the challenge of reducing inequality and bringing the benefits of shared growth to the base of the pyramid requires partnerships. The business community and civil society, acting in conjunction with the public sector, have a stake in making today's interconnected markets work better to bring benefits to the majority. New ways are required to bring about more effective partnerships.

Successful partnerships for development share risks, pool resources, and generate mutual benefits. They are voluntary, cooperative agreements that work toward the achievement of common objectives through the sharing of expertise, talents, resources, responsibilities, and risks. New trends, such as globalization, advancements in technology, and the rising informality in labor markets, require new thinking, new solutions, and the development of new capacities.

Forging more effective strategic partnerships will be central to the IDB's work to expand opportunities for those who live and work at the base of the economic pyramid. Tapping

into the creativity, know-how, and reach of multiple stakeholders will enable the IDB to respond to the needs of its country members with a more balanced mix of investments and nonfinancial activities.

The IDB recognizes that approaches in the past relying on a single sector or actor in society have not always yielded the desired results. It is becoming increasingly clear that successful development strategies require multisectoral alliances to create maximum effectiveness and generate the scale needed to reach the base. The IDB is developing new pathways to reach the majority that build on the capabilities of three main partners: the private sector, with its investment resources and skills in innovation and efficiency; government, which plays a critical regulatory role and has a presence in every area of national life; and nongovernmental organizations, which offer sustained commitment to bringing benefits to the majority and developing specialized knowledge.

### **Private Sector: Benefits at the Base**

The private sector represents 90 percent of the region's economic activity and 80 percent of the capital flowing into developing countries. It is a critical partner in any development effort. In addition to seeking opportunities for profit, firms are becoming increasingly aware of the need to address the challenge of bringing the benefits of investment and growth to the majority. Companies seek to reduce political risk. They need to operate in a safe, stable, and secure environment with adequate infrastructure to ensure reliable supply and marketing.

The private sector's drive to create new markets and reach new consumers makes business a willing and compelling partner in seeking to broaden its customer base. Businesses also are increasingly looking for collaborative ways to address social concerns. Profits increase when mass markets at the base of their supply chains become consumers. Linking private investment projects to activities that improve infrastructure and social conditions where companies operate makes good business sense. Companies realize that they cannot build a sustainable competitive position in communities in which the majority of the population is denied access to opportunities and services to live productive lives. The leverage, know-how, and resources of the private sector are needed to increase the purchasing power of the majority and better its quality of life.

In the financial sector, traditional lending models are successfully being adapted to serve new client groups through partnerships with cooperatives, producers' associations, consumer credit programs, retail entities, and banks, promoting sound banking techniques and enabling tailor-made products to be distributed through new channels. As market opportunities expand, more innovative business models and partnerships are emerging.

### **Shifting Roles of Public Sector and Civil Society**

The role and value added of the public sector also are shifting. Governments are increasingly using their leverage, through reforms and incentives, to attract the private sector into devel-

opment activities. Governments are responsible for legislation, infrastructure, and regulations, as well as the provision of a multitude of services that reach the base. The public sector frequently works in conjunction with the private sector to provide affordable services to poor communities: water, electricity, housing, technologies, capital, and insurance for entrepreneurs and microenterprises. Increasingly the public sector is seeking partnerships with business. It encourages private firms to invest and operate in areas that will improve access to products and opportunities for those at the base of the pyramid.

Civil society is highly motivated to enter into partnerships with governments and the private sector. In the last two decades independent foundations have grown rapidly in number and resources. And their nature has changed as well. Foundations today are not just providers of charitable contributions. They are also applying for-profit business practices in their approach to giving, and they increasingly recognize that the best way to achieve the maximum social and investment returns is to work together in an alliance in which the capacity to reach the majority can achieve a more decisive impact. This helps fill a void, because modern philanthropic organizations concentrate on issues that are not being addressed by either the private or public sectors. Civil society plays a vital role in sharing expertise, leveraging technical and financial resources to gain organizational capacity, increasing knowledge, and expanding research.

