

In the last decades, the countries of Latin America and the Caribbean have made important social and economic strides. Economic reforms and liberalization have contributed to macroeconomic stability. Political and institutional reforms have advanced the consolidation of democracy and democratic institutions throughout the region. Social reforms have also had important effects. The average person is healthier and better educated. People live longer and women have made substantial inroads in economic and public life. Notwithstanding these gains, much remains to be achieved in the areas of poverty reduction, inequality and social exclusion, which have remained burning issues for the region and have constrained growth, as well as social and political progress. Problems of efficiency, effectiveness and low coverage of the poor and excluded continue to affect a generation of reform efforts in health, education and housing. Increased violence and insecurity, a pressing concern in the last two decades, combine with poverty and inequality to slow economic growth and impede social development.

The development agenda of the region focuses on economic reforms aimed at broadening the market, and needs to place more emphasis on fighting the grave social inequities that still plague the region. Recent periods of economic growth in Latin America and the Caribbean have not been accompanied by strong employment growth or a significant reduction in poverty. Improvements in average social indicators, reflected in the Human Development Index and the Millennium Development Goals, tend to conceal the wide disparities in human capital, social conditions and living standards between different regions within countries, between rich and poor, between men and women, between indigenous peoples and other groups, between people of African descent and others, and between rural and urban dwellers.

Since 1990, the countries of Latin America and the Caribbean have made progress in reducing poverty, but the gains have been modest. Different studies point to an average reduction in the incidence of poverty of just over 10 percent. However,

given population growth, the absolute number of poor people increased in the decade. Moreover, the economic performance of recent years reversed the gains made in some countries. Taking as a poverty yardstick the percentage of the population earning less than two dollars a day (in purchasing power parity), the region entered the twenty-first century with around one third of its population living in poverty.

In most countries of the region poverty is closely related to relatively high levels of income inequality. The countries of Latin America and the Caribbean are among the most inequitable in the world. Moreover, in most countries, inequality is higher than would be expected given their level of development. The Gini coefficient for the region as a whole is 25 percent higher than would be expected given per capita GDP. If the distribution of income in the region were to correspond to what would be expected for its level of development, the number of poor people would be reduced by half. Underlying income inequality, are huge inequities in the distribution of assets, including education, land and credit. According to recent studies, the average length of schooling for the poorest 20 percent of the population is only four years, while for the richest 20 percent it is 10 years. In countries where data is available, poor children face many more disadvantages (or developmental “failures,” including relatively high child mortality, school dropout rates, and youth unemployment) much sooner than rich children, significantly reducing the odds of them ever joining a competitive work force and escaping poverty.

The low levels of human capital of the poorest segments of that labor force constrained the opportunities that arose from trade and financial liberalization. Growth in most countries has been concentrated in capital intensive export sectors and modern services with high levels of labor productivity. Educated workers have benefited substantially from liberalization and increased growth in the first half of the nineties. However, uneducated workers have seen their wages stagnate and, in some case, even decrease in real terms. This has worsened inequality and reduced the impact of growth on reducing poverty.

Compounding the problem of inequality is social exclusion, which both causes and is a consequence of inequality. Socially excluded populations in the region, by gender, age, race, ethnicity, disability and HIV/AIDS, migration status or other features of exclusion, share poverty, suffer multiple and cumulative disadvantages, stigma and discrimination, and rank consistently lower in terms of progress toward reaching the Millennium Development Goals.

The Bank is an active partner in addressing the main issues of concern to the countries of the region. It does so in the context of the strategies for the overarching

objectives of sustainable economic growth, and poverty reduction and promotion of social equity. This section presents some of the specific support provided by SDS in the areas of poverty reduction, social equity, and social development through the work of the Social Capital, Ethics and Development Initiative, the Poverty and Inequality Unit, the Education Unit of the Education, Science and Technology Subdepartment, and the Social Development and Public Governance Subdepartment, which includes the Social Programs Division, the Education Unit, the Gender Equality in Development Unit, the Indigenous Peoples and Community Development Unit, and the State, Governance and Civil Society Division.

