

GLOBAL CENTER FOR  
DEVELOPMENT  
AND DEMOCRACY

# SOCIAL AGENDA FOR DEMOCRACY IN LATIN AMERICA FOR THE NEXT 20 YEARS

PUBLIC AND PRIVATE POLICY RECOMMENDATIONS

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The **Social Agenda for Democracy in Latin America** is a policy-oriented research initiative of the Global Center for Development and Democracy, which was founded by former Peruvian President Alejandro Toledo in 2006. Authored by a taskforce of 20 former Latin American Presidents, as well as development experts from academia, the private sector, and multi-lateral organizations, the Social Agenda comprises 16 pressing social issues and 63 specific public and private policy recommendations to the region's current heads of state.

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## **SOCIAL AGENDA FOR DEMOCRACY IN LATIN AMERICA FOR THE NEXT TWENTY YEARS**

### **1. INTRODUCTION**

In the next two decades, Latin America's nations can create the conditions for sustained economic growth, deepen their democracies, and transform their societies. The region is more politically independent and more in control of its destiny than ever before, and has made great progress on many fronts in the past twenty years. Even with the current economic crisis and its adverse effect on Latin American economies, they are better structured to compete in the world economy than in the past. And because of new rapidly emerging markets in Asia, with their potentially vast needs for agricultural products and natural resources, Latin America now has more real options than a generation ago to shape the future of its diverse 500 million citizens.

Yet, this greater control also brings greater responsibility. The region still has immense economic and social problems, and fragile political institutions with which to solve them. The current global economic crisis will exacerbate poverty in the region, and could make it more difficult to effectively incorporate the poor into the mainstream economy. The way in which Latin America's leaders take their countries forward in overcoming these challenges will make a huge difference in where the region's citizens find themselves a generation from now. Some argue for continuing the growth promotion and trickle-down policies of the Washington Consensus. Others are tempted to go down a confrontational, demagogic path, where the leader, rather than the reform project, takes center stage, and national belligerence rather than cooperation dominates inter-American relations. This path leads to an escalating arms race, which detracts from the region's efforts to fight against poverty. Based on past performance, neither is likely to help the region achieve sustained and equitable long-term development, and neither is likely to deepen Latin American democracy.

The way forward must be a new road – one that continues to emphasize economic growth, but that also integrates Latin America and makes the region's leaders directly accountable for economic, social, *and* political goals, particularly significant reductions in poverty,

strengthening democracy in the region, and bringing fully into that democracy the 200 million Latin Americans who are poor and marginalized.

This Report outlines a **Social Agenda** to guide current and future Latin American leaders down this road. The Social Agenda was produced by a group of 20 Latin American ex-presidents (in collaboration with development experts from various sectors), who will present the document to the sitting heads of state participating in the 2009 Ibero-American Summit.

The **Social Agenda** originally evolved from a meeting of former Latin American presidents in Washington, D. C., in November 2007. At that meeting, they designed the bases for the **Former Presidents' Forum**, a dialogue that would develop the main issues of the Social Agenda and influence the region's political decision-makers and its public opinion. This dialogue resulted in a series of meetings in various Latin American countries in 2008-2009 for discussing the Agenda's key components – policies intended to reduce poverty in the region while contributing to its economic growth and extending democratic participation.

In the next three Meetings—held in Lima in April 2008, Guayaquil in October 2008<sup>1</sup>, and Sao Paulo in March 2009<sup>2</sup> — invited experts made detailed presentations on eleven policy areas. Each presentation reviewed past policies and recommended new directions for action within the framework of the broader Social Agenda. The former presidents commented on the experts' presentations, followed by a general discussion with the presenters and other key invitees. At the end of the Sao Paulo meeting, the presidents recommended including a discussion of five more policy areas that had not been specifically covered during the three meetings: (1) Remittances and Poverty; (2) Gender and Poverty; (3) Indigenous Peoples and Poverty; (4) Personal Security (Violence) and Poverty, and (5) Decent Housing and Poverty. Papers were then prepared on these themes, and they were added to the overall policy discussion.

The dialogues among the former presidents, and those between the presidents and Latin American business, social, opinion, and academic leaders, make the Report uniquely Latin American, and also representative of a broad range of the measures needed to produce sustained, equitable development in the region.

In response to the discussion, the experts revised their presentations, turning them into the finalized documents included on the website of the Global Center for Development and Democracy (Centro Global para el Desarrollo y la Democracia, [www.cgdd.org](http://www.cgdd.org)). The

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<sup>1</sup> Co-organized with President Carlos Mesa's Fundación Comunidad.

<sup>2</sup> Co-organized with the Instituto Fernando Henrique Cardoso.



summaries of the presentations and the former presidents' discussion are summarized in the body of the Report<sup>3</sup>.

The main purpose of the Report is to gain the commitment of current Latin American leaders and regional institutions to the Social Agenda. However, it is also crucial that, once that commitment is made, governments are held accountable for realizing the Social Agenda's goals.

To this end, the Global Center for Development and Democracy will monitor progress in achieving the policy recommendations elaborated below, and will present an annual Progress Book that rates countries in terms of their progress toward achieving the Social Agenda's goals.

The performance indicators for the 15 policy areas will be selected by the Global Center for Development and Democracy after the presentation of the Social Agenda to the current heads of state at the Ibero-American Summit in November 2009 in Portugal. The Global Center's Technical Secretary, who will be in charge of this monitoring process, will select the set of indicators from internationally recognized, independent sources. These sources are likely to include the United Nations Human Development Index, the Human Poverty Indices, indices from the Economic Commission for Latin American and the Caribbean (ECLAC), and indices from the Gender Empowerment Measure, which will help estimate how well Latin American countries progress in making the changes recommended here (including the social progress of the most marginalized parts of Latin America's lowest-income populations and their levels of democratic participation).

The Social Agenda Progress Index (IPAS, in Spanish) differs from the other indices in that it will focus specifically on the policy issues discussed above, which former Latin American presidents have determined are key to reducing poverty and deepening democracy in the region.

The Global Center for Development and Democracy's Technical Secretary will also work (in partnership with other independent research centers) to assess progress on dimensions of some indicators that cannot be measured well quantitatively.

This Report is organized in two parts:

- Part one discusses the project background, including the overall vision for this new approach, the outline for the Social Agenda developed at the initial meeting

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<sup>3</sup> The former presidents would like to thank Martin Carnoy, Avi Tuschman, and Thomas Luschei for their help in preparing this document.

in Washington, D.C., and the underlying policy changes proposed by the Agenda. These proposals focus on the new role that the Agenda demands of the Latin American State in the coming two decades, and how progress on achieving the Agenda's goals should be measured.

Part two comprises summaries of the key issues in the new Social Agenda, as well as the former presidents' discussion of these topics. Each section concludes with a set of policy recommendations on these fifteen key issues.

## **2. BACKGROUND**

### **2.1. The Vision for a New Approach to Latin American Development**

In the last two decades, Latin America has continued to implement national development strategies based on economic reform and democratic governance. The results have been relatively promising. Over the past six years, the region has again achieved sustained economic growth, although growth levels vary across countries, and growth in 2009 is expected to be barely positive. In 2006 and 2007, the economies of Latin America and the Caribbean had an average of 5.8 percent GDP growth, and the GDP growth per capita was 4.3 percent. These were the best economic indicators in the region since the early 1990s. Although growth rates declined somewhat in 2008, in the seven years from 2002 to 2008 per-capita income increased by almost 30 percent.