## The IDB: An Active Mediator

The IDB will strengthen its role as and capacity to be an active mediator among private firms, the public sector, and civil society to assist in the formation of an enabling environment for successful partnerships in the region. New trends make this role imperative. Following many years of fiscal decentralization in the region, a greater number of public services are being transferred from the national level to subnational and local governments, creating new actors in a more complex governmental environment. Not only has the private sector emerged as the dominant source of investment and growth, but it is also becoming increasingly active in the delivery and operation of public services. These trends need to be channeled into a policy environment that will explicitly attend to the needs of the majority, taking into account the roles and aptitudes of the different stakeholders.

When companies join with civil society organizations and governments to raise the skills and productivity of the workforce, improve infrastructure, and broaden access to finance, they also reinforce domestic demand for the rule of law, transparent regulation, and effective property rights. Strategic partnerships of this kind make a country more attractive to investors, both foreign and domestic, and put it on a more sustainable path to broad-based economic growth with shared benefits to society as a whole. Working with the different actors in society in the region, the IDB will play a central role in articulating the different skills and capacities in each sector to help build partnerships that can deliver the best results in bringing opportunity to the majority.

## **New IDB Business Model**

The IDB has adopted a new business model for both its public and private sector operations that provides additional tools to more effectively assist the region in addressing mid- and long-term development challenges. In many instances the new framework entails a transformation from project-based support to a more programmatic approach. It provides new tools to a variety of financial and nonfinancial products to offer more in-depth support to a given sector in the medium term. Central to this approach is the modernization of the IDB's operational policies to allow for a more flexible application of lending instruments and a willingness to respond to distinct sector and country requirements, supported by the development of an integrated risk management system.

For public sector projects and programs, the IDB has adopted greater flexibility regarding the eligibility of expenditures and requirements for counterpart funding. Procurement has been modernized and harmonized with that of other multilateral institutions, and rules for policy-based loans have been updated to better respond to the needs of borrowers. A framework for local-currency lending has been adopted and a mechanism established through which the IDB can pool resources with other funding agencies and governments. A performance-based lending tool has been added to the IDB's menu of instruments. The purpose of the reforms is to move away from a rules-based, one-size-fits-all approach to a more flexible, principles-based framework with enhanced accountability and a results-directed management structure.

For private sector loans and guarantees, the reforms allow financing in greater quantities and number of operations to the growing “middle market”—a range of projects that can be structured with adequate security provisions without recourse to a full sovereign guarantee and whose sponsors may not be fully private. These and other changes provide the IDB with the financial flexibility required to scale up efforts to support private sector initiatives as well as to engage more directly with decentralized levels of governments and respond more creatively to public-private solutions.

With these changes the IDB can now offer integrated solutions that require multiple, complementary financial and nonfinancial services with resources provided by different units of the IDB, the international donor community, and the beneficiary countries. With choices made from a continuum of solutions and adapted to each local context, the existing products of the IDB can be tailored to a wide variety of financial structures with the objective of mobilizing the most appropriate instruments and resources in any given situation.

The challenge for the IDB and the region now is to fully exploit the flexibility of the new business model in order to develop creative partnerships, encourage the private sector to reach the underserved, and promote effective engagement with governments regarding the right policy decisions to benefit the majority.

## **Forging New Partnerships: The Innovation and Opportunity Network**

Just as private sector companies invest in research and development to compete and expand, so too must the IDB dedicate resources to information gathering, analysis, and rigorous research and experimentation to identify and develop new ideas and approaches to assist the region in reaching out to the majority. Lessons learned from pilot experiences will be applied by the IDB's operational mainstream to achieve significant impact.

In order to perform the actions that have been outlined for the IDB in the previous chapters of this publication and to build opportunity for the majority in Latin America and the Caribbean, the IDB is proposing a Building Opportunity for the Majority Initiative that will be submitted to the Board of Executive Directors for consideration in September 2006. This initiative will call for the establishment of a Network for Innovation and Opportunity throughout Latin America and the Caribbean, linked to a center at IDB Headquarters. The Network would be launched in early 2007.