THE SOCIAL CAPITAL, ETHICS AND DEVELOPMENT INITIATIVE

[www.iadb.org/etica]

The Social Capital, Ethics and Development Initiative was created to serve as a catalyst to raise the themes of ethics, development, and social capital within government entities, political parties, business and trade union organizations, academia, religious communities and nongovernment associations. The areas of work of the initiative include socially responsible public policies, strengthening volunteerism, citizen participation, the empowerment of marginalized communities, and the inclusion of the concepts of ethics and social capital into academic programs. The methodology includes raising awareness and promoting discussions of the issues involved; creating knowledge surrounding these issues; forming networks; collaborating with other international organizations on the topic; and implementing activities. The initiative was transferred to SDS in 2005.

The initiative has five major goals: (i) to stimulate analysis and discussion of ethical dilemmas and challenges and encourage policymakers to take responsibility for these challenges; (ii) to cooperate in areas such as strengthening volunteerism, expanding corporate social responsibility and prompting key social players to adopt ethical codes of conduct; (iii) to become a driving force behind efforts to include ethical goals and criteria in the preparation and implementation of development projects; (iv) to promote the teaching of ethics in development; (v) to help create a network of academic and research centers in ethics in development; and (vi) to encourage the mass media to cover issues dealing with ethics in development. Several seminars and meetings brought together key players in the region to discuss issues such as social responsibility in higher

education, the creation of a culture of transparency, young entrepreneurs and volunteerism, among other topics.

THE POVERTY AND INEQUALITY UNIT (SDS/POV)

[www.iadb.org/sds/pov/index_pov_e.htm]

SDS/POV provides technical leadership in the areas of poverty reduction and promoting social equity, and contributes to enhancing the quality and impact of the Bank's lending and nonlending activities in these two areas. The Unit is also responsible for monitoring the Bank's portfolio with respect to how loans are targeted to assist the poor, and for providing support to improve poverty targeting mechanisms in operations. In addition, the Unit seeks to improve the quality of information and analysis of poverty and inequality. Some key activities of the Poverty and Inequality Unit are listed below.

The Social Equity Forum

[www.iadb.org/sds/pov/site_4324_e.htm]

SDS/POV organizes and carries out the Social Equity Forum (which was established in 1998). The aim of this series of biannual meetings is to place the issue of social equity squarely on the agenda of debates on political, economic, and social reforms in Latin America and the Caribbean. The meetings facilitate the discussion and evaluation of successful experiences to promote equity as well as exchanges of ideas on policies and programs. Forum participants include ministers of economy, finance, and planning; civil society representatives; academics; and other opinion leaders. Meetings have dealt with issues such as the incorporation of equity considerations in the macroeconomic reform process; equity and labor markets; transparency and accountability; and social fairness.

MECOVI

[www.iadb.org/sds/POV/site_19_e.htm]

The Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean (MECOVI, in its Spanish acronym) was established in 1997 in recognition of the urgent need for an information system with reliable data to measure poverty, inequality, and social indicators in all the countries of the region. Together with the World Bank, the Economic Commission for Latin America and the Caribbean (ECLAC), and country governments, the IDB is providing, through the MECOVI program, financing, technical leadership, and overall coordination for key activities to strengthen each country's institutional capacity to implement and analyze a high quality multipurpose household survey system. An important element of the regional component of the program is the construction of a user-friendly data bank of household surveys.

Support to the MDG Initiative

[www.iadb.org/sds/POV/publication/publication_21_3594_e.htm]

SDS has developed a technical project to support countries in the implementation and monitoring of the Millennium Development Goals by strengthening the capacity of national institutions and promoting a consensus surrounding pro-poor strategies and policies. The United Nations Development Programme (UNDP), ECLAC and the World Bank are implementing this project in partnership with the IDB. SDS support for the implementation of the MDG initiative has included the organization of international conferences and seminars as well as the publication of a book and CD-ROM.

Support to National Poverty Strategies and Documents

[www.iadb.org/sds/pov/site_3215_e.htm]

The Bank is providing support to the member countries in defining national poverty reduction strategies and poverty documents. Some of these have been prepared within the context of the Highly Indebted Poor Countries (HIPC) initiative for debt reduction. Others have been prepared for middle-income countries. The comprehensive poverty reduction strategies are medium- and long-term action plans developed by national governments within a participatory framework (based on widespread consultations and in collaboration with a broad range of national and international actors). The IDB has provided resources from its technical assistance, cooperation and loan programs to the

governments of the region to support the development and implementation of national poverty reduction strategies.

