

IDB POVERTY REDUCTION AND EQUITY ENHANCING ACTIVITIES IN 1999*

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I. Introduction

1.01 Poverty reduction and social equity in Latin America and the Caribbean are central pillars of the Inter-American Development Bank's strategy for the region. In terms of lending activities, the goals outlined by the Eighth Replenishment of capital are that 40% of the total volume of lending and 50% of the total number of loans be devoted to projects that promote poverty reduction and social equity in the region. However, the Bank's poverty reduction strategy¹ recognizes that a focus on lending activities alone is not sufficient. Therefore, the Bank channels significant efforts and resources to support and complement its lending program by building knowledge on the root causes of poverty, monitoring and assessing poverty in the region, and participating in country program formulation and policy dialogues.

1.02 This report summarizes the Bank's lending and non-lending activities oriented to poverty reduction and social equity enhancement in 1999. The report begins with a brief analysis of poverty and inequality trends in the region in order to give the background necessary to put the Bank's actions in context. It then reviews the Bank's 1999 activities in the area of poverty reduction and social equity, including an assessment of poverty and equity oriented lending operations, a description of the main forums and policy dialogues, and a review of the year's research, knowledge building and dissemination. Finally, the report includes a series of further actions that the Bank is undertaking for continuing and strengthening its poverty reduction and equity-enhancing efforts.

II. Recent Poverty and Inequality Trends in Latin America

Limited Progress in Poverty Reduction

2.01 The incidence of poverty in Latin America was lower by mid of the 1990s than earlier in the decade. However, this progress in poverty reduction falls short of expectations as the number of poor people continued to increase. Despite the fact that a number of countries experienced a resumption of growth (averaging 3.3% per year during 1990-98 for the region), this was not enough to produce notable progress in poverty reduction. This is in part due to recurrent economic crises that often led to greater-than-proportional reversals of previous gains in poverty reduction. This is also due to the fact that the region became more unequal in the 1980s and remained so in the 1990s. With more inequality a given growth rate brought about slower progress in reducing poverty.

2.02 Characterizing recent poverty trends in the region is not a task free of ambiguity. Poverty measures are sensitive to methodological choices concerning, for example, the treatment of non-response in the household surveys or the correction for underreporting of income or consumption.² Four recent studies provide a comprehensive set of poverty estimates for the region. Despite the differences in methodologies and poverty lines, the range of estimates from all the different studies indicate a reduction in the overall poverty rate in the

* This report was prepared by Gustavo Yamada and Omar Arias with inputs from Arianna Legovini and Cesar Bouillon of the Poverty and Inequality Advisory Unit and other divisions of the Sustainable Development Department, the Office of the Presidency, the Office of the Executive Vice-President, the Integration and Regional Programs Department, the Regional Departments, the Research Department and the Strategic Planning and Budget Department, under the guidance of Nora Lustig (Chief, SDS/POV). Assistance from Esteban Rodarte and Alexander Kazan is greatly appreciated.

region during the decade³ (Table 1). By 1997, between 37% to 44%⁴ of the region's population was poor, approximately between 180 to 200 million Latin Americans, more than 50 percent of them located in urban areas. According to ECLAC (1999), although much of the moderate decline in poverty rates during the 1990s occurred in urban areas, the number of urban poor continue to grow significantly while the number of rural poor remained constant and closer to the level in the 1980s.⁵

Crises, Persistent Inequality and Poverty

2.03 Recurrent macroeconomic crises are perhaps the most important cause of large increases in income poverty in the region. Although the 1990's have been better in comparison to the 1980's, twenty-four countries have experienced at least one year when income per head fell. Altogether there have been over 40 episodes where GDP per capita fell by 4 percent or more between 1980 and 1998.

2.04 In all episodes for which data are available, the incidence of poverty increased at the onset of the crisis and in all cases it reached levels –after between one and five years, depending on the country– that were higher than before the recession had begun. Crises are also frequently accompanied by rising income inequality. Inequality rose at the onset of the crisis in 5 out of 8 episodes for which data are available, and in 15 out of 20 inequality was greater after the onset of the crisis than before. As a result, the impact of economic contraction tends to disproportionately reverse previous gains in poverty reduction. On average, each one percent decline in per capita income during a recession episode in the 1980s reversed the reduction in poverty achieved by an increase of 3.7 percent in income per head for urban areas and 2 percent for rural areas during the 1970s.⁶

2.05 Crises affect investment in schooling, nutrition and health, potentially reducing the human capital of the poor. For example, recent research has found that worsening macroeconomic conditions (short term GDP shocks, volatility and adverse trade shocks) explain a large proportion of the decline in the rate of improvement of schooling attainment.⁷ Because of this, they can hinder the ability of the poor to grow out of poverty. Furthermore, an irreversible impact on the human capital of the poor is not just bad for the poor but can affect the overall performance of the economy in the medium-run, especially when nutrition and educational attainments suffer during recessions.

2.06 Despite the recurring hazard of macroeconomic crises and natural disasters with their perverse impact on poverty in the region, income-smoothing safety nets have not been institutionalized in many countries. Fiscal austerity measures in response to macroeconomic crises have tended to ignore the short run and long run impact on poverty. Efforts to limit the impact on the poor are frustrated by the lack of institutional capacity to implement specific programs in the heat of a crisis and by severe information problems. Institutional

¹ IDB (1997b), IDB (1998b), Lustig and Deutsch (1998).

² Unfortunately, there is often little a priori guidance for properly correcting of under-reporting or for attributing the share of household income accrued to each household inhabitant. Székely, Lustig, Cumpa and Mejia (forthcoming) offer a detailed investigation of the issues.

³ The observed variations in part reflect the differences in the sample of countries used to estimate the aggregate figures. For instance, the reported estimates of overall poverty using the methodology of a common poverty line and purchasing power parity are based only on countries with data of national coverage, and thus exclude countries like Argentina, Bolivia, Ecuador and Uruguay.

⁴ ECLAC's estimate of 36% for poverty incidence in households yields a poverty rate of 44% for individuals.

⁵ These overall trends inevitably mask a wide variety of cross-country and within country experiences. However, conflicting trends often arise in individual countries from using different methodologies or fitting slightly different trends.

⁶ De Janvry and Sadoulet (1999).

⁷ Berhman, Duryea, and Székely (1999).

mechanisms to protect the poor from the brunt of the shocks are not in place beforehand. Responses to emergency situations often lack the time for the technical analysis required for appropriate targeting on the most vulnerable, and for evaluation of the cost-effectiveness of different social protection options.

2.07 Crises also ratchet up inequality: subsequent recoveries tend not to eliminate the higher level of inequality generated during a severe economic downturn. After the significant rise during the 1980s, inequality changed little during the current decade and, overall, remains higher than it was before the debt crisis in the 1980s (Table 1).⁸ There is a tendency for a widening of income disparities between the richest and the poorest Latin Americans (Table 1), which ought to have been partially offset by improvements in other parts of the distribution.

2.08 Wage disparities in Latin America, already among the largest worldwide, became twice as big as those in developed countries.⁹ The earnings gap between professionals/technical workers and less skilled workers (especially those in low productivity jobs) rose on average more than 4% per year in 10 out of 14 countries.¹⁰ The role of educational inequality in bringing about increasing wage disparities has been stressed, although its impact differs across countries. Some studies have found increasing average wage differentials between workers with primary and those with higher education in several countries in the region for the first half of the decade¹¹, although the trends are far from homogeneous. The increasing returns to higher education are seen as a key driver of rising earnings inequality. One proposed explanation for the rising returns to higher-level skills is globalization and technological change leading to capital deepening, which increases the demand for skilled labor. Some studies suggest that ethnic and gender inequities as well as other differences in unobservable characteristics among workers such as individual innate ability, quality of education, and family background may be also important determinants of labor-market performance and thus affect the incidence of poverty and earnings inequality.¹²

2.09 Having made important advances in improved macroeconomic management during the 1990s; accelerating economic growth that creates economic opportunities, while managing the risks, improving living standards, and building transparent and accountable institutions for the poor stand as the policy challenge to curb poverty and inequality in the region. Initiatives should simultaneously address the structural inequalities embedded in the distribution of assets (e.g., education), eliminate the social barriers that keep ethnic groups and women excluded, provide consumption smoothing mechanisms, foster and protect the human capital accumulation of the poor, and contribute to expanding their access to social and physical infrastructure. In addition to the economic opportunities it creates, high and sustainable growth enhances the effectiveness of the programs and policies supported by the Bank in social and non-social sectors.

⁸ Three recent studies offer a detailed account of changes in income inequality in Latin America during the last two decades. Wodon et al. (2000) find that inequality for the ten countries included in the study (some with urban data only) declined slightly in the region between 1989 and 1996 but remained higher than in the mid-1980s. This is only partially consistent with the results of Londoño and Székely (1997) who also found an increase with respect to 1986 but an essentially constant trend for the period 1989-1995 using national household data for 13 countries. In contrast, the findings of Székely and Hilgert (1999) from a sample of 9 countries with comparable household data suggest an important rise in Gini inequality between the early 1990s and the middle to end of the decade.

