

Strategy Profile of the Inter-American Development Bank, May 2002

POVERTY REDUCTION AND THE PROMOTION OF SOCIAL EQUITY

1. Objective

- 1.1 The Bank has maintained a firm commitment to the reduction of poverty and the promotion of social equity in Latin America and the Caribbean, as reflected in the various Capital Replenishments of the institution. Consistent with these priorities and in the context of the recent Institutional Strategy, poverty reduction and the promotion of social equity, and environmentally sustainable economic growth, were established as the two overarching objectives of the Bank. The Institutional Strategy also recommends that the Bank undertake transversal actions in four priority areas --Competitiveness, Social Development, Modernization of the State, and Regional Integration-- to contribute to improve the living standards for all the citizens of the region, including in an explicit manner the poor.
- 1.2 More recently, the Heads of the State of the region have committed themselves to undertake additional efforts to achieve the International Development Goals, with particular emphasis on reducing in half the number of persons living in extreme poverty by the year 2015, compared with the 1990 levels. In terms of social equity, the great disparities in income, assets (including human capital) and other multiple aspects, must be reduced, as they constitute a significant obstacle for the region's economic and social development.
- 1.3 The proposed strategy will start by considering the recent developments in the region, and lessons learned in the fight against poverty and in social equity advancement. In particular, it will take into account the experiences obtained from previous strategies.
- 1.4 The strategy will adopt a multidimensional view of poverty comprising various interrelated aspects of welfare: insufficient income and assets to cover basic needs, inability to cope with adverse income or asset shocks, low human development, high incidence of social problems, and restrictions on economic, political and social participation in equal conditions. A strategy for poverty reduction requires specific actions in all of these fields. In light of this multidimensional framework, a large portion of the Bank's actions in support of the four priority areas should directly contribute to poverty reduction and social equity enhancement in the region. The objective of the strategy will be to accelerate poverty reduction through actions directed at addressing the underlying causes of poverty, promoting inclusion and greater social equity as key elements of development.
- 1.5 Building on an analysis of poverty in the region and lessons learned in effective policies and programs to combat poverty and enhance social equity, the strategy document will propose a series of priority actions to guide the activities and services of the Bank in this

field. The set of financial and non-financial activities of the Bank, especially those included in the four priority areas of the institutional strategy, should help the countries of the region to achieve the objectives of reducing poverty and social inequities. The document will also propose an action plan and indicators to monitor the progress and the effort of the Bank in this area.

2. Diagnosis

- 2.1 In this section, the strategy will review the limited progress achieved by Latin America and the Caribbean in poverty reduction in the 1990s, measured both in terms of the proportion of the poor and indicators of the depth and severity of poverty. The diagnosis will consider alternative approaches for measuring poverty (e.g., insufficient income, unsatisfied basic needs, etc.). Reference will be made to the recurrent economic crises and natural disasters and the increases in wage and income inequality as factors that have limited the impact of economic growth on poverty. The Region's advances in other International Development Goals, such as infant mortality and educational progress, will also be discussed. At the same time, reference will be made to the fact that the average indicators at the regional level hide the great disparities in income, assets and social indicators that exist among countries of different levels of development and, above all, among different groups of the population and areas within each country. Given that these gaps limit the impact of economic growth on poverty, and could hinder the potential for economic growth, the strategy will argue in favor of the need of economic and social development goals focused on the poorest populations, areas and excluded groups.

3. Lessons Learned

- 3.1 Studies consistently show that in order to accelerate the rate of poverty reduction in Latin America and the Caribbean, it is crucial to resume sustained economic growth rates (which is a necessary condition to reduce poverty), while preserving a framework of stability (since the poor are the most affected by inflation). To achieve these twin goals, actions must be undertaken to maintain macroeconomic stability, promote private investment, increase productivity, improve the quality of institutions, and ensure environmentally sustainable development. Equally important is the construction of a fiscally responsible State with mechanisms that allow for transparency and accountability. However, the strategy will argue that these actions are insufficient to reduce poverty. The majority of countries would require very high growth rates to achieve the established poverty reduction goals, given the high levels of inequality. Hence, additional actions are needed to ensure that growth has a greater positive impact on the poor population, in terms of reducing their material shortages, promoting their human development, diminishing their levels of vulnerability and exposure to social problems, and reducing their political and social exclusion. It will also be argued that such specific actions to reduce poverty and inequality can contribute to higher economic growth. Given the multidimensionality of poverty, the document will underline the need to support comprehensive national strategies with specific actions in various fields, based on an adequate assessment of the characteristics and determinants of poverty, including elements for the monitoring and evaluation of the programs.