The sustained nature of this growth had a major impact on poverty reduction. According to Economic Commission on Latin America and the Caribbean (ECLAC) indicators, the percentage of people living under the poverty line decreased from 42.5 to 34.1 percent in 2000-2007, and those in extreme poverty decreased from 18.1 to 12.6 percent. Likewise, between 2002 and 2007, the number of poor and extreme poor was reduced by 40 million and 26 million respectively, breaking the upward trend that characterized the region in the last few decades. Brazil and Chile have already met the Millennium Goal of reducing poverty by 50 percent before 2015; were this trend to continue, even at a lower average rate, it is predictable that other countries would achieve this objective as well (such as Costa Rica, Ecuador, El Salvador, Mexico, Panama, and Peru). Nevertheless, rural poverty rates remain extremely high. In 2007, one half of Latin America's rural population lived in poverty, and more than one in four people lived in extreme poverty.

From a political point of view, the region is enjoying its longest period of uninterrupted democracy and the succession of popularly elected governments, whose elections have largely met international election standards. Simultaneously, however, the region suffers from a low *quality* of democracy, and it insufficiently includes citizens in the decision-making process and the exercise of power. These elements, combined with poverty rates that

still remain relatively high, have translated into significant levels of marginalization and exclusion, which are constantly testing the stability of the political system. This situation is exacerbated by extreme inequality in income distribution. Latin America, along with Africa, is the most economically unequal region in the world. Inequality may become worse in the next year as growth in many Latin American countries grinds to a halt.

The poor and marginalized feel underrepresented by democracy as a form of government and are dissatisfied with the pace of improvement in their living conditions. In 2003, 62 percent of the population in the region had confidence in democracy, while only 56 percent felt the same way in 2006. Citizen needs, demands, and aspirations have not been met through democratic governance, contributing to a growing frustration with the current political system, which is perceived to marginalize, discriminate and exclude the majority of the population.

Despite the progress made in poverty reduction, the high percentage of poor people in the region (43 percent) means that there is still a huge social gap between a major part of the population and economic/political elites. The poor continue to have little sense of belonging to the political system. While democracy has consolidated and advanced through free and fair elections, it is also facing a crisis of representation, with marginalized citizens feeling excluded from the decisions that affect their daily lives and those of their communities.

This exclusionary crisis has translated into the weakening of the “public sphere,” not only as it relates to the state, but also as it relates to social and national solidarity, which are indispensable for social cohesion and public identification with the democratic system. In some countries more than others, this has also led to a relative loss of legitimacy for public policies aimed at improving the well-being of the poor, such as in the areas of food security, education, health, affordable housing, transportation, social security, and greater equality for women and indigenous peoples. Certainly, some countries were able to preserve this legitimacy, and others have begun to recover it; but in general, the region as a whole has seen the weakening of the state and democratic decision-making. The level of social cohesion has not improved sufficiently to sustain the more formal trappings of democracy. The contradiction between the theory of representative democracy, which includes all citizens, and the reality, which actually excludes large sectors of the population, is threatening the legitimacy of democratic institutions.

Economic performance in the region until the current crisis— and with foreseeable sustained growth once recovery occurs, combined with fiscal and macro-economic stability— provides an historic opportunity to address poverty, income inequality, and social exclusion. In this favorable context, democracy must develop and prioritize a new type of social development – one that emphasizes human rights and the triple goals of reducing poverty, prioritizing public policies in favor of social cohesion, and strengthening democratic institutions to improve mechanisms of representation.

The stability and improvement of the quality of democratic institutions in the region require a new Social Agenda based on the collective responsibility of all sectors of society—the state, the private sector, unions, political leaders and civil society. This Social Agenda should go beyond the rhetoric of regional agreements and the presidential and ministerial statements of the last two decades.

However, leaders in the region first need to acknowledge that targeted social policies on food security, clean water and energy, nutrition, health, employment, education, and increasing equality for women and the region's indigenous peoples, have not received the priority or attention that the combined problems of poverty, exclusion and inequality require.

This document details the kind of action that Latin American governments need to take to address these issues seriously in the next ten years, to make the significant changes needed for political stability and long-term, inclusive economic and social development.

The bottom line of the analysis presented here is that market-driven growth is crucial for continued development in the region, but it is not enough. Government must not only assure that the benefits of economic growth reach traditionally excluded groups on the lowest rungs of the socio-economic ladder, but that these groups are active in generating growth and participating in an expanded democracy at the local and national levels. This goal requires a new kind of responsibility for the Latin American State—one that views itself as a champion of free markets and also as an active stimulator and regulator of those markets, with the aim of achieving democratically agreed-upon social goals.

## **2.2. Previous Statements and Commitments**

An analysis of the statements and agreements made by heads of state at the Andean Community, MercoSur, the Organization of American States, and elsewhere indicates that in the past, the social agenda in the region was characterized by features that practically guaranteed that it would have little or no effect. The agenda was largely rhetorical and lacked a framework (in particular, clearly established quantitative goals) with which to promote social development and assess its impact. Furthermore, the agenda was limited to specific policy tracks, with little or no interaction between them; moreover, it lacked follow-up and evaluation mechanisms to assess the fulfillment of commitments.

Not surprisingly, governments and international organizations failed to achieve the few agreed-upon actions in the agenda, and therefore the agenda's impact on social processes was erratic or nonexistent.

In contrast, the basic outline of policies and actions produced by the Summits of the Americas was relatively consistent with the regional social agenda, although the documents lacked a strategic conception of social development. The Summits of the Americas' agendas have included various statements and action plans that prioritize policies related to employment and labor conditions, healthcare, and education. However, the application of these agendas has generally been marginal or nonexistent. Similar to other statements and commitments, they provide a vision that bears little relation to the diverse issues of the social agenda or the commitments made in previous Summits.

If the social agenda is not given the priority demanded by the poor, poverty eradication will continue at its current pace—based on each country's economic growth, and as a function of its specific social reality and domestic policies. But this pace is obviously not fast enough. Democracy is vulnerable when a third of the population is poor even after seven years of rapid growth. Furthermore, the current world economic crisis threatens the prospect that continued social progress and democracy building will be based on economic growth alone. A deliberate public-policy effort that prioritizes the social agenda in domestic and regional decisions is essential. Latin America cannot pass up this historic opportunity to effectively address the issues of poverty, exclusion and inequality, especially when it now possesses the confidence that in normal economic times, the region has the institutional capacity to achieve sustained growth and macroeconomic discipline.

Poverty and inequality have a double impact on the functioning of a democracy. First, they prevent the poor from fully exercising their citizenship as a result of their own exclusion; a second, subjective impact is the weak or even absent sense of belonging to democracy, as a political system and as a form of social organization. The combination of these factors produces weak social and national cohesion, and can simultaneously generate the conditions for social unrest or the rise of authoritarian political leaders.

### **2.3. A Social Agenda**

Latin America needs a new social agenda based on strong commitments to build social cohesion with a strong emphasis on human rights. In this agenda, economic and social rights must have the same importance as civil and political rights, and equal weight in the way progress is defined in the region. It is not enough to have social policies that are relatively neutral with respect to inclusion; rather, Latin American governments need to implement targeted social policies based on social cohesion and human rights.

Social cohesion results from an organic and functional process that satisfies human needs, especially food security, employment, health, education, housing, public security and political participation for the poorest and most excluded sectors of society. Meeting these

needs would lead to real social integration, where individuals and social groups have a solid and stable sense of belonging to the broader community, and identification with democratic principles.

The first meeting of the Presidential Task Force, held in Washington, D. C., in November 2007, concluded that a strategy to fight poverty and exclusion from the perspective of social cohesion, and with an emphasis on human rights, should include three principal features:

1. The integration of strategies that break with the traditional narrow, sector-based focus, thereby creating synergies that can simultaneously impact various sectors;
2. A shift in emphasis from simply reducing poverty, to increasing economic, political, social and cultural inclusion; and
3. The capacity to act simultaneously in three essential areas: reducing poverty and marginalization; promoting institutionalization and democracy; and increasing individual and collective senses of inclusion.