Regional Policy Dialogue on Poverty and Social Protection

SDS provides technical support to the Integration and Regional Programs Department (INT), which runs the Poverty and Social Protection Network. The network examines the institutional aspects of programs to combat poverty in the region, carrying out research on regional experiences with social protection programs and disseminating lessons learned. This effort centers in areas such as: (i) undertaking comparative analyses of development and poverty reduction efforts in the region and elsewhere; (ii) carrying out research into experiences and best practices in microcredit programs for the poor that include investments in human capital; and (iii) analyzing the experience of the countries of the region with social investment funds and social inclusion programs. The research for the dialogue helps identify the main obstacles facing poverty reduction and social protection policies in Latin America and the Caribbean.

THE EDUCATION UNIT (SDS/EDU) OF THE EDUCATION, SCIENCE AND TECHNOLOGY SUBDEPARTMENT

[www.iadb.org/sds/SCI/index_sci_e.htm]

SDS/EDU plays an integral part in Bank activities dealing with poverty, equity and social inclusion. Thus, education components are usually an important part of programs and projects that deal with children and youth, health, women, indigenous peoples, violence prevention, and social inclusion. SDS has played an active role in the development of strategies for elementary and secondary education.

The region's education systems have experienced substantial improvements. There is a growing interest in the region in sharing and coordinating efforts for educational improvement. This expanding international agenda has been strongly encouraged at the top level of decision making in presidential and ministerial meetings. This is of great importance because of the flourishing of innovative programs in the region, including those dealing with distance education as a vehicle for expanding secondary education to rural areas; conditioned cash transfer programs that coordinate poverty reduction and education strategies; targeted support for schools with disadvantaged children; and a series of other high-impact new programs. The willingness of the public and private sectors to make education a real priority should also be highlighted because it has led to improvements in public spending on education. In addition, the impact of

decentralization reforms has been particularly positive where they have been accompanied by a clear definition of responsibilities among levels of government and a corresponding arrangement for financing education in a decentralized setting. Significant progress has also been made in the areas of testing and evaluation. An increasing number of countries are participating in international assessments of student learning.

Regional Policy Dialogue on Education and Human Resources

SDS provides technical support to the Integration and Regional Programs Department, which runs the Education and Human Resources Network. This network provides a forum for discussing priority education policies and initiatives and exchanging ideas and best practices; analyzing common problems; and exploring regional cooperative efforts to improve education systems in the region. It has addressed issues that relate to secondary education, teacher performance and evaluation, and education reform.

THE SOCIAL PROGRAMS DIVISION (SDS/SOC) OF THE SOCIAL DEVELOPMENT AND PUBLIC GOVERNANCE SUBDEPARTMENT

[www.iadb.org/sds/SOC/index_soc_e.htm]

SDS/SOC supports IDB operations and helps to identify and promote new opportunities for Bank action in the social areas that will accelerate overall economic growth and improve the well-being of people in the region, particularly the poor and excluded. Working in tandem with the Bank's operational departments, the Division offers technical advice on priority issues in the areas of children and youth, health and social security, labor markets, social dialogue and social cohesion, urban development and heritage preservation, and violence prevention. Activities in these areas are highlighted below.

Children and Youth

[www.iadb.org/sds/SOC/site_10_e.htm]

SDS work in the area of children and youth emphasizes early childhood care and development (ECCD) because it is considered a cost-effective approach to addressing the problems of children in poverty and its transmission from one generation to the next. ECCD can also enhance investments in other areas such as education, health care, and violence prevention programs. In addition, SDS has addressed issues affecting children and youth from various other angles. They include the prevention of child

labor; the development of strategies in the areas of primary and secondary education as well as vocational training; analyses of issues related to child health, such as adolescent pregnancy and infant mortality; research into the costs associated with child abuse; and the development of a database of successful youth programs.

Health

[www.iadb.org/sds/SOC/site_11_e.htm]

Activities in the health sector contribute to the improvement of public health in the region through the identification of epidemiological and technological trends; the introduction of new health management methodologies; and the dissemination of scientific information on health policy and programs to assist the public decision-making process. Research related to health issues has looked into topics such as occupational hazards, health expenditures, pharmaceuticals, essential services, and different aspects of HIV/AIDS (prevention, vulnerability, discrimination). In addition, SDS spearheaded a health promotion initiative (*Vida sana es más vida*) to help countries identify health priorities, set goals, develop information systems and indicators, and prepare strategies and action plans.

