



# Policy and Evaluation Committee

For consideration

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**POVERTY REDUCTION AND PROMOTION OF SOCIAL EQUITY:  
REPORT ON ACTIVITIES IN THE YEAR 2003**

**POVERTY AND INEQUALITY UNIT  
SUSTAINABLE DEVELOPMENT DEPARTMENT<sup>1</sup>**

28 October 2004

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<sup>1</sup> This document was prepared in SDS/POV by Cesar Patricio Bouillon, Luis Tejerina, and Carlos Eduardo Vélez. We would like to express our gratitude to the Bank's regional and central departments whose contributions made this report possible, and to Aura Oradei for her valuable assistance.

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## ABBREVIATIONS

MDG	Millennium Development Goal
MECOVI	Programa para el Mejoramiento de las Encuestas y la Medición de las Condiciones de Vida en América Latina [program to improve surveys and measurements of living conditions in Latin America]
OVE	Office of Evaluation and Oversight
PPP	purchasing power parity
PTI	poverty-targeted investment
RE1	Regional Operations Department 1
RE1/EN1	Environment and Natural Resources Management Division 1
RE1/FI1	Finance and Basic Infrastructure Division 1
RE1/SC1	State and Civil Society Division 1
RE1/SO1	Social Programs Division 1
RE2	Regional Operations Department 2
RE2/EN2	Environment and Natural Resources Management Division 2
RE2/FI2	Finance and Basic Infrastructure Division 2
RE2/OD3	Country Division 3
RE2/SC2	State and Civil Society Division 2
RE2/SO2	Social Programs Division 2
RE3	Regional Operations Department 3
RE3/EN3	Environment and Natural Resources Management Division 3
RE3/OD5	Country Division 5
RE3/OD6	Country Division 6
RE3/SC3	State and Civil Society Division 3
RE3/SO3	Social Programs Division 3
RES	Research Department
SDS	Social Programs and Sustainable Development Department
SDS/EDU	Education Unit
SDS/ENV	Environmental Division
SDS/ICT	Information Technology for Development Division
SDS/IFM	Infrastructure and Financial Markets Division
SDS/IND	Indigenous Peoples and Community Development Unit
SDS/MSM	Micro, Small and Medium Enterprise Division
SDS/POV	Poverty and Inequality Unit
SDS/RUR	Rural Development Unit
SDS/SGC	State, Governance and Civil Society Division
SDS/SOC	Social Programs Division
SDS/WID	Women in Development Program Unit
SEQ	poverty reduction and social equity promotion loans

## EXECUTIVE SUMMARY

In accordance with the mandates of its new institutional strategy, in mid-2003, the Bank approved a new strategy package for its basic objectives and priority areas of action, which reaffirm its commitment to poverty reduction and the promotion of social equity. *Poverty reduction and promotion of social equity* and *sustainable economic growth* are the Bank's two overarching objectives. The comparative advantages for making headway toward these objectives mentioned in the institutional strategy are *competitiveness, social development, regional integration, and modernization of the State*. The cross-cutting nature of the environmental dimension is also recognized in this new approach, to which end the new package includes a new *environmental strategy* that seeks appropriate internalization of environmental sustainability. The strategies propose a renewed and integrated package of actions that the Bank can take to support the countries, with the goal of achieving poverty reduction and economic growth with greater equity that is in harmony with natural capital. These action priorities are consistent with the commitments made by the region's Heads of State and Government to the Millennium Development Goals, particularly the goal of reducing by half the proportion of people living in extreme poverty by the year 2015, compared to 1990 levels.

This report outlines the main activities for poverty reduction and social equity promotion carried out by the Bank during 2003.<sup>2</sup> These activities are presented under the framework of the new poverty reduction and social equity promotion strategy that is now being implemented. The strategy takes a multidimensional approach to poverty, identifying its root causes and the policy actions and programs required to reduce it and to promote social equity. The report presents a selection of innovative examples in loans and operations to combat poverty in the Bank's priority areas of competitiveness, social development, regional integration, and modernization of the State. It also presents the Bank's nonfinancial activities that form part of the action priorities established in the strategy.

The objective of this document is to report on the Bank's activities related to poverty reduction and progress toward the goals of the Eighth Replenishment. Accordingly, it presents a descriptive analysis of changes in poverty in the region and the achievements in the portfolio of approved loans in terms of the objectives mentioned earlier. In accordance with the recommendations of the Bank's Board of Executive Directors, next year's report will present a more detailed analysis of the impact of the Bank's operations for poverty reduction and promotion of social equity, updating the previous year's report. The impact evaluations described in the earlier report pointed to favorable results for the impact of the types of programs supported by the Bank in the region.

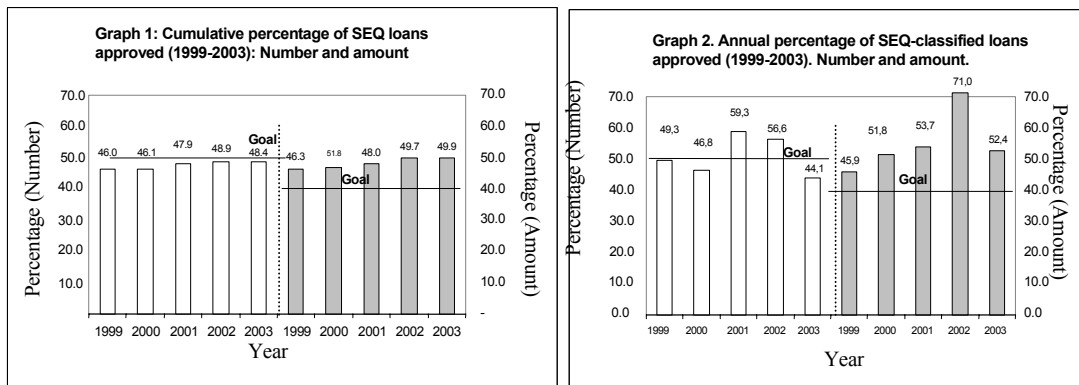
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<sup>2</sup> Information on indicators and classification criteria for Bank loans to measure progress toward the targets of the Eighth Replenishment and the new poverty reduction and social equity promotion strategy can be found at: [http://www.iadb.org/sds/POV/site\\_18\\_e.htm](http://www.iadb.org/sds/POV/site_18_e.htm).

### Poverty reduction activities

*Poverty reduction in the region.* The most recent evidence indicates that the stagnation in poverty reduction in Latin America and the Caribbean that began in 2001 continued in 2003.<sup>3</sup> A projection based on the impact of growth on poverty indicates that the prevalence of poverty (measured by the line of US\$2 a day, PPP) remained virtually unchanged between 2002 and 2003, rising by just 0.14 percentage points. This rise was less than one third of the rise in 2002 (0.47 percentage points), for a level of 34.19%, which may be a sign that upward trend in poverty indicators is close to peaking.

*Cumulative indicators of progress toward the Eighth Replenishment targets.* The target for amount has been surpassed and the target for number is very close to being achieved. With respect to compliance with the indicative targets of the Eighth Replenishment, in cumulative terms, the value of social equity promotion loans (SEQ) approved between 1994 and 2003 was the equivalent of 49.9% of the total value of the regular loans approved by the Bank in that period, which was higher than the cumulative target established in the Eighth Replenishment of 40%. The number of SEQ loans approved in the period 1994-2003 equaled 48.4% of the total number of loans, which is still below the Eight Replenishment's target of 50% (see Graph 1).



*Annual indicators compared to the Eighth Replenishment targets.* The amount exceeds and the number falls short of the goal. The annual performance of the SEQ loan program contributed to compliance with the cumulative targets for amount under the Eighth Replenishment but was lower than in 2002 (amounting to 52.4% of the total value of loans approved in 2003, compared to 71% in the previous year). The sharp drop in 2003 is largely because of the extraordinarily high level achieved in 2002 (see Graph 2). The annual contribution of the SEQ loan program to the cumulative numerical percentage was negative. SEQ operations accounted for 44.1% of the total number of loans approved in 2003, continuing with the decline since 2001 and below the average since 1994.

<sup>3</sup> ECLAC estimates also show a deterioration in poverty indicators in the region during the same period, although the figures vary from country to country (see the following page: [http://www.iadb.org/sds/POV/site\\_18\\_e.htm](http://www.iadb.org/sds/POV/site_18_e.htm)).

*Poverty-targeted investment loans.* Although PTI loans declined in amount in 2003, they remained high compared to the years prior to 2002. However, the number of PTI loans was smaller, even when compared to other years. PTI loans accounted for 50% and 41.3% of the total amount and number of investment loans approved in 2002, compared to 74.5% and 46.2% in 2003. Sector SEQ loans represented 35.3% and 20% of the total amount and number of sector operations approved in 2003, compared to 62.3% and 66.6% in 2002.

*Output indicators of the poverty reduction strategy.* The output indicators of the poverty reduction strategy show progress in the production of poverty papers, support for poverty reduction strategies, support for the MECOVI program, and the performance of impact evaluations. There has been a standstill, however, in the cumulative amounts of loans for human capital formation in the context of the Millennium Development Goals (MDGs), in SEQ loans in nonsocial sectors intended to promote the creation of opportunities for the poor, and in SEQ loans with social protection components. This can be explained in part by the delay in implementing the new strategy in the loan portfolio, which will take two or three years, given the Bank's programming cycle.