Such a strategy requires implementing three major reforms: (1) a social reform that drastically reduces poverty and inequality; (2) a political reform that transforms voters into active citizens in a democracy; and (3) a state reform that modernizes the state's structures, eliminates corruption, brings citizens closer to government decision-making, reemphasizes the public sphere and values of solidarity, and places much greater responsibility directly on the state for the improvement of economic and social conditions among its most marginalized citizens.

The former heads of state who support this initiative of promoting a new social agenda for the region have assessed these elements to propose the Social Agenda for Democracy, which comprises:

1. Strategies and actions of a social-reform agenda, with an emphasis on social cohesion: specific goals, preferably quantifiable and including a revised version of the Millennium Goals, to fight against poverty. These goals are to be measured annually and accomplished in the next 20 years.
2. The use of an existing institution with the capacity of providing governments with technical support to collect and systematize information, create indicators and projects, and evaluate the achievements of these commitments. This institution could be the UNDP or ECLAC, a combination of these, or some other international agency or independent non-profit.
3. A call to business and union leaders to join a coalition for corporate social responsibility, and a tri-party dialogue between government, business, and labor.

4. A call to civil society, non-governmental organizations, and political leaders to also join this coalition.

#### **2.4. A Changing Role for the Latin American State**

When the low real-interest bubble of the 1970s collapsed in the early 1980s, Latin American economies went through a major transformation. They largely abandoned the high-tariff protection system of the post-World War II “import-substitution” model of development, and expanded their private sectors relative to their public sectors. Many shifted from almost entire dependence on traditional commodity exports, to expand manufactured exports and more sophisticated, higher-value-added primary exports. Most of the region’s economies have modernized their telecommunications systems and greatly expanded their use of computers. Many entered into regional free-trade agreements and bilateral free-trade agreements with developed countries.

Thus, with the advent of the new global economy, the typical Latin America government, like governments in the developed countries, had to give up considerable control over determining which industries would flourish in their economy. The new role given to the government was to *enhance the economic environment* for domestic and foreign investment in a highly competitive global economy.

A favorable investment environment includes a well-functioning democracy and political stability, a sound and well-developed banking system, relatively low levels of corruption, and a fair and transparent system of justice. Beyond these characteristics, however, the state can contribute greatly to economic development, under these new conditions, by making public investments aimed at creating a high-quality labor force, a modern telecommunications infrastructure, a better transportation system, and reliable sources of energy that rely less on fossil fuels.

Some Latin American governments adapted quite well to these new conditions after a number of false starts. However, most have hardly tackled the threat to their “stable” political environments represented by the serious underdevelopment of human and social capital in the bottom 40 percent of their populations.

Furthermore, in the last ten years, the specter of global warming puts government at the forefront of shaping economic development policies to achieve global environmental goals. Countries such as Brazil, Peru, Venezuela, and Colombia, as well as the smaller countries of Central America, all have important rain forests and are therefore key to decelerating climate change. And as the price of fossil fuels inevitably rises, fostering the development of low-

income communities by providing them with access to clean and affordable energy requires concerted government effort to stimulate investment in alternative sources of energy.

All of these objectives point to the ever-increasing importance of well-organized and efficient governments at the national, regional, and local levels. These are needed to implement policies that reach even the most marginalized social groups with public investments and access to private resources that help them participate in national development. They are also needed to use instruments of public policy for environmentally sound economic growth. Many studies suggest that the payoff to such policies and investments is very high.<sup>4</sup>

The new recipe for success means that the Latin American state has to adapt again, this time to become a major investor in new, high-payoff infrastructure that stimulates private investment in value-added goods and services. These 21<sup>st</sup>-century goods and services will mainly be based on human ingenuity and small and medium local enterprises oriented toward national and international markets. These enterprises will also need to respond to the new constraints of climate change, but will be enhanced by the possibilities of major technological advancements in information and communications technology.

For this adaptation to occur, Latin American governments need to see themselves as much more responsible than in the past for investing in the lowest-earning 20 and 40 percent of their populations, and less responsible for subsidizing their elites. Today's Latin American elites are already well positioned to tap into networks for investing private funds in relevant skills and know-how, particularly in the higher education of their children. Most governments in the world greatly under-invest in the poor and greatly over-invest in elites, and this is especially true in Latin America, as compared with Europe or the United States. Yet, those developing countries that have invested more in the poor have been highly successful in the new global environment. Korea and Taiwan, for instance, exemplify the success of this strategy (in contrast with the Philippines).

Investing in the poor will require significant public resources. Latin American states have two important sources for such funds. The first is from implementing more rational and equitable fiscal policies. Latin American countries collect unusually low revenues from income taxes and have unusually inequitable distributions of public spending. There is ample capacity for using fairer fiscal policies to substantially redistribute currently unequal pre-tax income and public spending.

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<sup>4</sup> In the 1970s, Albert Fishlow noted that unequal income distribution could negatively impact economic growth. Fishlow's observations were largely ignored until recently, when the conditions in Asian countries and their high rates of growth have been contrasted with those in Latin America.



The second source of funding for investing in the poor is from wasteful military expenditures. Many Latin American countries spend scarce resources on unnecessary armaments that could go to investing in better education, conditional cash transfers, better health care, potable water, access to electricity, and credit for decent housing. Spending on heavy armaments to fight imaginary wars does not help Latin America's poor and may even do little to improve internal security.

This new role for the state also requires that Latin American societies develop the human resources and the will to implement such policies. Investments in training highly skilled public officials at all levels are part of the public infrastructure investments demanded by the new model. Many societies in Latin America are profoundly corrupt, and highly skilled public administrators, from central government officials to school principals, are in very short supply. For many years, international agencies and U.S. foreign policy responded to this situation by deprecating central governments as inherently incompetent and arguing for increased decentralization of public funds to local administrators and private, non-government groups to invest locally. Unfortunately, this strategy never adequately addressed the need to develop crucial administrative skills in regional and local institutions. Now the policy focus needs to shift to developing governments at all levels (national, regional, and local) that work to make their societies more inclusive.

## **2.5. Measuring How Well Governments Attain “Social Agenda for Democracy” Goals**

The United Nations Human Development Index, the Demographic and Health Survey, the World Health Organization Core Health Indicators, the Human Poverty Indices, measures used by the Economic Commission for Latin American and the Caribbean (ECLAC), the Gender Empowerment Measure, the Transparency International Index, the Economist Intelligence Unit Democracy Index, and the International Labor Office Statistics Bureau are among the sources from which the Social Agenda intends to draw a number of its quantitative indicators to measure how well Latin American governments are advancing in their poverty reduction, their improvement of human conditions in the most marginalized parts of their populations, and their levels of democratic participation. The Social Agenda Progress Index (IPAS, in Spanish) will focus specifically on the policy issues discussed below, which former Latin American presidents have determined are key to reducing poverty and deepening democracy in the region. The Social Agenda will also initiate data collection on those components for which there are currently no measures available from existing databases. This Index is oriented mainly toward measuring progress in the economic, social, and political conditions for the lowest two income quintiles of Latin America's population. This makes the Index unique as a powerful indicator of the depth of a nation's social and political progress; the higher the IPAS, the more profound and sustainable democracy is in a given country.

Many Latin American countries score quite high on the Human Development Index (HDI), and on many of the Index's components. Table 1 shows the trend in the HDI for seven of the largest Latin American countries. All made advances in their HDI during the 30 years from 1975 to 2005, although Venezuela's population started out better-off than all but Argentina's, and made much less progress than the other countries.