Social Cohesion and Inclusion

[www.iadb.org/sds/SOC/site_2529_e.htm]

Efforts in this area promote the inclusion and participation of all individuals regardless of race, ethnicity, gender or physical disability. SDS provides technical support to the Bank's borrowing countries in their attempts to expand the access of socially excluded groups to needed services and legal rights. To further these goals and help build a social cohesion agenda for the region, increased priority is being given to promoting democratic institutions, combating poverty and inequality, fostering social inclusion, and creating a more conducive environment to achieve social equity. SDS coordinated the development of a regional action plan to combat social exclusion due to ethnicity; developed a framework for a social cohesion agenda; and published a collection of readings on social inclusion and economic development.

The Social Inclusion Fund

[www.iadb.org/sds/SOC/site_5594_e.htm]

The multidonor Social Inclusion Trust Fund was established to support small-scale initiatives addressing the social inclusion of indigenous and Afro-descendant

populations, persons with disabilities, persons with HIV/AIDS, and poor women. Contributions thus far have been received from the Norwegian Ministry of Foreign Affairs and the UK Department for International Development (UK-DFID). The Trust Fund has three main objectives. The first is to promote sustained and integrated programs and policies to address social inclusion by targeting traditionally excluded groups. The second is to strengthen local institutions that work with traditionally excluded groups. The third objective is to increase governments' awareness of the importance of social inclusion as a development objective.

Urban Development and Heritage Preservation

[www.iadb.org/sds/SOC/site_15_e.htm]

SDS provides support to the regional operations departments in satisfying the growing need for effective multisector interventions to tackle the increasingly complex urban development problems of the region. SDS staff support housing sector reform, settlement upgrading, municipal and provincial development, comprehensive urban development, downtown revitalization projects, and cultural heritage conservation. Research and dissemination of best practices and effective institutional arrangements for implementation are also part of the responsibilities of SDS. The work is disseminated through an active program of technical meetings, seminars, and publications. The Bank has pioneered the involvement of multilateral development institutions in assisting borrowing countries in the protection of monuments and archeological sites of significance. Research in this area includes the development of operational guidelines for housing, a review of experiences with neighborhood upgrading programs, lending for urban heritage conservation, subsidies in housing, housing reform, and mortgage markets.

Violence Prevention

[www.iadb.org/sds/SOC/site_471_e.htm]

The IDB is committed to working in partnership with the region's governments and civil society to reduce violence both inside and outside the home. SDS has created a Violence Reduction Group (comprised of staff from the Gender Equality in Development Unit and the Social Programs Division) whose mission is to provide technical support to Bank projects in the area of violence reduction; conduct research on the causes and consequences of violence in the region; identify best practice interventions that reduce social and domestic violence and share this knowledge with

regional stakeholders; support governments in the design of national and municipal violence prevention strategies; and disseminate the message that violence is preventable. Research in this area includes studies of community policing experiences, domestic violence, child abuse, tools to prevent violence, and the creation of a database of violence prevention programs.

THE GENDER EQUALITY IN DEVELOPMENT UNIT (SDS/GED)

[www.iadb.org/SDS/GED/index_wid_e.htm]

SDS/GED enhances the contribution of women to development and ensures their equitable participation in Bank-funded programs as well as in the benefits of development. The Unit has been instrumental in sensitizing Bank staff and the staff of borrowing country agencies to the importance and benefits of including women in project design and implementation, as well as other gender issues. SDS/GED works actively on topics such as enhancing the participation of women in public and civic life by strengthening their ability to become effective leaders. It also carries out programs that benefit and bolster families and children and that address issues of poverty and social equity (including health and education).

PROLEAD

[www.iadb.org/sds/prolead/]

The Program for the Support of Women's Leadership and Representation, established in 1998, is a collaborative effort of the IDB, the OAS/CIM, UNICEF, UNIFEM and UNDP aimed at promoting women's citizen participation and their access to leadership positions in public and civic life. With the support of the governments of Norway, Sweden and The Netherlands, PROLEAD has promoted capacity building and networking events, and given grants to 55 Latin American and Caribbean organizations. The program is an important focal point for providing information on activities, networks, best practices, and lessons learned in the area of women's leadership.