*Innovative activities for poverty reduction.* In 2003, the Bank continued its innovative activities to contribute to poverty reduction in its areas of comparative advantage, including competitiveness, regional integration, modernization of the State, and social protection, following the guidelines of its new set of strategies. The Multilateral Investment Fund (MIF) also continued to allocate a large portion of its resources to support microenterprises, microcredit, training for young people, and remittances. In addition, the Inter-American Investment Corporation (IIC) continued to support the fight against poverty through loans for the development of small and medium-sized enterprises in the region.

*Challenges for the Bank in poverty reduction.* Given the increase in the Bank's portfolio of operations for competitiveness and better economic opportunities for the populace, one of the challenges in the coming years will be to increase the percentage of SEQ loans in the nonsocial areas. Also, to operationalize the new poverty reduction and social equity promotion strategy, the Bank will have to increase the number of country poverty papers, so that more attention can be paid to the causes and consequences of poverty in the programming process, to dialogue with the countries, and to preparation of the country strategies. The recommended goal for poverty papers is to have one for every country by 2005.

## I. INTRODUCTION

- 1.1 The Bank began to implement its new *poverty reduction and social equity promotion strategy* in 2003, which was approved by the Board of Executive Directors in July of that year. The strategy forms part of the new strategy package for the basic objectives and priority areas of action through which the Bank has reaffirmed its commitment to poverty reduction and social equity promotion. *Poverty reduction and social equity promotion* and *sustainable economic growth* are the Bank's two overarching objectives. Its areas of comparative advantage for achieving those two objectives mentioned in the institutional strategy are *competitiveness, social development, regional integration, and modernization of the State*. The cross-cutting nature of the environmental dimension has also been recognized in this new approach, and the new package includes a new *environmental* strategy that seeks to internalize environmental sustainability. The new poverty reduction and social equity promotion strategy takes a multidimensional approach to poverty, identifying its root causes, and the policy actions and programs required to reduce it and to promote social equity. Taken together, the seven strategies propose a renewed and integrated set of actions that the Bank can take to support the countries, with the goal of achieving poverty reduction and economic growth with greater equity that is in harmony with natural capital. These action priorities are consistent with the commitments made by the region's Heads of State and Government to the Millennium Development Goals, particularly the goal of reducing by half the proportion of people living in extreme poverty by the year 2015, compared to 1990 levels.
- 1.2 This report contains an analysis of the changes in the region's poverty indicators during 2003, based on estimates of the impact that economic growth has had on them and assuming that inequality in the region remained unchanged; quantitative indicators from the lending program, specifically the amount and number of SEQ operations, compared to the indicative targets of 40% and 50% of all operations, respectively, and PTI loans and other credit operations of the IDB group; and the main activities for poverty reduction and social equity promotion carried out in 2003, which are presented in light of the new strategy for poverty reduction and social equity promotion approved by the Board of Executive Directors in August 2003. The report also presents a selection of loans that contain innovative components for the fight against poverty and a report on nonfinancial activities that support the creation and dissemination of knowledge about poverty and its determining factors and activities for its reduction, grouped into the priority areas of the new poverty reduction strategy. The activities include policy dialogues, the preparation of national poverty reduction strategies, studies on aspects that are relevant for the Bank's portfolio, and seminars and conferences to disseminate knowledge in this field. In accordance with the recommendations of the Bank's Board of Executive Directors, next year's report will present a more detailed analysis of the impact of the Bank's operations for poverty reduction and social equity promotion, updating the previous year's report. The impact evaluations

described in the earlier report showed favorable results for the impact of the types of programs supported by the Bank in the region.

- 1.3 Section II of this report presents a brief discussion of recent trends in poverty indicators in the region. Section III presents the quantitative results of the loan portfolio approved in 2003 for poverty reduction and social equity promotion. That section also presents a selection of loans considered to be best practices on account of the innovative components in their design. Section IV describes the nonfinancial activities carried out by the Bank to implement the new poverty reduction and social equity promotion strategy, and Section V presents conclusions.

## II. POVERTY AND INEQUALITY IN LATIN AMERICA AND THE CARIBBEAN

- 2.1 Although growth was positive for the region in 2003, it was insufficient to keep up with the increase in population and so growth in per capita GDP was negative. However, the drop in the per capita product was considerably less than in 2002 and recent projections suggest that the region is on the road to recovery from the present crisis. The performance of per capita GDP suggests that there was a very small increase in poverty during the year—less than in 2002—assuming that there were no major changes in income distribution.<sup>4</sup> The increases in the poverty rate in recent years are a regression compared to the progress made during the last decade.<sup>5</sup>
- 2.2 A simulation exercise based on growth in the region in the period 2001-2003<sup>6</sup> found that the poverty rate (percentage of people living on less than US\$2 a day PPP) stagnated on account of insufficient economic growth in that period. Although the annual increase in the poverty rate in that period is moderate, the cumulative effect since 2001 is almost 1%, bringing the level to 34.19%, which is close to the 1998<sup>7</sup> figure. This is compounded by high unemployment rates, which were 10.7% for the region in 2003, the highest level in recent years. Although the region made significant progress in most of the MDG indicators, still further effort is needed than in previous years to achieve the poverty reduction goal<sup>8</sup> because of economic stagnation in the region during 2003.

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<sup>4</sup> The most recent information from ECLAC (2001/2002) points to increases in inequality compared to 1999 in about one half of the countries in the region for which information is available.

<sup>5</sup> By 2000, after a reduction in poverty of just over 10% during the 1990s, about one third of the population was living in poverty measured by the percentage of people earning less than US\$2 a day PPP.

<sup>6</sup> Growth data are calculated based on the International Monetary Fund's *World Economic Outlook*, April 2004.

<sup>7</sup> ECLAC's estimates also find an increase in the poverty rate in the region in 2001.

<sup>8</sup> For a more detailed description of progress in the region in these indices, see Inter-American Development Bank, 2004, *Millennium Development Goals in Latin America and the Caribbean*.

- 2.3 One of the characteristics of the region that dampens the impact of growth on poverty reduction is sharp inequality, which makes it difficult for the poor to share in growth and increases their vulnerability to economic recessions. An analysis of a sample of 13 countries in the region for the 1990s shows that the income of the poor grew faster than the general average in just three countries out of 11 with positive growth rates, while in the countries whose GDP declined, the poor suffered in greater proportion.
- 2.4 It should be stressed that these poverty projections are indicative. As mentioned earlier, our projection is based on observed changes in poverty and growth—controlled by existing levels of inequality. The trend in poverty in the years ahead, however, will not depend solely on the performance of the economy; it will also depend on changes in income distribution. The scope of social and economic policies and the individual characteristics of each country may also have had an influence on the final impact of growth on poverty reduction in the region in recent years.

### **III. LENDING FOR POVERTY REDUCTION AND PROMOTION OF SOCIAL EQUITY IN 2003**

#### **Compliance with the Eighth Replenishment targets**

- 3.1 In 2003, the Bank continued to demonstrate its firm commitment to directing a large part of its lending operations to projects that promote social equity in the region and are targeted to the very poor. In that year, the Bank's portfolio continued to be affected by the regional crisis. Although the volume of SEQ loans contributed to compliance with the cumulative indicative target mandated by the Eighth Replenishment, the number of loans was under target and below the average achieved in earlier years, meaning that the Bank fell short of compliance in cumulative terms. The value of SEQ loans approved between 1994 and 2003 has been equivalent to 49.9% of all regular loans approved by the Bank, which exceeds the cumulative target for amount of 40% (see Graph 1). The number of SEQ loans approved in 1994-2003 was equivalent to 48.4% of total loans, which is still below the cumulative target for number of 50%. Tables 1-3 in Appendix I present a breakdown for the period 1998-2003.<sup>9</sup>
- 3.2 In 2003, US\$1,898.7 million was approved in SEQ loans, continuing the decline in the amounts lent annually that began in 2001. This trend goes hand-in-hand with a decline in the Bank's total regular lending, which peaked in 2001. In 2003, regular lending amounted to US\$3,620.1 million, the lowest level since the PTI/SEQ was introduced. In percentage terms, SEQ loans were equivalent to 52.4% of total

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<sup>9</sup> Current classification criteria and their changes over time are presented in the following webpage: [http://www.iadb.org/sds/POV/site\\_18\\_e.htm](http://www.iadb.org/sds/POV/site_18_e.htm).

regular loans in 2003, which is much higher than necessary to meet the cumulative target for amount of 40% (see Graph 2). The percentage of SEQ loans, in the context of a reduction in the total amount lent in regular operations, remained higher than the historical average (46.6% of the total for regular loans between 1994 and 2002), but was lower than in 2002, when the historical high for SEQ loans was reached (71% of the total amount for regular loans).