⁹ *The Economist*, March 1998.

¹⁰ Based on data from ECLAC (1999).

¹¹ Attanasio and Székely (1999), and Bourguignon, Ferreira and Lustig (2000).

¹² See the studies by Arias (2000) and Saavedra (2000).

III. The Bank Action in Poverty Reduction

3.01 In the Eighth Replenishment of capital, poverty reduction and social equity was identified as one of the key areas for Bank involvement. To maximize its impact, the Bank needs to ensure that its activities overall contribute directly or indirectly to borrowing member countries' efforts to reduce poverty. Accordingly, in 1999 the Bank contribute to fostering poverty reduction and equity enhancement in the region through its overall lending and non-lending activities. On the lending side, this report focuses on the operations directly targeted to benefit the poor and to enhance equity. However, most other operations, including the operations approved under the emergency program, were aimed at enhancing the countries' macroeconomic stability and growth, thereby contributing indirectly to poverty reduction. On the non-lending side, this report highlights the Bank's action in the production and dissemination of knowledge about the multiple dimensions of poverty and inequality, and best practices to tackle them; forums and dialogues with member countries to advance poverty reduction and social development goals to the top of the policy agenda; and, areas of special emphasis.

Poverty Targeted Investment (PTI) and Social Equity Enhancing (SEQ) Lending in 1999

3.02 In the case of its lending program, the Bank monitors the proportion of annual investment operations that are targeted to the poor (PTI). Likewise, the Bank's indicative quantitative targets are to have operations in the areas of poverty reduction and social equity (SEQ) account for 40 percent of the total volume and 50 percent of the total number of Bank operations.

3.03 Tables 2-5 in Appendix I present figures for PTI and SEQ performance of the Bank's portfolio in 1999. Comparison of these figures over the 5 years period is not possible due to changes in the criteria for classification of PTI and SEQ operations (see Appendix II). In the case of PTI, comparisons are only applicable during the last two years. No yearly comparison is possible for SEQ figures because the criteria were refined in 1999. Moreover, the figures are influenced by temporary factors in loan approval and the augmented importance of emergency operations in the Bank's portfolio in the last two years. In Table 2 we can observe that although the volume-share of PTI-lending in investment loans declined from 38.6% to 37.4%, the share of PTI loans in total number of investment loans increased slightly from 45.5% in 1998 to 46.0% in 1999 reflecting the Bank's effort to maintain the presence of poverty targeted operations in the portfolio of investment loans.

3.04 Table 5 presents data on the lending portfolio by type of loan together with the proportion of operations that classified as poverty reduction and social equity enhancing (SEQ). From line 14, we observe that 49.3% of the Bank's regular lending operations in 1999, which exclude emergency loans, were aimed at poverty reduction and social equity enhancement, only slightly below the 50% goal envisioned by the Bank's Eighth Replenishment of funds. However, in terms of the volume of funds involved, the share reached 45.9% in 1999, exceeding the 40% goal set by the Eighth Replenishment. If emergency loans are included in the computation the volume-share is of 47.0% so that the Bank's overall portfolio also appears in full compliance with the above-mentioned goal.¹³ Thus, poverty reduction and social equity enhancement was a prevalent motive in the Bank's operations in 1999. It should be emphasized that beneath these global figures there are variations in the relative performance of country groups and sectors.

¹³ This largely reflects the inclusion of the emergency loan to Brazil (PR-2383) for US\$2,200 millions, which classifies as social equity enhancing (see paragraph 3.20).

Country Groups and PTI

3.05 Table 3 reports PTI projects by country group. While for groups B and D the relative number of projects classified as PTI declined from 1998 to 1999 (from 50.0 and 67.7% to 28.6 and 64.0%, respectively), this share increased significantly for group C (from 8.3% to 25.0%) and leveled for group A (30%). The respective volume-shares show a decline for group A and important increases for groups B, C, and D. The sharp changes in the number-shares for groups B and C essentially reflect a small sample peculiarity since the absolute change was only one project. Thus, the diminished importance of investment loans associated to the heavier commitment for emergency operations had the most visible effect in group A countries.

Sectors and PTI

3.06 Table 4 shows an encouraging increase in PTI as a proportion of non-social sector investments (25.9% in 1999 compared with 2.1% in 1998) and as a share of all PTIs (from 2.3% to 33.1%). This exclusively reflects improvements in the case of the transportation sector where all investment loans approved in 1999 were poverty targeted. In contrast, none of the operations in the remaining non-social sectors (which include for example agriculture) classified as PTI. Although these trends in part reflect the cyclical nature of project approval, they suggest that there is some room for improvement in poverty targeting performance.

3.07 On the other hand, there was a reduction in the share of PTI loans within the social and extended social sectors. One hypothesis is that these unsatisfactory trends in PTI performance of social sectors may reflect a sectoral crowding of loans in traditional sectors like primary education. The introduction of programs in innovative areas such as that of social protection may be called for (for example Targeted Human Development Programs, like the Honduras's *Programa de Asignación Familiar* (PRAF)).

Good practices in poverty targeted and equity enhancing loans

3.08 There have been a large number of poverty-targeted and equity-enhancing projects approved in 1999 with a high potential impact for reducing poverty, protecting the poor in adverse circumstances, and enhancing social equity. This section briefly describes some of the most interesting and innovative projects.¹⁴ These projects tackle different aspects to improve the potential for poverty reduction and social equity enhancement, including basic living conditions, asset building (both human and physical capital), productivity enhancement, macroeconomic policy and institutional strengthening. For a more complete picture of the impact of Bank's operations, however, this assessment should be complemented with an analysis of actual outcomes in poverty reduction and equity enhancement resulting from Bank lending, through impact evaluations with control groups in a small sample of projects from different sectors.

Opportunity: Better Living Standards and Increasing Economic Opportunities for the Poor

3.09 In Argentina, the *Reform of Primary Health Care: Salta and La Pampa* (PR-2412) for US\$100 million seeks a more efficient and equitable health-care delivery introducing new primary health care approaches to human resources training, information systems, organizational structure, remuneration and incentive systems with a view to: (a) ensuring that health services reach the neediest, using specific targeting criteria; (b) moving from the current government-sponsored care-delivery systems to systems driven largely by user needs and

¹⁴ Appendix III includes a list of all PTI and SEQ loans approved in 1999.

preferences; (c) gradually replacing the fixed-salary system with fee-for-service arrangements, promoting financial incentives to reward quality care-providers; and (d) adopting family health-care approaches and more cost-effective health-care management models. The project specifies explicit performance benchmarks to measure poverty reduction and improvements in social equity. The project will benefit particularly women and, in some provinces like Salta, indigenous communities. Specific targeting strategies for the public information and personnel training components will allow to maximize the program's impact in these groups.

3.10 Colombia's *New Schools Program* (PR-2422) for US\$36 million supports educational reforms aimed at strengthening decentralized and autonomous management of public schools and at improving social efficiency and equity by securing the supply of complete cycles of basic education (all-grade schools). The localities participating in the program will rationalize their teaching staff and the allocation of government transfer payments, and will transfer teacher and school administration functions to municipalities. The participating municipalities will reorganize the schools in their jurisdictions into all-grade schools; assign teaching staff and the transfer payments to each school using transparent criteria; and grant greater independence to schools through the delegation of staff and financial administration to school principals and local governments. The all-grade schools joining the program will promote the participation of parents and community and teaching staff in school administration and will develop plans to improve institutional management. The program will provide technical assistance to carry out these institutional reforms and will grant monetary incentives as a reward for progress at the three reform levels.

3.11 In the Dominican Republic, the main objective of the *Consolidation of the Reform and Modernization of Potable Water and Sanitation* project (PR-2417) for US\$71 million is to expand the national level of services of potable water and sanitation with innovative competitive market schemes that reduce costs and allow financial and environmental sustainability. Metropolitan companies are to be gradually transformed into government-stock owned companies with participation of civil society in their boards of directors. New regulatory frameworks will improve access to cheaper and better quality water services. A specific component is designed for the rehabilitation and expansion of rural aqueducts in marginal low-income zones with local management by the communities and the participation of women in the design and promotion of projects.

3.12 Guyana's *Low-income settlement program* (PR-2451) for US\$ 27 million will help the Government of Guyana democratize land ownership and galvanize markets by divesting large amounts of public land to low-income families for settlement. To mitigate a historically high concentration of land, the investment component of the program delivers a titled lot with a package of basic services (water, roads, drainage) to 21,500 households, of which at least two-thirds are intended to be selected among the poor. Technical assistance will: (a) establish a one-stop shop for development approval/titling in order to streamline public and private-sector residential development; (b) strengthen the executing agency, the Central Housing and Planning Authority; (c) develop an inter-agency response to squatting; and (d) facilitate private financial institutions to make mortgage loans to low/moderate-income households. Together, the investment component and these policy reforms are expected to lower land prices for the poor.