The Fund for Gender Mainstreaming

This fund was established in 2005 to provide technical support and increase the level of gender mainstreaming in IDB-financed development initiatives in Latin America and the Caribbean. It directly supports the implementation of the Gender Mainstreaming Action Plan, the proposed Long-term Strategic Outlook on Gender and the new Gender Policy. It takes into consideration activities that support gender mainstreaming

throughout the project cycle; improve the availability and quality of technical support for and analysis of gender issues; and strengthen institutional mechanisms for creating accountability, and achieving and monitoring results.

THE INDIGENOUS PEOPLES AND COMMUNITY DEVELOPMENT UNIT (SDS/IND)

[www.iadb.org/sds/IND/index_ind_e.htm]

SDS/IND focuses on issues of poverty reduction, social equity and sustainable development as they affect indigenous populations. Other areas of concern are community development and participation, involuntary resettlement, and sociocultural soundness matters in general. The approach to questions related to indigenous peoples is three-pronged. It includes facilitating access by indigenous peoples to mainstream Bank operations in the social, productive, and environmental sectors; identifying innovative projects to address the specific demands and needs of indigenous peoples; and strengthening current practices to avoid, mitigate or compensate for impacts generated by development projects targeted to other population groups. The fundamental premise of SDS/IND activities is that sustainable and equitable development goes hand in hand with strengthening the cultural identity of indigenous peoples and their increased participation in civil society. SDS/IND is also responsible for ensuring the appropriate implementation of the involuntary resettlement policy adopted in 1998. In addition, it pioneers innovative methodologies for community consultation and participation, and addresses broader sociocultural soundness issues.

The Indigenous Fund

[www.fondoindigena.net/]

The Indigenous Peoples Fund was established in 1992 with the support of the IDB and other institutions, as a mechanism to support indigenous development initiatives and to facilitate the dialogue between indigenous peoples and the governments of the region. Since then, it has secured broad political support from governments and indigenous peoples. In May 1997, agreement was reached on the creation of a US\$100 million endowment fund (to be administered by the IDB) to support activities in building local institutions, training, technical support, and project preparation.

THE STATE, GOVERNANCE AND CIVIL SOCIETY DIVISION (SDS/SGC)

[www.iadb.org/sds/scs/index_scs_e.htm]

SDS/SGC develops strategy and policy proposals, provides technical support to operations, and fosters activities in the areas of modernization of the State, governance and strengthening of civil society. Activities in these areas are highlighted below.

Civil Society

[www.iadb.org/sds/SCS/site_1461_e.htm]

The far-reaching changes taking place in the countries of Latin America and the Caribbean have entailed a substantial revision of the roles of government and of the different sectors of society. Another factor contributing to this process was the emergence of a broad consensus on the importance of certain issues on the development agenda, such as the environment, gender, ethnicity, equity and the social structures that generate exclusion. The countries of the region are making great efforts to strengthen their democratic systems while at the same time promoting economic and social development, recognizing the intertwined nature of democracy and development. In this context, citizen participation is of growing importance, both with respect to ideas about how it can contribute to strengthening democracy, and about the processes and mechanisms that can be used to achieve development goals in the region. Indeed, participation is key to making development policies and projects more responsive to the needs of those persons who have traditionally suffered from economic, social or cultural exclusion. Areas of work to strengthen the role of civil society in the development process include citizen participation, civil society consultation, and outreach. In addition to hosting regional meetings with civil society organizations, SDS has coordinated the development of a strategy and operational policies on citizen participation in Bank activities. It has also published books on poverty and civil society, community policing, community consultation, human rights, and conflict management.

Justice

SDS supports programs and projects to strengthen the independence of the judiciary; improve access to justice; strengthen the ability of justice administration mechanisms to fight corruption; modernize systems for the administration of justice; promote alternative conflict resolution methods; update procedural legislation; and protect citizen security. Activities include building consensus and preparing the way for reform of the justice system; institutional strengthening; training; promoting the involvement

of citizens and civil organizations; and improving the legal framework. SDS has hosted a series of regional conferences on justice and development. In addition it has published books on access to justice and equity, and best practice reports on reforms of the justice system.