- 3.3 As for the number of operations in 2003, 30 SEQ loans were approved<sup>10</sup> compared with 43 SEQ loans in 2002. The figure represented 44.1% of the total number of loans approved in 2003, compared to 56.6% in 2002. This percentage of SEQ loans approved in 2003 is the lowest since 1997 and below the historical average of 48.9% between 1994 and 2002, which brings down the percentage of SEQ loans approved since 1994 and fails to meet the cumulative target for number of 50% established in the Eighth Replenishment.
- 3.4 Table 2 shows the SEQ loans approved according to country group by number and amount. As for amount, the share of SEQ loans going to Group A & B countries out of the total fell from 89.2% in 2002<sup>11</sup> to 54.8%. This level, however, is still higher than in the years prior to 2002. In 2003, the C & D countries saw a slight increase in their share of total SEQ loans, which rose from 46.9% to 48.9%. This increase was concentrated in the Group D countries, whose share of the total rose from 50.8% to 57.7%. Although the fall in value of SEQ loans in A & B countries is largely due to the extraordinarily high level in 2002, Group C continues a decline that began in 2001, receiving just 23.5% of the total amount lent in regular operations to this group, which is far below the cumulative goal of 40%.<sup>12</sup> As for the number of operations, Group B was the only group whose percentage increased. Group A fell from 81.8% in 2002 to 50% in 2003, which is similar to the years prior to 2002. Group C maintained a level of 40% and Group D fell for the second year in a row, to 40.6%, both below the target for the number of operations of 50%.

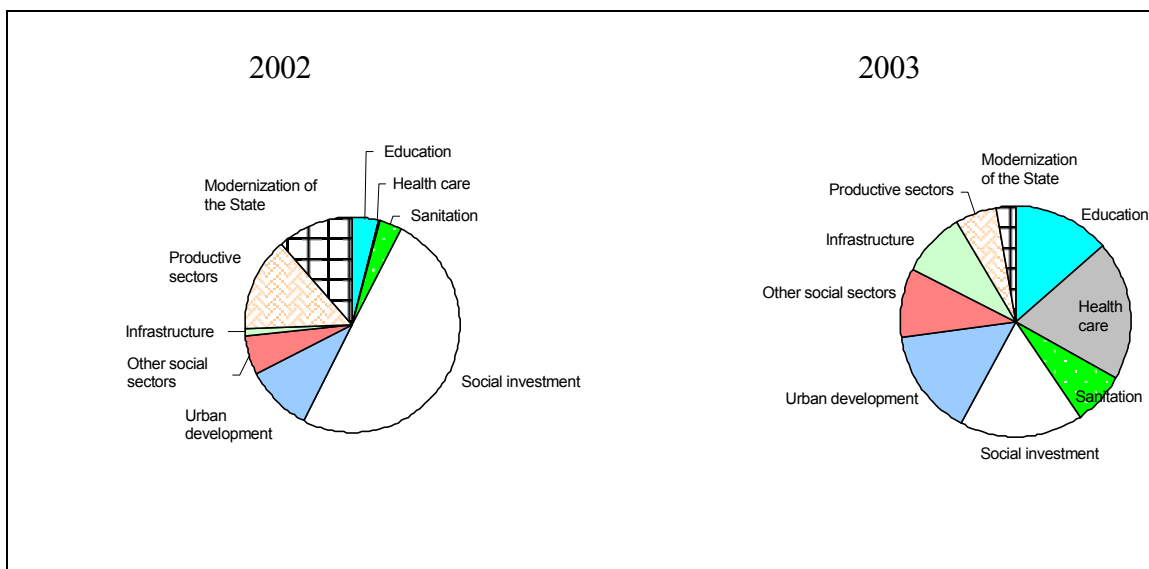
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<sup>10</sup> The lowest number of SEQ loans approved since 1996.

<sup>11</sup> The extraordinarily high level in 2002 was due to the Oportunidades program in Mexico. If this program is not included, the percentage of SEQ out of total value for A & B countries falls to 81%.

<sup>12</sup> Group C countries include Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago, and Uruguay.

**Graph 3**  
**Percentage distribution of SEQ loans approved in 2002-2003 by amount**



3.5 Table 3 and Graph 3 show the value of SEQ loans approved by sector. In 2003, the social sectors' share of the total value of SEQ loans was 72.7%, one of the highest levels in recent years. In terms of number, the social sectors rose from 60.5% in 2002 to 63.3% in 2003. As can be seen in Graph 3, much of this increase is due to larger loans in the fields of education and health care which, together, rose from 4.2% in 2002 to 33% in 2003. SEQ's share out of total value in the environment and microenterprise sectors rose from 5.9% to 9.7%. The indicator for the number of loans fell from 18.6% en 2002 to 3.3% in 2003. The increases under consideration came at the expense of the SEQ share of loans for infrastructure, the productive sectors, and modernization of the State, which fell from 26.6% to 17.6%.<sup>13</sup> It should be noted that although the value of SEQ loans in the sectors in question fell from 40% to 17.6%, total lending for those sectors was up, from US\$1,908 million to US\$2,088.4 million.

3.6 The PTI loans form part of the set of SEQ loans. They fell in volume from 74.5% in 2002 to 50% in 2003 and in number from 46.2% in 2002 to 41.3% in 2003, respectively. Although the new levels are not low compared to the years before 2002, which was an exceptional year on account of the Oportunidades loan to Mexico, they occurred in a context in which investment loans account for a particularly low percentage of total regular lending. In absolute terms, the total volume of PTI loans fell from US\$2,384 million in 2002 to US\$786 million in 2003, which is less than one third of the volume in 2002 and significantly lower than in previous years. SEQ sector loans, for their part, represented 35.3% and

<sup>13</sup> Although in number, they increased from 20.9% to 33.3%.

20% of the total amount and number of sector operations approved in 2003, in comparison with 62.3% and 66.6% in 2002 (Table 1 summarizes the sector loans approved in 2002 and 2003).

**Table 1**  
**Policy-based sector loans in 2002-2003**  
**(SEQ in bold face)**

2002		
Country	Name	Amount
Nicaragua	<b>Social policy reform</b>	30
Peru	<b>Fiscal reform</b>	300
Guatemala	Modernization of the State II	200
2003		
Country	Name	Amount
Bolivia	Support for fiscal sustainability	63
Bolivia	Support for competitiveness	87
El Salvador	Reforms for competitiveness	100
Haiti	Reform of public finances	25
Mexico	Consolidation of the financial system	300
Nicaragua	Modernization of the State and fiscal reform	25
Peru	Reform for competitiveness	300
Uruguay	Strengthening of the financial system	200
Colombia	<b>Health care and social security reform</b>	400
Ecuador	<b>Social sector loan</b>	200

### **Output indicators for the Bank's poverty reduction and social equity promotion strategy**

- 3.7 As for the output indicators of the Bank's poverty reduction and social equity promotion strategy in 2003, the cumulative amount of lending with a direct impact on the education component of the Millennium Development Goals in the period 1999-2003 slipped from 24% to 23%, compared to the period 1999-2002. The cumulative amount of loans with a direct impact on the health care component of the MDGs for the period 1999-2003 remained unchanged in comparison with the period 1999-2002, at 25%. The approved value of SEQ loans in nonsocial sectors, intended to promote the creation of opportunities for the poor and strengthen the capacity to develop and implement policies and programs for poverty reduction and social equity promotion, slipped from 31% in the period 1999-2002 to 29% in the period 1999-2003 and the percentage of SEQ loans with social protection components held steady at 30% in the two periods.

**Table 2**  
**Regular loans with a direct impact on the human capital components of the MDGs, nonsocial SEQ loans with an impact on poverty, and SEQ loans with a social protection component**  
 (as a percentage of the number and total value of loans in each category)

	Number			Value		
	1999-2002	1999-2003	2003	1999-2002	1999-2003	2003
a. Education MDG	15%	14%	10%	24%	23%	16%
b. Health care MDG	22%	20%	12%	25%	25%	24%
c. human capital (a & b) MDG	26%	25%	18%	32%	32%	32%
d. Nonsocial SEQ	33%	32%	30%	31%	29%	17%
e. Social protection SEQ	18%	16%	7%	30%	30%	32%

### **Contributions of the MIF, the IIC, and the Social Entrepreneurship Program**

- 3.8 Other credit operations of the IDB group have a considerable influence on poverty reduction in the region. In this set of transactions, the lending and capital investment operations of the IIC stand out, since they promote the establishment, expansion, and modernization of many small and medium-sized private enterprises in Latin America and the Caribbean. Fourteen direct projects, 10 operations with financial intermediaries, and two regional programs were approved in 2003, for a total of US\$318.7 million. Estimates suggest that those operations will create 9,200 jobs, generate annual exports worth US\$146 million, and contribute US\$242 million a year to the region's GDP. For every dollar allocated by the Corporation for projects approved during the year, two dollars will be mobilized from other sources. Operations benefited 2,870 people through programs and productive chains and 2,935 people benefited from the operations as a whole.
- 3.9 During 2003, the MIF's activities contributed to poverty reduction through three key lines of activities: remittances, microfinance, and microenterprise. In remittances, the MIF organized conferences in Spain, Washington, Ecuador, Guatemala, and Mexico, financed two studies to gain a better understanding of those flows, and approved a loan for US\$8 million to reduce costs and boost the capacity to process remittances in the Dominican Republic, in addition to providing technical assistance for US\$840,000. In the area of microfinance, the MIF continued to support microlending entities to enable them to become regulated financial institutions, and to assist new institutions in introducing microfinancial services. As part of those activities, the MIF made an investment of US\$4 million in a fund that will capitalize up to 15 institutions, generating an expected total of 214,300 new loans for small and medium-sized enterprises. The MIF also provided support in the form of technical assistance for the establishment and upgrading of SMEs. For example, it approved a project for US\$1,140,000 to establish a system to consolidate businesses managed by young people in Peru, through training programs.