**Table1. Seven Countries of Latin America: Human Development Index, 1975-2005, by country**

Country	1975	1980	1985	1990	1995	2000	2005
<i>Argentina</i>	0.79	0.804	0.811	0.813	0.836	0.862	0.869
<i>Chile</i>	0.708	0.743	0.761	0.788	0.819	0.845	0.867
<i>Mexico</i>	0.694	0.739	0.758	0.768	0.786	0.814	0.829
<i>Brazil</i>	0.649	0.685	0.7	0.723	0.753	0.789	0.8
<i>Venezuela</i>	0.723	0.737	0.743	0.762	0.77	0.776	0.792
<i>Colombia</i>	0.663	0.694	0.709	0.729	0.753	0.772	0.791
<i>Peru</i>	0.647	0.676	0.699	0.71	0.737	0.763	0.773

Source: United Nations (2008). *Human Development Report. 2007/2008.*

Two clues as to why these changes in the HDI occurred at the pace they did in each country are in their growth rates and changes in their highly unequal income distributions. Chile, for example, has had a very high economic-growth rate, but the lowest 20 percent of income earners receive only 3.6 percent of GDP (only slightly higher than in the mid-1980s). Argentina has had significant, but not very high, economic growth, and the share of the lowest 20 percent has fallen significantly. The same is true for Peru until recently. The worst case among these seven countries is Venezuela, which has had low growth rates and a decline in the share of national product going to the lowest 20 percent of income earners.

Thus, sustained economic growth is important in improving the human condition. Even without much growth, however, it is possible to attain a relatively high HDI; Cuba is one example, and Peru (in the case of greatly reducing its proportion of undernourished population) is another.

On the other side of the coin, even with constant (and relatively high) average GDP per capita, the poor can become much worse off. The proportion of undernourished population in Venezuela, for example, increased significantly in 1990-2004, even though Venezuela's per-capita GDP is among the highest in the region.

One of the key objectives of this proposed Social Agenda for Democracy is to develop a scorecard of how well countries in Latin America are achieving the goals of improving the human condition of those in the lowest income quintiles in each country. We recognize that the conditions for these lowest quintiles are already much higher, in absolute terms, in some of the region's richer countries. Nevertheless, the point is to make gains that also improve the *relative* position of low-income groups in each country.

Relative position is highly relevant to political and social distance, and therefore to political and social inclusion. For example, the gender empowerment measure (GEM) is composed mainly of the *relative* position of women to men in a society. Similarly, if the lowest 20 percent of income recipients earns about 3-4 percent of gross domestic product (GDP) (as in most Latin American countries), the members of that group are likely to be much less socially and politically empowered than when they earn 8-9 percent of GDP (as in most European countries).

The scorecard for the Social Agenda will include many of the components of the current United Nations indices, but many will not be included and several more will be added. The scorecard will focus on the fifteen themes developed in our meetings with the former presidents. The area of education provides an example of how the Social Agenda measures will differ from the HDI: the HDI focuses on school attainment, enrollment (also a measure of attainment), success rates (yet another measure of attainment), and literacy; nevertheless, the HDI has no measures of educational quality (such as how much pupils learn by a given grade level), nor does it have an index of teacher quality. The Social Agenda scorecard, in contrast, will measure changes in educational attainment and quality for those children in the lowest socio-economic quintiles. It is not only important to know about educational advances made by average young people, but also to consider advances made by the most marginalized youth. The United Nations gathers such data for some variables entering into the HDI but not others, such as education. On the other hand, the Economic Commission on Latin America and the Caribbean (ECLAC, or CEPAL, in Spanish) does collect some data on education by income quintile.

### 3. KEY ISSUE AREAS FOR THE SOCIAL AGENDA

#### 3.1. Fiscal Policy and the Poor<sup>5</sup>

Good fiscal policy not only promotes macroeconomic stability and growth; it is also a powerful tool for directly reducing poverty and inequality. Governments around the world have raised and spent funds to provide support to the poor and to directly redistribute income, with the goal of improving welfare and constructing more prosperous and equal societies. In many countries these efforts have been remarkably successful.

Not all aspects of fiscal policy have the same direct impact on the poor, of course. Nevertheless, several of its functions can play a major role in redistributing wealth, and governments that raise sufficient funds and spend them effectively on the poor can significantly reduce poverty and inequality.<sup>6</sup> These include properly managing revenues, which generate the funds that can help the poor, and emphasizing spending that directly targets the poor via services (such as education and healthcare) or transfers (such as pensions, unemployment insurance, and conditional cash transfers).

Unfortunately, fiscal policy in Latin America does not have a good record of redistributing wealth to the poor. Governments have seldom generated high levels of public revenues. Tax systems have generally been neutral or regressive, failing to shift the revenue burden to rich households. The services provided by government spending have often been of low quality. And government programs have tended to benefit middle- and upper-income groups more than the poor. The combination of inadequate revenues, low-quality services, and poor targeting has helped explain why poverty has declined so slowly and why inequality has remained extraordinarily high. The Latin American state has not done a good job of redistributing wealth and reducing poverty.

Figure 1 compares the impact of two fundamental tools of fiscal policy—taxes and transfers (e.g. pensions, unemployment insurance, and conditional cash transfers)—on

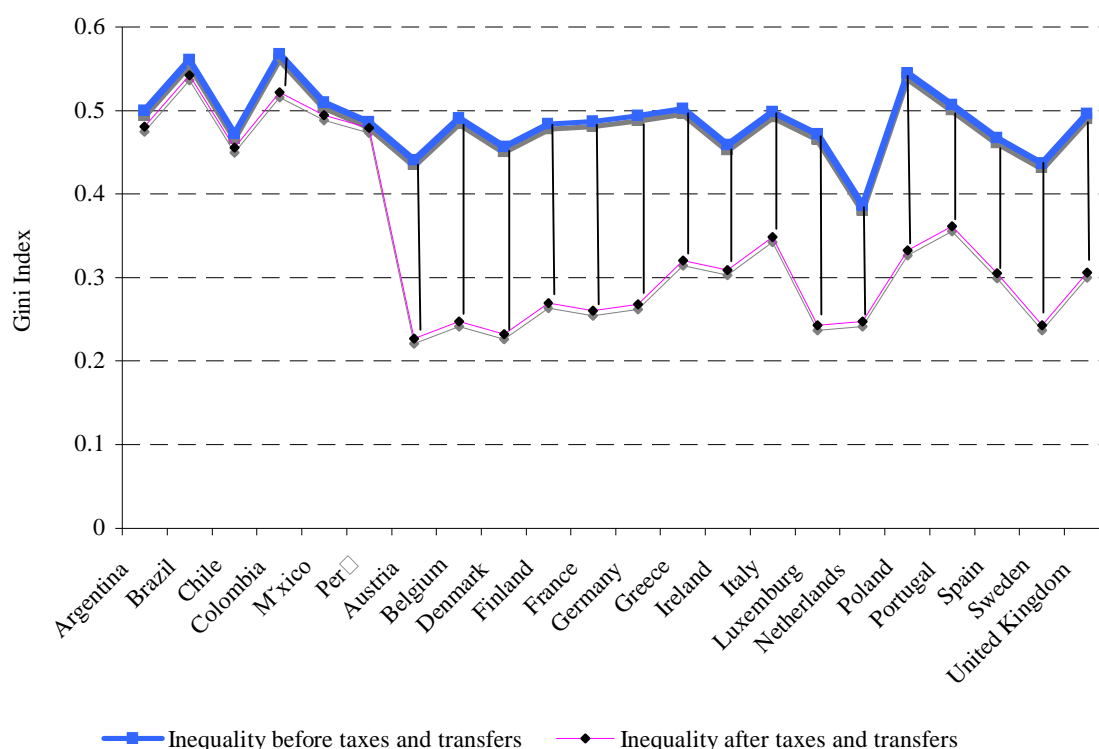
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<sup>5</sup> A longer and more complete version of this section is published as Puryear, Jeffrey and Mariellen Malloy Jewers. 2009. *Fiscal Policy and the Poor*. Policy Brief No. 3. Social Policy Program, Inter-American Dialogue, Washington DC.