3.13 In Peru, the project for the *Development of the Health Sector/Maternal-Infants Insurance* (PR-2428) for US\$87 million introduces a health insurance scheme for mothers and infants to address maternal and infant mortality and morbidity. This would be the first step towards the process of modernization and reform of the Peruvian health system. The maternal and infant health care insurance is an integral strategy for financing and providing health care services that seeks to eliminate the economic and socio-cultural barriers that prevent low-income mothers and infants from using maternal and child health care services, while also improving the capacity and quality of those services. The insurance program covers a package of cost-effective services designed to reduce maternal and infant mortality and morbidity. The economic barriers to using the services

included in the package will be reduced by eliminating fees in rural areas, and replacing them with participant rates for members that are lower than current prices for similar services in poor urban areas. The socio-cultural barriers are to be addressed by tailoring the packages to community preference and by stressing quality.

3.14 The general objective of Uruguay's *Integration of Irregular Settlements* (PR-2404) for US\$77 million is to improve the quality of life of the residents of irregular settlements in Uruguay, promoting their physical and social integration into their urban surroundings. In particular, the program seeks to: (i) improve targeting and coordination of government policies aimed at reducing urban poverty; (ii) promote changes in urban development regulations and in institutional policies and mechanisms in the housing sector in order to increase the availability of land and low-income housing for the poor; and (iii) coordinate actions by the public sector and civil society organizations, encouraging community organization and social integration in the beneficiary communities. The innovative aspects of the program are to: (i) complement national housing policy by expanding the access to basic public services of families located in irregular settlements; (ii) minimize the loss of savings accumulated in housing stocks; and (iii) develop an institutional scheme to better match public norms and housing priorities with the needs of low-income families.

3.15 One example of PTI in the transportation sector is the loan for US\$52 million committed to the *Improvement of the Ventanilla-Tarapaya Highway* in Bolivia (PR-2395). This highway connects two important cities, Oruro and Potosi, located in very poor regions. According to a 1993 survey and a 1995 rural survey, 80% and 83% of the population in the urban areas of Oruro and Potosi and 93% of those in rural areas in Oruro, respectively, live in poverty (above the national poverty rates for rural and urban areas). The project includes a feeder road component and repairs in existing roads to give the poor communities in neighboring areas access to the main highway which will benefit at least 18 farming communities located in the surrounding area. The improved transportation facilities will likely result in a reduction in travel time, a reduction in freight and passenger charges, and an increase in the frequency of transportation services. These will in turn result in a less costly access to product markets and social services, and thus are likely to help reducing poverty and social exclusion. The project will also help to reduce poverty in the short run through creation of temporary employment.

3.16 The principal objective of the *Labor Training and Modernization Program* in the Dominican Republic (PR-2400) is to increase employment opportunities for a population often neglected by existing programs, the low-income population, especially less educated young women. A total of US\$16.9 million will facilitate opportunities to improve the access of this population to the labor market through work training and formal links between the supply and demand for labor. Training providers will compete for funds based on transparent cost-effectiveness criteria and how their supply of services is linked to labor demand. The project will also support the modernization of the Dominican labor market's regulatory framework.

3.17 Guatemala's *Program of Support to Technological Innovation* (PR-2427) for US\$10.7 million is oriented to facilitate the introduction of new productivity enhancing adequate technologies in the productive sector. The emphasis is on needs, problems and demand by small and medium size enterprises. It is a science and technology project in a poor country with little tradition in technological innovation. The justification is that productivity increases induced by the use of new technologies will improve incomes and reduce poverty. Different from previous generations of science and technology projects, it stresses support and financing for small and medium size enterprises and very little in infrastructure. It is the first time a science and technology

project explicitly emphasizes an interaction between the Science and Technology Council and the Ministry of Education to support reforms in teaching of science, technology and mathematics in schools.¹⁵

Security: Social Protection and Socially Responsive Economic Policy

3.18 Honduras' *Program of Housing Post-Hurricane* (PR-2398) for US\$10.4 million aims to help low income households, whose housing was destroyed by the hurricane, move directly from their current shelter into secure, permanent settlements. NGOs, local governments and cooperatives will work with groups of households to identify suitable sites. These intermediaries will design the resettlement projects, including activities such as the purchase, subdivision, and title registration of the land, installation of infrastructure, and the construction of permanent housing. The Program will provide resources for a modest up-front subsidy for each eligible household, which together with resources financed by intermediaries, will be used to carry out the resettlements. It emphasizes the acquisition of secure land for rapid and permanent resettlement, to help avoid the social and financial costs of producing long term shelter for displaced households. In addition, the Program will support the creation of an independent agency to administer the subsidies, and will finance local environmental mapping to identify secure and high-risk zones. Technical assistance will support development of the institutional and technical capacity to build on the experience of the Program and establish a long run housing strategy for Honduras.

3.19 The central focus of Honduras' sector loan for *Transition and Social Protection Program* (PR-2413) for US\$30 million is on protecting and improving social investments in a post-disaster context. This is the most recent instance in which the Bank has used a sector loan to provide incentives for the government to strengthen the institutional framework for social sectors. Since social investment projects are most vulnerable in the face of fiscal crisis, key areas to be protected were identified so as to preserve progress in reforming the delivery of social services. The selection criteria for the projects include: provision of basic services, targeting of the most vulnerable groups and delegation to local governments, communities and civil society groups. Since even before the hurricane most social sector entities had exhausted their absorptive capacity, specific targets were set for improving their management capacity as a precursor to effecting deeper reforms and expanding operations. The government will create new openings for local governments, communities and civil society groups to participate in the planning and execution of activities aimed at reducing poverty. This will be achieved by: creating a social cabinet to improve coordination in combating poverty; introducing consensual methods for setting municipal development policy; and promoting agreements for new working relationships with civil society.

3.20 In Brazil, the *Program of Reform and Social Protection* (PR-2383) is a \$2.2 billion sector loan designed to protect federal social spending levels on 22 priority safety-net programs while supporting the country's macroeconomic stabilization program. Specific objectives include supporting measures taken by the government to protect federal social spending in poverty targeted programs during the economic downturn, and carry out and deepen the reforms under way in the education, health, labor and social welfare sectors, and providing quick-disbursing funds to help meet social objectives while ensuring macroeconomic stability. This project contributed to putting social issues at the top of the policy agenda, and stimulated discussion and consensus building on poverty reduction initiatives at the national level.

¹⁵ This is an important subcomponent of the project that enhances social equity. However, the operation as a whole did not qualify as SEQ.

Empowerment: Institutions and Governance for the Poor

3.21 The main objective of the *Program of Civil Society and Access to the Judiciary* in Bolivia (PR-2399) for US\$2.7 millions is to facilitate the access of the most vulnerable sectors to the judiciary system as well as to enhance their understanding of their civil and legal rights. The project contemplates two components: (i) support to programs proposed by civil society organizations that promote legal assistance and support to vulnerable groups, mechanisms for conflict resolution, education in citizen rights and public campaigns against domestic violence, child abuse, etc., and (ii) technical assistance to build the capacity of civil society organizations in the design and management of programs in this area. The program is specifically targeted to the poorest sectors of the population, including women, children and indigenous groups.

3.22 Nicaragua's *Atlantic Coast Local Development Program* (PR-2468) for US\$8.0 million is targeted on one of Nicaragua's poorest regions characterized by increasing numbers living in extreme poverty. The program is based on the dual premise that the development of the Atlantic Coast is conditioned by the capacity of its institutional framework and that the weak and incipient Regional Governments can become competent development counterparts through a process of learning by doing. The program envisages substantial investments in activities to strengthen the capacity of Regional Governments in financial management, administration and development planning. It will also create community and municipal capacity in project identification, land use planning and natural resource management through the introduction of a participatory planning methodology (PPM). The participatory methods will contribute to address the specific demands of the ethnic and indigenous communities in the area. The program will support priority local projects identified using PPM, as well as innovative health and education interventions that: (i) address Coast specific problems, (ii) inform national policy debates and (iii) integrate Atlantic Coast issues into national sector plans. The program will finance pilot projects to introduce telemedicine into the region and to support reforms to the model of school supervision. The program has a parallel technical cooperation that will finance activities for the prevention of illegal drug consumption in coastal communities.

