# COMPETITIVENESS

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# OBJECTIVE

Competitiveness is defined as the quality of the economic and institutional environment for the sustainable development of private productive activities and the increase in productivity. Enhancing the capacity of the countries to improve competitiveness is consistent with the key fields of Bank activity identified in the Eighth Capital Replenishment. It is also one of the four priority areas in the framework of the Institutional Strategy.

The improvement of competitiveness is essential for achieving high and sustainable rates of *economic growth*, provided it is supplemented by policies designed to increase the efficiency of the State, improve the provision of social services and strengthen the channels for integrating the economies with the rest of the world. The increase in competitiveness is also closely linked with the objective of *poverty reduction*. Given the low levels of per capita income in most of the countries of the region, significant increases in productivity will be needed to achieve a substantial reduction in poverty. The conditions for competitiveness are also intimately linked to the *environment*, since improvements in productivity are only sustainable if they lead to the preservation and improvement of the natural resource base.

The objective of this strategy is to contribute to improve the economic and institutional environment for the development of the private sector and increasing productivity. This strategy proposes actions that concentrate on correcting or compensating failures in the operation of the markets that are relevant for the competitiveness of the set of companies in the private sector. The proposed actions are organized into the following areas: (A) access to financing and mobilization of capital; (B) access to human resources, training and labor relations; (C) availability of infrastructure (roads, ports, energy, telecommunications, etc.); (D) access, assimilation and generation of new technologies and knowledge; (E) quality of the public institutions linked to the functioning of private productive activities; and (F) competitiveness and the productive and sustainable management of natural capital. These areas include specific actions to improve access to markets and competitiveness of firms in general, including micro- and small enterprises. Given the importance of macroeconomic stability and institutions for competitiveness, the Bank will also promote actions to strengthen macroeconomic policies, as detailed in the Strategy for Sustainable Economic Growth and to strengthen institutions and the Rule of Law, as described in the Modernization of the State Strategy.

This strategy is consistent and complements other Bank strategies in related areas, such as Small- and Medium-Sized Enterprises, Microenterprises, Financial and Capital Markets, Energy, Infrastructure, and Science and Technology. However, the strategy offers an integrated perspective and aims, in combination with the strategies for the other priority areas (Social Development, Modernization of the State, Integration, and Environment), to coherently pursue the central objectives of Poverty Reduction and Promotion of Equity, and Sustainable Economic Growth.

# DIAGNOSIS

With respect to the previous decade, in the 1990s Latin America and the Caribbean achieved important progress in competitiveness, as reflected in more buoyant exports in practically all the countries, in the inflow of direct investment capital which helped renew the productive sectors and in rates of economic growth that were higher than in the previous decade. Despite these and other achievements, considerable evidence indicates that the countries of Latin American and the Caribbean continue to face serious problems of competitiveness:

- In the 1990s, the average annual growth of the countries of the region was only 3.3 percent, lower than that achieved by other groups of developing countries, such as South-East Asia, which grew 5.1 percent. Considering demographic growth, per capita income increased only 1.5 percent per year, insufficient to reduce the income gap with the developed countries or to achieve the Millennium Development Goal for poverty reduction. The results in the initial years of the current decade have not been more encouraging.
- In many countries of the region, the productivity of capital resources (physical and human) has been falling. While the stock of physical capital grew at an annual average of 2.6 percent and 3.7 percent during the eighties and the nineties, respectively; overall factor productivity decreased at an annual average rate of 2.65 percent and 0.62 percent during the same periods. These trends reflect changes in the global economy characterized by increases in the gaps of productivity between rich and poor countries. While productivity in developed countries, Eastern Europe and the rest of Asia increased at an annual average rate of 0.56 percent, 0.82 percent y 0.69 percent respectively, during the last decade; in Southeast Asia, the Middle East, and Africa it decreased at an annual average rate of 0.80 percent, 2.00 percent and 1.71 percent, respectively. In the 1990s, only a few countries in the region recorded increases in the productivity of their set of productive factors - notably Chile, Argentina and Uruguay, which are among Latin America and the Caribbean most developed countries. In contrast, productivity in the poorest countries fell, in some cases substantially.
- In the international rankings of competitiveness, such as the *Global Competitiveness Report (GCR)*, the countries of the region occupy very low positions for their income levels, which suggests the presence of constraints on high growth rates. Only Chile, which occupies position 20 out of the 80 countries analyzed in GCR 2002, has an outstanding position in relation to its income level.

The causes for the lack of competitiveness of the countries of the Region are very diverse. At an aggregate level, the key factors are related to the macroeconomic environment, financial and capital markets, human capital, infrastructure and the quality of institutions:

- The severe macroeconomic instability of Latin American and the Caribbean is revealed in the high volatility of economic growth, real exchange rates, real interest rates and the domestic credit supply. The main channel of amplification of the instability is the pro-cyclical nature of fiscal and exchange policies in response to external and internal shocks to which the region's economies are exposed, due to the composition of their exports, dependence on resources from external financing, internal political instability and natural disasters, among others. The procyclical nature of policies reflects the lack of maneuvering space for fiscal, financial and exchange rate policies when shocks occur, which compels governments to apply policies to reduce domestic demand through higher interest and exchange rates. Such measures may increase the cost of the external debt service and erode the quality of the portfolio held by the financial system. Macroeconomic instability affects competitiveness, because it increases uncertainty and risk, and narrows investment horizons. It may also reduce investment in the human capital of the poor and limit the supply of credit and the terms of domestic and external financing.

- Other obstacles to the competitiveness of companies in Latin America and the Caribbean are the low availability of financial resources and the limited access to credit, both for large- and medium-sized companies, as well as for small enterprises and independent producers. Access to forms of financing other than bank credit is limited. The bond and stock markets have only recently begun to develop in most countries of the region. These limitations on access to financial resources prevent the profitable exploitation of productive opportunities, which reduces the productivity and competitiveness of the countries of the region.
- With respect to human capital, education suffers from notable deficiencies. The average education of the labor force grew at an annual rate of 1.5 percent in the last decade, below the 1.9 percent increase in the 1980s and less than in most developing countries. The Latin American workforce has an average of less than six years of education. This low level is not due to lack of access to the primary levels of the education system, or to low coverage of university education. The deficiencies originate at the secondary and technical levels, due to repetition and dropout from the school system by young people. This lack of basic education is not compensated by the training system, which has not been designed for that purpose, and which also suffers in some countries from problems related to centralism and poor links with the dynamic productive sectors. The limited levels of education for the bulk of workers hinder the assimilation of new technologies and forms of organization, reduce labor mobility, and consequently limit productivity and competitiveness.
- Lack of access to adequate infrastructure is an obstacle to the development of productive activities and the growth of companies. Unreliable power supplies, long waiting lists for access to telephone services, distorted fees due to cross-subsidies, roads in bad conditions, and inefficient ports that increase transportation costs, are some of factors that affect competitiveness. Traditionally, these infrastructure services have been supplied by State-owned companies, which in some cases proved to be inefficient, either due to poor management, or because they had objectives that went beyond the provision of the service.
- The deficiencies in public institutions are possibly the main cause of the problems of competitiveness in Latin American and the Caribbean. The channels are multiple. The deficiencies in the judicial system increase the risks of breach of contract

and, thus, transaction costs. They also limit the financial system's capacity to support the development of new investments, given the eventuality that their rights may not be respected. Government inefficiency or an environment that fosters corruption can discourage foreign investment and technology transfer, and divert resources from productive activities towards rent-seeking activities. The absence of a stable and respected judicial and legal system can eliminate the incentives to assimilate new technologies that require long-term investments, either in infrastructure or in other sectors. The lack of coordination between the public and the private sector can lead to loss of market opportunities that would require joint efforts for investment, innovation or organization. The absence of institutions that offer social protection or settle distributional conflicts can obstruct or prevent investment in highly productive activities because of the impossibility of compensating the losers. As a result, the deficiencies in public institutions are reflected in trends in productivity, as documented empirically in the *Economic and Social Progress Report 2001, Competitiveness: Engine of Growth*.

Additionally, it should be recognized that the level of competitiveness is not homogeneous over the entire territory of a country, or in the different entrepreneurial segments. Thus the Bank's strategy has to take these differences into account:

- The competitiveness of the different territories of a country depends on the same factors as national competitiveness, that is, access to factors (such as financing, skilled human resources, and provision of infrastructure) and the performance of institutions. Due to the differences in these conditions, there are enormous gaps in competitiveness and the capacity to generate income between provinces or states within countries, which in turn is reflected in the distribution of poverty and migratory trends, which tend to accentuate these gaps. Regional inequality in competitiveness also has a socio-cultural dimension: indigenous peoples, despite having comparative advantages such as social capital (organization, cultural diversity and knowledge) and natural capital (territories, natural resources, biological diversity), among others, are among the social segments with least access to financial market and provision of infrastructure services. At the other extreme, the large cities concentrate the bulk of productive resources, which are attracted by the economies of scale and agglomeration, but suffer from serious diseconomies of congestion, which may limit their competitiveness and the possibility of offering dignified living conditions to their inhabitants.
- The entrepreneurial structure of the countries of the region is characterized by severe polarization. First, there are a small number of large national or multinational companies, with a certain dynamic of integration into international markets. Second, there is a large number of small enterprises and microenterprises (in many cases, part of the informal sector), and small rural producers, with serious productivity problems, which generate about three quarters of jobs but lack access to financial markets, skilled labor force, and technological resources that are vital for their competitiveness. Increasing the productivity of these workers and companies is critical for improving social equity and competitiveness.

The great challenges facing the competitiveness of the countries of the region need to be addressed within the framework of trade liberalization and international integration.

