



Education and Poverty: Challenges and Reasons for Optimism

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Although several factors other than the educational system considerably influence the dimension and characteristics of poverty, it is still essential that a comprehensive poverty reduction strategy relies on the achievement of both skills and education in order to improve individual's potential to generate income, specially of those children and youth living in poverty. Undoubtedly education is a powerful instrument for poverty reduction.

The IDB's experience on the education sector suggests that there are two challenging policy issues in the fight against poverty in Latin America:

1. Increasing the access to good quality education for all and at all levels of the system:

The difference in the educational achievement between the poorest 20 percent and the richest 20 percent of the population in the region oscillates between 4 and 7 years of education. In terms of covering elementary education, Latin America has significantly improved in the last decades, but these remarkable differences can be explained by a combination of factors such as: a) poor quality of elementary education, which is reflected in high rates of repetition and refrains the poorest students from facing successfully school challenges beyond the sixth grade; b) differences of coverage in initial education among socio-economic groups, which have left behind considerably low income families comparing to middle class families; c) deficits of

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Microfinance and the Poor: Evidence from Latin America and the Caribbean

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Recent years have witnessed an intense debate on the role and value of development efforts. It was in this particular context that a new instrument gained an enormous momentum in development circles. Its promise was to enable the poor to pay their way out of poverty; its instrument, a small loan with positive real interest rates; its flagship, a handful of experiences in far corners of the world, such as Bolivia, Bangladesh, and Indonesia; its name, microcredit. It was with high hopes that the Microcredit Summit of February 1997 pledged itself, perhaps over-optimistically to reach 100 million families, around one-half of the world's extreme poor, with this instrument alone before 2005.

The focuses of this survey¹ were the studies that shed some light on the effects of the microfinance institutions (MFI) on their clients using quasi-experimental and non-experimental research designs in the Latin America and Caribbean region. In total, 19 studies, covering 10 countries and 27 different microfinance institutions in the region have been scrutinized. It is important to notice that most of the more rigorous literature on the impact evaluation of MFI in the region focus on MFI with international ties, while most of the domestically funded institutions are still underrepresented in this literature. The main objective of the study was to analyze this literature from different, though complementary, perspectives: (i) Are the

¹ For further reading see João Pedro Wagner de Azevedo "Microfinance and the Poor in Latin American and the Caribbean: What do we know, don't know, and should know".

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Challenges to Implement the Millennium Development Goals in Latin America and the Caribbean

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After global consensus was conformed at the Millennium Summit by 189 member States of the UN embracing the Millennium Development Goals (MDGs) as a framework for development, a new phase toward their implementation in developing countries has been initiated during the last two years.

In September 2001, the UN Secretary-General released a report setting out a road map to fulfill each goal, two months later, the Doha Development Agenda supported implementation-related issues to further trade liberalization and boost economic development. Then, in March 2002, 50 heads of State and Government endorsed the Monterrey Consensus on financing for development.

More recently, a Plan of Implementation was launched at the Johannesburg Summit, where 104 presidents and prime ministers agreed on commitments and concrete public-private partnership initiatives in five priority areas for poverty reduction and environment protection: water and sanitation, energy, health, agriculture, and biodiversity and ecosystem management.

The leading actions recommended along these major events include supporting country-led poverty reduction strategies, mobilizing domestic and international financial resources, assisting capacity building for poverty

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assessment, monitoring and planning, and enhancing the coherence of the international monetary, financial and trading systems in support of development.

At the regional level, upon initiative of the Inter-American Development Bank (IDB), international experts and senior government officials from Latin America and the Caribbean gathered in June 2002 to analyze concrete steps to achieve development goals.

As a result a letter of intent was signed by the Economic Commission for Latin America and the Caribbean, the IDB, the United Nations Development Program and the World Bank in order to work together to support countries in the region in following up and achieving the Millennium Goals. In addition to the leading actions identified above, challenges to implement MDGs in the region came into light around four key elements summarized as follows:

Ownership. At first, they should be tailored to the region's specific reality as a consequence of an extensive involvement of governments with civil society, the poor themselves and the private sector. This requires wide participatory mechanisms where the voice of beneficiaries and social actors are translated into national goals.

Budgeting. Secondly, national development goals should be incorporated into the domestic budget processing in order to assure their attainment and sustainability. This calls for designing and implementing pluriannual budgets that "ensure consistency and continuity in the planning of public expenditures, and at the same time protect the poor from economic cycles and dislocations"².

Management. Country ownership and systematic allocation of social funds would not be sufficient unless the performance of public sector management is centered on outcomes rather than inputs. A result-based approach should be put into practice in public sectors across the region in order to shape flexible operating organizational structures and thus implement the cross-sectoral framework provided by MDGs.

Monitoring. Finally, policy-making and social control of public actions oriented to reduce poverty and promote social equity should be based on better informed- decisions. This involves building comprehensive information systems capable to follow up not only outcomes of public

policies, but also governmental efforts and financial resources in a timely and accountable way.