Knowledge building

3.23 Poverty reduction and equity enhancement actions need a solid conceptual understanding of the nature and determinants of poverty and inequality, and a robust set of empirical information about the demographic, geographic, economic and social dimensions of poverty in the specific realities of the region. Sound mechanisms for targeting and assessing the impact of programs on the poor are also critical. The Bank has taken a leading role conducting original theoretical and empirical work in the region, and creating networks of production and dissemination of knowledge and best practices on the following aspects of poverty and inequality:

Social Protection and Poverty

3.24 The Bank's Poverty and Inequality Unit has conducted a series of activities aimed at introducing and promote the concept of social protection in the region's policy options to attack poverty. On February 4-5, 1999 the Unit organized a two-day conference, "Social Protection and Poverty," which served as a platform for disseminating information and presenting specific analytical tools that can be used to inform social protection policy in Latin America and the Caribbean. The Unit is completing an edited volume entitled Shielding the Poor, Social Protection in the Developing World with a selection of the papers presented at the conference (joint publication of the IDB and the Brookings Institution). The Unit finalized the book Social Protection for Equity and Growth (joint publication of the IDB with John Hopkins University) which was released at the IDB Annual Meetings in March 2000. The objective of this book is to provide policy recommendations to reduce the economic vulnerability of lower income individuals to adverse shocks and help them cope with income

downturns. The book addresses the impact on the poor and the appropriate policy responses of the following types of shocks: economy-wide shocks; natural disasters; unemployment; and old age. The Unit is completing the Guidelines on Social Protection for the case of Argentina, and has the drafts for Nicaragua and Peru in preparation. These guidelines apply social protection principles to specific country cases. This active promotion of the importance of creating social protection mechanisms to protect the poor from crises in the Bank's research and forums, has been reflected in the approval in 1999 of lending operations on social protection and socially responsive economic policy for Honduras and Brazil. Innovative preparatory work for social protection programs has been also initiated in Nicaragua, Ecuador and Colombia, the latter two jointly with the World Bank. Likewise, IDB's assistance in the preparation of Peru's Law of Fiscal Prudence and Transparency, recently approved by its Congress, has been important. This Law strengthens fiscal stability and social protection in Peru with the establishment of fiscal rules on deficits, expenditures and indebtedness, the creation of a fiscal stabilization fund, and the protection of poverty alleviation expenditures during economic downturns.

Better information on poverty, inequality and their dynamics.

3.25 *Household Surveys.* Realizing the need for reliable and timely data on the living conditions in the region to effectively combat poverty, the Poverty and Inequality Advisory Unit continued to lead the collaborative effort with ECLAC and the World Bank in the Program for the Improvement of Surveys and the Measurement of Living Conditions (MECOVI in Spanish). Throughout 1999 the MECOVI Program continued its focus on the provision of technical assistance to improve household surveys in the region. The program already includes Argentina, Bolivia, El Salvador, Nicaragua, Paraguay and Peru and work to incorporate new countries in the near future continues (Ecuador, Guatemala and Haiti are candidates for 2000). The Program has been also critical in promoting expansion of the coverage of surveys to the National level (from Urban) in several countries. Three regional workshops and two regional training courses were organized in 1999. At least seven more standardized surveys will be added to the IDB Household Surveys Data Bank and new modules on topics such as violence and risk management were added to recent surveys. Coordination efforts with the region's statistical offices will continue towards the creation of the Data Bank of Household Surveys for Latin America and the Caribbean. The Bank's Poverty and Inequality Unit also responded to a variety of punctual requests for specific estimates of poverty and inequality, working with data from the Data Bank of Household Surveys. The Unit prepared a Regional Technical Cooperation for a new round of the MECOVI. Increasing realization of the importance of good household information for social policy making, highlighted by the MECOVI project, has been reflected in the request for IDB support to conduct population censuses next year in several countries in the region.

3.26 *Research on Poverty and Inequality.* A central analytical work of the Bank in this area during 1999 was the multi-year research project of the Poverty and Inequality Advisory Unit, joint with the World Bank: The Microeconomics of Income Distribution Dynamics in East Asia and Latin America. This project includes studies for Brazil, Chile, Colombia, Mexico and Venezuela, plus four East Asian economies. The Bank expects to have the edited volume ready for publication during 2000. Through its Latin American Research Network, the Research Department has led studies to understand the role of assets holdings in poverty determination. The Research Department has also undertaken studies on the links between fertility and inequality in the region. The Bank has also conducted research on producing comparable estimates of recent trends and sources of poverty and income inequality in Latin America. In addition, the Bank has researched the reasons why conventional redistribution policies have proved ineffective in many Latin American Countries. Studies on the relationship between trade liberalization; education and returns to labor will be completed in draft form by the end of the year. The latter project will also provide the inputs for the collaboration of the Poverty and Inequality Unit of the Bank with the UNDP-sponsored regional project on reforms and inequality. On related social aspects, the Sustainable Development Department has led in the quantification of the economic costs of problems such as

domestic and social violence, violence against children, and the costs of urban growth based on extensive exploitation of the landscape and socio-spatial segregation. The Bank has also conducted studies to evaluate and measure the economic benefits, in terms of economic growth and increases in family income, associated with health improvements.

3.27 *Poverty Estimates.* The Bank has been working on the project “Poverty Estimates for LAC”, generating a new set of poverty estimates and documenting all their caveats. This study is a breakthrough because it shows, for the first time, how different assumptions regarding the treatment of non-response, adult equivalent units, economies of scale, under-reporting, and expansion factors can produce vastly different poverty estimates (using the same poverty line). The purpose of this exercise is to emphasize the continuous need to invest in improving the quality of household surveys through programs such as MECOVI. It will also serve as a basis for the selection of more accurate poverty estimates for the region.

3.28 *Indicators of Effort and Results.* Finally, the Bank has prepared a proposal for a technical project “Poverty Reduction and Social Equity Enhancement: Indicators of Effort and Results” with two goals: to measure and assess efforts and results from countries’ multiple policies and programs to reduce poverty and enhance social equity; and to measure and assess efforts and results from the Bank’s actions to promote poverty reduction and equity enhancement in its member countries. The implementation of this project is subject to the availability of funding.

Dissemination of good practices in poverty reduction

3.29 *“Targeting Poverty” Workshops.* In order to call attention to the Bank’s Poverty Targeted Investment (PTI) and Social Equity (SEQ) Criteria, the Poverty and Inequality Unit worked with the Executive Vice-President’s office and the regional managers to develop a series of workshops. The three well-attended workshops were hosted by staff from each of the regional departments, and facilitated a technical exchange of information and resources on PTI and Social Equity. As part of the workshop initiative, the Unit also prepared a PTI and SEQ Intranet site that provides resources and information for use by Bank staff. Finally, due to the success of this initial workshop series, the Unit organized an additional workshop in September with staff from IFM’s divisions.

3.30 *Poverty Programs Design and Evaluation.* The Bank has been promoting workshops to disseminate up-to-date advances in the design of poverty reduction programs. In 1999, the Bank organized a “Workshop on Argentina’s Income for Human Resource Development Program” which took place on Feb. 6 in Washington, D.C. At the request of the Argentine government, attendees to the workshop included technical experts, including prominent experts in the area of evaluation of the impact of social programs, policymakers and government officials from the Region. For the purpose of comparison, presentations were made of similar programs in the region which link cash-transfers to social service provision (Honduras PRAF, Mexico's Progresá, and Brazil's Bolsa-Escola). A similar event had been organized in 1998 for Mexico, and its impact has been reflected in the design of the targeting and impact evaluation system of Progresá that now serves as a model for similar programs in the region.

3.31 *IDB Poverty Network (POBRED/POVNET) and Brown Bag Seminars.* The Poverty and Inequality Unit continued to provide services to the IDB Poverty Network through electronic mail dissemination of relevant publications, and announcements and information on training courses, workshops and other events. The Network operates also as the informal consultation mechanism for the Unit’s products. Following senior management’s recommendation, the Unit incorporated a contact person (appointed by the Resident Mission Representative) from each country office to the Network’s mailing lists. The Bank also sponsored a series of

Brown Bag seminars aiming at the dissemination of results of recent research on poverty and inequality and the discussion of their policy implications.

3.32 *Regional Networks.* The Bank contributed to the organization of the second meeting of the *LACEA/IDB/World Bank Inequality and Poverty Network*, held at the annual meetings of the Latin American and Caribbean Economic Association (LACEA), in Santiago, Chile, October 21-23, 1999. The Poverty and Inequality Unit is also preparing the third meeting of this academically oriented regional network to be held in Rio de Janeiro in 2000. Moreover, the Unit is organizing another regional network composed of policy makers in charge of poverty reduction and equity enhancement policies in the region. This “Regional Policy Dialogue for Poverty Reduction” will strengthen our effectiveness in the dissemination of good practices in the design, implementation and evaluation of poverty targeted programs, in particular, and poverty targeted policy in general. The Network will increase the level of communications between policy makers in the region and the exchange between policy makers and experts in and outside the region. The first meeting will be held in September 2000.

Poverty reduction and social development in the policy agenda

3.33 Effective poverty reduction and equity enhancement policies cut across numerous aspects of economic and social policy and should be embraced in national strategies at the top of the policy agenda in all countries in the region. The Bank is serving an important role in promoting and facilitating processes of debate and consensus building on these themes across the region through the following mechanisms:

3.34 “*Encerronas*”. In the last years the Research Department and the Regional Operations Departments of the Bank have promoted successful workshops (*Encerronas*) with entire bodies of Government in 15 countries, typically early in their administration, aimed at the identification of national priorities and strategic actions to promote social and economic development. These workshops have facilitated the dialogue especially in two directions: among government officials, and between the Governments and the Bank. Often, they have offered a basis to develop the policy dialogue between the Government and Congress and between the Government and civil society.