<sup>6</sup> Other dimensions of fiscal policy, such as promoting growth and stabilizing the economy in good times and bad, are also important for the poor. See, for example, Birdsall, Nancy, Augusto de la Torre and Rachel Menezes. (2008). *Fair Growth: Economic Policies for Latin America's Poor and Middle-Income Majority*. Washington DC: Brookings Institution Press, Chapters 1 & 2 for a discussion.

inequality in Latin America and Europe. Before considering the effect of direct taxes and transfers, note that Europe has rates of inequality not terribly different from those in Latin America. After taxes and transfers, however, inequality drops significantly in Europe (10-15 percentage points in the Gini index), but only slightly in Latin America.

**Figure 1: Redistributive Impact of Taxes and Transfers, by Change in Gini Index, Latin America and European OECD (Select Countries), 2008**



Source: Organization for Economic Cooperation and Development (2008). *Latin American Economic Outlook*, 2009. Paris: OECD.

*Government revenues are low in relation to OECD standards.* Government revenues average 25 percent of GDP in Latin America, compared with 42 percent of GDP in OECD countries. Taxes, the most important component of revenues in most countries, are significantly lower than would be expected given Latin America's level of development. Brazil is a notable exception, with tax revenues in excess of 30 percent of GDP – which many economists believe is too high.

Why is Latin American tax revenue low? The problem does not appear to be low tax rates. Latin America's statutory tax rates for personal and corporate income taxes are only slightly lower than in other parts of the world. VAT rates, which are an important source of

revenue in Latin America, are close to international norms. Together, they should provide adequate revenues.

A more serious problem is that many taxes are simply not collected. Latin America collects a relatively small portion of the taxes that its nominal rates would imply. The shortfall appears to be due largely to a failure to collect personal income taxes. In the OECD countries, personal-income-tax collections constitute over 9 percent of GDP, compared to just over 1 percent in Latin America. Personal income taxes make up 25 percent of total tax revenues in OECD countries, versus just 4 percent in Latin America. Effective tax rates (i.e. based on actual collections) for the richest 10 percent of Latin American households average just 8 percent, compared with nearly 40 percent in the United States.

Collections are low mainly for two reasons. First, tax evasion is high in most countries. Estimates of personal and corporate income-tax evasion often reach 40 percent or more. This is because government agencies responsible for collecting taxes tend to be weak, lacking the power and the resources necessary to enforce the law. Few countries even measure tax evasion, or effectively penalize offenders. Furthermore, citizens tend to perceive tax collection as unfair and do not believe that the government will make good use of taxes they pay. Also, because the combined tax burden facing corporations (corporate income taxes, the VAT, and payroll taxes) is among the highest in the world, many small businesses opt to remain in the shadow economy. Roughly 40 percent of Latin American economies are informal (a rate exceeded only by Sub-Saharan Africa), operating outside the laws established to govern economic activity. The second reason is that, under the fiscal code, there is a proliferation of deductions and other legal loopholes for evading taxes.

*Tax systems in Latin America tend to be neutral or regressive in terms of income distribution,* failing to shift the overall revenue burden from poor and middle-income households to rich households. This is because an unusually high proportion of revenues in Latin America comes from indirect taxes (such as payroll taxes or the VAT), which are usually regressive, while a relatively low proportion comes from direct taxes (e.g., personal and corporate income taxes) which are almost always progressive. Roughly 40 percent of Latin America's revenues come from indirect taxes, versus 26 percent in OECD countries. When direct and indirect taxes are combined, the poorest fifth of the population often pays a larger percentage of their income in taxes than does the richest fifth.

*Government Spending Favors the Rich.* By properly spending the revenues they raise, governments can reduce poverty and inequality in at least two ways: (1) providing services (primarily education and healthcare) that build human capital among the poor; and (2) transferring income (primarily via pensions, unemployment insurance, conditional cash transfers or school feeding programs) that redistributes wealth directly to the poor. Unfortunately, in Latin America, neither of these is implemented in sufficient measure to be effective.

For one, on balance, more benefits go to the richest fifth of the population, and the poorest fifth receives less than its share. Second, public services that might enhance opportunities for the poor, such as education, are often of too low a quality to have a significant impact. Third, pension programs, by far the largest part of public spending on transfers, overwhelmingly benefit the richest fifth of the population. Fourth, programs that clearly reduce poverty and inequality, such as conditional cash transfers, account for a relatively small proportion of social spending. This combination of inadequate funding, low quality, and poor targeting has led most experts to conclude that fiscal policy is either neutral or regressive in Latin America, thereby failing to redistribute wealth to the poor.

### **Policy Recommendations**

Making fiscal policy pro-poor will require policy changes that are major, extensive, and often politically difficult.

- Governments should make tax systems fairer and more efficient by reducing evasion, closing loopholes, and lowering the minimum income levels subject to tax. The chief emphasis should be on personal income taxes (particularly among the wealthy), where collection rates are extraordinarily low in most countries. Governments should systematically measure and publicize tax evasion. They should also strengthen agencies responsible for collecting taxes, providing them with adequate funding, technical expertise, authority and political support.
- Provide free tertiary education only to the poor, and charge university tuition to those who can afford to pay.
- Governments should establish a single social-insurance system (pensions, unemployment) that effectively protects all workers, formal and informal, and treats them equally. Separate public-pension schemes for specific groups should be eliminated. Services should be readily available in rural areas and poor neighborhoods. Governments should reduce dependence on payroll taxes (which are generally regressive and raise the cost of labor) and fund reasonable benefits from general revenues. In the case of pensions, the primary focus should be on eliminating public subsidies for excessively generous benefit schemes.

### **Additional Recommendation**

- The governments of Latin America and the Caribbean should improve the quality of their spending by ensuring that the investment of public resources corresponds to the priority needs of the most vulnerable social groups, and by always seeking an optimal rate of return and social benefits. To fight against poverty and social inequality, Latin America and the Caribbean require not only more efficient, more equitable, and less

regressive tributary systems, but also more effective and focused investment strategies for public resources.

**The Presidents' comments on Fiscal Policy and the Poor.**

*Vinicio Cerezo, Guatemala.* We have not been able to reform our fiscal systems, but we are conscious of the need to do so and our responsibility to find a solution to this problem. The current economic crisis provides a challenge to find the resources to maintain growth, as well as our democratic political structures. At the same time, the crisis is an opportunity. The 1980s and 1990s were the opportune moment to replace the military in Latin America with democratic governments and to establish the basis for economic growth with stability. Now, we can take the next steps. For example, in the search for resources to resolve the crisis, we should change our fiscal systems, develop a culture of complying with tax laws, and establish an accord between the political parties to make these changes long-term, so that they do not change with each government. In addition, we should overcome the culture of self-interest among economic groups that even has precipitated *coups d'état* to avoid tax reforms. Yet, we also need to recognize that one reason the fiscal systems are the way they are is because the economic elites have too much power and they use it to serve their own economic interests. So we need to reduce their power by increasing the political and economic participation of the mass of our citizens, and to simultaneously strengthen the capacity and legitimacy of the State in order to make these reforms.