Latin American companies have to compete globally with the producers of goods and services from other regions in international markets, as well as in their own. Business strategies should include the improvement of their competitive position in the global context and consider the options of transition toward more knowledge-intensive productive activities. The indispensable requirements for this are a higher level of specialization, important advances in technological development and greater integration into global productive chains, which is not possible in small markets. International integration processes are therefore key factors in improving the competitiveness of companies.

# LESSONS LEARNED

*Need for integrated approaches*. The Bank's activity in areas directly related to competitiveness has been growing in recent years, including operations in a wide range of sectors: financial markets, small- and medium-sized enterprises, microenterprises, transportation and communications infrastructure; rural and urban development; tourism; science and technology; among others. However, this diversity of operations has not always been developed in an integrated manner, within a global approach towards competitiveness for each country, province or department, which has limited their effectiveness and dispersed efforts. From the achievements and limitations of the experience of the Bank and other institutions, it is possible to extract a series of lessons for identifying and designing new operations for the IDB Group.

*Macroeconomic stability*. The development of productivity and competitiveness requires a sound and stable macroeconomic environment, which includes the fiscal, financial and external sustainability of the economies. Although severe inflation and fiscal imbalances have been controlled in most of the countries of the region, it is necessary to persist in the efforts to improve the macroeconomic environment and the resistance of economies to persistent shocks, especially of external origin. A stable macroeconomic environment is crucial for expanding the horizon of domestic and foreign private investment, and for enabling the development of financial markets and infrastructure.

*Adequate economic and institutional signals*. The development of productivity and competitiveness requires a system of economic and institutional signals that give individuals and companies a guarantee that they can appropriate the income derived from their efforts of productive investment, innovation and work. If the system of incentives and institutions leads to rent-seeking behavior or stimulates inefficient production, rather than stimulating innovation and improvements in productivity, efforts to increase investment, education and access to productive resources will be ineffective.

In the past, Latin American countries attempted to promote the competitiveness of specific sectors or activities through differentiated taxes or tariffs or subsidized public service fees for certain groups of companies or individuals. In general, these attempts were unsuccessful, mainly due to the difficulty in isolating the influence of pressure groups and, in some cases, the manipulation of these incentives, but also because of the growing fiscal and administrative costs involved.

A good economic and institutional environment is obviously a necessary condition for improving the productivity of sectors, regions or specific groups of companies. But the most suitable instruments for confronting deficiencies in productivity are not tax or financial incentives or price distortions, but rather policies that make a direct contribution to improving the productive and technological capacities of individuals and companies, and which facilitate interaction between companies and create a favorable environment for concerted action by the private, public and

## Box 1: Institutionality For Competitiveness: Lessons Learned In Concertation Processes

The development model based on an improvement in competitiveness requires a structure of dialogue and concertation between the public and private sectors. There are international experiences, as in most countries in the region, in which processes have been launched for debate and for the creation of an institutionality aimed at designing, executing and evaluating competitiveness policies and programs, from which some lessons may be obtained.

***The institutionalization process.*** The conception of concertation as a dynamic process that is renewed and updated requires avoiding the idea that that the goal is limited to the creation of an organizational frame with a series of static functions. The value of this institutionality must be based on the process of discussion itself, the scope of a vision shared by the actors, proposals for action, the evaluation of the latter and the relaunching and updating of the debate.

- A *bottom-up process* implies the mobilization of businessmen, their organizations and civil society for the discussion of a shared conceptual framework.
- *Political independence* is essential for the continuity of the process. It is convenient to achieve the multi-party backing of the legislative as well as the executive branch of government.
- *Orientation towards action* is important for the process to become validated and thus avoid becoming rigid and letting the involved institutions become devalued.

***Institutional organization for competitiveness*** lacks a pre-established formula: rather, it needs to adapt to each country's or region's geographical, historical, cultural and institutional conditions and stage of development. The manner in which different types of national, sub national or sector competitiveness commissions are organized depends on the level of institutional maturity at the outset and on the roles assigned to the actors involved

- *Government*. It concentrates on the creation of an appropriate macroeconomic, political, legal and social environment, in addition to working conditions for business, the establishment of the rules of the game and the efficiency of the institutions to enforce compliance with them.
- *Private-sector organizations*. They must be open to new partners (not be closed ground for interest groups), have an active role in the discussion of the restrictions on enterprise development, commit themselves to the development of a shared vision of the improvement of competitiveness, and invest in infrastructure and productive activities.
- *Educational and research institutions*. The professional training and the educational system, mainly universities and technological and research centers, is key for adapting human resources to the new competitive challenges, technology transfer, and for new entrepreneurs emergence.
- *Entities of civil society and the citizenry*. Civil organizations, foundations, labor unions and other types of institutions must be a reflection of what they represent in each *country*.

Among the ***risks to be avoided*** in the competitiveness concertation processes, one may mention:

- *Government control*. Occasionally it takes the initiative and, despite attempting to include the business and civil spheres as a whole, adopts a state control position on the process.
- *Predominance of interest groups*. The particular interests of economic groups may attempt to override the overall interest of competitiveness.
- *Implanting of foreign experiences*. It is a common occurrence to attempt to bring in competitiveness strategies and institutions without taking their lack of local roots into account.
- *Bias in priorities*. The choice of given clusters or activities in emerging sectors, or in sectors with high growth expectations, may marginalize other, equally important aspects, such as the development of less developed sectors or geographical areas.

academic sectors. Given that productive capacities depend on multiple factors, and may be inhibited due to very diverse reasons, any competitiveness strategy requires an integrated approach. (Box 1 presents lessons learned in consensus building processes for competitiveness).

*Improvement in the supervision and legal framework of the financial system*. Although the region as a whole has made important progress in reaching and in some cases exceeding international standards in the area of financial regulation and supervision, there are several countries, especially the less economically developed, which are lagging with respect to their prudential practices. However, experience shows that the adoption of international regulatory practices is not in itself sufficient, since they can be ineffective when the rule of law is too weak to counteract the influence of individual interests or corrupt practices.

The rights of creditors are weakened in many Latin American and Caribbean countries by State interference in credit operations (caps on interest rates, loan amnesties or compulsory reprogramming that are harmful to creditors), limitations on the use and recovery of bank guarantees, and inadequate bankruptcy laws. All of these factors reduce the incentives of the financial system to grant loans, especially to small- and medium-sized enterprises and individual debtors. Another problem of the financial systems of some countries in the region is the excessively high level of public ownership of the financial sector, which usually results in inefficient allocation of loans, less competition and higher intermediation costs. Additionally, in some countries a series of regulations force the financial system to finance the public sector through the purchase of government bonds. These factors limit the possibility of efficiently managing the risks assumed by the financial system and are sources of vulnerability and instability.

Latin American and Caribbean capital markets also reflect shortcomings that are strongly linked to their legal and institutional frameworks. In particular, the property rights of investors need to be strengthened, especially those of small shareholders and institutional investors; as well as independent producers, micro entrepreneurs, and poor owners. It is also necessary to rebuild confidence in the mortgage markets, undermined in many countries by episodes of high inflation in recent decades, by government interference in credit conditions and by the lack of long-term savings instruments to finance loans. Insurance markets are another incipient segment of the capital market in most countries of the region. Their development is needed to improve the conditions of competitiveness in different sectors. A separate mention should be made of pension systems, which several countries have reformed, partly with the intention of strengthening capital markets (this issue is discussed in the Social Development Strategy).

Access by microenterprises to credit is still limited and only a small percentage of micro entrepreneurs have access to sources of external financing, and these are informal in most cases. The creation of systems of sustainable financial intermediation for microenterprises has to be based on the strengthening of micro financial institutions, which can be done through a variety of approaches. First, by the gradual professionalization, modernization and formalization of the micro financial institutions outside the formal financial system. To do this, it is necessary to develop specific regulations for this sector and for the credit cooperatives sector. This regulatory activity should be accompanied by an effort by the Superintendencies of Banks to supervise the formalized and regulated micro financial institutions. The fact that the sustainability of micro financial institutions is increasingly associated with their capacity to attract savings from their own market segment strengthens the need for regulation and supervision, which will contribute to increasing financial depth. Second, as the micro financial institutions become profitable, they will receive more attention from the formal commercial banks. The development of specialized techniques of risk valuation will be very important for increasing the banks' micro finance portfolio, which they should introduce if they genuinely wish to enter this market segment. The enhancement of property rights for micro entrepreneurs, independent producers and poor owners, mentioned previously, may also contribute to improve credit access for those groups.

*Strengthening reforms in the infrastructure provision sectors*. During the last decade, most countries made sweeping reforms in an effort to link the private sector to the provision of public services and investment in infrastructure, and to limit the role of the State to defining policies and regulation. When it has been possible, competition has been introduced to improve efficiency; when this has not been possible, this responsibility has been left to regulation. Additionally, countries have sought to grant independence to regulatory agencies in order to protect investors and consumers from rent-seeking or opportunistic behavior by companies, government or political interests. To strengthen financial sustainability, fees for public services have been set at levels compatible with long-term costs, limiting fiscal subsidies to transparent transfers to small segments of poor consumers. However, after a decade of reform, and despite important achievements in sectors such as communications and to a lesser extent electricity, many countries are having difficulties in consolidating their reforms. This is due not only to international financial constraints and the macroeconomic situation in some countries, but also to institutional, technical and political problems in the design and implementation of the reforms.

*Improvement of incentives for technological innovation*. The adaptation and generation of technology and knowledge depends not only on human capital and the network of scientific and technological institutions, but also on the incentives available to individuals, institutions and companies, which enable them to benefit from the effort of innovation. Policies on property rights are especially important for countries of intermediate development, which have emerged from the initial stage of adoption of imported technologies and are now ready to move on to the stages of adaptation and later creation of new technologies.