- 3.10 In 2003, the Bank continued to support SMEs through the Social Entrepreneurship Program (SEP) operated by SDS/MSM, which carried out a total of 16 projects costing US\$7.6 million. They include five microfinance projects in El Salvador, Peru, Costa Rica, and Panama, which seek to boost competitiveness by providing the poor, who have traditionally been excluded from credit, with access to microloans. Seven projects were carried out in Colombia, Nicaragua, Mexico, and Bolivia to support the productivity and marketing skills of microenterprises, through the use of appropriate productive and organizational technologies to enable them to position themselves in different markets, and innovative instruments such as financial leasing. Three pilot projects were approved in El Salvador, Suriname, and Guatemala. The first was to support and encourage companies to find the means of channeling their contributions to the very poor and bypassed production sectors, through cofinanced SEP projects. The second was to boost competitiveness through the capitalization of microenterprises, training, creation of a business support center, and dissemination of an entrepreneurial culture. And the third was to facilitate economic and social inclusion for poor youths, through a pilot program that offers alternative training and job guidance to develop their technical, entrepreneurial, and labor skills. Lastly, a project was approved in Honduras to promote the competitiveness of small coffee growers in depressed rural areas, through sustainable and alternative activities, such as beekeeping, which will enable them to improve their incomes, given the current coffee crisis.

### **Examples of innovative loans for social equity promotion**

- 3.11 In 2003, 30 projects for poverty reduction and social equity promotion were approved in the countries of the region. This section highlights a selection of projects that are *innovative* in their design and that supported interventions in each of the four priority areas in the Bank's institutional strategy (competitiveness, social development, modernization of the State, and integration) and the environmental strategy, national poverty reduction strategies, and actions to strengthen social protection systems in the countries.<sup>14</sup>

#### *Competitiveness*

- 3.12 The **local roads program in Ecuador**, for US\$30 million, has the objective of improving access by the poor to social services, markets, and other income-generating activities. Specifically, the program seeks to improve road infrastructure and the capacity to manage rural transportation, ending the physical isolation of some of the country's rural zones. An innovative aspect of this program is that it guarantees that the roads will be maintained, using microenterprises organized by the residents themselves.

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<sup>14</sup> All poverty reduction and social equity promotion loans approved in 2003 are listed on the following webpage: [http://www.iadb.org/sds/POV/site\\_18\\_e.htm](http://www.iadb.org/sds/POV/site_18_e.htm).

- 3.13 The **community-based tourism development project in Chile**, for US\$10.5 million, seeks to open up employment opportunities through tourism, with women as the main beneficiaries. Women run guesthouses and other home-based establishments, rural tourist lodgings, and informal restaurants and produce and sell crafts. Since the demand for male labor intensifies during the months in which salmon and farm crops have to be harvested—which also happens to be the peak tourist season—women are expected to benefit the most from the growth in tourism. Specific activities will include goods and services to low-income households that provide lodging and food services, guide training, and the establishment of craft markets and fairs.
- 3.14 The **agricultural intensification program in Haiti**, for US\$41.9 million, has the objective of increasing the income of farmers in the Artibonite Valley. It supports a process of agricultural intensification based on improving the efficiency and sustainability with which water is used for irrigation. To ensure the impact and sustainability of its activities, the program will work on the institutional strengthening of water management authorities and on training and strengthening for water users' associations. It will also finance investments to upgrade the irrigation and drainage infrastructure.

*Social development*

- 3.15 The **comprehensive community education program in Mexico**, for US\$210 million, is intended to improve the coverage, quality, and efficiency of education services offered by the National Council for Education Development (CONAFE). An innovative aspect of this program is that it builds on participation by young instructors who, following an intensive training period, are assigned to a community where they offer their services, while living with a family there. Giving children in these communities an opportunity to attain a higher level of education than their parents lays the foundation for breaking what social scientists have called the inter-generational transmission of poverty.
- 3.16 The **social sector reform program in Ecuador**, for US\$200 million, has the objective of introducing reforms to consolidate the social safety net for the poorest segments of the population, and to improve the quality and efficiency of social spending. The program consists of three components: (i) achieving a stable macroeconomic climate; (ii) consolidating the social safety net for the very poor; and (iii) maintaining a minimum level of social spending and improving its efficiency. It seeks to ensure a minimum level of financing for basic social services (education, health care, and social welfare) and for a group of priority social programs during the years 2003, 2004 and 2005, and will improve efficiency in the use of resources for education and vocational training.
- 3.17 The **innovation loan for health sector development in Costa Rica**, for US\$6.36 million, is intended to support a strategy to reduce the burden of disease

and disability associated with unhealthy habits and behavior in the country's 32 poorest cantons. The funds will help the Ministry of Health to strengthen its strategic capacity to regulate, inspect, oversee, and control health risk factors. The Costa Rican Social Security Fund will also be supported in developing its technical capacity to deliver new health promotion services. Under the operation, which has a local counterpart of US\$1,718,000, a pilot program will be carried out to develop the capacity of the Ministry of Health for setting national priorities for public health spending and policy formulation. Another pilot program will regulate the quality of food, drinking water, and health care establishments of medium and low complexity.

*Modernization of the State*

- 3.18 The **municipal development and management program in Uruguay**, for US\$60 million, is intended to consolidate the finances and improve the quality and effectiveness of municipal services in 18 departmental governments in the country. It includes an institutional strengthening component to help the municipalities achieve their individual operating objectives by providing technical assistance in tax and financial management, procurement and asset management, personnel, land management, citizen services and social participation. The investment component will finance urban and regional development projects, such as neighborhood improvement, urban streets, environmental recovery, water and sanitation, micro- and macro-drainage systems, urban utilities, and local economic development. The program's investment resources will be divided into two tranches and only the municipalities that comply with the performance targets will have access to funds in the second round of distribution.
- 3.19 The **institutional strengthening program for Congress in Peru**, for US\$7 million, does not qualify as a project that promotes social equity. Nevertheless, to the extent that successful efforts to reduce poverty and foster sustainable development require a substantial increase in institutional capacity, the formulation of suitable and sustainable public policies, and a favorable political environment, the program will contribute in these areas and will therefore have an indirect impact on social equity. Also, by creating mechanisms for citizen participation, information, and dissemination, and improving the capacity of Congress to draft legislation and exert oversight, it will contribute further in this direction.

*Regional integration*

- 3.20 The **Guatemala-Mexico electricity interconnection project**, for US\$37.5 million, in Guatemala, seeks to interconnect the electric power systems and establish rules and protocols to promote energy exchange between the two countries. Although the operation does not qualify as a SEQ project, it will have a positive impact by promoting competitiveness, which will lower the cost of services and create jobs,

with a consequent rise in income. The capacity to develop social electrification projects in remote areas will also be built up.

*Environment*

- 3.21 Given the cross-cutting nature of the environmental strategy, it is linked to each of the Bank's four priority areas. The Bank promotes activities for environmental protection, in combination with one or more of the priority areas, as part of implementing the strategy.
- 3.22 In the area of *competitiveness*, the Bank approved the **multiphase sustainable forest development program (Probosque) in Honduras**, for US\$17.5 million. This loan is designed to increase the economic, social, and environmental benefits of forestry, through the sustainable development of forested lands and improvements in the sector's competitiveness and business productivity. The program will improve the regulatory and institutional framework and local management to support forest development, and will vitalize the sector through direct investments all along the production chain. The beneficiaries will mainly be small and medium-sized enterprises, producer associations, municipalities, and poor rural families living in forested zones.
- 3.23 In the area of social development, the Bank approved the **rural water investment program in Guatemala**, for US\$50 million. The purpose of this loan is to increase coverage of potable water and sanitation services in a way that ensures sustainability and quality of service. The program is designed to benefit more than 500,000 new rural clients around the country, mainly in small towns, where the coverage of these services is particularly low. It will finance the construction of water and sewage projects; dissemination, promotion, and technical assistance for communities; and institutional support for the Municipal Development Administration (INFOM), the institution responsible for administering policy and strategy in the water and sanitation sector. One innovative aspect is that for a project to receive financing, it must be demonstrated to be environmentally sustainable and a report describing the project's environmental impacts, how those impacts will be mitigated, and any other studies that may be needed must be presented. Project contracts will stipulate that construction companies must take such mitigation measures as may be necessary.

*Poverty reduction strategies*

- 3.24 The Bank approved the **poverty reduction and local development program, phase II, in Honduras**, for US\$35 million, as part of its support for implementing the country's national poverty reduction strategy. This program is intended to improve the living conditions of the poor by providing greater access to basic social services, with community participation. It incorporates the lessons learned from phase I of the operation and is divided into the following three components:

(i) investment in social infrastructure, which consists of financing social works; (ii) municipal and local management by building up the financial and institutional capacity of municipal governments, so they can better meet the needs voiced by the local population; and (iii) strengthening the institutional framework by supporting reforms at the Honduran Social Investment Fund and the Ministry of the Interior and Justice, so they can fulfill their role in the poverty reduction strategy and the decentralization and local development program.

#### **IV. IMPLEMENTATION OF THE BANK'S NEW POVERTY REDUCTION AND SOCIAL EQUITY PROMOTION STRATEGY IN NONFINANCIAL AREAS**

4.1 The Bank also helps to combat poverty and promote social equity in the region through its many *nonfinancial activities*. It continues to make progress in generating and disseminating knowledge about poverty and inequity in the region, by improving surveys and measurements of the standard of living, supporting and developing research projects, and publicizing best practices. During 2003, the Bank published 11 books and organized or participated in 37 conferences on topics related to poverty reduction and social equity promotion. It also continues to promote and facilitate dialogue and consensus building on poverty reduction and equity promotion, through high-level policy meetings, country strategies, national and regional policy dialogues, seminars, and conferences. The Bank has stepped up its support for the development of national poverty reduction strategies, with specific goals and indicators to monitor and evaluate efforts and results. This section sums up the main activities on these action fronts in 2003, as part of putting the new poverty reduction and social equity promotion strategy, recently approved by the Board of Executive Directors, into practice.

