

Report: Poverty Reduction and Equity Enhancement in the Implementation of the Institutional Strategy¹

Definition

Actions that encourage private investment, increase productivity and improve the quality of institutions will deliver higher growth rates, macroeconomic stability and a more accountable and responsive state. In this sense, fostering competitiveness, modernizing the state, investing in the social sectors, and promoting regional integration – the four priority areas identified by the Bank in its new institutional strategy - will contribute to improving living conditions for a country's citizens, including the poor. However, evidence shows that to accelerate the pace of poverty reduction in all its dimensions –material deprivation, low human development, powerlessness, and vulnerability– specific actions are needed in each domain.

Growth must be accompanied by measures that ensure that its benefits reach all segments of the population. Initiatives should simultaneously create economic opportunities for the poor, address the structural inequalities embedded in the distribution of assets (e.g., education) and expand their access to social and physical infrastructure. Policies to promote social progress by, for example, eliminating the social barriers that keep ethnic and racial groups and women excluded and by improving the management of the risks faced by the poor, are also critical. In addition, an efficient and effective state that is accountable to the poor and responsive to their needs is indispensable.

An integral poverty reduction strategy should include cross-cutting policies in the following four priority areas:

- a) **Competitiveness:** This should include policies to increase the productivity of the poor and strengthen their capacity to cope with income risks, such as: (i) increasing the assets base of the poor by, for example, land titling, land reform programs, housing programs, and investment in projects that secure access to quality education, training and health services through supply-side and demand-side interventions; (ii) improving their access to information and technology; (iii) promoting the creation and development of markets by, for example, improving access to geographically inaccessible areas through investment in physical infrastructure, increasing the linkages between the productive activities of the poor and dynamic sectors of the economy through the support to microenterprises and environmentally sustainable rural activities, and by increasing the access to credit markets; (iv) promoting social cooperation mechanisms to increase the productivity of small producers; and (v) reducing the risk exposure faced by the poor in their productive choices.

Countries foster competitiveness, by –among other measures– introducing market oriented reforms such as trade liberalization, deregulation and privatization. There are three areas of actions to make reforms more pro-poor. First, reforms should proceed to remove any remaining anti-labor biases; second, reform programs should be accompanied by an assessment of their impact on poor people and the implementation of

¹ Prepared by the Poverty and Inequality Advisory Unit, SDS/POV

appropriate compensating schemes, or the development of alternative opportunities, for the poor hurt by reforms during the transition period; third, reform programs should incorporate measures that facilitate the development of microenterprises and SMEs, by for example, reducing bureaucratic hurdles. Deregulation at the “micro” and local levels should become an integral part of the reform agenda. Two areas of reform deserve careful assessment in terms of their impact: labor market reforms and reforms of the social sectors. In the former, labor market regulations should preserve (or introduce) and enforce core labor standards. In the latter, reforms must ensure that access to social services on the part of the poor is expanded by their implementation.

- b) ***State Modernization and governance for the poor:*** It is crucial that institutional reforms move forward to build accountable and responsive institutions and an efficient and effective state capable of implementing pro-poor policies. These reforms include: (i) strengthening civil society organizations and encouraging community participation in the process of public policy dialogue, especially of traditionally marginalized groups, such as women, indigenous and Afro-Latin populations and the poor, more generally; (ii) advancing the reform of the delivery of public services include health, education, infrastructure and judiciary services to make them more responsive to the needs of the poor; (iii) furthering fiscal reforms to improve the progressivity of taxation –without compromising efficiency– and public spending, and to establish fiscal stabilization funds and rules to guarantee minimum spending levels in social programs; (iv) improving management and national evaluation capacities to enhance government’s transparency and accountability; (v) reforming legal systems to promote legal equity and make them more accessible to poor people; and (vi) implementing decentralization processes with broad participation that minimizes the scope for capture by local elites.
- c) ***Social Sector Development:*** Policies in this area should focus on eliminating social exclusion, protecting the consumption levels of vulnerable groups, and preventing the proliferation of social ills and dysfunctional behaviors such as child labor, crime, drug and alcohol abuse and domestic violence, all of which affect the poor disproportionately. Initiatives in this area include: (i) establishing social protection mechanisms that guarantee minimum consumption levels and access to basic services by, for example, protecting social expenditures during crises, improving management of natural disaster risks, and by helping the poor cope with illness, crop failure, unemployment, drops in income, and old age; (ii) eliminating discriminatory practices and support to projects that promote opportunities for socially excluded groups; (iii) investing in mothers and early childhood interventions; (iv) preventing teenage pregnancy; (v) upgrading urban slums and community policing; (vi) promoting youth participation and leadership; (vii) implementing social marketing campaigns to change social norms and attitudes towards domestic violence; (viii) supporting educational interventions to promote the use of gender neutral educational materials and facilitate conflicts resolution, training courses on gender roles and the prevention and coping with domestic violence; and (ix) promoting preventive actions in health centers to identify victims of violence so that they can be referred to counseling services, and in judiciary institutions to handle disputes resolution.

- d) **Integration:** To strengthen the effectiveness of the initiatives in the above areas, the Bank can take advantage of the synergies arising from regional cooperation by: (i) incorporating a social chapter in the economic integration arrangements; (ii) examining the rules that govern the exchange of goods, services, capital, labor and technology (IPR) with the objective of promoting social equity; (iii) promoting the creation of networks of policy makers to raise consciousness and build consensus around poverty reduction goals; (iv) facilitating the exchange of best practices in the design and implementation of social and productive programs with high impact in poverty reduction; (v) ensuring proper coordination between governments in the event of natural disasters by, for example, improving information and forecasting systems, mapping of high risk areas, evacuation programs, and water sheds and coastal management; (vi) supporting regional calamity funds that promote insurance mechanisms for the rehabilitation of basic physical infrastructure after natural disasters; (vii) facilitating the effective participation of developing countries in international forums; (viii) contributing to the production of international public goods such as vaccines for malaria and tuberculosis, and agricultural research; (ix) establishing mechanisms to foster global financial stability; and (x) supporting debt reduction initiatives for the poorest countries and encouraging effective development assistance.

Strategies and Options for Bank Services

The Bank should mainstream the goal of poverty reduction in its lending and non-lending activities. For this, a key element is the development of participatory and integral poverty reduction strategies that include initiatives in the four priority areas with indicators to monitor effort and progress. The Bank should identify the countries and activities where it is called to have a leadership role and strengthen partnerships with other development institutions and the private sector to promote synergies.

As part of its *non-lending services*, the Bank can promote national and regional policy dialogues to raise consciousness and build consensus around poverty reduction goals; provide technical support to the development of national poverty reduction strategies; mainstream poverty reduction in country papers and country programming exercises; build knowledge on the causes and dynamics of inequality and poverty; support the production and collection of high quality data on living conditions; disseminate best practices; and, support the training of social sector managers and policy makers in poverty reduction programs and policies.

On the *lending side*, the Bank should more decisively incorporate policy actions as those outlined above in its lending products. This would make its activities even more consistent with the poverty reduction and social equity enhancing goals established in the 8th replenishment.

The Bank should assess the human and financial resources as well as the organizational changes that are required to reposition its activities so that greater emphasis and priority is given to the goals of poverty reduction and equity enhancement. In addition, the Bank should assess the impact of both its lending and non-lending program with respect to these goals. As part of this effort, the Bank should encourage the implementation of impact evaluation in a selected number of its activities and projects.