*Improvement of regulations and tax provisions for productive activity*. One in three companies in Latin America and the Caribbean consider excess taxes and regulations as a serious obstacle to their development, and one in six see them as the most important obstacle. Tax, administrative, and regulatory complexity affect companies of all sizes, but the problem is more serious for small and medium-sized companies, which have fewer human and administrative resources. Following a global tendency, the countries with lower income levels in the region frequently impose more restrictions and bureaucratic requirements on setting up and operating companies than the more developed countries. The implicit cost of these requirements is proportionally very high for the productive potential and income of small enterprises in these countries. An excessive number of bureaucratic restrictions and requirements have been put in place to protect worker and consumer rights, enforce tax obligations and a wide range of sector, national and municipal rules and regulations. In practice, however, they usually lead to corruption and informality.

The legal framework for productive activities in the countries of the Region gives preference to protecting the side that is assumed to be the weakest in market relations: workers versus companies, consumers versus producers, debtors versus creditors, and, in the past, domestic versus foreign companies. These legal biases have rarely resulted in effective protection for the set of companies or individuals they are designed to defend. In practice they have contributed more to economic duality, where only a segment of workers, consumers or debtors benefit from the regulations, while the rest are excluded from formal economic relations, with adverse implications on their productivity and on their capacity to escape poverty. Clearly, the solution is not to ignore the rights of workers, consumers and debtors, but to balance them with the rights of employers, producers and creditors, and adopt effective mechanisms based on the system of incentives.

*Improvement of effectiveness of labor protection systems*. Although its declared purpose is to protect workers, labor legislation in many countries has not achieved this objective because it leads to the exclusion of large segments of workers from the benefits of formal employment. Given that there are no markets that cover workers for risks derived from industrial accidents, loss of job, disability, retirement or death, government intervention is required to protect them. However, the political discretion and the lack of economic criteria with which social security systems have operated have provoked, in many cases, their virtual bankruptcy, low coverage of the population, and significant distortions in the labor market. In recent years, the reforms of social security systems have focused on pension systems. However, important deficiencies persist in areas such as protection from the risks of dismissal, setting minimum wages and other compulsory legal benefits. The suitability of the existing systems should be evaluated on the basis of level of coverage, the ratio between employee benefits versus contributions imposed by the system, and the existence of other less distorting alternatives at similar costs.

*Improvement of the institutional capacity of regulatory agencies*. The effectiveness of legal and regulatory systems is critically dependent on the capacity of individuals and organizations and on mechanisms of public control to make them respected and enforced. Issuing regulations is not sufficient, however well designed they may be, if the government fails to take into account the institutional environment in which they will be implemented. This implies, moreover, that there is no ideal normative or regulatory framework that can be applied equally to all countries to improve competitiveness, only general guidelines which have to be developed and adapted to each case.

In particular, in the last decade the option to create legally independent bodies to regulate privatized sectors, tax collection and conduct monetary policy has gained popularity. The degree of success of these bodies has varied, leaving the lesson that mere formal or legal independence is insufficient. For independence to be effective, these bodies need political and social institutions that foster the operation of systems of control and supervision. If governments are not constrained by political mechanisms and public supervision practices that effectively prevent them from interfering in the decisions of these bodies, independence can never be more than a formality. Independence is not an end in itself, but rather an instrument to contain opportunistic and rent-seeking behavior.

Competition in the markets for goods and services is possibly the factor that most influences productivity. Public and private monopolies, cartels and vertically integrated companies are common in many sectors of Latin American countries. The purpose of the competition regulation agencies, only recently created in many countries, is to prevent abuse of dominant market position by monopolies, cartels or integrated companies. However, their effectiveness is limited by low levels of experience, by constraints on budgetary and human resources, and by lack of complementary institutions, such as adequate information systems to facilitate case studies, or independent, knowledgeable and expeditious judicial systems that help to enforce decisions. Given that the tasks of these agencies exceeds their capabilities, they need to concentrate on a few problem areas where they can be effective, such as cartels or exclusive distribution agreements in consumer product markets. To perform their functions, the competition regulation bodies need legal powers to enable them to demand information from companies under scrutiny and to take decisions that are enforceable without judicial action. These powers must be adequately controlled, allowing for example appeals in important cases, publicizing all decisions and establishing the case-law record of past decisions. To grant greater independence from the government and the judicial system, it is desirable that Congress appoints the regulator, and that the agency has administrative and budgetary independence.

*Taking advantage of the opportunities offered by international trade*. International trade is a fundamental source of competition in the goods markets. As the Regional Integration Strategy establishes, although in principle foreign trade is a form of competition that is easy to create and maintain, it sometimes requires support from the public institutions that record and oversee transactions, collect taxes, administer international integration agreements and regulate exports and imports.

*Integrate the private sector into the design of programs to increase competitiveness*. The failure of supply policies, in which governments selected the sectors that should receive support, and in which frequently there was a poor utilization of public resources, led to rethinking the role of the public sector in competitiveness policies. These policies now require the participation of the private sector in the design of productive development programs, and emphasize programs based on effective demand from companies, rather than on discretionary decisions by governments or their suppliers. Similarly, important operational lessons can be extracted with respect to the mechanisms of execution and delivery for all types of "active policies, in which execution of programs by private agencies, or through private wholesale entities, has been much more effective than the execution by public bodies. The efficient execution of programs by private agencies and the supervisory capacity required in these cases by the public sector is another important lesson learned in recent years. The lessons learned in the field of the evaluation of programs and policies are especially important. Any investment of public funds in productive development has necessarily to prove its effectiveness through measurement of results, reflected in the mobilization of private funds, generation of additional income, return on investment (including the public sector) and improvement in the competitiveness conditions of companies.

In particular, the private sector has to be included in the design of programs to improve the productivity of micro- and small enterprises. Some lessons can be derived from the evaluation document of the Bank's actions and strategy for Small- and Medium-Sized Enterprises (RE–273), prepared by the Office of Evaluation and Oversight (OVE). It is worth mentioning the need to include the private sector in the design of programs to find innovative formulas for intervention, which can confirm the diagnosis of the sector and demonstrate the importance of the proposed actions. It is also necessary to include in the Bank's diagnosis of the conditions of competitiveness in the various countries, the problems of the SMEs, including an analysis of their market segments, their dynamic and the main challenges to improving their competitiveness and productivity. Finally the sector requires instruments that strengthen its strategic capacities in the management of new business, introduce information technologies, facilitate adaptation and development of innovation, support access to new markets, stimulate business alliances, develop new financial vehicles linked to the capital market, and promote the development of entrepreneurial capacities.

*The need to take environmental aspects into account in efforts to improve competitiveness*. From the point of view of the environment and the management of natural capital, the lessons show that an efficient and credible normative and regulatory institutional framework is fundamental for facilitating public and private investment. Although such a framework is present in practically all of the countries of Latin America and the Caribbean, its capacities are considered to be weak; the weakest areas being perhaps monitoring and inspection. Another lesson has been that, at the core of environmental problems, is the lack of effective incentives for environmental protection and management of natural resources, which is a critical aspect for competitiveness because the systematic deterioration of natural capital eventually puts a brake on productivity. This leads to the conclusion that the application of economic instruments that give the right signals for appropriate environmental behavior is essential. These instruments have to be accompanied by institutional actions to facilitate their application, such as property and user rights, registries and inventories of use, as well as open information on the supply and demand of environmental goods and services.

The lessons also show that the environment can be a good business in which private initiative and private investment can contribute to its quality and value-added. The role of the private sector has been shown to be fundamental and effective in areas such as: environmental markets associated with agricultural production; markets for environmental services associated with forest development, biodiversity, renewable energy and eco-tourism; concessions for private management of environmental components (protected areas, sewage treatment); and investment in industrial decontamination, waste handling and clean production processes. As part of the environmental management process, it is important to strengthen these positive aspects of private enterprise, including actions to generate capacities at the level of associations, chambers of commerce and other actors, which can make environmental management more effective from the private point of view.

# AREAS FOR BANK ACTION

Based on the previous diagnosis and lessons learned, this section presents the Bank's priority action areas, which are aimed at: (A) efficient mobilization of financial and capital resources; (B) improvement and higher productivity of human resources; (C) efficient provision of infrastructure services; (D) development and assimilation of new knowledge and technologies; (E) more effective support institutions for private productive activities; and (F) competitiveness and the productive and sustainable management of natural capital. The actions focus on alleviating market failures of the main productive resources, in the areas in which the Bank has a comparative advantage and the capacity to influence national policies. The Bank's actions, in coordination with MIF and IIC, will also seek to ensure that factor markets develop in a way that makes them more accessible to different regional areas, and to the majority of companies in each country, irrespective of their size.

In addition to the specific actions described below to raise the countries' competitiveness, strong macroeconomic fundamentals and conditions of economic stability are needed as a prerequisite to increase productivity. A sound macroeconomic environment includes fiscal, financial and external sustainability of the economy. As mentioned in the Strategies for Sustainable Economic Growth and Modernization of the State, and given the particular functions and comparative advantages of other international organizations, the priorities of the Bank's action in this area will be: strengthening tax systems and their administration; improving budgetary institutions and fiscal management; strengthening sub national fiscal institutions; and giving access to financial resources during temporary external imbalances.