##### **Dissemination of the Bank's new institutional strategies**

4.2 In 2003, the Bank published the book *Toward Sustainable and Equitable Development: Sector Strategies for Latin America and the Caribbean*, which contains all of its new sector strategies including the poverty reduction and social equity promotion strategy. This and the Bank's other strategies were disseminated by SDS at different events inside and outside the Bank. Specifically, SDS/POV helped to spread information on the poverty reduction and social equity promotion strategy through the following networks and events: the Social Equity Forum, the Regional Policy Dialogue's Poverty and Social Protection Network, the LACEA/IDB/World Bank Network on Inequality and Poverty (NIP), the US State Department's Annual Seminar for Economists from the Western Hemisphere, the OAS Seminar on a New Consensus for Addressing Poverty in the Americas, INDES seminars, EXR seminars for visiting students in the Bank, and through the eighth edition of the IDB's newsletter *Equidad* which included an article entitled "Board of Directors endorses the new set of sector strategies of the Bank," and others.

### Poverty reduction strategies and country poverty papers

- 4.3 The Bank continued its technical assistance for implementing the national poverty reduction strategies of the HIPC initiative countries (Bolivia, Guyana, Honduras, and Nicaragua), and developing poverty reduction strategies in other countries (Belize, Colombia, Guatemala, Paraguay, and Peru). With the addition of Colombia, the number of countries receiving cooperation in preparing their poverty reduction strategies rose to nine (see Table 2). Complying with the recommendation of the new poverty reduction and social equity promotion strategy on preparing country poverty papers, in 2003 the Bank completed the papers for Argentina and Paraguay and continued working on papers for Brazil and Uruguay (see Table 2).

**Table 3**  
**Output indicators for implementing the poverty reduction strategy in the programming area**

	Poverty papers Completed	Countries with poverty reduction strategies
2002	0	8
2003	2	9

- 4.4 As part of these activities to support the design of methodologies and the extraction of lessons learned on poverty reduction strategies, studies were prepared on “Avances en la Implantación de las Estrategias de Reducción de la Pobreza en América Latina” [Progress in implementing poverty reduction strategies in Latin America], in collaboration with DFID, and “Paraguay: Retos en la lucha contra la pobreza” [Paraguay: Challenges in the fight against poverty], which seeks to determine priorities and operating mechanisms for implementing the Paraguayan government’s national poverty reduction strategy. In the area of harmonizing donors’ activities to support implementation of poverty reduction strategies, SDS/POV represented the Bank at meetings of the LAC-PRSP donor’s group, composed of the United Kingdom’s Department for International Development (DFID), the United Nations Development Programme (UNDP), the European Union, the Canadian International Development Agency (CIDA), the Swedish International Development Agency (SIDA), the World Bank, the IDB, and other bilateral cooperation agencies.

### Sustainable economic growth and poverty reduction

- 4.5 In Ecuador, RE3 and RES organized a policy workshop to discuss the links between macroeconomic stability, poverty, and social development. RES also published the study *IPES 2004: Good Jobs Wanted: Labor Markets in Latin America*, which is accompanied by a database of labor market indicators in 18 Latin

American countries since 1990, broken down by gender, geographic location, educational level, and age group, and the newsletter *IDEA, Vol. 2*, which highlights “Working on Labor Markets in Latin America.” Lastly, high-level discussions were held with the governments of Argentina, Guatemala, and Paraguay, and a study was prepared on unemployment in Chile, entitled “Un Diagnóstico del Desempleo en Chile” [Analysis of unemployment in Chile].

### **The Millennium Development Goals**

- 4.6 In 2003, the Bank prepared a report “Los objetivos de desarrollo del milenio en América Latina y el Caribe—retos, acciones y compromisos” [The Millennium Development Goals in Latin American and the Caribbean—Challenges, actions and commitments], which was published in January 2004. It proposes ways of adapting the MDGs to the situation in Latin America, presents an analysis of the progress made, and outlines a strategy for achieving those goals. The project on poverty reduction indicators (IndERPob) continued and the first version of a database for tracking progress in the region toward achieving the MDGs was presented.
- 4.7 With regard to the MDG for gender equality, the Bank hosted a meeting of the gender group and multilateral development institutions, which resulted in a statement by the heads of those institutions and the IMF on the importance of gender equality for attaining the MDGs. It also hosted the 14th meeting of its External Advisory Group on Women in Development, which discussed the Bank’s role in helping the countries of the region to achieve the MDGs, among other matters. The Bank was involved in organizing an international workshop on Gender Equality and the Millennium Development Goals at the World Bank and in organizing the seminar on the Gender Implications of the Millennium Development Goals.

### **Activities in social areas**

#### *Investments in human capital*

- 4.8 In the area of health care a technical-cooperation project designed by RE3 was approved. The project will finance five studies to examine the determining factors in inequalities in health care related to race and ethnic group in Latin America and the Caribbean and identify restrictions and barriers that stand in the way of obtaining satisfactory health care outcomes for the region’s indigenous and Afro-Latin communities. In 2003, RE3 conducted two studies, the first on poverty, health, education and social safety nets, as follow-up on the standard of living survey in the Bahamas, and the second on procurement of pharmaceuticals and health care needs and determining factors, with emphasis on the low-income population in Suriname. Both studies will be used in programming the Bank’s loans. RE2/SO2 published the papers entitled “The distributional effects of illness when recuperation is endogenous” on the interaction between income and diseases

through job options their impact on health and health costs, and “El VIH/SIDA en las Comunidades Afro-descendientes de Honduras” [HIV/AIDS in Afro-descendent communities in Honduras] on the operational implications, uses, and limitations of evaluating community assets and social capital in the design and implementation of HIV/AIDS interventions, poverty reduction, and social inclusion at the local level, and “Models for Mental Health Intervention” which maintains that with an improvement in health care services and the development of private care networks, there is an opportunity to extend the activities of those networks to include treatment for the mentally ill and disabled. SDS/SOC approved two technical-cooperation projects, the first on national health accounts in Latin America and the Caribbean and the second on efficiency in the health sector. It continued to execute a technical-cooperation project on the quality of health care services in the region.

- 4.9 In September 2003, the Ministers of Health of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama, (Region 2 countries participating in the Puebla-Panama Plan) signed a memorandum of understanding in Washington to strengthen regional cooperation on a wide variety of health care issues, ranging from joint procurement of medications to the fight against malaria, tuberculosis, and AIDS, and joint management of outbreaks of contagious diseases.
- 4.10 Lastly, the Bank participated actively in the Inter-Agency Group on Safe Motherhood, led by PAHO, which produced a strategic interagency consensus for Latin America and the Caribbean on a reduction in maternal mortality and morbidity.
- 4.11 In the area of education, the Research Department published the books *Critical Decisions at a Critical Age: Adolescents and Young Adults in Latin America*, which examines the choices made by adolescents in different areas and their relationship to human capital accumulation, which is a key factor in determining their standards of living; *Quienes son los maestros? Carreras e incentivos docentes en América Latina* [Who are the teachers? Teaching careers and incentives in Latin America], which contributes to our understanding of the nature of the teaching career and incentive systems for people working in the sector; and the working paper “Human Capital Policies: What They Can and Cannot do for Productivity and Poverty-Reduction in Latin America,” which also appeared as a chapter in the book *Latin American Democracies in the New Global Economy*.

#### *Social development*

- 4.12 To help implement the social development strategy, with a direct impact on poverty reduction, the Social Inclusion Fund approved over US\$1 million in technical-cooperation financing on behalf of excluded groups in Latin America and the Caribbean. For example, the technical-cooperation project on a study of poverty in central urban areas, which will support new strategies for poverty reduction and urban rehabilitation. SDS/SOC continued supervising two technical-cooperation

projects, one on violence prevention through the education system, and the other domestic violence prevention at the local level. A technical-cooperation project designed by RE1 was also approved for a program to include young people through music, which seeks to reduce the social exclusion of at-risk or marginalized children and youths in Paraguay through their participation in organized musical activities to which they would otherwise not have access. Six technical-cooperation projects designed by SDS/WID were approved to support the inclusion of gender issues and social inclusion in investment projects and public programs in Honduras; to build a regional consensus on appropriate methods for combating the social exclusion of Afro-descendent women in the region; to support the strategy to reduce maternal mortality and HIV/AIDS prevention; to document and publicize the impact of different programs and interventions to combat domestic violence in the region; to draw up a plan of action for social integration and the promotion of economic opportunities for children and their families, through situation and feasibility studies for working as solid waste collectors, and to develop training materials; and lastly, to pursue a technical-cooperation project to sensitize judicial personnel to the treatment of the victims of domestic violence.