*Nicolas Ardito Barletta, Panama.* We must orient our fiscal policies and budget preparation in Latin America by measuring results. We need medium-term budgets that are can be evaluated in terms of accumulated goals. This implies that we have to improve the administrative capacity and professionalism of government bureaucrats and of administrative careers. The importance of fiscal policies requires building a consensus on this issue in civil society so that we can have continuity in fiscal policy from government to government. We also have to keep in mind that Latin America's population is mainly young, so to justify raising more government revenue, governments need to be effective investors in social services, such as nutrition, education, and a focus on children.

*Ernesto Samper, Colombia.* Our analysis of fiscal policy in the region has to take account of the many differences among Latin American countries. That said, fiscal policy in the region is generally regressive. Government spending is financed mainly with sales and other excise taxes, and there many loopholes for businesses, which produce low corporate tax receipts. The situation is the direct result of the uneven distribution of power in Latin America. The rich are overrepresented, and the poor, unrepresented. The tension caused by this inequality of power becomes clearer in periods of crisis, when the different groups fight for State spending. In order to change the basis of taxing income and the way spending is distributed, as we are suggesting in our Social Agenda, we need to develop a new consensus. This is obviously a major political problem.



*Fernando de la Rúa, Argentina.* We organized these meetings to work on problems of injustice, in an historical moment where our countries had considerable resources from a period of high economic growth. However, now we are in a world financial crisis, government revenues are falling, and we are trying to save our previous advances. What should we do in this situation? First, we need to strengthen unity among Latin American countries. Second, we need to strengthen democracy in the region, still paying attention to fiscal discipline. Third, we need to stimulate social policy through the fight against poverty, and finally, we need to recommend reforms to international organizations, such as the IMF.

*Carlos Mesa, Bolivia.* If we reflect on fiscal policies independent of democracy, we can state, for example, that conditioned cash transfers are an instrument used by nearly all countries in the region to reduce poverty both in the short and long run. Thus, there is almost total agreement on the effectiveness of this policy tool. That was not true 15 years ago, when CCTs were considered a sin. On the other hand, tax revenues are much lower than they should be, and they are regressive. Yet, we need to note that the informal economy is very large in Latin America, and it pays almost no taxes because the government does not try to tax the informal sector. An informal sector also exists in large enterprises, in the sense that they avoid paying taxes. So there really is a need to make tax collection more effective. Since Latin American countries are different, we have to look at each case to decide whether there is a need to improve tax collection, and determine the best way to do it—that is, how to formalize the informal. Finally, in developing our fiscal policies, we have to consider whether our recent period of high economic growth was a temporary or longer run phenomenon—a structural shift that would enable us to incorporate the mass of Latin Americans into the mainstream.

### **3.2. Conditional Cash Transfers and the Fight Against Poverty**

In the last decade, Conditional Cash Transfer (CCT) programs have become the main weapon for fighting poverty in Latin America. By 2006, such conditioned subsidies to very low income Latin Americans had been implemented in seventeen countries in the region (including the Caribbean). These are listed in Table 2. They are currently the most broadly disseminated social-protection interventions in Latin America.

These programs are based on the belief that direct monetary transfers can change the demand for education and healthcare among households that receive them. CCT programs are structured to select households according to poverty formulas and criteria. Moreover, since the programs usually include elements embedded in their design for their evaluation (which sometimes include experimental variables), the data collected can be used to assess results.

The objective of CCT programs, beyond the monetary support for families with few income sources, is to break the intergenerational transmission of poverty by improving the living conditions and capabilities of children living in poverty. The reason why these programs can affect human capital formation and health indicators is their conditionality: households must change their behavior in order to receive the transfer. Two of the most common conditions for families receiving the transfers are school attendance for children and the regular use of health services by pregnant women and children (for example, vaccinations against common diseases). With the income from the transfers, families can buy additional food, clothing, and agricultural inputs.

*The Evaluation of CCT Programs.* Since their inception, the academic debate among development economists and public-health and education experts regarding CCT programs has been mainly about their social and economic outcomes. Further, policy makers have been aware of the need to maintain a process of permanent evaluation, preferably of the experimental type, embedded in the functioning of the programs. Economic and social evaluations of CCT programs generally have been very positive. They suggest that the programs contribute positively to alleviating poverty in the short term, but that the jury is still out on their contributions in the mid- and longer term.

Although also important, the politics of CCT programs have not been widely evaluated. Yet, a major barrier to maintaining support for them has been that they are often framed politically by allegations of partisan bias and accusations of electoral manipulation. We believe that there is little empirical evidence for these charges. However, the media and much public debate tends to portray the creation of CCT simply as another way for politicians to reward their followers, to establish political-patronage ties with the program beneficiaries, or to buy votes.

It is important, in this context, to assess the electoral effect of these programs among their beneficiaries, and to analyze how CCT can change the way democracy is experienced by citizens in Latin America. In particular, it is important to understand the incentives politicians have for seeking the redistribution of resources through governmental programs, since these incentives come from the votes given to parties that implement social programs. But it is equally important to distinguish and assess when a program is generating electoral support as a response to the deserved credit-claiming of politicians, from those programs in which political-patronage ties are established, making transfers contingent on voter support. The quality of democracy in Latin America will depend on the role that CCT programs can play in strengthening democratic values. We focus our analysis and policy recommendations on this political aspect of CCT's in order to assure that CCTs not only incentivize behavior that contributes to poverty reduction, but also that they contribute to deepening democracy.

*Mexico's Progresa Program.* Although there are some small-scale precedents in other countries, the first large scale CCT program was *Progresa* (the program for education, health,

and nutrition) created by Mexico in 1997. The innovation of the program was to combine the money transfers for food with a scholarship to keep the children in school and incentives to use healthcare more often. From 1997 to 2000, the program was applied in rural areas. In 2000, Vicente Fox renamed the program *Oportunidades* and extended it to also cover urban areas. By the end of 1999, Progresá covered 2.6 million households, which represent 40 percent of the rural population. By the end of 2005, *Oportunidades* covered 5 million poor households, the majority in rural areas. Partly due to the success of *Progresá/Oportunidades* and the equally large and successful program in Brazil, most Latin American countries have created a CCT program.

A question has emerged in Mexico whether the motivation for social programs has been primarily electoral considerations, seeking to boost votes for the governing party through patronage rather the value of those programs in reducing poverty—a motivation that would probably also result in electoral benefits, but for “good” reasons rather than graft. In order to address this question, we have analyzed the differences in the political preferences of beneficiaries and non-beneficiaries of social programs in Mexico. Among respondents of an exit poll in the 2006 presidential election, 19 percent declared themselves to be registered in *Oportunidades*, and 15 percent in *Seguro Popular* (A social insurance program initiated by the Vicente Fox administration); with about 8 percent reporting dual registration. The average vote shares for the three main presidential candidates among non-beneficiaries of either program show a tie between Felipe Calderon of the PAN and Lopez Obrador of the PRD; with Madrazo of the PRI in a distant third place overall.

But among beneficiaries of the social programs, Calderon support according to the exit poll outpaces Lopez Obrador by double digits (reaching the maximum of a twenty-point lead among dual beneficiaries). Any one of these spreads was enough to tilt the national election in Calderon’s direction. The PRI’s candidate also performed better (although less so than Calderon) among beneficiaries of social programs than among non-beneficiaries.

From a statistical standpoint there is a problem, however, in comparing electoral behavior between these two distinct groups of voters. The inferential problem is how to determine what an individual who receives benefits from *Oportunidades* would have done with her vote choice if she had not been included in the program. Since the selection of individuals in *Oportunidades* and *Seguro Popular* is not random, but rather depends on a set of very carefully established criteria related to poverty, strictly speaking there is no observed individual who can be used as a control for the comparison, even though there exist a number of individuals with similar characteristics who did not receiving cash transfers. Some of the socio-economic determinants for selection in *Oportunidades* are the same variables that might influence voting in favor of a particular party. Thus, even if a correlation exists between program enrolment and voter choice, this correlation does not constitute evidence of an electoral effect generated by program benefits.