With the goal of bringing greater social and economic development opportunities to the base of the pyramid, the Network would develop new models of activity to reach and benefit the segments of the region's population who are most in need. The strategic focus of the Network would be in the areas identified by the chapters in this publication and include citizens' documentation and registration, financial democracy, better job creation and small business development (enterprise compact), infrastructure, housing, and connecting the majority through digital dividends.

The Network will aim to provide a platform for all stakeholders—including all levels of government, private sector, civil society, regulatory entities, and international and regional development organizations—to discuss, develop, and disseminate new approaches and financing models designed to reach the majority. This dialogue would be guided by the results of research to be carried out by the Network members into the causes and conditions of social and economic fragmentation, as well as by the further development of the IDB's Atlas of the Majority, which maps access to opportunities and services in the Latin American and Caribbean region. The best practices resulting from research, pilot projects, and regional policy dialogue would be incorporated into the mainstream of the IDB's financial and nonfinancial operations.

The subregional Network members would be situated in strategic locations spanning the region, and each would be independent and locally managed. Members would be chosen based on their proven effectiveness in identifying, developing, implementing, and evaluating projects that involve the participation of public and private sector partners and benefit the base of the pyramid. It is anticipated that the subregional members would have an initial five-year operational time frame and that the IDB could cofinance the administrative costs of their operation on a declining basis; the financing of the other costs could come from partnerships with corporations, foundations, universities, civil society organizations, and governments at all levels.

The Network members would also serve as incubators for pilot projects that the IDB could finance in collaboration with partners from the private and public sectors, civil society,

and international organizations. The Network members would function as development laboratories to identify, analyze, and test new opportunities and partnerships specifically designed to benefit directly those living at the base of the pyramid. The IDB would seek the approval of loans and grants earmarked to support the Building Opportunity for the Majority Initiative, cofinancing operations developed by the Network in the proposed range of \$5 million to \$15 million for each project. The initial target would be to finance 100 pilot operations annually by 2011. The IDB Group would subsequently incorporate the lessons learned into other spheres of its activity.

Pilot projects would be fine-tuned during the course of operations. They would be undertaken in a framework of expedited procedures that support innovation, measured risk taking, and a core focus on learning.

Many examples of the type of projects that the Network would finance are included in this publication. Some potential projects are the following:

- *Education:* Develop pilot projects applying information and communications technology (ICT) to extend broadband connectivity to rural schools, train teachers to make effective use of online knowledge resources, increase computer literacy, and establish telecenters and school-based community hot-spot networks.
- *Health:* Extend telemedicine and other networks to connect health care facilities and mobile access for all health workers, including those in rural and geographically marginal areas; improve health care administration

through electronic support and dissemination of public health information via electronic platforms.

- *Financial services*: Extend the reach of financial services to rural and marginal areas through connectivity and wireless network solutions, lowering transaction costs of electronic remittances through ICT and testing concrete models of smart ATMs and Internet-based applications adapted to local conditions in direct collaboration with telecom carriers, bank regulatory agencies, the private sector, and others.
- *Modernization of the state*: Assist in the re-engineering and integration of government processes using ICT to enable efficient and modern customer-oriented e-government services.
- *Microfinance*: Promote the creation of partnerships between commercial banks and other regulated financial intermediaries to adapt microfinance technologies as a mainstream business activity.
- *Remittances*: Develop complementary products for remittance recipients, such as mortgages, insurance, and pensions; assist in the application of international guidelines on remittance payment systems; promote competition in the sector and anti-money-laundering compliance.
- *Housing*: Support the formation of public-private partnerships between city governments and business consortia to increase the supply of affordable land for low-income housing; help smaller developers and construction firms develop products and services for

◆ Chapter 7

the low-income housing market; provide technical assistance to self-builders.

- *Secured transactions reform*: Support the reform of laws and institutional capacity for secured transactions and innovative solutions for private sector operations that involve secured financing, such as trusts and guarantees.

The Network would represent a new dimension for the IDB Group's activities. It would monitor and evaluate pilot projects and identify those with the best possibilities for leveraging additional resources, particularly partnerships. The Network would extend new baseline information on the base of the pyramid to the IDB's overall financial operations and policy dialogue.



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