## CAPITAL AND FINANCIAL RESOURCES

To promote policies and institutions leading to the mobilization and efficient utilization of financial and capital resources, and given the Bank's experience, it is recommendable that it concentrate on supporting countries in: (a) strengthening the legal and institutional framework in which financial systems operate; (b) developing financial regulatory agencies; (c) strengthening capital markets; (d) strengthening property rights over assets (particularly of the poor), such as land and housing; and (e) developing micro finance systems and other alternative institutions to expand access to credit.

a) *Strengthening the legal and institutional framework in which the financial systems operate*. The depth of the financial system is fundamental for stimulating competitiveness and growth. Consequently, the basic quantitative criterion to be used to determine the Bank's priority actions in this area will be the ratio of private sector credit to GDP. In most countries of the region, this ratio is very low in comparison with international standards, given the income level of the countries. Many different factors can limit the depth of the financial system. Particularly important are the Rule of Law and the effective operation of the judicial system, issues that are discussed in the Modernization of the State Strategy. This Competitiveness Strategy will focus especially on the institutional and regulatory barriers that most directly inhibit the development of the financial system. Particular attention will be paid to the effective protection of creditors' rights, that is the capacity of creditors and debtors to enter into contractual agreements with independence of the contracting parties, coverage of the risk of default and certainty of enforcement of the agreed terms. The Bank will help governments to set up regulatory and institutional systems that guarantee the rights of creditors and enable the private sector to manage its risks efficiently. The Bank will help countries to limit the role of State-owned banks to the provision of support services for the private segment of the system in activities that the private sector cannot provide on market conditions.

b) *Development of the financial regulation institutions*. Strengthening financial regulation and supervision is fundamental to guarantee the stability of the financial system. The authorities in each country must promote a stable macroeconomic framework and a set of rules and mechanisms to enforce them, which enable an adequate management of the risks assumed by the financial system, thus protecting the integrity of deposits. International standards in this area are evolving rapidly and the authorities must make efforts to keep abreast of developments. It is also important to bear in mind that not all international agreements are applicable to all the countries at all times. The recently proposed changes to the Basle agreement, for example, require internal systems of risk evaluation which several countries do not have and which take time to develop. The Bank will assist countries to adapt their regulation and supervisory systems to international standards, based on the priorities and possibilities of efficient operation of these standards in the conditions of each country.

c) *Strengthening of capital markets*. The capital markets of Latin America and the Caribbean also have deficiencies that are closely linked to the legal and institutional frameworks. In particular it is necessary to strengthen the property rights of investors, especially small shareholders and institutional investors. It is also necessary to rebuild confidence in mortgage markets, undermined in many countries by episodes of high inflation in recent decades, by government interference in credit conditions and by lack of long-term saving instruments to finance credits. Insurance markets are another incipient segment of the capital market in most countries in the region whose development is necessary to improve the conditions of competitiveness in different sectors. Separate mention should be made of the pension systems that have been reformed in several countries in part to strengthen capital markets (this topic is discussed in the Social Development Strategy). The IDB will support countries in modernizing legislation and institutions with a view to creating incentives for development of capital markets. However, especially in small countries, this will not be sufficient to guarantee the efficient development of these markets. In the small economies, the development of capital markets (and even the financial system) has to assume a regional dimension. Consequently, the Bank will assist countries to produce uniform standards, practices and regulations, to facilitate the international integration of stock markets, especially among the small countries. The Bank will also support efforts at macroeconomic coordination among the countries of the region, in order to moderate fluctuations in financial conditions and capital markets, especially between the members of trade agreements, as indicated in the Regional Integration Strategy.

d) *Improvement in the property rights of assets (particularly for the poor) such as land and housing*. Access to credit for the poorest sectors of the population is hindered in many Latin American and Caribbean countries by deficiencies in the systems of property registration and guarantees. Millions of informal and rural workers own properties that could be used to guarantee access to credit if their property titles were legally clear and the guarantee registries unified. The Bank will assist countries to improve their property and guarantee registration systems. In rural areas, the Bank will also promote access to the land by poor producers through low-cost mechanisms, such as leasing markets and shared financing. These actions will receive attention in countries where wide differentials have been detected in income and productivity between workers in the formal and informal sectors (including small farmers), or where there is direct evidence of lack of access to credit for specific groups of producers (such as indigenous communities).

e) *Development of micro finance systems and other alternative institutions for expanding access to credit*. The access by microenterprises to credit is still enormously limited, and only a small percentage of microentrepreneurs has external sources of finance, which in most cases is of an informal nature. The creation of sustainable financial intermediation systems for microenterprises has to be based on the strengthening of micro finance institutions, which can be done through different approaches. On the one hand, through the gradual professionalization, modernization and formalization of the micro financial institutions that are currently placed outside the formal financial system. In order for this to be possible, it will be necessary to develop a specific regulation for the sector, as well as for the credit union sector. These regulatory activities must be accompanied by a complementary effort by the Superintendencies of Banks, to supervise the formalized and regulated micro finance institutions. The fact that the sustainability of micro finance institutions is increasingly associated with their capacity to attract savings from their own market segment strengthens the need for their regulation and supervision, which will contribute to increasing financial depth. On the other hand, to the extent that micro finance reveals itself as a profitable activity, it will receive greater attention from the formal commercial banks. To facilitate this process of increasing the micro credit portfolio of the banks, it will be very important to develop specialized techniques for risk valuation, which banks will need to incorporate if they genuinely wish to enter this market segment. Additionally, the rapid growth of the micro finance activity must find its own source of finance. In this sense, it will be critical to create the conditions that favor the investment of private capitals in micro financial institutions, for which the conditions of accounting transparency and solvency are vital. Finally, it is necessary to mention the conditions of the regulatory environment and the operation of institutions (from property rights to guarantees over assets), which are further developed in other sections of this document. The Bank will support the Superintendencies of Banks to strengthen their professional capacity to regulate and supervise the micro finance institutions, and will continue to strengthen the micro finance institutions, not only in the credit activities, but also in attracting savings and the development of other financial products. In this sense, it will support the capacity of the base organizations to administer their loan portfolio, favor growth and *upgrading* of the micro finance institutions so that they can become regulated entities, and will facilitate the *downscaling* of the commercial banks that are interested in serving the micro enterprise market segment. Likewise, the Bank will support the quality and availability of information on the micro finance institutions and their risk analysis, in order to favor the attraction of private capital for their financing.

## HUMAN RESOURCES: LABOR TRAINING, LEGISLATION AND INTERMEDIATION

The Bank will promote policies and institutions to develop human capital and raise the efficiency of human resources. The Bank's long tradition in assisting educational sectors has created a valuable experience. The Social Development Strategy includes a series of policies aimed at reforming the educational sectors and improving human capital in order to, among other things, reduce dropout rates, adapt education to provide basic skills, and facilitate the transition from school to work. The Competitiveness Strategy emphasizes specific aspects related to the labor market, placing emphasis on competitiveness and productivity. To improve productivity in this field, the Bank will give priority to the following areas: (a) reform of labor training systems to introduce competition, promote the participation of the private sector and enhance the relevance of training; (b) mechanisms for training entrepreneurs and workers, in order to strengthen micro-, small- and medium-sized enterprises, and improve their productivity and trading opportunities; (c) modernization of labor and collective bargaining legislation with a view to facilitating the hiring of labor in the formal sectors, reducing the labor costs due to unnecessary legislation, facilitating relations between employers and workers and improving the conditions for worker protection; and (d) strengthening systems of labor intermediation to facilitate job seeking and identification of employment opportunities.

a) *Reform of training systems*. A skilled workforce is crucial if companies are to improve their competitiveness. Training must receive priority in countries in which the level of education of the labor force is low, relative to the country's development and income level, or where the indicators of employers' opinions on the quality of the workforce are very unfavorable, relative to the country's level of development. To improve worker skills, almost all countries will have to make sweeping reforms of public training institutes, traditionally based on a model where training is considered to be a public good which the private sector would not produce for itself, and which has to be financed by a payroll tax. The general perception in the region is that this scheme of organization generates a type of training that, with some exceptions, is not up-to-date or relevant to companies' needs. Thus, the Bank will promote the reform and reorientation of the public and private training institutions, so that private sector demand defines the provision of training, and that more of it takes place on site, in the workplace, rather than in the classroom. The public sector will move away from its role as a provider of training, and towards a role as regulator of the training provided by the private sector. A successful strategy for reforming the training system requires the support of education, tax and labor policies, which go beyond reform of the public training institutes. For its part, tax policy can play a crucial role in facilitating the acquisition of skills by workers. As a minimum, investment in training should receive the same tax treatment as investment in physical capital. The Bank will assist countries in the region to implement transparent tax schemes, adapted to each country's conditions, which contribute to improving the incentives for private training. In the area of labor policy, several fronts should be taken into account. The regulation of the labor market should permit innovative forms of hiring, in which employers and workers decide how to generate high quality training and how to share the costs of the training. The inclusion of training clauses in collective agreements could be such an instrument. Additionally, the mechanisms of temporary income protection for unemployed workers should include options beyond mere monetary transfers. The objective should be rapid and adequate reintegration into the labor market. In this respect, the Bank will support the development of intermediation services (see below) and retraining for unemployed workers, which responds to specific market demands.

b) *Promote training for employers and workers of micro, small and medium enterprises.* The micro, small and medium-sized enterprises, as well as small rural producers, account for nearly three fourths of employment, and employ the bulk of the poorest workers in the countries of the Region. These enterprises and producers have severe productivity problems, and they confront constraints to access training programs, due to their small size and lack of administrative sophistication. Increasing the productivity of these workers and improving the competitiveness of these enterprises will be critical to improving social equity and competitiveness. As a criterion to analyze the priority that should be assigned to this area, the income or productivity gaps between similar workers in the large and small enterprises will be used. The Bank will assist countries with the design of training programs especially adapted to the conditions of micro, small and medium-sized enterprises, as well as small rural producers, since traditional training systems do not usually reach these groups. A possible modality is to go through private producer chambers and other associations that are closely involved and have empathy with the problems of small producers. To support these initiatives, the Bank recognizes that the probabilities of success are higher when the program starts by identifying groups of companies or producers with similar characteristics and needs based on location or the nature of their production, and when technical support is offered to assist the companies to identify better ways to organize and market their production, and consequently identify the training needs of their workers. A public policy objective to promote the first stages of worker training for small enterprises or producers will be to demonstrate its profitability through improvements in productivity, and consequently gradually generate a market for training services. The experience with the use of training bond programs is one of the mechanisms to generate the market from these services from the demand side. Additionally, the Bank will promote financing mechanisms to train young, low-income workers, who may not be able to access the training systems due to imperfections in the credit markets.

c) *Modernize labor legislation and policies.* Labor legislation in Latin America and the Caribbean is intended to protect workers in the employment relationship, rather than facilitate the operation of the labor market. In those countries where the rates of informality are higher and the employment rates of the population of working age are lower, relative to international benchmarks, the modernization of labor legislation must be considered a priority in the Bank's activities. However, the Bank will take into account that all labor legislation must reflect a social accord, and that any reform should be the result of broad social dialogue and consultation. In order for the labor market regulation to contribute to job creation and competitiveness, its main objective must be to correct market failures, which should be differentiated from the objective of protecting workers. To achieve the first objective, labor legislation must promote the free and rapid creation of jobs, prevent discrimination, and restrict employer collusion. In many countries, the existing legislation works against competitiveness, among other reasons because it discourages or prevents temporary or flexible employment contracts, limits payments based on productivity and hinders dismissals, even when businesses have economic problems.