However, we have calculated that the advantage for Calderon remains even when controlling for selection bias. Using a statistical technique called “propensity score matching,” we find in the case of *Oportunidades* that beneficiaries were 11 percent more likely to vote for Calderon than an equivalent control group of non-beneficiaries with very similar propensity scores – that is, individuals with the same socio-demographic and community-level characteristics. Program beneficiaries were, at the same time, 7 percent less likely to vote for Lopez Obrador and were indistinguishable from non-beneficiaries in their support levels for Madrazo. The impact of *Seguro Popular* we calculate is similar, in increasing the propensity of an individual to vote for Calderon (by 7 percent).

These patterns of preference beg the question of how credit-claiming for *Oportunidades* works, since it is an outgrowth of the poverty-alleviation program introduced by the previous PRI government in 1997. The inherited program of *Progresa* was almost entirely rural in its community coverage in 2000 and its benefits were more narrowly distributed. The program’s expansion after that date proceeded in two waves. The first occurred in rural municipalities between 2001 and 2004, by incorporating households living in extreme poverty but not meeting other selection criteria for inclusion and by the program’s extension to semi-urban localities in the countryside. The second wave began in 2002, in a rapid extension of the program to urban contexts with modified selection procedures (including self-selection by potential beneficiaries with agency review of their applications). Thus, the PAN could claim credit for the program, particularly among newer recipients.

These results could be interpreted as evidence of vote buying, with some potential for the exercise of political coercion by governmental agents and PAN office-holders. While selection into the benefit flows of *Oportunidades* is unrelated to partisan allegiance and behavior, inclusion in the program in the future could conceivably be premised on compliance with the demands of political patrons.

The evidence, however, makes this an implausible claim. We find that controlling for selection bias through “propensity score matching” rural beneficiaries exhibited no significant differences in vote choice, candidate evaluation, or partisan attachments than their non-benefited fellows. It is hard to square this evidence with a story of clientelism or machine politics, since such practices should be most prevalent in rural settings. Moreover, given the post-*Progresa* extension of benefits to a larger share of rural households, the lack of a benefit-based partisan divide in the rural electorate does not lend credence to the predatory vote-buying logic of welfare transfers to the rural poor.

Further evidence to reject a story of vote buying is provided by average presidential approval and pocketbook evaluations of the personal economic condition, as reported by exit polls. Recipients of social programs had more positive retrospective evaluations than non-recipients. To the extent that pocketbook considerations are important in shaping poor voters’ assessments of government performance, and that these retrospective elements, in

turn, influence candidate preference, the data indicate an important cushion of support for the PAN from poor voters directly benefited by social-development and poverty-alleviation programs. Those poor voters were not shifting their vote choices in the direction of the incumbent party due to political-patronage ties, but rather they had a sincere preference to support those policies. In fact, our analysis shows that beneficiaries of social programs also tended to shift their partisan identification in favor of the PAN.

By way of a conclusion, it is worth discussing how to reconcile the idea of social programs having clear electoral effects with the quality of democracy and government accountability. A political-patronage system is based on an intermediation in which political rewards are received by actors who mobilize voters and ensure their electoral compliance. Voting is not free, but a product of the linkages to patron-client structures of dependence. Political patronage is established on the basis of social conditions where voters do not believe programmatic promises, preferring instead individual transfers and gifts. After all, if citizens are accustomed to governments that are not accountable, which rarely keep their promises, and only do so when this benefits their followers, voters become apathetic and cynical. The quality of democracy suffers under clientelism.

To a large extent the debate over CCT programs and Social Funds has been concentrated on discussions regarding how to find bureaucratic systems that will solve the lack of accountability, establishing mechanisms for the oversight and control of the programs, clear norms and surveillance, and sometimes elements of social audits and transparency in public information. But in the final analysis, all of these solutions do resolve the fundamental issues because the best judge and referee of the government's performance should be the citizenry, exercising its right to vote, removing bad governments, and choosing those that offer the best alternative national project.

The dilemma in Latin American democracies is that, given past experiences, the quality of democracy is judged more by the capacity of the state to deliver results to private interests, such as higher profits for companies or subsidies to certain groups, than by the promise of being able to generate public services, such as potable water or healthcare and universal guarantees. According to *Latinobarometro* data, there is, paradoxically, a clear positive correlation among Latin American nations between support for democracy and perceiving that political patronage has been used during elections. The countries with stronger democratic values are those where the voters themselves declare they believe there are wide networks of political patronage. This relationship is not observed when the survey asks people directly whether they were subjected to patronage conditioning in their voting choices, or whether their vote was not free.

What this pattern suggests should raise some concern: poor citizens in Latin America expect from their democracy only the promises of patronage that historically have been fulfilled, namely the transfer of state resources to individuals, intermediated by the parties

and the patronage networks, rather than programmatic promises of greater social justice and the elimination of poverty in the long run.

**Table 2. *Conditioned Cash Transfers in Latin America and the Caribbean***

<b>Country</b>	<b>Program</b>	<b>Monthly Value of Transfer</b>	<b>Beneficiary</b>	<b>Condition</b>
<b>Argentina</b>	Family Heads; Families for Inclusion	US \$50	Unemployed low-income families w/children <19	Children attending school; healthcare
<b>Bolivia</b>	Juancito Pinto Bonus	US \$30 annually	Children attending school for nourishment	School attendance
<b>Brazil</b>	Family Basket	Rs. 50-Rs. 95 per family	Families with income/capita <Rs. 120	School attendance; vaccination
<b>Chile</b>	Chile Solidario	10,500 pesos for 6 months; gradual reduction to 18 <sup>th</sup> month; monthly basket until 3 years.	Extremely poor families and elderly	Children in school, vaccination, training courses and training for parents
<b>Colombia</b>	Families in Action	14-18 K pesos? Child in school; 46. 5 K pesos/ child < 7 yrs. -old	400K families under extreme poverty conditions w/ children	Children in school accompanied w/ nutrition program & healthcare
<b>Ecuador</b>	Human Development Bonus	US\$ 15/ family (for women)	1.1 million families in need	Education, healthcare, and nutrition
<b>Paraguay</b>	Tekopora y Nopytyvo	Women receive bonus	Families under extreme poverty w/children in rural areas	Education and healthcare
<b>Peru</b>	Together	US \$30 per family	Poor families w/ children	Education, healthcare, and nutrition
<b>Uruguay</b>	National Food Plan; Solidarity Income Program	Transfers for the purchase of food	Poor families and children	Food purchases
<b>Venezuela</b>	Food bonus for workers; Bolivariana	Subsidiary sale or food donation	Poor families in regional context	Food purchases

	Basket			
<b>El Salvador</b>	Opportunities and Solidarity Net Program	US\$ 15-20 per family, delivered to women	12,000 families in extreme poverty w/children <15, pregnant women	Children in school, vaccination, ID registration, community development programs
<b>Honduras</b>	PRAF II	LPS80/child up to 3 children for 10 months	Families in need in specific geographic area	Education, health, and nutrition
<b>Mexico</b>	Opportunities	145 pesos bi-monthly + education basket; 95-620 pesos+US\$25/ adult; 300 pesos/youth	Families in need; elderly	Education, health, and food
<b>Nicaragua</b>	Social Welfare Net (My Family)	US\$30 per family	22,500 families in extreme poverty	Education, health, and food
<b>Panama</b>	Net of Opportunities	Not defined	12,000 poor families	Education and health
<b>Dominican Republic</b>	Solidarity Program, Eating First, School incentive & name & last name	US\$ 16 for food, US\$ 5 for school attendance	Families in extreme poverty w/children 6-16 years-old, also younger children for food	Children in school and Citizen register
<b>Jamaica</b>	PATH	US\$ 10 every two months	Pregnant women, elderly, & others at risk	Supervised by parish managers

Source: Belik, W. (2006). "Public Policies, Rural Poverty and Food Security". *Social Letter 4*. School of Economics, Unicamp, Campinas, Brazil. Fonseca, A. (2006). "The Systems of Social Protection in Latin America: Analysis of conditioned cash transfers" Document presented in an International Seminar on Conditioned Cash Transfers and Food Security. FAO Regional Office, Santiago, December 4-5, 2006.