3.35 *Social Policy Dialogue.* The Bank has created various mechanisms of dialogue to facilitate the identification and the adoption of policies aimed at economic, human and social development in the region. One of these initiatives, the “Social Policy Dialogue” is led by the former Chilean President Patricio Aylwin and coordinated by the Integration and Regional Programs Department. In 1999, this project carried out three activities in Honduras and began preparing for similar activities in Ecuador. The three activities in Honduras included: i) a workshop on consensus building; ii) the visit of Patricio Aylwin to the country; and iii) a Forum on Education Reform in an effort to build national consensus on educational reform. The activities in Ecuador included the preparation of the National Forum “Social Policy Dialogue: Ecuador 2000.” A new technical cooperation was approved to introduce the dialogue process in 3 new countries, as well as to continue with follow up activities in four other countries. Tentatively, El Salvador and Nicaragua have been identified to start the dialogue process.

3.36 *Fostering national dialogues for overcoming poverty.* The Bank’s Poverty and Inequality Advisory Unit launched this initiative at the beginning of 1999. This initiative is serving four interrelated purposes. First, it allows for an exchange of views and ideas among a politically and professionally diverse groups of persons (who rarely communicate with one another) about the nature, extent and consequences of poverty and other social problems in their country, and the value of different programs and policies to address these problems. Second, it helps to mobilize broader attention --within and outside the government--to the key social challenges and how they can be addressed. Third, it provides information, critiques and proposals for national and local

governments, business groups, and nongovernmental organizations as well as for the IDB. Fourth, communication of the findings and conclusions across countries will allow for a regional sharing of ideas and best practices. The first dialogue took place in Mexico City on February 15 and 16 and was very successful in terms of its convocation power, the richness of the discussion and publicity. The Bank also prepared the materials for the upcoming publication of the proceedings of the Dialogue.

3.37 *Development for All Forum.* The Bank is implementing a new framework for its dialogue with the borrowing members. This multi-year initiative that involves several departments of the Bank will have two main components: dialogues with different sectors of society whose purpose will be to identify problem areas, recommendations to address them, and benchmarks to monitor social progress; and, with the input of these dialogues, a framework of benchmarks that will serve as a basis for the dialogue with incoming administrations. The dialogues will be regional and national. A first regional dialogue took place on November 8 and 9 bringing together representatives from government, business, NGOs, academics, and others to discuss strategies and policies to combat economic volatility, poverty and inequality, domestic violence, and other social issues. The Bank will produce a document synthesizing the results of this dialogue.

3.38 *Social Equity Forum.* The Bank's Poverty and Inequality Advisory Unit completed the proposal for the creation of a Social Equity Forum (SEF). It will provide a high profile forum in the region to bring social equity concerns to the forefront of current economic and social debates, build knowledge on appropriate policies to promote social equity, and provide support for on-going activities aimed at furthering social equity. Over the next three years, the SEF will organize three meetings of a core group of high level policymakers who have successfully spearheaded reforms in the past or are likely to be involved in future initiatives. Each meeting will focus on a specific topic and will be small so as to encourage open and fluid discussion. The first meeting of the SEF took place in March 24 and 25, 2000 in New Orleans. This meeting focused on socially responsive macroeconomics and the political economy of reforms in the social sectors. The Bank will act as the secretariat for the Forum. Background papers will be prepared and circulated prior to each meeting. After each meeting, these background papers will be disseminated, together with a synthesis of key findings endorsed by members of the Forum. Additionally, upon completion of the first round of three meetings, a position paper endorsed by the members will be published and widely disseminated. The final document will synthesize results and propose recommendations for promoting social equity in the region.

3.39 *Poverty reduction strategy in country papers.* The Bank's approach to poverty reduction is increasingly reflected in Country papers and Country Programming documents such as in the recent paper in preparation for Brazil. Among the topics highlighted are the conditions and determinants of poverty and inequality using recent household surveys, and the need for better targeting and evaluation mechanisms for social spending. Most country papers in the last two years include the goal of poverty reduction as a priority for the bank strategy in the country. The papers have brief diagnosis of the poverty situation in the country, but in many cases the analysis lacks a detailed poverty profile in the country. The poverty reduction strategies outlined in the country papers rely mainly in social sector development and economic growth as the key means to combat poverty. Although improving the access of the poor to good quality social services and accelerating economic growth are necessary conditions for overcoming poverty, countries would benefit from a more integral approach to attack poverty that includes the creation of market opportunities, institutions and risk management mechanisms for the poor in each country. Policies should address the structural inequalities in the distribution of assets by expanding the access of the poor to human and physical capital; eliminate the social barriers that keep ethnic groups and women excluded; promote the creation and development of markets by, for example, increasing the linkages between the productive activities of the poor and dynamic sectors of the economy; strengthen civil society and the participation of the poor in the process of public policy dialogue to enhance government's accountability; and help the poor cope with the risks of macroeconomic shocks, natural disasters, illness, crop

failure, unemployment and old age. This approach should be reflected in the Bank's country programs taking into account national priorities and specific needs of the poor in the countries.

Areas of Special Emphasis

3.40 *Early Childhood.* The Bank continues its commitment to programs that support early childhood care development (ECCD) as a means of enhancing human development and to break the intergenerational cycle of poverty. Since 1994, more than 48 operations supporting early/late childhood development have been executed. To promote these programs more widely, a major seminar entitled *Breaking the Poverty Cycle: Investing in Early Childhood*, was held during the Bank's 1999 Annual Meetings. The seminar featured keynote addresses by Nobel Laureate Amartya Sen and World Health Organization Director-General Gro Harlem Brundtland. The seminar brought together distinguished individuals from such fields as economics, finance, government, health, education, and social development to discuss the importance of early childhood development for the region's economic and social development. A Bank-produced video on the subject was premiered at this well-attended event. Practical approaches to ECCD were included in a diskette entitled "ECCD Guide: A Toolkit for Early Childhood Care and Development" that assists IDB staff, national counterparts and NGOs who undertake ECCD programs.

3.41 *Indigenous Populations.* During 1999, the Bank has made a noticeable increase in the number of projects that promote opportunities to indigenous communities in socio-culturally appropriate ways, totaling around 10% of the operations of the Bank. Examples of these projects include primary health care and health reform programs in Bolivia, Guatemala and Argentina, basic education reform programs in Guatemala and Paraguay, a post-Mitch social protection program in Honduras, and an institutional strengthening and community development program in Nicaragua. There were also important advances in the Indigenous Peoples Fund, which held its Third General Assembly in Mexico in May 1999, and a Bank-supported conference on Constitutional Reforms and Indigenous Rights in Latin America was held earlier in the year. The Bank conducted studies in Ecuador, Guatemala, Honduras and Nicaragua to characterize the typology of indigenous poverty, and work continues in the preparation of best practices and operational guidelines on consultation and community participation and on the design of studies focused on socio-cultural diagnosis and indigenous development plans.

3.42 *Microenterprises.* Besides its significant lending support for microenterprise development, the Bank continued to work on other fronts to implement the mandates of its Microenterprise Strategy (GN-1939-3). Over the past two years, training has been given to over 300 micro-finance professionals and regulators in the poorest countries of the region, as part of the Bank's C&D Country Action Plan. In 1999 the Bank approved a technical cooperation to study regulatory and finance issues to identify and encourage financial institutions to meet the needs of small and microentrepreneurs in a cost-efficient way that is compatible with safe and sound banking practices. Finally, the Bank has actively promoted a public dialogue between public and private institutions and civil society through its Regional Forum on Microenterprise, which held its second annual meeting in Buenos Aires, Argentina in June 1999. In this forum the Bank launched its Inter-American Award for Microenterprise Development, which recognized distinguished contributions by financial and non-financial service providers and the innovative efforts of individual leaders in the field.

3.43 *Violence.* The Bank has taken the lead in drawing attention on the costs of violence on the quality of life and on society's ability to achieve sustainable and equitable growth. Programs to identify best practices in violence reduction and technical assistance and lending to build capacity in governments and civil society have been designed to confront the issue. In 1999, the Bank held relevant seminars in Rio de Janeiro, Brazil and Santiago, Chile to discuss municipal efforts to address violence. Seven technical notes were published that

describe the nature and magnitude of violence in the region, its causes and effects, and how it can be prevented and controlled. Finally, international attention was brought to the topic of domestic violence with the publication of *Too Close to Home: Domestic Violence in the Americas (El costo del silencio: Violencia doméstica en la Américas)*, a book documenting the socio-economic cost of domestic violence and best practice programs. In addition, during 1999 technical cooperation funds were used to support: a study to visit programs that treat male abusers; studies on social and domestic violence in Latin American and the Caribbean; a communications campaign to elevate public awareness of domestic violence; improving educational materials for training courses on masculinity and domestic violence; a regional comparative study of national plans against domestic violence; a study of the socio-economic cost of child abuse in Chile; and a training program for the prevention and treatment of domestic violence in indigenous communities.

3.44 *Women.* The Bank continued supporting the mainstreaming of gender and women issues in national policies and in its operations. This effort was focused on various areas that are critical to the welfare and advance of women in the region, including domestic violence, reproductive health, child care, gender aspects in managing natural disasters and training to improve income women's earning opportunities and their leadership potential. In 1999, PROLEAD (Program for the Women's Leadership and Representation), awarded approximately 1.4 millions dollars in leadership grants to 40 NGOs in the region. Financed areas included communications, training, research, public education, coalition building, and legislative reform. With resources from the Program, a training session on fundraising was organized in Mexico, and a session on mentoring took place in Brazil. During the year, Bank programs addressing women's issues ranged from a technical cooperation for "Studies on Social and Domestic Violence in Latin American and the Caribbean" to a study on gender issues related to the relief and reconstruction efforts in response to Hurricane Mitch. Another technical cooperation was approved to finance the studies to create a Rural Women Credit Program, with support from the First Ladies of the Americas and the Inter-American Institute for Cooperation in Agriculture (IICA).