The interaction of these four elements is expected to contribute to achieve effectively development goals. However, a financial leverage system should be designed at the international level as the cornerstone of their implementation, taking into account current fiscal constrains and the experience of the Highly Indebted Poor Countries (HIPC) initiative.

Millennium Development Goals *

1. Reduce extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

** For a technical note on their targets and indicators please refer to Equidad, vol. III, # 1, http://www.iadb.org/sds/POV/news_22_e.htm*



**Inter-American
Development
Bank**

**Sustainable
Development
Department**

Poverty and Inequality Unit

Mission Statement

The mission of the Unit is to provide technical leadership for the Bank and its member governments' work in the area of poverty reduction, and to contribute to enhancing the quality of the Bank's lending and non-lending activities so as to increase their poverty reduction impact.

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² United Nations, *Integration of social and economic policy, Report of the Secretary-General, E/CN.5/2002/3, February 2002, New York.*

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clients of MFI poor, and how poor are they?; (ii) What is the impact of these institutions on the poor?; (iii) Are the institutions that focus on the poor sustainable?;

(iv) Do non-financial products matter?; and, (v) Does financial product innovation help the poor? In terms of outreach to the poor, several institutions in the region present evidence that more than a quarter of their clients are below the poverty line. In addition, this study used the microdata from household surveys in the region, to benchmark the performance of microfinance institutions in some countries. Using the INE-2000 household survey of Bolivia, it was possible to identify that while 23% of the loan clients of the Bolivian commercial banks are below the poverty line, the Bolivian MFI proxied by the Fondos Financieros Privados and Cajas de Ahorros had, respectively, 40.9% and 39.9%, of their clients below the poverty line, suggesting that the technologies used by these new institutions are making a difference, in the case of this country. Nevertheless, the data from neighboring countries, such as Brazil and Peru, are not as reassuring. While the MFI VivaCred and Mi Banco, have 2.7% and 28% of their clients below the poverty line, the national household surveys (PPV-96/97 and CUANTO/ENNIV-97) suggest that 2.9% and 24% of the individuals who take credit from traditional financial institutions (bancos y financieras) are below the poverty line, suggesting that the depth of outreach of these institutions is not relatively as impressive as the counterparts in Bolivia.

In terms of extreme poverty, most of the empirical studies in the region suggest the microfinance institutions are relatively effective at reaching the poor but not the poorest, and that other anti-poverty modalities need to be brought into play when attempting to reach the poorest. Twenty out of the twenty-five outcome indicators related to income, expenditure, asset or employment generation, presented positive and statistically significant average effects. According to some impact evaluation estimations clients of MiBanco, in Peru, presented an increase of 79% in their monthly profit, while clients from FUNDAP in Guatemala presented an increase of 34% in monthly household income.

Nevertheless, it is important to remember that the greatest promise of these organizations, namely, positive impact with financial sustainability, has not yet been fully met. Most institutions committed with sustainability cover less than 90% of their adjusted financial costs. Moreover, the programs that are breaking even financially, throughout the region and the world, are not those celebrated for serving the poorest clients. In other words, the double bottom line, poverty reduction with financial profitability, remains a chimera.

Only two of the studies surveyed evaluated the impact of the non-financial products supplied by MFI, and further studies are needed in this area in order to improve the grasp of this effect. A comparative study with Village Banks in Nicaragua and Ecuador evaluating the impact of programs with compulsory training, similar institutions, and no complementary non-financial products, suggests that the provision of complementary services, such as education and health, can magnify the positive effect of the microcredit in the household, in particular in the case of health related outcomes. The effects on food and total expenditure are ambiguous and not statistically significant.

Another question that remains to be addressed is whether non-financial activities could be provided by sister institutions, and not the microfinance organization themselves.

Policy makers should be aware that credit is only one of the many different products that microfinance institutions are able to provide to those traditionally excluded from the financial sector. Savings, deposits and money transfers, can also play an important role in helping the poor manage their shocks, and to increase their income. A study on the expansion of Pahnal, a Mexican savings institute targeted to low-income clients, showed with a rigorous analysis, that when provided with credible and liquid savings instruments, households' can increase their savings rates up to five percentage points - and by almost seven percentage points in the case of some of the poorest ones.

Microfinance is here to stay, and its scope on the toolbox of development policy makers, practitioners, activists and researchers has been consolidated. Nevertheless the limits and potential of this innovative industry should always be assessed in order to guarantee its effectiveness. For instance, an important knowledge gap which remains to be bridged, is the understanding of the impact of the domestically funded institutions, such as those supported through public resources.

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coverage in secondary education, which have experienced budgetary cuts, and curricula and management uncertainty in many countries; d) lags of coverage in elementary education in some countries and groups, specially children and indigenous girls.