- 3.2 In recent years, the Bank has directed an important share of its financial and non-financial activities toward poverty reduction and social equity, meeting the Eighth Replenishment lending targets in this area, improving the poverty-targeting of projects, and increasing the availability of poverty information and analysis in the region. However, in order to increase the Bank's contribution to poverty reduction, projects in non-social sectors must strengthen their direct benefits to the poor. Also, more emphasis must be placed on monitoring and impact evaluation of projects, in order to establish more precisely the Bank's contribution to poverty reduction. Likewise, the Bank should strengthen the strategic support on poverty reduction provided to the countries by including this goal explicitly in the programming exercises, policy dialogues, development of Country Papers, and support to the design and implementation of national poverty reduction strategies and comprehensive systems of social protection.

4. Priorities for Bank Action

- 4.1 Considering the diagnosis and lessons learned, this section would outline the basic actions to guide the Bank's activity to reduce poverty and promote social equity. The actions may include the following components.
- 4.2 Consistent with the recommendations of the Eighth Capital Replenishment, the strategy will call upon the Bank's action to emphasize the promotion of pertinent policies for reducing poverty and social inequities. This will be achieved through policies for macroeconomic stability and growth (topics developed in the sustainable economic growth strategy), and through the support of national poverty reduction strategies, that include a diagnosis and analysis of the origins of poverty, the definition of programs with a comprehensive approach, and the strengthening of monitoring and program evaluation. Therefore, the support of the Bank to the design and implementation of these national strategies should emphasize crosscutting and fiscally sustainable prioritized initiatives in the four areas of comparative advantage (competitiveness, social development, modernization of the State, and regional integration) identified in the Institutional Strategy. Among the actions to be listed and justified in the cross-cutting initiatives are: to create economic opportunities for the poor; to promote human development; to promote social inclusion; to avoid the proliferation of social problems; and, to establish institutions that respond to the needs of the poor and fulfill their obligation to be accountable. The initiatives and their respective actions would consider gender issues.
- 4.3 Furthermore, given the recurrence of crises and natural disasters in the region, the expansion of social protection systems is crucial for sustaining the progress made in the fight against poverty. Consequently, the Bank's action should put special emphasis in the reduction of risks of vulnerable groups facing adverse shocks. The social protection systems against "macro" risks such as economic crises should be improved, through, for example, the implementation of prudent policies for preventing crises, instruments to protect social expenditure and make it more counter-cyclical, and programs to assist the population facing sharp falls in income. Moreover, social protection systems against natural disasters should be improved, through, for example, the implementation of programs for

early detection and dissemination of weather-related phenomena, relocation of populations in risky areas, reforestation to prevent soil erosion, and adequate handling of hydrographic basins. Similarly, the systems of social protection against idiosyncratic shocks should be improved through, for example, programs that extend the coverage of social security, private insurance and retirement plan systems.

- 4.4 The actions in each one of the four high priority areas will contribute towards the achievement of the goals. Together, these actions attack the causes of poverty, take into account human, financial, natural and social capital, and contribute to poverty reduction social equity enhancement.
- 4.5 Competitiveness. For the poor to benefit from, and at the same time contribute to economic growth, it is important to support actions for their productive inclusion, through increasing their productivity and expanding their job opportunities. Some of the actions that the Bank could emphasize are: attracting new investment with impact in poor areas; the support to enhance training and the skills of poor workers; improvement of labor market efficiency; the improvement of property rights on assets like land and housing; development of credit markets and financial instruments accessible to low-income households; development of services to support the productive activities of the poor and expand their access to local and national markets; support to micro-enterprises and mechanisms of social cooperation among small producers; use of new technologies in production and development of innovation capacity; and promotion of sustainable models of productive resource use and rural management.
- 4.6 Social Development. In the area of social development, the Bank will continue to support initiatives that promote human development and social inclusion of the poor. Continuing with its recognized work and leadership in social development, the strategy will establish the need for the Bank's identification of new areas and approaches to address the region's emerging demographic and social opportunities and challenges, to respond to gender issues and to expand the benefits of social projects to the poor. This should include policies, programs and initiatives to: improve the supply of and demand for health, education, early childhood development interventions, and other social services; eliminate social exclusion based on gender, race or ethnicity; social assistance to vulnerable groups (such as street children, indigent people, etc.); promote the prevention of crime and other social ills with comprehensive programs for citizen safety; and the development of basic infrastructure in rural and marginal urban areas. The Bank should also support the rehabilitation of highly degraded ecosystems in poor communities, promote their access to environmental goods and services, and improve their environmental management capacity.
- 4.7 Modernization of the State. In the area of Modernization of the State, the Bank should support actions that, among other goals, promote the political inclusion of the poor. These actions should aim at the construction of effective institutions, in particular for a State oriented towards citizen service and accountability and free of patronage, corruption and inefficiency. The agenda of policies to be supported by the Bank could include: the strengthening of the capacity of the state to legislate, design and implement effective policies to combat poverty and inequality, and that promote gender equity; the reform in

the delivery of public services to make them more responsive to the needs of the poor; actions to insure equal access to justice for all citizens, regardless of their social status; initiatives and mechanisms to promote the participation and voice of the civil society and in particular marginalized groups in political processes and in defining development programs; and the improvement of national management and evaluation capacities, in order to improve government transparency and effectiveness.