3.45 *Other initiatives in related social areas.* The Bank continued its efforts in various other important areas of the social agenda in the region. In rural development, the Bank continues advancing an innovative multi-sectoral approach that involves innovative programs and projects, best practice documents to promote agricultural development and deepening of rural financial markets. On youth development, The Bank continued supporting the program of Youth Development and Outreach ("Pulso Joven") which promotes the participation and leadership of the youth in the region's development process. On training, the Bank has continued its efforts of building national capacities in management of social programs through the Inter-American Institute for Social Development (INDES). Training social sector managers and policymakers through INDES has provided an important forum to disseminate concepts and techniques that can make social policies and programs more democratic, equitable, sustainable, and more beneficial to the poor. Last year, almost 1,000 persons from the region were directly benefited from INDES' training. Finally, research on good practices on low-income housing delivery systems is being undertaken and a dissemination seminar was held in early 2000.

IV. Conclusion and Further Actions

4.01 In 1999, the performance of the IDB's lending program in terms of PTI and SEQ loans was mixed. While the share of PTI loans in the total number of investment loans increased slightly, from 45.5% in 1998 to 46.0% in 1999, the volume-share declined from 38.6% to 37.4%. The Bank exceeded the 40% SEQ goal of volume-share set forth by the Eighth replenishment at 45.9% and stood slightly behind the 50% goal of number-share at 49.3%. There are still opportunities for improvement in sectors such as infrastructure, productive activities and others not traditionally seen as amenable to poverty reduction and equity enhancement operations, and in the new portfolio of social sector loans such as those oriented towards the development of social protection and safety nets.

4.02 These PTI and SEQ figures, however, do not reflect fully the important progress being made by the Bank in emphasizing poverty reduction and social equity enhancement in Bank projects through better poverty targeting and innovative poverty fighting approaches. The Bank has strengthened its commitment to being at the forefront of the region's efforts to minimize the impact of downturns on the poor and expand their opportunities to escape poverty, especially for women, indigenous groups and the poorest of the poor. In particular, the Bank's regional departments have moved quickly to incorporate social protection concerns into their project portfolio.

4.03 In order to enhance the assessment of the Bank's contribution to poverty reduction, it is important to go beyond identifying which projects target the poor in their design and obtain a better understanding of whether the projects actually accomplish expected results in poverty reduction through a greater emphasis on methodologically sound impact evaluations.

4.04 The Bank strengthened its collaboration with governments, civil society and other development partners through its non-lending activities in order to exploit synergies in knowledge building, dissemination, and policy dialogues with social equity enhancement as its focus. There was also greater collaboration and interaction between the non-lending and lending sides of the Bank, which raises the quality and effectiveness of the Bank's global action. Collaborative efforts have expanded in the preparation of policy dialogues, best practice studies, analysis and research on the determinants of poverty, and in the design of social protection and other pro-poor operations.

4.05 In accordance with the lessons derived from the report "Lessons Learned From Evaluations of Poverty Reduction Programs" (Document RE-236-1), the Bank is undertaking a series of actions to further emphasize the poverty reduction and social equity enhancing orientation of its lending and non-lending programs. These include:

1. Supporting countries in the region in institutionalizing appropriate social protection schemes to reduce the occurrence and mitigate the impact of economic crises, natural disasters, and other adverse shocks on the poor. These schemes include permanent mechanisms to, for example, make fiscal policy more counter-cyclical and improve management of natural disaster risks, as well as implement safety nets such as workfare programs and targeted human development programs that can expand during crises according to country needs and resources. The Poverty and Inequality Unit continues providing cross-support to projects in this area.
2. Intensifying its efforts to identify innovative ways to extend the immediate benefits of non-social projects to the poor. The Regional Departments have taken several initiatives that are already under way in this front, particularly on infrastructure and productive sectors.
3. Developing methodologically sound impact evaluations for a selected number of projects. This will provide clear indicators to assess whether good project targeting and design achieve expected results in poverty reduction on the ground, and will enhance accountability in the use of public funds. The Poverty and Inequality Unit is developing a multi-year action plan on impact evaluation in conjunction with the Office of the Executive Vice-President, the Regional Operations Support Office, the Evaluation Office, and the Regional Departments.
4. The Regional Departments, in collaboration with the Poverty and Inequality Unit, are supporting efforts by Heavily Indebted Poor Countries and other countries to elaborate their Poverty Reduction Strategies. The policy dialogue with the governments in these countries is closely linked with the process of preparation of these strategies. In addition, the Regional Departments are working together with the Poverty and

Inequality Unit to enhance the content of Country Papers in countries where poverty reduction is a national priority so that they fully incorporate an integral national strategy of poverty reduction with indicators to monitor effort and progress.

4.06 Other areas of action included in the referred text are being made operational in the context of the action plan of the Bank's institutional strategy, particularly, the rationalization of sector strategies and policies.

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APPENDIX I

Table 1
Poverty and Inequality Trends in Latin America, 1980-1996

Period ^c	Poverty ^a						Inequality ^b		
	LS		ECLAC		Wodon et al		Gini coefficient		Quintiles (5/1) ratios
	HC % Individ.	Mills.	HC % Hous.	Mills.	HC % Individ.	Mills.	LS & SH	Wodon et al	LS
1980	28	95	35	136	34 (1986)	138	0.53	0.54 (1986)	17.1
1990	35	148	41	200	38 (1989)	165	0.56	0.58 (1989)	21.3
1994	33	151	38	202	37 (1995)	177	0.56	0.56 (1995)	23.3
1996	...	...	36 (1997)	204	37	179	0.56	0.56	22.5 (1995)
% change ^c									
1980-90	28%	56%	17%	47%	12% (1986-89)	20%	6%	7% (1986-89)	25%
1980-96	...	...	3%	50%	9% (1986-96)	30%	6%	4% (1986-96)	...
1990-94	-5%	2%	-7%	1%	-3% (1989-95)	7%	0%	-3% (1989-95)	9%
1994-96	...	...	-5%	1%	0% (1995-96)	1%	0%	0% (1995-96)	...
1990-96	...	...	-12%	2%	-3% (1989-96)	8%	0%	-3% (1989-96)	...

Source: Based on Londoño and Székely (1997) (LS), ECLAC (1999), Wodon et al (2000), and Székely and Hilgert (1999) (SH).

HC: head count ratio

^a The studies are based on samples of 13, 12 and 19 countries, respectively, covering between 75% to more than 90% of LAC's population. The first approach to poverty estimates (Londoño and Székely, 1997) uses a poverty line of \$2 PPP (purchasing power parity) adjusted dollars per person per day. The other two studies (Wodon et al, 2000; ECLAC, 1999) use country-specific poverty lines corresponding to the cost of a food consumption basket adapted to each country. They differ in the way they adjust for income underreporting. Except for ECLAC, the studies uniformly scale up all incomes from household surveys to match adjusted private consumption per capita in \$PPP or in national currency in the case of Wodon et al (2000). ECLAC uses scaling factors that take income per capita as a reference and that vary with the type of income (e.g., wages, rental income), and measures the incidence of poverty in households rather than individuals. Each approach has advantages and drawbacks. While PPP poverty lines allow better comparability of cross-country poverty rates, and thus more reliable regional poverty estimates, country-specific lines are better suited to document poverty incidence in a particular country. A study by Attanasio and Székely (1999) yields a circa poverty rate of 34% for 1996 but this is not comparable to the LS time series because of the different sample of countries.

^b The inequality figures are population weighted averages of the countries in each study. The 1996 Gini in the LS & SH column is a circa estimate based on SH.

^c LS figures are calculated based on interpolations of household income distribution data for the missing years in each country. ECLAC's figures are probably proxies from surveys close to the reference year.

Table 2
PTI Classification of Investment Loans, 1995 –1999

	Number of Loans					Approved Amount in US\$ millions				
	Old PTI Criteria		PTI Transition	Current PTI Criteria		Old PTI Criteria		PTI Transition	Current PTI Criteria	
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999
Total number of PTI-Eligible Investment Loans ¹	41	50	58	66	50	4,469.3	4,639.8	5,183.0	5,615.8	3,748.9
Number of PTIs	27	26	26	30	23	2,540.6	2,000.1	1,734.6	2,167.2	1,403.1
PTIs as Percentage of PTI-Eligible Investment Loans ²	65.9	52.0	44.8	45.5	46.0	56.8	43.1	33.5	38.6	37.4

Source: SDS/POV Database.

¹ PTI-Eligible Investment loans do not include TC Loans.