- 4.13 In 2003, SDS/POV in cooperation with SDS/SOC and other Bank divisions prepared a paper on “Inequality, Exclusion and Poverty in Latin America and the Caribbean” for a conference on social cohesion held jointly with the European Commission. In addition, the Research Department published the books: *The Family in Flux: Household Decision-Making in Latin America*, which presents a macroeconomic vision of development, focusing on household decisions; and *Who's In and Who's Out. Social Exclusion in Latin America*, which explores forms of social exclusion, including housing segregation and exclusion from access to education and health care, among other aspects. RE2/SO2 prepared the study “Mapping Community Capacity among the Garifuna” which discusses the operational implications, uses, and limitations of the evaluation of community assets and social capital in the design and implementation of interventions for poverty reduction and social inclusion at the local level. SDS/SOC published the books *Policía Comunitaria. Estudio de casos de cuatro ciudades de América Latina* [Community police. Case study of four Latin American cities] and *Escaping the Poverty Trap: Investing in Children in Latin America*, and papers on poverty in urban cores, gender, stigma, and national accounts for AIDS and HIV/AIDS prevention in Latin America. SDS/WID published the IDB’s action plan for gender integration, which seeks to renew energy and give new impetus to the progress made to date, and it cooperated with the Regional Departments in the papers on “Dimensions of Political Inclusion and Exclusion in Brazil: Gender and Race,” which explores whether the growing visibility and political activism of marginalized groups translates into representation of their interests; “The Effects of Motherhood on Wages and Labor Force Participation: Evidence for Bolivia, Brazil, Ecuador and Peru”, which measures the cost of maternity in the private and public sectors for women with different levels of education; and “Discriminación étnica y de género en el proceso de contratación en el mercado de trabajo de Lima

Metropolitana” [Ethnic and gender discrimination in the hiring process in the labor market in metropolitan Lima], which examines whether individuals with similar characteristics in terms of education, experience, and socioeconomic profile perform differently in their search for a job, depending on their gender and ethnicity.

- 4.14 In 2003, the Bank was involved in organizing workshops, conferences, and seminars on social development. For the Fifth Social Equity Forum, coordinated by SDS/POV, the keynote address on A Development Vision for Latin America and the Caribbean – Progress, Challenges and Institutions, delivered by the former president of Brazil, Fernando Henrique Cardoso, focused on equity promotion in Latin America and the Caribbean. SDS/SOC headed the organization of social development week, an important forum for discussion of the main issues and challenges facing the social sectors in Latin America. SDS/WID organized a conference on the impact of women ministers on good governance, attended by 19 current and former women ministers from the region who met at Bank Headquarters to exchange ideas and lessons learned. It also organized a meeting on poverty, gender, and race in Brazil—achievements and challenges, that discussed the specifics and linkage between gender, race, and poverty in Brazil, and a seminar on women’s participation in social development in Japan, in coordination with the Asian Development Bank, that identified the role of multilateral development institutions in strengthening women’s organizations and in including their specific needs in the portfolio of projects financed by those banks. SDS/SOC supported a conference in Cartagena to launch the first council of black members of congress in Colombia; a seminar on child labor in Managua; a mayors’ discussion on the prevention of violence at the local level; a seminar on social inclusion in Milan; a seminar on improving data on disabilities; the first meeting between the Global Fund for AIDS, Tuberculosis, and Malaria and the regional development banks, which identified a tentative work program for the Fund and supported a survey on sexual behavior in Bolivia. Lastly, the Bank organized a six-day course in Quito, through SDS/WID, to promote the exchange of ideas among young leaders from different backgrounds and sectors in the Andean region and help them to develop the analytical and technical skills for maintaining a democratic and equitable cultural policy.

#### *Social protection*

- 4.15 In the area of social protection, a technical-cooperation project prepared by RE3 will study the social impact of the domestic conflict in Colombia and the government’s efforts to respond, and prepare a plan of action as an input for the design of programs to attenuate that impact on the affected population. The Research Department also published a paper “Políticas y Programas de Prevención y Erradicación del Trabajo Infantil en América Latina y El Caribe: Desafíos y Buenas Prácticas” [Policies and programs for the prevention and eradication of

child labor in Latin American and the Caribbean: Challenges and best practices] and the newsletter IDEA, Vol. 1, 2003, “A New Generation of Social Programs”.

- 4.16 The Bank supported Mexico’s Department of Social Development in holding a seminar on the results and prospects for the Oportunidades Program. Held at Bank Headquarters, the seminar was attended by experts in social safety nets from the region. The purpose was to present best practices and lessons learned in social safety nets, their impact on poverty and improvement in equity, and human development, and the future challenges faced by conditional transfer programs, with special reference to the Oportunidades Program. The Research Department also organized the second meeting of the social policies monitoring network, to evaluate interventions in health care and nutrition; the first seminar for the research network project on child health, poverty, and the role of social policies, in Puebla, Mexico; and the regional seminar-workshop on best practices for combating child labor—a dialogue on best practices, in Nicaragua.
- 4.17 During the year, the Poverty And Social Protection Network held two meetings to identify the main advances in the last decade and current challenges, defining a work agenda that includes studies, technical cooperation, and training for public officials. The network forms part of an initiative of the Bank’s Board of Executive Directors, known as the Regional Policy Dialogue, intended to create a mechanism where the countries of the region can share experiences, learn about outside practices, and explore areas for regional cooperation in public policies to reduce poverty and inequality.

**A. Activities in nonsocial areas**

*Competitiveness*

- 4.18 In the area of competitiveness, RE2 prepared a technical-cooperation project on support for the competitive position of Central American coffees, to assist coffee growers in finding alternative sources of income. The following studies were also conducted: “Descentralización y Urbanización en el Area del MERCOSUR [Decentralization and urbanization in MERCOSUR], which analyzes those phenomena over the last three decades in the MERCOSUR countries (as well as Bolivia and Chile), including the linkage to poverty reduction; and “Instrumentos Institucionales para el Desarrollo de Dueños de Pequeñas Tierras Forestales” [Institutional tools for the development of owners of forested smallholdings], as part of the search for institutional, legal, and financial alternatives for boosting the competitiveness of sustainable forest production in smallholdings, where the poorest rural population frequently lives. These studies were conducted by RE1 and RE2, respectively. SDS/WID prepared studies on: “Buenas practicas laborales para la equidad de género” [Good labor practices for gender equity], which examines experiences in the formal sector in promoting gender equity and seeks to extract lessons from microenterprises with respect to those aspects of the sector that favor

- high participation by women; “Mujeres Rurales, Microempresas y Crédito. ¿Cómo prepararnos para tener una empresa exitosa?” [Rural women, microenterprises and credit. How to plan a successful enterprise], whose purpose is to support small rural enterprises that are just getting started or that want to become stronger; and “La promoción de la equidad de género como una herramienta de competitividad empresarial: El caso de la Clínica Los Coihues” [Promotion of gender equity as a tool for entrepreneurial competitiveness: The case of the Los Coihues clinic], which is a case study of a Chilean company with good labor practices in gender equity that has brought mutual benefits to the company and its female employees.
- 4.19 The Micro, Small and Medium Enterprise Division (SDS/MSM), continuing its support for microfinance and microenterprise, conducted studies to improve the competitiveness of small entrepreneurs, including “The Second Story. Wholesale Micro Finance in Latin America,” “Financing Micro Finance,” and “Equipment Leasing and Lending. A Guide for Micro Finance.” These are papers on best practices that study and disseminate information on the microfinance industry which will help microfinance institutions, governments, and NGOs in Latin America and the Caribbean to understand and adopt those practices. By adopting best practices, microfinance institutions will be able to offer new products and better services for the neediest in the region. Papers were published on: “El BID y la Promoción de la empresarialidad: Lecciones aprendidas y recomendaciones para nuevos programas” [The IDB and promotion of entrepreneurship: Lessons learned and recommendations for new programs]; “Social Enterprise: A Typology of the Field Contextualized in Latin America”; and “Overcoming the Challenges of Cooperation. The Case of Joint Upgrading in Guadalajara’s Apparel Industry”, which are studies on best practices that provide information on experiences, studies, models for entrepreneurship, competitiveness, and socioeconomic development. Disseminating these papers will enable the sectors involved to take concrete steps to promote entrepreneurship and combat poverty.
- 4.20 Other documents published by SDS/MSM were: “Microenterprise Development Review, Vol. 6. No. 1” and “Microenterprise Americas, Volume 3”, which provide information on innovative programs, best practices, and new technologies found in microenterprises that can be studied and adopted by microentrepreneurs in the different countries; “El Costo de la resolución de conflictos en la pequeña empresa. El caso de Peru” [The cost of dispute resolution in small businesses. The case of Peru], which is a study that identified the costs to small businesses of resolving or not resolving business conflicts in that country; “Apoyo del Grupo BID al Sector de la Pequeña y Mediana Empresa (1990-2002). Logros, Lecciones y Desafíos” [IDB group support for small and medium-sized enterprise (1990-2002). Achievements, lessons, and challenges] and “Apoyo del Grupo BID al Sector de la Microempresa (2000-2002). Logros, Lecciones y Desafíos” [IDB group support for microenterprise (2000-2002). Achievements, lessons, and challenges], which review the Bank’s activities in these fields and were presented at a seminar in Milan

- in 2003 that dealt with policies to support microenterprise, as part of the Private Sector Development Conference, a parallel activity to the Bank's Annual Meeting.
- 4.21 The Research Department published *IPES 2004: Good Jobs Wanted: Labor Markets in Latin America*, which is accompanied by a database of labor market indicators in 18 Latin American countries since 1990, broken down by gender, geographic location, educational level, and age group.
- 4.22 Through SDS/MSM, the Bank was involved in organizing workshops and conferences, as part of its activities to promote competitiveness in low income sectors, including a workshop on IDB group operations in business development services; a workshop on the Social Entrepreneurship Program; a workshop on IDB Social Entrepreneurship Program operations; and a seminar in Milan on private sector development. These events were intended to disseminate the lessons learned by the Bank in areas related to entrepreneurship, business development services, and MSMEs. The Sixth Inter-American Forum on Microenterprise served as a platform for comparing best practices, which will make it possible to design effective policies and a regulatory and institutional framework for microenterprise development in Latin America and the Caribbean.
- 4.23 Lastly, the technical-cooperation project on financial products and poverty reduction held an initial working meeting at Bank Headquarters to present six studies on this topic. Input was received from Bank specialists, which will be incorporated into the final document. A study entitled "Insurance for the Poor?" now in progress, examines the feasibility of insurance as a tool for poverty reduction.