In this perspective, the main contribution of education to improve social conditions particularly to reduce poverty and enhance social equity in the region should be oriented to increase the number of children and youth in school while assuring they spend most of their time there and enjoy an exciting learning experience. Brazil's most recent experience revealed that this is possible to achieve rapidly with considerable social impacts: between 1994 and 2000 the proportion of 7-14 year-old children enrolled in elementary school increased from 89 percent to 97 percent. Moreover enrollment in secondary school rose 57 percent, repetition in basic education decreased 9 percent and regional inequalities in education were reduced substantially. How did all that happen? It would become a long list to detail all the programs that have been part of the Brazilian educational strategy during the last decade, but it is important to point out at FUNDEF, which was a key contribution to overcome educational inequalities. This fund, created in 1996, established by law both a minimum share of fiscal revenues that should be allocated in elementary education, a minimum amount of public expenditure per student that every state should meet, and a compensation mechanism from which the federal government supplements resources to every child who cannot be granted with those provisions. A good proportion of the positive effects on coverage expansion and quality improvement in the

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educational system comes from both FUNDEF financial sources, and better distribution mechanisms among regions, schools and children.

2. Paying special attention and targeting resources to schools and families with children with the most social and economical disadvantages: According to conservative estimates, around 25 million of children under 8 years live on extreme poverty in Latin America. Many of them have been enrolled in the educational system of their respective countries, and, as stated above, the main objective of the educational policy is to enroll all of them. Nonetheless, poor children typically enroll in scarce-resource schools where teachers are absolutely not well prepared to deal with them and the quality of education is inferior to the system's average. The result is that these schools do not provide good teaching and contribute to early educational failure, perpetuating the poverty cycle rather than breaking it.

The good news is that there are several good practices in Latin America of effective and impact proven policies, which may lead to optimism for implementing compensatory educational programs and targeting programs in schools enrolling the poorest student. Among the initiatives that can be source of inspiration for all those trying to work in this direction are the "900-schools" program in Chile, "Escuela Nueva" in rural Colombia, or "Telesecundaria" in Mexico's rural areas. These programs have been implemented on large scale and have improved the access and quality of education for the poor, reducing the performance gap between socially disadvantaged children and the rest of students.

Moreover, other ambitious demand-driven programs should be highlighted such as "Progresá" in Mexico, "Bolsaescola" in Brazil, or the National Program of Scholarships in Argentina, which allocate resources directly to low income families in order to, among other goals, stimulate the participation of children and youth in the school system. It is interesting to notice that a good proportion of these demand-driven and comprehensive programs base their implementing strategy on schools, which indicates that the educational system constitutes one of the few extended networks for poor people accessing social benefits in the region. Abundant assessments on these programs and, in the IDB's experience, direct contact with various forms of these programs as a source of financial and technical assistance, reinforce the idea that they have contributed favorably to improve social indicators and the access and permanence of poor children and youth in schools.

Therefore, there is no shortage of inspirational elements for those who are determined to make education an important tool to fight poverty and inequality.

At the End of the Nineties: Who is more Vulnerable?

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The impact of the recurrent economic shocks in Latin America and the Caribbean is clearly visible in the incidence of poverty. However, the strategies that households adopt to cope with the effect of these crises on their welfare are not always so visible.

One of the main strategies is to increase their supply of labor. A general analysis, based on household survey data from the beginning and the end of the decade, shows changes in the composition and size of households which could impact their ability to cope in the face of adverse situations. Given that a higher proportion of household members of working age implies a higher capacity to compensate for the impact of a crisis, the household could increase the number of income earners or, in the case of unemployment of a member, it could send another member into the work force.

However, this capacity to adjust is different across diverse types of households. In first instance, there are "nuclear" households (father and mother with or without children) which represent about 58% of all households in the region. In this group the average size has decreased (from 5.1 to 4.7 individuals) but the number of working age members has remained constant (around 2.8 per household), so that proportionally the number of potential income earners has increased, allowing these households to resort to the informal social protection strategy mentioned above.

On the other hand, there are single-parent and the single-person households, which by definition have one less working age member, hence are more vulnerable. Through the decade the percentage of single-parent household in the region has remained around 20 percent, out of which 80% are female-headed. While single-person households showed a small increase from 6.4 to 7.8 percent. This last group is composed by the same number of men than women, but the average age of men is 48 years while for women it is 60.

The data show that single-parent and single-person households, particularly those headed by women, seem to be a more vulnerable group to adverse situations. In total the number of female-headed households has increased from 18.8 to 21.8 percent in the nineties. The evidence suggests that these households would need support from formal social protection nets given the lack of alternatives from within the own households.

These results give a general view of the evolution of some of the characteristics of households in Latin America and the Caribbean. Nevertheless there is a lot of information in the household surveys that could be analyzed to reach more firm conclusions as to how households in the region are changing, and to the causes and consequences of this evolution.

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