² Comparison of these PTI figures over the last 5 years is not possible since there have been important changes in the criteria for the eligibility of PTI classification. Since 1995, three distinctive periods mark the application of criteria for the classification of projects as Poverty-Targeted Investments: (i) between the approval of the Eighth General Increase of Resources in 1994 and June 30, 1995, criteria for PTI classification remained the same ones used during the Seventh Replenishment Period (document AB-1378) which measured the expected impact of operations on low income groups; (ii) between June 30, 1995 and April 23, 1997, document GN-1763-27 defined the criteria for geographic targeting of poor beneficiaries and for determining that a significant majority of the beneficiaries of the operation, according to conditions prevailing in the country, are poor; (iii) after April 23, 1997, with the changes to the previously applied criteria proposed in document GN-1964-3. The definition and application of these classification criteria became particularly important after 1995 since, in an effort to add new incentives to lending geared to poverty reduction and social equity, the 8th Replenishment Mandate specifically allows countries, if they so wish, to obtain an extra 10% in the share of the Bank's co-financing of PTI projects: up to 60% in A-group countries, 70% in B-group countries, 80% in C-group countries and 90% in D countries. The Table in Appendix II summarizes the content of the criteria applied through different periods and the nature of the changes.

Table 3
Volume of PTI Loan Approvals by Country Groups

Number of Investment Loans															
	Old PTI Criteria						PTI Transition			Current PTI Criteria					
	1995			1996			1997			1998			1999		
	Inv. Loans	PTI	Percentage of Country Group	Inv. Loans	PTI	Percentage of Country Group	Inv. Loans	PTI	Percentage of Country Group	Inv. Loans	PTI	Percentage of Country Group	Inv. Loans	PTI	Percentage of Country Group
A	12	6	50.0	14	8	57.1	19	6	31.6	17	5	29.4	10	3	30.0
B	7	4	57.1	5	2	40.0	7	2	28.6	6	3	50.0	7	2	28.6
A & B	19	10	52.6	19	10	52.6	26	8	30.8	23	8	34.8	17	5	29.4
C	4	1	25.0	10	1	10.0	9	3	33.3	12	1	8.3	8	2	25.0
D	18	16	88.9	20	15	75.0	19	15	78.9	31	21	67.7	25	16	64.0
C & D	22	17	77.3	30	16	53.3	28	18	64.3	43	22	51.2	33	18	54.6
Regional	0	0	0.0	1	0	0.0	4	0	0.0	0	0	0.0	0	0	0.0
Total	41	27	65.9	50	26	52.0	58	26	44.8	66	30	45.5	50	23	46.0

Volume of Investment Loans															
	Old PTI Criteria						PTI Transition			Current PTI Criteria					
	1995			1996			1997			1998			1999		
	Inv. Loans	PTI	Percentage of Country Group	Inv. Loans	PTI	Percentage of Country Group	Inv. Loans	PTI	Percentage of Country Group	Inv. Loans	PTI	Percentage of Country Group	Inv. Loans	PTI	Percentage of Country Group
A	2,729.0	1,294.0	47.4	2,908.8	1,329.8	45.7	2,794.9	881.0	31.5	3,003.5	1,030.0	34.3	1,983.5	446.0	22.5
B	664.0	386.0	58.1	438.0	250.0	57.1	420.1	170.0	40.5	657.9	133.6	20.3	628.6	207.0	32.9
A & B	3,393.0	1,680.0	49.5	3,346.8	1,579.8	47.2	3,215.0	1,051.0	32.7	3,661.4	1,163.6	31.8	2,612.1	653.0	25.0
C	119.7	28.0	23.4	665.6	26.4	4.0	379.6	96.1	25.3	683.4	70.4	10.3	325.1	125.9	38.7
D	956.6	832.6	87.0	590.4	393.9	66.7	707.8	587.8	83.0	1,271.0	933.2	73.4	811.7	624.2	76.9
C & D	1,076.3	860.6	80.0	1,256.0	420.3	33.5	1,087.4	683.9	62.9	1,954.4	1,003.6	51.4	1,136.8	750.1	66.0
Regional	0.0	0.0	0.0	37.0	0.0	0.0	880.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	4,469.3	2,540.6	56.8	4,639.8	2,000.1	43.1	5,183.0	1,734.6	33.5	5,615.8	2,167.2	38.6	3,748.9	1,403.1	37.4

Source: SDS/POV Database.

Note: Comparisons are only possible between 1998 and 1999 (see footnote 2 in table 2).

Table 4
Volume of PTI Loan Approvals by Sector of Investment

	Old PTI Criteria				PTI Transition		Current PTI Criteria			
	1995		1996		1997		1998		1999	
	PTI as % of Total Investment Loans by Sector	Sector as a % of Total PTIs	PTI as % of Total Investment Loans by Sector	Sector as a % of Total PTIs	PTI as % of Total Investment Loans by Sector	Sector as a % of Total PTIs	PTI as % of Total Investment Loans by Sector	Sector as a % of Total PTIs	PTI as % of Total Investment Loans by Sector	Sector as a % of Total PTIs
Social	91.4	78.6	73.5	94.0	63.5	85.2	62.6	84.5	52.9	66.9
Education	100.0	4.2	41.7	5.0	66.1	37.4	71.0	9.6	2.3	0.7
Health	0.0	0.0	74.8	22.7	87.2	6.9	100.0	5.9	60.8	20.5
Sanitation	100.0	22.6	72.3	17.5	10.7	0.8	45.7	16.8	70.3	20.9
Social Investment	100.0	38.9	61.3	19.8	97.9	22.6	73.2	35.0	94.0	22.2
Urban Development	100.0	12.9	100.0	29.0	44.6	17.4	55.6	17.2	24.2	2.7
Extended Social	100.0	2.2	80.9	4.2	7.4	1.2	88.5	13.2	0.0	0.0
Environment	100.0	1.2	80.9	4.2	0.0	0.0	65.5	3.2	0.0	0.0
Microenterprise	100.0	1.0	0.0	0.0	100.0	1.2	100.0	9.9	0.0	0.0
Non-Social¹	21.9	19.2	1.7	1.7	9.2	13.7	2.1	2.3	25.9	33.1
Infrastructure	40.4	14.2	0.0	0.0	9.8	9.5	0.0	0.0	100.0	33.1
Productive Sectors	9.7	5.1	7.0	0.7	7.1	2.3	2.1	1.2	0.0	0.0
Modernization Of the State	0.0	0.0	1.9	1.0	9.6	1.8	5.7	1.2	0.0	0.0
Total	56.8	100.0	43.1	100.0	33.5	100.0	38.6	100.0	37.4	100.0

Note: Comparisons are only possible between 1998 and 1999 (see footnote 2 in table 2).

Source: SDS/POV Database.

¹ Infrastructure includes energy, transportation and communications; productive sectors include agriculture, export, fishery, forestry, industry, mining, pre-investment, tourism, sciences and technology, and other.

Table 5
Evolution of Loan Approvals by Type of Loan, 1995-1999

		Number of Loans					Approved Amount in US\$ millions				
		Old PTI Criteria		PTI Transition	Current PTI Criteria		Old PTI Criteria		PTI Transition	Current PTI Criteria	
		1995	1996	1997	1998	1999	1995	1996	1997	1998	1999 ¹
1	Investment (2+3)	50	58	68	76	60	4,609.0	4,721.8	5,271.5	5,685.1	3,792.1
2	PTI Eligible ²	41	50	58	66	50	4,469.3	4,639.8	5,183.0	5,615.8	3,748.8
3	TC Loans	9	8	10	10	10	139.7	82.0	88.5	69.3	43.3
4	Sector	12	10	4	4	3	2,464.6	1,808.4	422.8	725.0	460.0
5	Emergency	-	-	-	3	6	-	-	-	3,050.0	4,570.9
6	Private Sector	5	6	8	11	10	145.7	198.0	320.3	576.8	634.7
7	Total Lending	67	74	80	94	79	7,219.3	6,728.2	6,014.6	10,036.9	9,457.7
8	Total Regular Lending (7-5)	67	74	80	91	73	7,219.3	6,728.2	6,014.6	6,986.9	4,886.8
9	PTI Loans	27	26	26	30	23	2,540.6	2,000.1	1,734.6	2,167.2	1,403.1
10	SEQ Only (non-emergency)	n.a.	n.a.	n.a.	n.a.	13 ^a	n.a.	n.a.	n.a.	n.a.	840.9 ^a
11	SEQs (non-emergency)	24	28	31	51	36 ^a	2,477.5	2,222.4	2,075.0	3,619.8	2,244.0 ^a
12	Total SEQs (11 + Emergency SEQ)	24	28	31	51	37 ^a	2,477.5	2,222.4	2,075.0	3,619.8	4,444.0 ^a
13	PTI Loans as percentage of PTI-Eligible Investment Loans (9/2*100)	65.9	52.0	44.8	45.5	46.0	56.8	43.1	33.5	38.6	37.4
14	SEQs (non-emergency) as percentage of Total Regular Lending ³ (11/8*100)	35.8	37.8	38.8	56.0	49.3 ^a	34.3	33.0	34.5	51.8	45.9 ^a
15	Total SEQs as percentage of Total Lending ⁴ (12/7*100)	35.8	37.8	38.8	54.3	46.8 ^a	34.3	33.0	34.5	36.1	47.0 ^a

^a Based on current guidelines for SEQ classification (see Appendix II).