Apart from facilitating the creation of jobs and protecting the worker, labor institutions should facilitate labor relations between employers and workers. The legacy of a culture that sees these relations as a game of losers and winners, along with the predominance of asymmetric information in the labor market, are sources of conflict that need more channels for resolution. This situation results in industrial relations marked by lack of cooperation, which has negative consequences on labor productivity. The Bank will assist countries in establishing spaces for dialogue and negotiation, and mechanisms and institutions for conflict prevention and settlement, to facilitate the development of more cooperative labor relations.

d) *Strengthening labor intermediation systems*. To increase the productivity of workers and firms, it is necessary to have fluid channels of information that help companies and workers to identify opportunities for the best use of human resources. Thus, the Bank will assist countries to set up intermediation systems to facilitate the process both job search and hiring of employees. It will also assist in creating incentives for the incorporation of mechanisms for the identification of job identification within training systems.

## INFRASTRUCTURE SERVICES

The Bank will promote policies and institutions for the provision of infrastructure services, including energy, telecommunications, transportation, water and sanitation. The Bank, which has played a leading role in the privatization and modernization processes in the infrastructure sectors, should now concentrate on the following activities to assist countries to consolidate the progress achieved, and complete the reforms needed to reach the original objectives: (a) adaptation of regulatory and legal frameworks, and strengthening of the regulatory and market institutions involved in the provision of infrastructure; (b) financing of infrastructure investments, including the design and implementation of new modalities of access to domestic and international capital markets and expansion of coverage to underprivileged segments; and (c) support for the processes of restructuring and sale of state-owned companies.

The consolidation of the reforms in the infrastructure sectors requires the support of institutions that are indispensable for the smooth operation of markets, such as the rule of law, an efficient judicial system, strong property rights, and mechanisms to control monopolies and prevent and cover the main systemic risks. These topics are discussed in the Modernization of the State Strategy.

a) *Adaptation of regulatory and legal frameworks, and strengthening of regulatory and market bodies for the provision of infrastructure*. The success for the option of incorporating the private sector in the provision of infrastructure is critically dependent on the regulatory frameworks set up to stimulate competition, raise efficiency and enhance the quality and coverage of services, without neglecting the needs of remote and low-income sectors. The Bank will continue to assist countries to develop and adapt regulatory frameworks and strengthen the regulatory, policy-making and public contracting bodies indispensable for achieving these objectives. There is no single formula for the regulation or supervision of private activity that is valid for all the infrastructure sectors, much less for the different countries. However, there are some elements that can contribute to the success of the regulation, which the Bank will promote. First, strengthening the credibility and technical competence of regulatory bodies, by identifying and removing barriers of different types, which have hindered its operation in the past. The Bank will take special note that the regulatory frameworks and modalities that each country chooses are in line with the technical and institutional capacity of the regulatory agency. Experience has shown that regulatory frameworks that are excessively complex for the capacity of the agency facilitate their capture and reduce their credibility. Second, the Bank will support the countries in establishing public oversight mechanisms to review the operations of the regulating agencies, in order to protect the users, suppliers and the government, without interfering in the independence of the regulatory bodies. For this purpose, it will support the adoption of mechanisms to enhance accountability and to strengthen auditing and judicial systems to accomplish this oversight role. Third, the Bank will support the strengthening of State capacity for policy definition, planning and public contracting. In separate documents, the Bank will define in greater detail the support and regulation strategies for each infrastructure sector.

b) *Financing of investments in infrastructure, including the design and implementation of new modalities of access to domestic and international capital markets*. Access to financing is one of the main barriers that Latin American and Caribbean countries face in developing their infrastructure. In the past, these investments were financed primarily with public funds, but the fiscal constraints and the rapid technological change in these sectors have imposed the need to bring in private capital. The Bank has to act as a catalyst for private participation in the financing of infrastructure, which can be discouraged by high market risks and political risks, which affect the conditions of participation and ownership of investments. Although private agents are more qualified than the government or international organizations to evaluate and mitigate market risks, they can require protection mechanisms against political risks. The loans or guarantees that the Bank may offer should seek to help mitigate the political risks, without destroying private incentives for evaluating market risks (demand and cost risks). The Bank should also contribute to reducing the political risks by promoting sector reforms and regulations. In addition, the Bank will support the development of financial instruments to facilitate the financing of these investments. For example, it will support the development of long-term and local currency instruments. The growing importance of pension funds in the region opens a window for financing investments in infrastructure; however, the financial instruments to enable this have to be developed.

c) *Expansion of coverage to underprivileged segments*. The productivity of the poor depends on access to infrastructure services, including electricity, water, communications and transportation. The Bank will support specific actions aimed at promoting public and private investment in infrastructure for the poor and excluded, especially in rural areas, where infrastructure deficiencies are more significant. The Bank will promote programs to provide low-income groups access to basic services (particularly electricity and water) in conditions of environmental and economic sustainability; the Bank will assist with the adoption of appropriate technologies for power generation and telecommunications in rural areas where conventional technologies may not be efficient; and will promote local management of basic infrastructure and transportation systems, taking into account local cultural conditions, especially in ethnic areas. When the delivery of a public service has been privatized, the Bank will also take into account the need to create incentives to extend the services to remote regions and low-income groups. The Bank will support mechanisms that facilitate expansion of coverage through explicit subsidies for network and connection expansion, but will not support hidden subsidies. Cross-subsidies between market segments will be acceptable, provided that they are adequately designed and prove to be the most efficient option for achieving the objectives.

d) *Support for restructuring and sale of state-owned companies*. The Bank will continue to support re-structuring and privatization processes of state-owned companies, incorporating the lessons learned, where the economic and institutional conditions of countries provide an adequate basis on which the reformed sectors can improve the efficiency, coverage and quality of services in environmentally, financially and physically sustainable conditions. These processes will take into account the need to foster access to the low-income and rural areas, as stated in the previous paragraph.

## DEVELOPMENT AND ASSIMILATION OF NEW TECHNOLOGIES

Policies and institutions for the development and assimilation of knowledge and new productive technologies are an essential area for competitiveness, in which the Bank can assume a leadership role to strengthen the development of innovation systems in the region. This area should receive priority, when the indicators of efforts and results in science and technology (such as total spending on research and development, participation of the private sector in research and development spending, the number of researchers and publications, or the number of patents) are low relative to the level of development of the country. Science and technology policies, especially the definition of priorities between basic and applied research and the dissemination of technology, must respond to the institutional and productive characteristics of each country. Consistent with the Science and Technology Strategy, actions should concentrate on (a) diagnosis of the innovation systems; (b) strengthening institutions that generate science and technology; (c) strengthening intellectual property rights; and (b) speeding up technological improvement in small enterprises and poor producers.

a) *Diagnosis of innovation systems*. In order to be effective, an innovation system requires a fluid interaction between its components, including universities and research institutes; technological institutes; technology, communication and information services companies; companies that produce goods and services; and the government and institutions that regulate relations between these agents. The Bank should promote evaluations of national innovation systems, to identify their strengths and weaknesses and forms of interaction. These evaluations should take into account the economic and institutional environments in which the processes of generation, dissemination and utilization of technology take place, including the ease in setting up companies, development of cooperation agreements on innovation, respect for intellectual property rights, operation of patent systems, and national and international regulatory frameworks in the area of technology transfers and service trade.

b) *Strengthening the institutions that generate science and technology*. The Bank will support integrated programs to strengthen the organizations that generate science and technology and the institutional system in which they operate. In these efforts, special attention should be paid to the technological institutes, which were originally set up in many countries to produce applied research but which have frequently failed to develop relations with the productive sector for the development of useful applications to increase productivity. Dependence on public sector budgets and lack of incentives to forge closer links with productive sectors have limited the effectiveness of these institutes. The same applies, to a large extent, to the public universities, which often have not succeeded in operating as a central element of the science and technology system, which should be their function. The Bank's experience and capacity for developing projects and programs of institutional reform are a very valuable asset for working in these areas.

c) *Strengthening intellectual property rights*. The Bank will support the development of systems for protection of intellectual property and patents, as part of broader programs of local technological development, including the promotion of innovative mechanisms for protection and promotion of traditional knowledge. Additionally, support for the institutes and agencies that administer patent systems can generate information mechanisms for spreading technologies that are already in the public domain.

d) *Speed up the technological improvement of small-, medium- and microenterprises, and independent producers*. The rate of assimilation of the new information technologies in most Latin American and Caribbean countries has been more rapid than might have been expected for their income levels. The factors that explain this initial dynamism are the opening of the countries to trade and foreign investment, the high level of education of employers and employees of large companies, and the modernization of the telecommunications sectors in many countries. But these factors of initial success do not guarantee an equally rapid dissemination towards smaller enterprises. This will depend to a large extent on the ease with which new formal companies can be set up, on access by small- and microenterprises to information and sources of capital and financing, and on the response capacity of training systems to the new demands for technological education. These issues are dealt with in other sections of this Competitiveness Strategy. Additionally, in the countries where these basic conditions of success exist, the Bank can contribute to maintaining the rate of penetration of the new technologies with the aim of reaching small enterprises and producers, through programs that facilitate access to information technology and technical assistance; stimulate the cooperation on research and development between companies, and between companies and technical institutions; develop and disseminate technical standards for products, processes and quality standards; strengthen the ability to identify, generate and adopt appropriate technological innovations to environmentally sustainable rural economic activities; expand the Internet infrastructure through telephone cabins, rural telecenters, community information centers, or centers accessible to small enterprises; and promote the training of poor workers, micro entrepreneurs and small rural producers in the use of these technologies, including their incorporation into the school curricula. The Bank may also support pilot programs or creative experimental efforts, which seek to develop new technological applications, particularly in information technology.