#### *Regional integration*

- 4.24 As part of the Bank's activities to support regional integration, RE2 conducted the following studies: "Implicaciones Agroalimentarias de un Acuerdo de Libre Comercio entre Centro América y los Estados Unidos" [Agri-food implications of a free trade agreement between Central America and the United States] and "Evaluación de posibles impactos de CAFTA sobre migración" [Evaluation of the possible impact of CAFTA on migration], to examine the potential effects of a trade agreement on the rural sector in Central America.
- 4.25 SDS/POV supported exchanges of knowledge through the Network on Inequality and Poverty (NIP) sponsored by LACEA/IDB/World Bank; the MECOVI program; advisory activities on poverty reduction strategies, jointly with DFID of the United Kingdom; and the activities of the MDG harmonization group.

#### *Modernization of the State*

- 4.26 In this area, an RE2 study entitled "The Political Economy of Social Sector Reforms," describes the Bank's experience in social sector reform operations that

take the political and institutional context into account, as well as political motivation for policy reform. It also produced two reports on financial management in Honduras and Nicaragua, which identify weaknesses in fiscal management and areas in need of strengthening. The following three technical-cooperation projects were prepared by SDS/WID: the impact of women ministers on good governance, intended as a consultation on the barriers faced by women ministers in the region in obtaining and effectively exercising power and to devise strategies to increase the number of women in senior leadership positions; gender and municipal development, intended to promote investments in municipal development that respond to women's needs and priorities, facilitating their full participation in municipal development processes and contributing to greater gender equality; and training for the justice sector on domestic violence, which will develop educational materials and sensitize judicial personnel to the importance of better treatment for the victims of domestic violence.

#### *Environment*

- 4.27 As part of the activities to support the Bank's environmental strategy, Region 2 assisted with a regional dialogue on experiences in land and watershed management to improve rural life in Central America, held in Tegucigalpa in May 2003, to facilitate the exchange of ideas among the executing agencies of natural resource management projects.

#### **Impact monitoring and evaluation**

- 4.28 In 2003, with the goal of improving information for monitoring and evaluating the impact of programs and initiatives for poverty reduction and equity promotion, 10 statistics institutes participated directly in the MECOVI program, including ones from Argentina, Bolivia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, and Peru. Together with RE3, the MECOVI program coordinated a technical-cooperation project that will strengthen the institutional capacity of statistics offices in the English-speaking Caribbean countries, through technical assistance for the implementation, analysis, and dissemination of quality of life surveys, to be carried out jointly with the World Bank and the UNDP. The MECOVI program financed technical assistance and training for personnel from statistics institutes and users of statistical data in the region. In 2003, the program sponsored two workshops and two training courses for 150 technical experts and professionals from the region. It also maintained and updated the database on household surveys, incorporating 20 new databases from 14 countries. Complementing the efforts of the MECOVI program, SDS/POV continued with the technical-cooperation project on poverty reduction indicators (IndERPob), which is in the process of creating a socioeconomic database, broken down by country, based on household surveys.

- 4.29 Also, the Bank approved a technical-cooperation project led by RE3/SO3, which will strengthen the capacity of the Planning Institute of Jamaica (PIOJ) and of the relevant ministries and agencies, for data analysis, impact assessments, and poverty analysis. It will also strengthen the PIOJ's leadership in research on poverty issues, impact assessment, and social policy development. RE1 and SDS/WID approved two technical-cooperation projects. The first will consolidate the Afro-Brazilian Observatory, a focal point for information and studies on racial exclusion and inequality affecting the Afro-Brazilian population, and the second will establish mechanisms for monitoring, analysis, and dissemination of information on the social effects of the armed conflict in Colombia and prepare a plan of action to alleviate the impact of that conflict on the civilian population.
- 4.30 The number of impact evaluations that demand higher quality standards, such as the use of household surveys, control groups, and the hiring of independent evaluators continued to grow, rising from eight SEQ loans approved in 2002 to 10 in 2003. Specifically, during 2003, RE2/EN2 performed an evaluation of the impact that projects executed in the Cajón watershed (Honduras), the upper Chixoy river watershed (Guatemala), and the El Salvador environmental program have had on the well-being of participating families. This analysis of the economic impact of three natural-resource management projects in Central America produced lessons for improving the design of similar projects. RE3 also worked on the presentation and publication of the preliminary results of the impact evaluation of the social support network in Colombia on the web page of that country's National Planning Department, and SDS/POV continued to implement the technical-cooperation project on evaluation of the impact of poverty-reduction programs.

## V. CONCLUSIONS

- 5.1 In 2003, the Bank reaffirmed its commitment to poverty reduction and the promotion of social equity in the region. It undertook financial and nonfinancial activities that are consistent with the new poverty reduction and social equity promotion strategy and the actions proposed in the Bank's four priority areas and in the field of environmental protection.
- 5.2 Loans to promote social equity (SEQ) accounted for 49.9% of the Bank's aggregate regular lending during the period 1994-2003, well above the cumulative target of the Eighth Replenishment of 40%. As for the number target, 48.4% of loans approved during the same period were classified as SEQ, which is below the target of 50%, and although the numbers were on the rise until 2002, the trend reversed in 2003.
- 5.3 Specifically, SEQ loans amounted to 52% of total regular lending and 44.1% of the total number of regular loans approved in 2003. Although the total amount exceeds the goal of 40%, the number falls short of the goal of 50% and the cumulative

- indicator for the period 1994-2002. Poverty-targeted investments accounted for 50% of total lending for investment projects and 41.3% of all investment loans during the year. Specific recommendations for increasing the number and size of loans for SEQ operations drawn from an analysis of performance in 2003 are: (i) to place greater emphasis on SEQ projects in the programming process for Group C countries; (ii) to raise the priority of loans for infrastructure, the productive sectors, and modernization of the State, which improve access by the very poor to basic services, boost the productivity of poor workers, and improve access to, and management of, public services for that group; and (iii) to increase sector loans with components to boost productivity and competitiveness or improve the living conditions of poor and excluded groups.
- 5.4 During 2003, the MIF made direct contributions to poverty reduction in the fields of microenterprise, microlending, job training, and remittances. Other IDB group lending operations, including those of the IIC, contributed indirectly to poverty alleviation.
- 5.5 During the second half of the year, the Bank began to implement its new poverty reduction and social equity promotion strategy, with activities that included the continuation of its loans to support social equity and poverty reduction, dissemination of the new strategy, the preparation of country poverty papers, support for the development and implementation of national poverty reduction strategies, and the generation and dissemination of knowledge about the different dimensions of poverty in the region. These activities were used in designing policies to combat poverty and in evaluating the impact of IDB-supported programs, which often lead to adjustments to augment project efficiency and sharpen the impact on the target groups or ensure the continuity of projects that had the desired effect.
- 5.6 The output indicators for the poverty reduction strategy point to progress in the preparation of poverty papers, support for poverty reduction strategies, support for the MECOVI program, and the preparation of impact evaluations. There has been stagnation, however, in the cumulative lending for human capital formation, in the context of the MDGs, in SEQ loans in nonsocial sectors to create opportunities for the poor and in SEQ loans with social protection components. Although the effects of the strategy will begin to be felt in two or three years, given the Bank's programming cycle, a major effort must be made to program more operations in the priority areas mentioned earlier, in order to comply with the targets of the new poverty reduction and social equity promotion strategy.
- 5.7 *Challenges for the Bank in poverty reduction.* Given the increase in the Bank's portfolio of operations for competitiveness and better economic opportunities for the country, one of the challenges in the years ahead will be to increase the percentage of SEQ loans in nonsocial areas. Also, to operationalize the new poverty reduction and social equity promotion strategy, the Bank will have to increase the

number of country poverty papers, so that more attention can be paid to the causes and consequences of poverty in the programming process, dialogue with the countries, and preparation of country strategies. The recommended goal for poverty papers is to have one for every country by 2005.