Modernization of the State

[www.iadb.org/sds/scs/site_1460_e.htm]

Reform efforts to modernize the State are mainly geared toward consolidating democratic governance. Sustainable and equitable development requires a democratic, modern and efficient State that promotes sustainable economic growth, providing a regulatory framework that is conducive to the operation of markets; guarantees a stable and reliable macroeconomic environment, legal predictability, and political security; is capable of adopting appropriate economic and social policies for poverty reduction and environmental protection; and implements these policies in an efficient, transparent, and responsible manner. In the region, there has historically existed a deficient relationship between the State and the market, on one hand, and the State and citizens on the other, which has resulted in an erosion of the possibilities for a sustainable and equitable development. The region's *democratic deficit* has been reflected in authoritarianism, cronyism, populism, corruption, and the capture of institutions and public policies by special interests that have resulted in state actions that discourage the efficient functioning of markets and instead promote rent-seeking and speculation. At the same time, these phenomena have contributed to policy-making processes that do not reflect the needs of the majority of citizens and lead to the exclusion of broad sectors of society from the benefits of growth. SDS areas of work under this topic include democratic systems; the rule of law; the State, markets, and society; and public management. In addition, the Department has hosted conferences on security and development, state reform, and governance; and maintains a database of IDB projects dealing with these issues and has published books on politics, governance, public administration, and human rights.

Regional Policy Dialogue on Policy Management and Transparency

SDS provides technical support to the Integration and Regional Programs Department, which runs the Policy Management and Transparency Network. This network addresses issues that are crucial to the success of civil service reform programs. Topics of discussion include the structure and characteristics of civil service systems, analyses

of reforms in the region and elsewhere, and the challenges of reform. The network also explores lessons learned, best practices, and useful approaches in such key areas as: senior public management systems; labor relations in the public sector; the political economy of public management reform; new technology in public management reform; public sector retraining and redeployment programs; public sector remuneration; budget planning and human resources management; and alternative service delivery.

Subnational Development

SDS is providing support to borrowing member countries in their efforts to promote socioeconomic development through the devolution of responsibilities and resources to subnational and local governments. To this end, it has developed a strategy and undertaken research to define the objectives that the Bank can promote among borrowing countries committed to subnational development. These publications also make recommendations concerning effective ways to achieve subnational development, and identify the specific instruments and resources that the Bank can mobilize in this pursuit.

THE CHALLENGES AHEAD¹

The Sustainable Development Department has developed effective tools, programs and activities to contribute to the understanding and the resolution of the issues that hinder or promote social, economic and political progress in the region. The various units of SDS will continue to provide strong intellectual leadership in these areas as the region faces the challenges of the twenty-first century, which, among others, include: fostering social cohesion; improving the effectiveness of the State and the political system to advance equitable development; promoting social progress that ensures access for the poor and excluded to quality health, education and housing and reduces their vulnerability to social ills; and promoting social inclusion.

Building *social cohesion* is fundamental to fostering social and economic progress and to advance in practically all the areas considered to be of priority in a region that has the worst income distribution worldwide. The lack of a broad-based and politically sustainable social contract in Latin America and the Caribbean prevents the functioning of socially cohesive societies, despite progress on other fronts. Pervasive income inequality, racial and ethnic heterogeneity, a poorly structured civil society and a large informal economy help explain the weak social agreements in the region and constrain

¹ The section on challenges in chapters 4, 5, 6 and 7 take the sector strategies into consideration.

the establishment of modern social contracts. The challenges of promoting cohesion and fighting poverty, inequality and exclusion should take advantage of the “windows of opportunities” for effective action that exist in Latin America and the Caribbean. The resurgence of democratic governance represents an opportunity for building social cohesion, strengthening the fiscal base, and consolidating democracy. A more mature and engaged civil society and women’s rising participation in the economy and politics are key assets. In addition, ongoing progress in promoting social inclusion as well as in fostering trade and regional integration provide an opportunity to improve cohesion in the region. Finally, the demographic transition (with projected declines in both fertility and dependency ratios, and consequently, increases in savings) provides another opportunity to reduce poverty and inequality, especially if there is heavy investment in the human capital of the future work force.