## COOPERATION FOR COMPETITIVENESS

The Bank will promote effective institutions that support the functioning of private productive activities. The modernization of different aspects of the public administration can contribute to improving competitiveness in the countries of the region. The Modernization of the State Strategy includes a series of actions related to the transparency and effectiveness of the agencies involved in regulating economic activity, protecting consumer rights and other areas related to the participation of civil society in overseeing the economic decisions and activities of government and the private sector. This strategy, consistent with the Modernization of the State Strategy, is concerned with the strengthening or development of institutions directly related to competitiveness in the fields of: (a) cooperation between the public and private sectors to improve competitiveness; and (b) promotion of corporate social responsibility.

a) *Facilitate cooperation between public and private sectors to improve competitiveness*. To improve the climate for private productive activities, the Bank can act as a catalyst and support the processes of dialogue and cooperation between the public and private sectors (including entrepreneurs, workers, academics), which lead to consensus-based strategies and action plans to improve competitiveness at the national, regional or sector level, and to move forward with legal and institutional reform processes in order to facilitate the establishment of new companies, technological improvement and increases in productivity. This activity includes support for clusters and the strengthening of productive chains, through associative efforts between companies of different sizes or sectors, and between these and the academic and public sectors. Because of its importance for the productivity of the poor, the Bank will emphasize the associative capacity of small rural producers and promote local, integrated and participative programs, co-financed and preferably managed by the private sector, to provide business development services to microenterprises, emphasizing cooperative systems of production or distribution and the inclusion of microenterprises in programs to develop production networks and chains to exploit economies of scale, connect them to domestic and international markets, and achieve reductions in the costs of supplies, production and distribution. In order for this public-private dialogue to be effective, both parties need strong professional institutions. In many countries, it will be necessary to strengthen the capacities of the public sector to perform diagnoses, identify and debate the priorities with the representative entities of the private sector, jointly design specific programs, agree their execution with private entities and, above all, adequately supervise, follow-up and evaluate their results. Technical and professional public institutions are necessary to foster competitiveness.

b) *Promote corporate social responsibility*. Corporate Social Responsibility (CSR) is understood as the consideration and incorporation by corporations of a number of social and ethical factors and responsibilities, beyond their traditional line of business, within their corporate strategies and decision-making processes. These social and ethical considerations encompass a broad range of issues, from sustainability, the environment, labor relations, accountability and transparency, human rights, and community involvement. Corporations take into consideration a broader range of stakeholders, than just their shareholders and upper management, to include their employees, investors, suppliers, consumers, community organizations, and civil society organizations as a whole. CSR is perceived to be an important component of success and competitiveness of companies, in the highly competitive global markets, and may yield significant benefits to both the enterprise and its stakeholders. The IDB Group will promote CSR, as a means to increase private sector competitiveness in the Region, as well as to generate value for the enterprises.

## COMPETITIVENESS AND SUSTAINABLE MANAGEMENT OF NATURAL CAPITAL

The Bank will promote the preservation and sustainable management of natural capital. Economic growth can affect natural capital through overexploitation of natural resources and increased pollution from productive processes. But economic growth can also be the vehicle for the generation of services and development of markets and institutions that favor the sustainable use of natural resources and upgrading of environmental conditions. Different actions link competitiveness, environment and the management of natural resources. The priority areas for Bank action in the environmental area that are fundamental for stimulating competitiveness are: (a) actions to preserve the productive value of natural resources through the development of eco tourism, financially sustainable management of protected areas, and biodiversity protection, among others; (b) actions to promote the adoption of clean production processes and private participation in the development of new markets for environmental services through the certification and adoption of clean production processes and the promotion of private management of sanitation services, protected areas, eco tourism and forest concessions, among others; and (c) actions to capitalize on global and regional opportunities such as the Clean Development Mechanism (CDM) for reduction of greenhouse gas emissions through the financing of activities that fix carbon through biomass production projects; among others. These actions are described in more detail in the Environment Strategy.

# OPTIONS FOR BANK SERVICES

The Bank's instruments and services should make a coordinated contribution to the achievement of the objectives of sustainable economic growth, and poverty reduction and promotion of social equity. Competitiveness will be an integral and specific part of the processes of dialogue, broad consultation and programming in the countries. These processes will lead to the identification, based on a selective criterion, of the concerted actions of the IDB Group, taking into consideration the needs of the countries, the Group's comparative advantages, and the comparative effectiveness of all the possible interventions. By its very nature, any competitiveness strategy requires an integrated approach and joint implementation by the public and private sectors. The Bank can act as a catalyst and promoter, through its financial and nonfinancial instruments.

The IDB Group has a set of financial instruments for contributing to the improvement of competitiveness in the Region and, if new instruments are necessary, it has the capacity to create them. Traditionally, the Bank has supported programs with public sector bodies through investment loans, sector loans, technical cooperation operations (reimbursable and nonreimbursable) and, more recently, through emergency loans and flexible lending instruments. The Bank has also been developing different operating modalities with the private sector without government guarantee, including loans, guarantees, capital investment, and the Social Entrepreneurship Program. In programs that effectively support efforts to improve competitiveness, these aspects of activity should be complementary to an integrated and coherent approach within the IDB Group. The Private Sector Coordination Committee, in which all the entities of the IDB Group participate (Inter-American Development Bank, Inter-American Investment Corporation and the Multilateral Investment Fund) is instrumental for this purpose.

The IDB Group also has complementary nonfinancial services and technical assistance, including: support for diagnoses, and the design and implementation of national strategies; policy dialogue; seminars and conferences; research activity; and generation and dissemination of best practices and lessons learned.

This integration process implies that the actions in the area of competitiveness that the Bank supports in the borrowing member countries will be closely coordinated with the actions planned for the objectives of sustainable growth and poverty reduction, and the other priority areas of the Institutional Strategy, which will result in the formulation of integrated packages of activities and operations by country. The activities in the area of competitiveness will be defined in close coordination with other national, regional and multilateral development institutions, and with the private sector; seeking to exploit the synergies of complementary and coordinated interventions. For this purpose, the IDB Group will seek strategic alliances with institutions that bring together the interests of the public and private sectors and civil society, to facilitate and support the selection of programs that offer the highest degree of consensus and ownership.

To strengthen the effectiveness of the IDB Group's contribution in the area of competitiveness, the Bank will identify the programming priorities and actions to enhance the design quality of the programs and their successful execution. At the country level, a Country Strategy will be formulated following the guidelines approved by the Board (GN–2020), with the analytical rigor and procedure recommended in that document, which sets up a framework for the implementation of key actions at the level of: programming; design; and execution of operations. In addition, activities for the support of these key actions in the areas of research, identification of good practices, and knowledge diffusion are specified. These guidelines propose a close coordination with the IIC and MIF. The Bank's Country Strategy will be coordinated with the government, and will take into account the activities of other regional and multilateral organizations, in order to coordinate the activities and exploit the comparative advantages of each institution.

As mentioned in the guidelines for the preparation of the Country Strategies, at the programming level, the IDB Group has used instruments of dialogue and other institutional actions to seek consensus, which have been effective when based on diagnoses and have facilitated coordination with other sources of financing.

If the sector diagnoses proposed in the Sustainable Economic Growth Strategy indicate that the lack of competitiveness is one of the most important constraints to achieve the objectives of growth and poverty reduction, and if national governments request it, the Bank will assist in the preparation of National Competitiveness Strategies, which some countries have already prepared, with the participation of different national sectors and actors.

Taking advantage of its capacity to promote and maintain a long-term agenda in the region, the Bank will emphasize the consolidation or creation of bodies of dialogue and negotiation between the public and private sectors (such as the National Competitiveness Councils, which have already been formed in 11 countries), whose purpose would be to identify priorities and strategies for competitiveness and business development. The work of these bodies will be used as an input into the programming process and into the selection of priority actions in the area of competitiveness in each borrower member country. The Bank will move ahead with the preparation of best practices for this type of institutional competitiveness framework.

Additionally, to encourage a more efficient use of its financial and nonfinancial products for development of private-sector competitiveness, the Bank will promote a better integration of its activities involving the private sector with the programming exercises in each country, with the active participation of the Private Sector Department (PRI), MIF and the IIC, in the tasks prior to programming, in the programming, and in missions to identify specific projects, always under the coordination of the Regional Departments.

An effective and integrated effort in the area of competitiveness, which formulates coordination and implementation mechanisms, requires an appreciation of the timing and sequence of the actions and the use of appropriate instruments in all phases of the competitiveness programs supported by the IDB Group. These programs can include four phases: diagnosis, institutionalization, implementation and impact evaluation.