- 4.8 *Regional Integration.* To increase the effectiveness of the previous initiatives, the Bank should take advantage of the synergies that arise from regional cooperation and should help the countries of the region to take advantage of the market opportunities for the poor created by trade integration, while confronting the challenges created by this process. Among the activities for Bank support in this area are: support for the formulation of social chapters in trade agreements adopted by countries of the region; support for the creation of regional infrastructure for economic integration; monitoring the rules governing trade in goods and services, capital, labor and technology, to ensure their agreement with the objectives of poverty reduction and social equity; support for an adequate coordination between the governments of the region in the case of natural disasters; and promotion of the creation of networks of policy-makers for the exchange of best practices in the region on the design of poverty reduction programs. The strategy will also argue for the Bank's continuing support for the creation of regional public goods, such as the generation and dissemination of knowledge on the causes and consequences of poverty and inequality in the region, the identification and dissemination of best practices in policies, programs and projects to combat poverty, the promotion and execution of dialogues and consensus building about the priority that should be given to poverty reduction and social equity enhancement in the development agenda.

5. Options for Bank Services and Implementation Actions

- 5.1 The Bank has a series of non-financial and financial instruments to contribute to the reduction of poverty and inequality in the countries of the region. Among the non-financial instruments are technical assistance and support to the design and implementation of poverty reduction strategies; policy dialogues, workshops, forums, seminars and conferences; research activities; and generation and dissemination of best practices and lessons learned. Among the financial instruments to support development policies and poverty reduction programs are investment, sector, emergency, and private sector loans; new flexible loan instruments; and technical cooperation operations (reimbursable and non-reimbursable). A large proportion of the Bank's loan portfolio should be directly channeled towards the reduction of poverty and the enhancement of social equity, following the indicative goals of 50% and 40% for the number and amount of loans of the Eighth Replenishment. Coordination of the activities with the IDB group is also desired (particularly the support to microenterprise and labor training).
- 5.2 As discussed in the previous section, the implementation of the strategy will be supported through activities in the strategies for the four priority areas. These strategies will outline the instruments to be used in each area. The poverty strategy will include general guidelines for the design of instruments and processes that contribute to the objective of

reducing poverty and inequity. In this sense, the strategy will argue for the need to tailor Bank support to the countries of the region with the right mix of these instruments, based on an assessment of the causes of poverty and inequality in each specific case and the comparative advantage of the Bank. Likewise, the strategy will identify the activities where the cooperation with national and private institutions, and other development multilateral organizations can generate synergies.

- 5.3 Regarding the implementation process, the Bank will update its action plan in areas of special emphasis for poverty reduction and social equity enhancement, strengthening the relationship between the strategy and the programming exercises, including dialogues, Country Papers and the financial and non-financial products of the Bank. In particular, attention would be placed to the interactions among the various areas of the Bank, reinforcing the consistency of the projects with the strategy.

6. Monitoring, Evaluation and Performance Indicators

- 6.1 The strategy will be results oriented, which means the ability to monitor and evaluate the Bank's actions in the countries. This task will be supported by the work currently being carried out by the Bank for the improvement of the measurement of the development effectiveness of the operations (i.e. consolidation of each phase in the project cycle; programming and design of projects with a goal-oriented focus; and project execution based on results). The strategy will call for appropriate and timely measurement of progress in the achievement of poverty reduction and social equity enhancement goals.
- 6.2 It will be proposed that, in addition to the monitoring of the Eighth Replenishment indicative levels of loans oriented towards poverty reduction and social equity enhancement (SEQ), the Bank should emphasize the measurement of impact through detailed evaluations.
- 6.3 The monitoring and evaluation of the strategy may be performed, in principle, through indicators of outputs, outcomes and impact. The output indicators include information from the operational program; the outcome indicators convey information on the direct results of Bank's activities; and impact indicators capture the information of key variables that measure the ultimate goal of the strategy.
- 6.4 *Output indicators:* The number and amount of SEQ and PTI loans; number of countries supported in the development and implementation of national poverty reduction strategies; number of country papers with a poverty diagnosis, policies and programs linked to the Poverty Reduction and Social Equity Enhancement strategy; number and amount of non-social operations with direct impact on the poor; number of non-financial products in the area of poverty reduction and social equity; number of evaluations and sectoral performance reports.

- 6.5 *Outcome indicators:* Summary of the results of SEQ and PTI projects, and summary of the results of non-financial products, that contribute to promote poverty reduction and social equity enhancement. Outcome indicators to monitor the strategy will be analyzed during the preparation of the strategy.
- 6.6 *Impact Indicators:* The indicators could include the following: poverty rates, income distribution, GINI coefficient, indicators of the severity of poverty, and percentage of the population covered by social protection networks. Monitoring will also be conducted through the various impact indicators of the strategies of the four priority areas.