¹ Does not include a loan for Colombia (C0-0245) for US\$134.7 million.

² Includes Regional Investment Loans in 1996-1998.

³ Estimates for 1995-1998 are from the Reports on the 1994-1998 Operational Program Outputs (documents GN-2076 and GN-2005). Comparison of these SEQ figures for 1995-98 with those in 1999 is not possible because the latter are based on the application of current guidelines for SEQ classification.

⁴ Includes emergency loan for Brazil (PR-2383) for US\$2,200 million in 1999, and does not include emergency operations for Argentina (PR-2370) for US\$2,500 million, and Venezuela (PR-2335) for US\$200 million in 1998, which however contained some social protection policies.

APPENDIX II: CRITERIA FOR SEQ AND PTI CLASSIFICATION¹

Current SEQ Criteria

Projects are classified as Social Equity (SEQ) operations according to the following criteria: projects in social sectors (health, education, sanitation, nutrition and housing solutions), regardless of PTI status, plus any other Bank operation that qualifies as PTI. Poverty Targeted Investment classification is only applicable to investment loans.²

Current PTI Criteria

- ◆ **Sector Automatic Classification:** Projects automatically classify as PTI when they support programs in the following sectors: Pre-School, Primary Education, Early Childhood Development, Social Programs for at Risk children and Adolescents, Primary Health Care, Nutrition, Urban Development of Marginalized Areas, Small-holder Agricultural Production, Microenterprises, Social Investment Funds and Emergency Employment Operations.

- ◆ **Geographic Classification:** Projects can classify as PTI when project benefits are targeted to regions, cities, neighborhoods, or areas identified as poor within each country. Proxy income measures such as unsatisfied basic needs, below country-average social indicators, or other household characteristics that are strongly correlated with poverty may be used to classify such areas. There is no pre-defined cut-off point for the application of this criterion. Project teams must justify on a case by case basis how the targeting mechanism used, given the specific characteristics of the operation, serves to target resources to the poor. Generally if the indicators are below the country averages, the project will classify as PTI.

- ◆ **Headcount Classification:** Projects can classify as PTI when more than 50% of the potential beneficiaries of the operation are likely to be poor according to the selected PTI poverty line for each country. If headcount classification is used, then the calculation needs to be included as part of the project document.

¹ SDS/POV, “Social Equity and Poverty Targeted Investment (PTI) Criteria and Contact Information”, agreed by the Bank in 1999.

² Small projects, PPFs, technical cooperation and private sector loans, are not currently monitored under the PTI system.

Cont. Appendix II: Changes in the Criteria for PTI Classification, 1995-1999

Eighth Replenishment			
Transitional Period Between July 1994 And June 1995	Document GN-1763-27 Between July 1995 and April 23, 1997	Document GN-1964-s From April 23, 1997 to present	
<p>Projects were analyzed concerning their expected distributive impact, that is the anticipated benefits of given operations on low-income groups.</p> <p>Effort for operations to focus on expected benefits to minority groups like women, particularly low-income women, indigenous people, and areas like microenterprises which were expected to have a positive impact on low-income groups outside the formal labor market.</p>		Applies to	
	Sector-Automatic Paragraph 2.13 of the Eighth Replenishment Document specifically lists the sectors in which activities would most likely contribute to poverty reduction and social equity.	Projects that support the following programs: Pre-School Primary Education Primary Health Care Nutrition Slum Upgrading Small Farmers Production Micro-Enterprises Social Investment Funds Emergency Employment Operations.	Early Childhood Development and Social Programs for At-Risk Children and Adolescents are added to Sector-Automatic.
	Geographic Interpreted by document GN-1763-27 as Country-Automatic, that is applying to all countries in the region whose poverty headcount ratio is above 50%.	Projects in Bolivia, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Peru, except for economy-wide policy operations, debt restructuring, institutional development, energy and most technical assistance.	Country-Automatic dropped. Replaced by geographic targeting of poor beneficiaries within the area of influence of project. Flexibility added with the use of proxy measures for poverty, like % of population with unmet basic needs or social and economic indicators in beneficiary areas/groups below country or regional average. There is no pre-defined cut-off point for the application of this criterion; eligibility must be justified on a case by case basis.
	Headcount Classification	Projects that do not qualify as automatic by either criteria above but which are able to demonstrate that over 50% of its beneficiaries are poor.	Same as above.

APPENDIX III: Approved PTI and SEQ Loans, 1999

PROJECT NUMBER	PROJECT NAME	TYPE	SECTOR NAME	TOTAL, Mills US\$	PTI	SEQ/POV
NI0107	ATLANTIC REGION DEVELOPMENT PROGRAM	Investment	Social Investment	8.0	YES	YES
BO0175	BASIC SANITATION FOR SMALL MUNICIPALITIES	Investment	Sanitation	40.0	YES	YES
NI0090	EDUCATION PROGRAM REFORM PREPARATION	Investment	Education	9.4	YES	YES
BO0115	EPIDEMIOLOGICAL SHIELD AND SECTOR REFORM	Investment	Health	45.0	YES	YES
GY0054	GEORGETOWN II WATER SUPPLY & SEWERAGE	Investment	Sanitation	27.0	YES	YES
PE0146	HEALTH REFORM DEVELOPM. MOTHER-CHILD INSUR.	Investment	Health	87.0	YES	YES
GU0125	HEALTH SERVICES ENHACEMENT PROGRAM II	Investment	Health	55.4	YES	YES
HO0146	HOUSING PROGRAM AFTER HURRICANE	Investment	Urban Development	10.4	YES	YES
BL0015	HURRICANE REHAB. AND DISAS.PREPAREDNESS	Investment	Social Investment	21.3	YES	YES
UR0123	INFORMAL SETTLEMENTS INTEGRATION	Investment	Urban Development	77.0	YES	YES
HO0072	INVESTMENT IN WATER AND SANITATION	Investment	Sanitation	26.0	YES	YES
GY0052	LOW INCOME SETTLEMENTS	Investment	Urban Development	27.0	YES	YES
NI0099	PANAMERICAN HIGHWAY REHABILITATION	Investment	Transport	50.0	YES	YES
PN0111	POVERTY REDUCTION AND COMMUNITY DEVELOPM.	Investment	Social Investment	48.9	YES	YES
AR0120	PRIMARY HEALTH CARE REFORM	Investment	Health	100.0	YES	YES
PE0198	RECONSTRUCTION AFTERMATH OF EL NINO II	Investment	Social Investment	120.0	YES	YES
DR0134	REFORM AND LABOR TRAINING PROGRAM	Investment	Social Investment	16.9	YES	YES
HO0143	ROAD AND WATER INFRA. EMERGENCY PROG.	Investment	Social Investment	18.8	YES	YES
GU0130	ROAD REHABILITATION AND MODERNIZATION II	Investment	Transport	150.0	YES	YES
BR0278	ROADWAY PROGRAM II OF THE STATE OF BAHIA	Investment	Transport	146.0	YES	YES
PR0104	RURAL ROADS NATIONAL PROGRAM II	Investment	Transport	67.0	YES	YES
BR0265	TIETE RIVER DECONTAMINATION, STAGE II	Investment	Sanitation	200.0	YES	YES
BO0098	VENTILLA-TARAPAYA HIGHWAY/SECTOR SUPPORT	Investment	Transport	52.0	YES	YES
AR0238	AGUAS ARGENTINAS CAPITAL INVESTMENT	Private	Sanitation	75.0	NO	YES
CO0243	COFFEE PRODUCTION AXIS EARTHQUAKE	Investment	Social Investment	20.0	NO	YES
BO0177	LOAN TC CIVIL SOCIETY ACCESS TO JUSTICE	Investment	Reform &	2.7	NO	YES
BR0300	MIDDLE EDUCATION EXPANSION AND IMPROVEM.	Investment	Education	250.0	NO	YES
NI0097	MODERNIZATION POTABLE WATER/SANITATION	Investment	Sanitation	13.9	NO	YES
CO0142	NEW SCHOOL SYSTEM PROGRAM	Investment	Education	36.0	NO	YES
CO0182	POTABLE WATER AND SANITATION PEREIRA	Investment	Sanitation	38.6	NO	YES
DR0123	POTABLE WATER AND SANITATION SECTOR REFM	Investment	Sanitation	71.0	NO	YES
TT0023	SECONDARY EDUCATION PROGRAM	Investment	Education	105.0	NO	YES
NI0109	SOCIAL DEVELOPMENT POLICY SUPPORT	Investment	Reform &	2.1	NO	YES
HO0145	SOCIAL PROTECCION AND TRANSITION	Sector	Social Investment	30.0	NO	YES
BR0308	SOCIAL PROTECTION REFORM PROGRAM	Emergency	Social Investment	2,200.0	NO	YES
JA0035	SOLID WASTE MANAGEMENT	Investment	Environment	11.5	NO	YES
BR0305	TURN NURSE WORKERS INTO PROFESSIONALS	Investment	Health	185.0	NO	YES
TOTAL				4,444	23	37