The challenge of *institutional strengthening* is at the core of promoting sustainable development. This is highly dependent on actions to strengthen the democratic system, modernize the State, promote governance and strengthen civil society. To strengthen *democratic systems*, attention should be paid to the legislative branch, the political party system, supervisory and regulatory institutions, and civil society. In particular, the legislative branch presents problems related to organization, administration, functioning and limited resources that curtail its ability to fulfill its responsibilities. The political party system is weak throughout the region. It lacks the ability to process and combine citizen demands or represent general public interests.

In addition, despite their proliferation, civil society organizations remain weak, owing in large part to the social exclusion of large segments of society. Challenges pertaining to the rule of law and the justice system in the region have to do with uncertainty or delays surrounding the protection of rights and obligations. An important segment of society lacks legal security with respect to assets, which limits their access to credit and to formal labor and production systems. The main challenges facing the establishment of the rule of law include the independence of the judiciary; obsolete laws and procedures; judicial backlogs; lack of resources; the absence of a modern system of organization, information and administration; barriers to access and limitations on coverage; limitations and deterioration of the physical infrastructure; and the precarious protection of human rights. As a result, the justice system lacks equity, which makes access difficult for large segments of the population and reduces confidence.

The countries of Latin America and the Caribbean have yet to achieve the *professionalization and modernization of the public administration* that are necessary for the

efficient provision of public services to reduce poverty. Reform of public administrations during the past two decades has taken place as a result of severe fiscal crises and external shocks. Although there has been some improvement in fiscal and economic administration, institutional reforms remain pending. The allocation of government resources should be reformed to better meet the needs of disadvantaged groups. The provision of government service should also better target neediest groups. These aims cannot be accomplished without reducing the politicization of public administrations and their capture by special interests, promoting instead a professional civil service that will act in pursuit of the general good.

Social development remains a key challenge for the region. There are still significant deficiencies in the access of the poor and excluded to quality basic social services, especially in the areas of health, education and housing. In addition, in most countries of the region, the poor are increasingly vulnerable to social ills, especially crime and violence. Inequality in coverage and in the quality of *health* services is the key constraint facing this sector. Although health reforms have helped to increase coverage of the poor, significant inequities exist between low- and high-income groups, and public health expenditures in some countries is still regressive. Groups excluded by reasons of gender, race, ethnicity and disability find their needs unmet due to lack of access to quality health services and scarce infrastructure to provide them. Specifically, efforts should be geared toward strengthening recent reforms. In countries where communicable diseases and maternal and perinatal disorders predominate, priority should be given to combating maternal mortality, infant mortality and morbidity, and infectious diseases like AIDS, malaria, dengue, and tuberculosis. In countries in later stages of the demographic transition, emphasis should be given to early mortality due to noncommunicable diseases.

Overall, *education* systems in the region have experienced substantial improvements over the past decade. These improvements are evident both in terms of inputs (more schools, better trained teachers, a more equitable distribution of textbooks, etc.) and of results. More children from all socioeconomic and ethnic backgrounds attend school, they enter school earlier, attend school for longer periods of time and complete ever-higher levels of education. Despite these important achievements, major challenges remain, progress has been slow and there are gaps in quality. International tests show that students throughout the region fail to keep pace with their counterparts in Asia, Europe and North America. A third or less of the urban workforce has completed the 12 years of schooling deemed necessary to guarantee a decent standard of living and keep pace with the demands of an increasingly global

economy. Curricular reform, weak or nonexistent standards and the urgency of improvements in teaching are also a challenge. Few education systems have been able to ensure that all children, regardless of their origin, receive a minimally acceptable level of education resources. Turning universal entry into universal completion in primary and secondary school also presents a challenge: in most of the region, primary completion rates hover around 75 percent. Actions are needed in both the demand of services and in the supply of education possibilities. Current enrollment levels in higher education are expected to double in ten years, and governments and the private sector need to increase their ability to respond to this challenge.

Challenges in the areas of housing and urban development concern inadequate housing, housing sector reform and the revitalization of city centers. One-third of the region's urban population lives in either informal housing or in segregated neighborhoods that lack essential services. Providing adequate sanitation and social services, and improving housing conditions are pressing tasks. To accomplish this, efforts should continue to transform the housing market into a leading economic sector by making housing credit accessible to low-income homeowners. This includes policies such as direct housing subsidies and microcredit for home improvements. Countries should also make efforts to reverse the deterioration of historic city centers in order to improve living conditions.