*Diagnosis*: Given the broad range of issues related to competitiveness, the Bank's interventions should be based on diagnosis of the barriers that prevent the strengthening of competitive advantages and acceleration of the process of sustainable and equitable development. As a result, the IDB Group, in coordination with other regional and multilateral organizations, as proposed in the framework strategy of Sustainable Economic Growth, will carry out sector diagnoses, in order to identify the internal barriers and restrictions that cause the high production and transaction costs, lack of information, low levels of productivity, and obstacles to the efficient operation of markets. These diagnoses, coordinated by the Regional Departments, will be based on sector studies (conducted by the country, the IDB Group or other institutions) aimed at identifying the action priorities for the IDB Group. The diagnoses will be a basic input for the programming dialogue and for the inclusion of the agreed areas on improvements in competitiveness and sustainable and equitable development.

*Institutionalization*: For the definition of the institutionalization of the IDB Group's programs, effective institutional mechanisms will be developed to strengthen the capacity of governments and the private sector to formulate and implement strategies and action plans. In the formulation of programs, it is necessary to define the different levels of action of the public sector, regulatory bodies, executing agencies (public or private), and service providers (private) to make use of their abilities and capacities and reduce risks of market or policy failures resulting from asymmetries of information, high transaction costs or an inadequate allocation of responsibilities and resources.

*Implementation*: Among the participative processes for achieving national, sub national or sub regional consensus on policies and reforms, the Bank will support, where the political will exists, the preparation of National Competitive Strategies as a coordinated guide for the actions of government, private sector and the IDB Group. Some experiences of this type have begun in some member countries at the national and sub regional level, with the participation of different sectors of activity.

Among the specific programs, the Bank will support actions aimed at improving and fostering the quality, comprehensiveness, credibility and representative nature of the processes that lead to the formulation of programs. This requires the identification and implementation of a set of incentives to: (i) promote more systematic and open work with respect to timely access to financing resources and the adequate participative design of the program; (ii) systematically introduce the lessons learned and disseminate all the information used and generated, as well as the best practices; and (iii) coordinate, integrate and share with the IDB Group and the other pertinent financial organizations all the horizontal problems and the recommendations for their resolution. Similarly, to facilitate the measurement of impacts and the monitoring of programs, specific indicators will be developed for the sectors and sub-sectors involved. The design and implementation of these indicators will be essential for evaluating the programs. A preliminary and indicative list of indicators appears in Section 6.

The activities of the IDB Group can include programs both at the macro and microeconomic levels. At the macro level, they can include policy issues, such as fostering economic stability; fiscal equilibrium; provision of infrastructure; reform of regulatory systems; education and training of workers; etc. At the micro level, interventions can improve the business climate, directly assist productive sectors, or grant loans, investment capital and guarantees directly to companies in the region (especially through the IIC and the MIF). Business development services can also be offered to promote productivity, such as: business training, certification, consulting, support for information and communication technology, export promotion, etc.

*Follow-up and Impact Evaluation*: Finally, the programs must incorporate the tools necessary for performance monitoring and impact measurement. The IDB Group will give priority to flexible and timely access to technical assistance on the ground, both during program preparation, as well as during their execution. The formalization of operating audits (complementing the financial audits) and technical audits (institutional, environmental, economic) during the execution of the programs, as well as the systematic generation of key indicators of outcomes and impacts, will permit the continuous assimilation of lessons learned and feedback to the programs themselves or to new ones, while developing the training of professionals, technicians, administrators and workers, in line with the demands imposed by the new programs.

The Bank will intensify the interaction with the private sector at the national and sub regional levels, with a view to informing them of the Bank's services and the mechanisms developed to facilitate the preparation of projects. The Bank will promote a policy dialogue to develop an environment and a set of policies favorable to investment and to the improvement of the competitiveness of the private sector.

Given the special set of problems related to the development of competitiveness in small countries, and in accordance with the Action Plan for the activities of the IDB Group associated with the development of the private sector in the countries of the C and D Groups (GN–2193), the Bank will give special emphasis in these countries to fostering private sector investment, for the modernization and use of technologies, for efficient and environmentally sustainable productive processes that comply with international standards of quality certification, as well as for the development of infrastructure and services, development and deepening of financial systems and capital markets, and development of rural areas. In these countries, projects to improve competitiveness face constraints, particularly related to the development, size and attitudes of the private business sector, scale of markets, development of the financial system, and knowledge of best practices. Specifically, in response to the high transaction costs for investment in modern productive processes and infrastructure in the countries of the C and D Groups, the IDB Group will promote the creation of new financial instruments (for example, private investment funds), based on the identification of problems and solutions in the processes for formulating the action plans to improve production, productivity and market penetration. The experience of IIC, PRI and MIF in similar funds in the Region will be extremely useful. These funds will contribute to identifying programs, attracting the interests of investors, and tapping funds from different sources. These funds will also be useful for capturing and channeling remittances into financing for programs in the private sector, which will stimulate savings. Additionally (as analyzed in greater detail in the Modernization of the State Strategy), it is necessary to develop and consolidate transparent public and private institutions for management of competitiveness resources, and an institutional capacity to design and manage the competitiveness programs.

The Bank will give priority to the design of competitiveness programs, with components focused on the poorest sectors, including initiatives and new approaches to increase the level of assets of the poor, the productive capacity of their economic activities, and their access to markets for goods and services, labor and finance.

*Research, identification of good practices, and knowledge diffusion*. The Bank must be at the vanguard in the generation and dissemination of knowledge of the factors that contribute to enhance competitiveness. A wide-ranging research and diffusion process was carried out on the subject with the preparation, publication, and presentation of the *Economic and Social Progress Report* of 2001. The Regional Departments, RES and SDS will continue this effort with the preparation and diffusion of more specific studies focused on countries, and on problems that affect the operation of the markets for the main productive resources, taking into consideration not only the aggregate variables at the national level, but also the competitiveness factors in different territories, entrepreneurial segments, and productive sectors and sub-sectors. The topics to be studied include: business environment; access to financing; human capital; infrastructure services (electricity, telecommunications, roads, ports); generation, assimilation and effective use of technology and knowledge; productivity in the value chains; and development of entrepreneurial capacities. Emphasis will be given to the institutions and incentive systems required for the proper operation of factor markets and productive resources, taking into account the limitations of the countries and international experience.

*Action Plan*. The implementation of the Competitiveness Strategy requires a set of actions to strengthen its links with the programming exercises and the project cycle of the IDB Group. The specific actions to start up and implement the strategy, include the following:

- Sector diagnoses by country, sub national jurisdictions, or by sub-region or trading bloc, specifically identifying the bottlenecks and obstacles to business productivity, and the opportunities for developing comparative advantages and the competitiveness of the countries.
- Incorporation of lines of action to increase competitiveness in the Banks' Country Strategies, especially in the cases in which sector diagnostics reveal important limitations to businesses productive development.
- Support for the development of competitiveness strategies when considered pertinent, at the national, sub national or sub regional levels; as well as promotion and support for spaces for dialogue and negotiation for the competitiveness of the public sector with the private sector.
- Promotion of a more predominant role of the Banks' agencies dealing with the private sector (PRI, MIF, and IIC) in the design, financing, and execution of projects for competitiveness improvement.
- Support for the development of micro, small and medium enterprise, within the context of competitiveness strategies, which may include access to financing through efficient financial intermediaries; technical and managerial strengthening of enterprises; support to clusters and entrepreneurial productive chains; cooperation between large companies and SMEs; the dissemination and transfer of technology, and promotion of entrepreneurial innovation; and the training of entrepreneurs.
- Development of competitiveness programs with inclusion of components focused on improving the possibilities of income generation for the poorest sectors, including initiatives to promote efficient and sustainable technologies for production and marketing; improve access by the poor to infrastructure services and basic services (water, electricity, transport and telecommunications); training and labor market integration to raise workers' income; improvements in the property rights of the poor and other factors that affect their productivity; deepening of financial markets to permit access by small producers and low-income workers, including those in rural areas; development of productive chains between large companies and SMEs; rural development in marginal areas; and generalized support for microenterprises.
- Promotion of actions to facilitate coordination of efforts between all the functional divisions of the IDB Group, based on the achievement of the objectives and targets in the area of improvement of competitiveness.

- Promotion of programs and projects to foster corporate social responsibility.
- Systematization of processes of lessons learned in the design and execution of programs in the area of competitiveness, in order to introduce best practices as needed in order to achieve quality results in the operations of the IDB Group.
- Creation of capacities at country and Bank level to evaluate the impact of the IDB Group's programs and projects in the area of competitiveness.

To implement the Action Plan, the Bank will pay special attention to the following areas: preparation of integrated diagnostic studies by sector; support for policies and programs in the borrowing member countries to improve levels of competitiveness; monitoring of targets and results of programs for improving competitiveness; and generation and exchange of knowledge at national and regional level on best practices in the programs and projects of the IDB Group and other regional and multilateral financing organizations in the field of competitiveness.

# MONITORING, EVALUATION AND PERFORMANCE INDICATORS

Mechanisms have to be set up to monitor the advances in the implementation of the strategy, and their relation to the strategies for the fundamental objectives and priority areas of the Bank, through the establishment of a system of indicators, monitoring and evaluation of policies and programs. The Bank's support for the development of monitoring and evaluation capacities in the borrowing member countries will be of vital importance for improving, modifying and adapting policies and programs on the basis of agreed upon actions and lessons learned. Evaluations of results and of impact of programs and projects to improve competitiveness must also be undertaken, jointly with the countries. The design of the programs must include the elements required for a careful evaluation of the results and impacts.