**Table 1**  
**IDB. Loans approved by type and SEQ and PTI classification. 1998-2003**

	1998	1999	2000	2001	2002	2003	1998	1999	2000	2001	2002	2003
<b>I. Investment program</b>												
1. Investment (2+3)	76	60	63	63	66	49	5,685.1	3,792.1	3,581.1	4,431.2	3,201.6	1,586.2
2. PTI	66	50	59	58	65	46	5,615.8	3,748.8	3,545.4	4,407.8	3,198.6	1,573.2
3. Technical-cooperation loans	10	10	4	5	1	3	69.3	43.3	35.7	23.4	3.0	13.0
4. Sector policy loans	4	3	5	13	3	10	725.0	460.0	1,150.0	3,125.0	530.0	1,700.0
5. Emergency	3	6	0	0	1	4	3,050.0	4,570.9	0.0	0.0	500.0	3,180.0
6. Private sector	11	10	11	5	7	9	576.8	634.7	511.8	278.5	316.4	333.9
7. Total loans	94	79	79	81	77	72	10,036.9	9,457.7	5,242.9	7,834.7	4,548.0	6,800.1
8. Total regular loans	91	73	79	81	76	68	6,986.9	4,886.8	5,242.9	7,834.7	4,048.0	3,620.1
<b>II. SEQ loans <sup>al</sup></b>												
9. Number and amount of SEQ	51	36	37	48	43	30	3,619.8	2,244.0	2,714.1	4,203.7	2,874.3	1,898.7
<i>Of which PTI</i>	(30)	(23)	(24)	(28)	(30)	(19)	(2,167)	(1,403)	(1,125)	(1,462)	(2,384)	(786)
10. SEQ loans as a percentage of total regular loans	56.0	49.3	46.8	59.3	56.6	44.1	51.8	45.9	51.8	53.7	71.0	52.4
<i>PTI loans as a percentage of the applicable universe</i>	(45.5)	(46.0)	(40.7)	(48.3)	(46.2)	(41.3)	(38.6)	(37.4)	(31.7)	(33.2)	(74.5)	(50.0)

Source: IDB. Database

Prepared by: SDS/POV

<sup>al</sup> The SEQ series is only comparable for 1999-2003 and the PTI series is comparable for 1998-2003, owing to changes in classification criteria (see Appendix).

**Table 2**  
**IDB. Amount and number of SEQ loans approved by group of countries. 2001-2003**

	2001			2002			2003			2001			2002			2003		
	Total regular loans (1)	SEQ (2)	Percent. (2)/(1)	Total regular loans (3)	SEQ (4)	Percent. (4)/(3)	Total regular loans (5)	SEQ (6)	Percent. (6)/(5)	Total regular loans (1)	SEQ (2)	Percent. (2)/(1)	Total regular loans (3)	SEQ (4)	Percent. (4)/(3)	Total regular loans (5)	SEQ (6)	Percent. (6)/(5)
A	20	10	50.0	11	9	81.8	10	5	50.0	4,897.98	2,542.0	51.9	1,718.4	1,563.4	91.0	935.3	464.5	49.7
B	9	4	44.4	10	3	30.0	16	8	50.0	1,203.1	484.8	40.3	608.9	513.0	84.3	1,230.4	722.5	58.7
A & B	29	14	48.3	21	12	57.1	26	13	50.0	6,101.1	3,026.8	49.6	2,327.3	2,076.4	89.2	2,165.7	1,187.0	54.8
C	14	9	64.3	15	6	40.0	10	4	40.0	541.2	308.1	56.9	400.9	137.0	34.2	372.15	87.35	23.5
D	35	24	68.6	39	25	64.1	32	13	40.6	1,046.7	847.0	80.9	1,299.8	660.9	50.8	1,082.29	624.4	57.7
C & D	49	33	67.3	54	31	57.4	42	17	40.5	1,587.8	1,155.1	72.7	1,700.7	797.9	46.9	1,454.4	711.7	48.9
Regional	3	1	33.3	1		0.0				145.8	21.8	15.0	20.0	-	0.0	-	-	
Total	81	48	59.3	76	43	56.6	68.0	30.0	44.1	7,834.7	4,203.7	53.7	4,048.0	2,874.3	71.0	3,620.1	1,898.7	52.4

Source: IDB. Database.  
Prepared by: SDS/POV

**Table 3. IDB. Amount and percentage of SEQ loans approved by sector. 2001-2003**

	2001												2002												2003											
	2001				2002				2003				2001				2002				2003															
	Total regular loans	SEQ	Percent. (2)/(1)	Sector percent. /total SEQ	Total regular loans	SEQ	Percent. (4)/(3)	Sector percent. /total SEQ	Total regular loans	SEQ	Percent. (6)/(5)	Sector percent. /total SEQ	Total regular loans	SEQ	Percent. (2)/(1)	Sector percent. /total SEQ	Total regular loans	SEQ	Percent. (4)/(3)	Sector percent. /total SEQ	Total regular loans	SEQ	Percent. (6)/(5)	Sector percent. /total SEQ												
<b>Social</b>	<b>32</b>	<b>31</b>	<b>96.9</b>	<b>64.6</b>	<b>27</b>	<b>26</b>	<b>96.3</b>	<b>60.5</b>	<b>19</b>	<b>19</b>	<b>100.0</b>	<b>63.3</b>	<b>2,893.7</b>	<b>2,873.7</b>	<b>99.3</b>	<b>68.4</b>	<b>1,944.6</b>	<b>1,939.3</b>	<b>99.7</b>	<b>67.5</b>	<b>1,514.15</b>	<b>1,514.15</b>	<b>100.0</b>	<b>72.7</b>												
Education	5	5	100.0	10.4	3	3	100.0	7.0	4	4	100.0	13.3	711.5	711.5	100.0	16.9	115.0	115.0	100.0	4.0	281.9	281.9	100.0	13.5												
Health care	2	2	100.0	4.2	1	1	100.0	2.3	2	2	100.0	6.7	110.0	110.0	100.0	2.6	5.0	5.0	100.0	0.2	406.35	406.35	100.0	19.5												
Sanitation	3	3	100.0	6.3	4	4	100.0	9.3	3	3	100.0	10.0	122.0	122.0	100.0	2.9	93.8	93.8	100.0	3.3	157.0	157.0	100.0	7.5												
Social investment	17	16	94.1	33.3	12	11	91.7	25.6	7	7	100.0	23.3	1,781.4	1,761.4	98.9	41.9	1,447.5	1,442.5	99.7	50.2	358.5	358.5	100.0	17.2												
Urban development	5	5	100.0	10.4	7	7	100.0	16.3	3	3	100.0	10.0	168.8	168.8	100.0	4.0	283.3	283.3	100.0	9.9	310.4	310.4	100.0	14.9												
<b>Other social sectors</b>	<b>3.0</b>	<b>3.0</b>	<b>100.0</b>	<b>6.3</b>	<b>11.0</b>	<b>8.0</b>	<b>70.0</b>	<b>18.6</b>	<b>1.0</b>	<b>1.0</b>	<b>100.0</b>	<b>3.3</b>	<b>79.5</b>	<b>79.5</b>	<b>100.0</b>	<b>1.9</b>	<b>195.4</b>	<b>170.9</b>	<b>85.2</b>	<b>5.9</b>	<b>543.9</b>	<b>202.5</b>	<b>100.0</b>	<b>9.7</b>												
Environment	3	3	100.0	6.3	10	7	70.0	16.3	1	1	100.0	3.3	79.5	79.5	100.0	1.9	165.4	140.9	85.2	4.9	17.5	17.5	100.0	0.8												
Microenterprise	0	0	0	0.0	1	1	0	2.3	0	0	0	0.0	30.0	30.0	0	1.0	526.4	30.0	0	1.0	526.4	185.0	0	8.9												
<b>Non social <sup>1/</sup></b>	<b>35.0</b>	<b>14.0</b>	<b>40.0</b>	<b>29.2</b>	<b>38.0</b>	<b>9.0</b>	<b>23.7</b>	<b>20.9</b>	<b>48.0</b>	<b>10.0</b>	<b>20.8</b>	<b>33.3</b>	<b>4,861.6</b>	<b>1,250.5</b>	<b>25.7</b>	<b>29.7</b>	<b>1,908.0</b>	<b>763.8</b>	<b>40.0</b>	<b>26.6</b>	<b>2,088.4</b>	<b>367.0</b>	<b>17.6</b>	<b>17.6</b>												
Infrastructure	13	3	23.1	6.3	15	1	6.7	2.3	12	4	33.3	13.3	695.2	143.0	20.6	3.4	669.8	27.4	4.1	1.0	526.4	185.0	35.1	8.9												
Productive sectors	7	4	57.1	8.3	8	6	75.0	14.0	11	5	45.5	16.7	1,749.8	612.2	35.0	14.6	603.4	406.4	67.4	14.1	275.4	122.04	44.3	5.9												
Modernization of the State	15	7	46.7	14.6	15	2	13.3	4.7	24	1	4.2	3.3	2,416.6	495.3	20.5	11.8	634.8	330.0	52.0	11.5	1,276.4	60.0	4.7	2.9												
Other									1	0	0.0	0.0									10.0	-	0.0	0.0												
<b>Total</b>	<b>70</b>	<b>48</b>	<b>69</b>	<b>100.0</b>	<b>76</b>	<b>43</b>	<b>57</b>	<b>100.0</b>	<b>68</b>	<b>30</b>	<b>44</b>	<b>100.0</b>	<b>7,834.7</b>	<b>4,203.7</b>	<b>53.7</b>	<b>100.0</b>	<b>4,048.0</b>	<b>2,874</b>	<b>71</b>	<b>100.0</b>	<b>4,146.5</b>	<b>2,084</b>	<b>50</b>	<b>100.0</b>												

Source: IDB. Database.  
Prepared by: SDS/POV

<sup>1/</sup> Infrastructure includes energy, transportation and communications. Productive sectors include agriculture, exports, fisheries, forestry, industry, mining, preinvestment, tourism, science and technology, and others.