Another area in which progress has been lackluster is that of preventing violence. Indeed, rising *crime and violence* obstruct social and economic improvements, affect the poor most severely, and exacerbate the region's sharp income inequality. Homicide rates in Latin America and the Caribbean are the second highest in the world and continue to rise. The incidence of domestic violence is also very high. In some countries up to a quarter of adult women and more than a third of children suffer physical violence in the home. The negative effect of violence on schooling performance erodes human capital and future possibilities for social and economic development. Furthermore, violence has been shown to have a contagion effect for society as a whole. Escalating spirals of violence, in turn, generate significant social and economic costs in terms of foregone economic growth, decreased social capital, worsening poverty and increased inequality. Specific actions needed in this area include strengthening the ability of municipal government institutions to combat crime and violence. Efforts are also needed to collect reliable and comparable information on violence and its risk factors. A major challenge is the professionalization of police forces. Support should also be provided to improve coordination between the police,

the judicial system, health providers, educators, city planners and everyday citizens in attempts to prevent violence.

Women in Latin America and the Caribbean have made significant advances in education, health and nutrition, as well as in opportunities to generate income and participate in social and political processes. Yet, national averages conceal increasing inequities between women of different income levels, between women who live in urban and rural areas, and between women of different ethnic or racial origin. Gains in women's capabilities and opportunities, paired with an enabling environment (in which women are active participants in public office) and better legislation are necessary conditions for women's empowerment and gender equality in the region. However, this requires public policy and development investments that focus on reducing poverty and inequality with a gender perspective. Women's critical contributions to their families, communities and societies need to be acknowledged, supported and compensated. *Sustainable gender equality* requires the leveling of domestic and public spheres to the new roles of women. At the same time, being vigilant in protecting women's rights as citizens, as well as their safety and empowerment, requires the existence of a body of laws that are familiar to judiciary practitioners and those that are protected by them. It also requires that women have a voice at decision-making levels in the executive, legislative and judiciary powers.

Special efforts are needed in the region to reduce exclusion based on ethnic origin. About 10 percent of the region's population is of indigenous descent. Indigenous peoples represent 40 percent of the rural population and 25 percent of those living below the poverty line. Despite their cultural and linguistic diversity, the more than 400 indigenous peoples living in Latin America and the Caribbean experience similar problems with respect to loss of access to their land and natural resources, lack of links between their traditional economic systems and the national economy, marginalization, and cultural disintegration. The challenge with respect to the indigenous peoples of the region consists in promoting *development with identity*. This encompasses reducing poverty (which has a disproportionate impact on indigenous peoples), inequality and marginalization while increasing access to development opportunities. Implied in this are gender equity, as well as recognizing and strengthening the cultural identity, territories, natural resources, and social organizations of indigenous peoples. There are four main priorities for promoting a strategy of indigenous development with identity: mainstreaming indigenous topics into development agendas; empowering indigenous peoples to take full advantage of their

abilities in all facets of development projects; improving access to quality social and financial services; and promoting indigenous rights, legislation and judicial security.

Indeed, during the next decade the region has to renew its efforts to address the challenge of *social inclusion*, which has major implications for reducing inequality and promoting economic development in a context of democracy and social and political stability. Socially excluded populations by reasons of gender, race and ethnicity, age or disability and other features constitute a sizeable segment of the population of the region. They are a large segment of the poor, suffer multiple and cumulative disadvantages, stigma and discrimination, and rank consistently lower in social and economic indicators. In most countries, excluded populations are not small minorities and can represent between 25 and 50 percent of the population. These groups, which include the Afro-descendant population, face substantial discrimination in terms of access to jobs, credit, health care, and the basic means of subsistence. The initial challenge of inclusion comes in acknowledging the problem and its national dimensions. This means counting race, ethnicity, disability and other exclusionary characteristics in national census and household surveys. The second challenge is understanding how exclusion has become entrenched so that public policies can be better targeted. This requires more extensive analysis of the problem and how it is perpetuated through education, job markets, and the provision of services. The third challenge is to shape new inclusive public policies to test ways of addressing inclusion on a national and local level. This includes promoting a range of anti-discrimination instruments, improved education and skills training, anti-poverty programs that incorporate inclusion, and inclusive labor market policies.