The strategy must be results-orientated, which means capacity to monitor and evaluate the actions of the IDB Group in the countries. This task will be based on the Bank's work to improve measurement of the effectiveness of the operations (e.g., consolidation of each phase of the project cycle; programming and design of projects focused on goals; execution focused on results; systems for monitoring performance and evaluation; and ex-post evaluation of results and impact).

The implementation of the Strategy will be monitored through output, outcome, and impact indicators. However, due to the multiple factors that can affect competitiveness, and the impossibility of establishing a direct correlation between the Bank's action and the evolution of these factors, the evaluation through intermediate indicators, as described in the following paragraphs, will necessarily be limited. To overcome this, evaluation by indicators will have to be supplemented with other methods. First, the independent ex-post evaluations of operations by OVE and the borrowing member countries should be continued. Second, the Bank will make efforts to develop methodology to evaluate the effectiveness of projects and specific programs, and to incorporate these methodologies into the design of new projects and programs. Ex-post evaluation will be difficult to undertake if the mechanisms and monitoring systems for generating the necessary information are not incorporated at the beginning of the projects and programs.

*Output indicators*: At this level, the intention is to measure the Bank's contribution to improvements in competitiveness. For each country, the priorities will be reflected in the Country Strategies and Programming Memoranda, which will recommend the specific activities and operations. The monitoring will form part of the periodic documents for the review of the execution of the Bank's portfolio in each country, and be based on the indicators proposed in the Country Strategies. Additionally, as proposed in the Action Plan, diagnostic and sector studies will be prepared, and assistance will be provided to the borrowing member countries that request it to prepare strategies and programs to promote competitiveness. In particular, before 2005 it is proposed to incorporate in Country Strategies actions to improve competitiveness in the case in which the comprehensive sector diagnostics identified important bottlenecks to firm productivity development.

*Outcome indicators*: Results of financial operations and nonfinancial products geared towards improving competitiveness have to be prepared. During the design stage of operations, outcome indicators will be defined, in order to facilitate monitoring.

*Impact indicators*. At this level, the intention is to measure progress in achieving the objective of the strategy, which is to improve the level of competitiveness of the countries, and, ultimately, improve the overall conditions for developing the private sector and increasing factor productivity, in an effort to enhance the quality of life of the population. To measure the progress of the environment for the sustainable development of productive activities, the Bank proposes to use the system of indicators of the *Global Competitiveness Report*. Currently the Report covers 21 countries in the region, and the following areas of competitiveness: i) general indicators; ii) macroeconomic environment; iii) technological innovation and dissemination; iv) information and communication technologies; v) general infrastructure; vi) public institutions (contracts and laws); vii) domestic competition; viii) development of clusters; ix) corporate strategies and operations; and x) environmental policy. This system includes objective indicators in each of these areas, as well as indicators of perception, based on surveys of executives in the countries. An additional advantage of this system is that its broad coverage (currently 80 countries), which provides a basis for establishing international benchmarks in line with the level of development of the countries, with a guaranteed annual frequency. The Bank has established an alliance with the World Economic Forum to contribute to the development of this system of indicators. The Social Development, Modernization of the State, and Environment Strategies, contain other indicators that supplement those proposed here. In all cases, the identification of impact indicators requires prior research to establish the relationships of these indicators with the interventions and policies.

The strategy will be evaluated five years after its approval.

# ANNEX

## Areas of Action for the Bank and their Relation to the Sustainable Economic Growth and Poverty Reduction Strategies

| Areas of Action | Relationship to the Sustainable Economic Growth Strategy | Relationship to the Poverty Reduction Strategy |
|---|---|---|
| **A. Financial And Capital Resources** | **Accessibility to Financial Resources** | **Expand Financial Resources for the Poor** |
| *Objective:* Increase the access of firms to financial resources to increase their productivity and promote social equity. | *Objective:* Increase availability of financial resources for productive activities. | *Objective:* Ease access to financial services for microenter-prises, independent producers, and poor workers and households. |
| • Financial legislation | • Promote the development of the financial system to increase private sector access to financing. | • Financial deepening enables access of the poor to financial services. |
| • Financial regulation | • Guarantee financial sector stability. | • Protect deposits, especially those of small depositors. |
| • Capital markets | • Promote competition and increase the efficiency of intermediation. | • Promote competition and efficiency in the financial intermediation, to reduce the cost of credit and other financial services to the poor. |
| • Strengthening of assets property rights | • Improve property registry and guarantee systems. | • Improve property titling in rural and urban areas, access to land, registration systems and guarantees, for the poor. |
| • Improve access to micro finance | • Create and consolidate micro finance systems in countries with appropriate institutional framework and improve institutions responsible for managing credit rating systems. | • Improve and expand access to financial services for small producers, micro-enterprises, and poor workers and households. |

| Areas of Action | Relationship to the Sustainable Economic Growth Strategy | Relationship to the Poverty Reduction Strategy |
|---|---|---|
| **B. Human Resources** | **Improvement and efficient use of human resources** | **Improve employment options for the poor** |
| *Objective:* Support training programs, and labor reforms, to enhance labor productivity and inclusion. | *Objective:* Support training and labor legislation reform to enhance employment and productivity of the labor force. | *Objective:* Labor reform and training for small entrepreneurs, small producers and workers, to improve their employment and productivity. |
| • Reform training Systems | • Reform public training institutions to make training more relevant to the companies' needs. | • Improve institutions to promote investment in training for the poor. |
| • Training of employers and workers | • Design training programs to foster entrepreneurial development. | • Improve productive capacity of microenterprises by facilitating access to training services and programs adapted to the specific needs of Micro and SME's. |
| • Labor legislation | • Modernize labor legislation to promote the efficient use of human resources. | • Remove obstacles in the labor market to facilitate the insertion of low-skilled workers. |
| • Strengthen labor intermediation systems | • Improve labor intermediation to increase employment and productivity. | • Reduce unemployment of poor workers. |
| **C. Infrastructure Services** | **Improve delivery of infrastructure services** | **Enhance inclusion by expanding access of the poor to infrastructure services** |
| *Objective:* Improve access to infrastructure services to increase productivity and competitiveness. | *Objective:* Expand access to basic infrastructure services. | *Objective:* Increase access to basic infrastructure services in marginal areas. |
| • Regulatory frameworks for provision of infrastructure | • Setting-up regulatory framework in infrastructure that would stimulate competition, increase efficiency and enhance quality and coverage of services. | • Further competition and increasing coverage enables access of the poor to infrastructure services. |
| • Infrastructure investment | • Increase financing for the provision of adequate infrastructure services. | • Increase financing for the provision of adequate infrastructure services in poor areas. |

(continued on the next page)

| Areas of Action | Relationship to the Sustainable Economic Growth Strategy | Relationship to the Poverty Reduction Strategy |
|---|---|---|
| • Restructuring and privatization of state companies | • Support restructuring and privatization processes of state enterprises to increase coverage and efficiency in the provision of infrastructure services. | • Improve access of the poor to basic infrastructure services-water, electricity, transportation and telecommunications — through adequate technology and sustainable systems. |
| **D. New Technologies** | **Assimilation and development of new technologies** | **Expand access of science and technology to the poor** |
| *Objective:* Promote the development and assimilation of new technologies. | *Objective:* Promote knowledge assimilation and the dissemination of new productive technologies. | *Objective:* Promote the diffusion and assimilation of adequate productive technologies among micro and small-size enterprises and agriculture producers. |
| • Diagnose science and technology systems | • Evaluate national innovation systems to identify strengths and weaknesses. | • Identify opportunities to develop and adapt technologies that directly benefit the poor, especially in rural areas. |
| • Strengthen institutions for science and technology generation | • Support integrated programs and organizations that generate science and technology knowledge. | • Promote institutions that generate science and technology for poor farmers and small entrepreneurs. |
| • Strengthen intellectual property rights | • Improve property rights. | • Protect and promote traditional knowledge as part of local development programs. |
| • Accelerate technological improvement of enterprises | • Promote assimilation new technologies in enterprises. | • Promote dissemination of new technologies among small enterprises and producers. |

| Areas of Action | Relationship to the Sustainable Economic Growth Strategy | Relationship to the Poverty Reduction Strategy |
|---|---|---|
| **E. Cooperation for Competitiveness** | **Promote cooperation between the public and private sectors to enhance competitiveness** | **Promote cooperation between the public and private sectors to enhance competitiveness of the poor** |
| *Objective:* Promote the modernization of public institutions that support private productive activities. | *Objective:* Improve the environment for private activities. | *Objective:* Improve the environment for the activities of small producers. |
| • Public-private sector cooperation to enhance competitiveness | • Promote dialogue and cooperation between the public and private sectors to enhance competitiveness and growth. | • Promote cooperation between the public and private sectors, including civil society groups and community organizations, to enhance productivity and growth of microenterprises, through the development of clusters, networks and subcontracting chains. |
| • Corporate Social Responsibility | • Increase factor productivity by improving labor relations and community participation. | • Generate benefits for workers, consumers, suppliers, among them the poorest. |
| **F. Competitiveness and Natural Capital** | **Promote sustainable management of natural resources** | **Environmental management for poverty reduction** |
| *Objective:* Preserve natural capital avoiding overexploitation and increased pollution. | *Objective:* Reinforce sustainable use of natural resources. | *Objective:* Avoid the vicious circle of poverty and environmental degradation. |
| • Preserve productive value of natural resources | • Reinforce the productive capacities of natural resources and guarantee their sustainability. | • Increase the income of the poor based on sustainable and efficient use of natural resources. |
| • Promote clean production processes | • Promote private sector involvement in environmental management to reduce production cost. | • Promote the development of poor local areas through eco-tourism and sustainable management of protected areas. |
| • Capitalize regional and global opportunities | • Increase growth using environmental comparative advantages. | • Take advantage of global and regional and environmental initiatives to improve the welfare of the poor. |