### Policy Recommendations:

- Significantly increase spending on conditional cash transfers to cover as close as possible to 100% of the extreme poor, thereby establishing an income floor for chronically poor households. These programs should serve a specific purpose within a broader strategy for building the human capital of the poor. They should be well-targeted, publicly evaluated, and designed to prevent dependence. The programs should promote increased participation by the poor in practices that improve their and their children's health and education, including early childhood development, school attendance, vaccination requirements, and food-purchase programs. Programs should also include incentives for effective implementation and should minimize political manipulation.
- Increase accountability and transparency of conditional cash transfers to assure that transfers are made to all eligible recipients, and not on the basis of political patronage, by regularly publishing CCT distributions against poverty statistics by municipality and region. This will help ensure that CCTs are used as temporary, focused measures to help the neediest segments of the population.
- CCT programs should be designed with concrete and measurable objectives to serve as temporary aid to beneficiary families; the programs should be subject to periodic evaluations and consequent modifications for fine-tuning the desired results.

### **Presidents' Commentary on Conditional Cash Transfers in Latin America**

***Fernando de la Rúa, Argentina.*** A problem that may arise with such programs is that the conditions on the payments are not enforced; in addition, when there are many such programs, they can generate corruption. The most important thing is to find the way to make these transfers effective. This can be done by taking age into account in any cash transfers—that is, focusing on children and seniors, or focusing on women as the representative of the family. Building in strong controls into the CCT's is key. The program “Jefas y Jefes de Familia” (Heads of Household) in Argentina is given to “*piqueteros*” who are friends of the government, thus creating a questionable clientele. We therefore need to establish clear conditions and institutional game rules to avoid distortions.

***Nicolas Ardito Barletta, Panama.*** It is crucial that these programs do not become politicized and remained true to their objective criteria. It is also important not to create dependency on CCT's among the poor, which would reduce the incentive for people to look for work in the market. The programs should also be continuously evaluated. This type of program goes directly to the poorest members of society to improve their income, but it should not substitute for complementary programs aimed at this targeted group in housing, improved sanitation, education, health, and nutrition.



*Eduardo Stein, Guatemala.* Ardito Barletta's comment points out correctly that CCT's need to be complemented by social-infrastructure investments for the poor and marginalized. CCT's by themselves will not create schools or a clinic. This type of program could drive an even greater wedge between the central government and local administrations, generating confusion among beneficiaries. For example, in some cases the conditions for the cash transfers come up against the customs of local communities. Nevertheless, the main point is that CCT's have to be closely coordinated with and supported by other programs and implemented in the context of a structure of social services aimed at the poor. It is also important to study how CCT's, and the structure of social services more generally, can influence the social action of religious organizations.

*Alejandro Toledo, Peru.* In Peru, we have a CCT program called *Juntos*, which was created in my government. We could not reach the 54 percent of the population in Peru that earns two dollars or less per day. Because of limited resources, we had to identify the very poorest among the poor, and this was the most difficult task. We knew it was not a permanent program, and we decided to give \$30 per month to each family; within each family, we decided to give the money to the woman of the family, because women have demonstrated that they are better at administering scarce resources in the family. Furthermore, we decided not to insult the poor by just handing money over to them; rather, they had to meet certain conditions to get the funds. In Ayacucho, we required pregnant mothers to have pre- and post-natal check-ups, and parents were required to bring their children to clinics to be vaccinated and to get their children to school on a regular basis. To avoid *clientelismo* [political patronage], an independent supervisory commission was created outside the government to assure that the rules were being followed and that only the target group was receiving the monthly payments. Until now the program is functioning smoothly, but it should not remain static. We need to convert these women from just being income recipients to being full participants in society through their work and dedication to improving their children's lives.

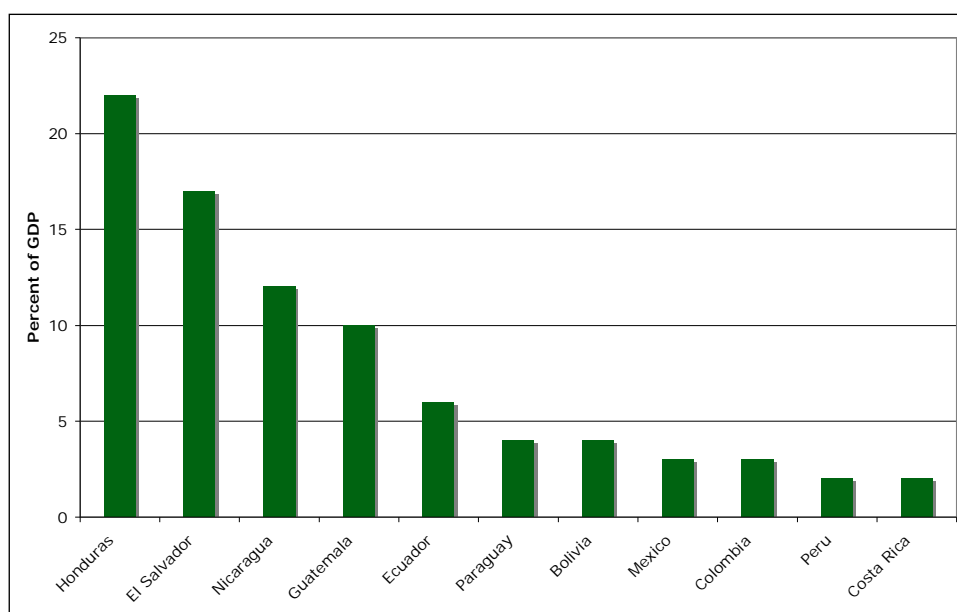
### **3.3. Facilitate Increased Remittances**

(to be pursued jointly with the United States and European countries)

Remittances to Latin America and the Caribbean from Latin Americans and Caribbean workers abroad, mainly in the United States and Europe, totaled more than \$50 billion in 2006, equal to all foreign direct investment in the region, and six times the amount of

development assistance.<sup>7</sup> Remittances have also been increasing rapidly—from \$15 billion in 1996 to almost \$20 billion in 2000, to \$50 billion in 2006. In some countries in Central America and the Caribbean, such as Haiti, El Salvador, and Honduras, remittances represent, in percentage terms, as much as one-sixth to one-fourth of gross domestic product. In absolute terms, Mexico is the biggest recipient of remittances, with more than 40 percent of the region’s total (Figure 2).

**Figure 2. Latin America: Remittances as Proportion of Gross Domestic Product, by Country, 2005.**



*Source:* Pablo Acosta, Pablo Fajnzylber, & J. Humberto Lopez (2008). “How Important Are Remittances in Latin America,” in P. Fajnzylber and J. H. Lopez (eds). *Remittances and Development: Lessons from Latin America*. Washington, D.C.: World Bank, Figure 2.5a.

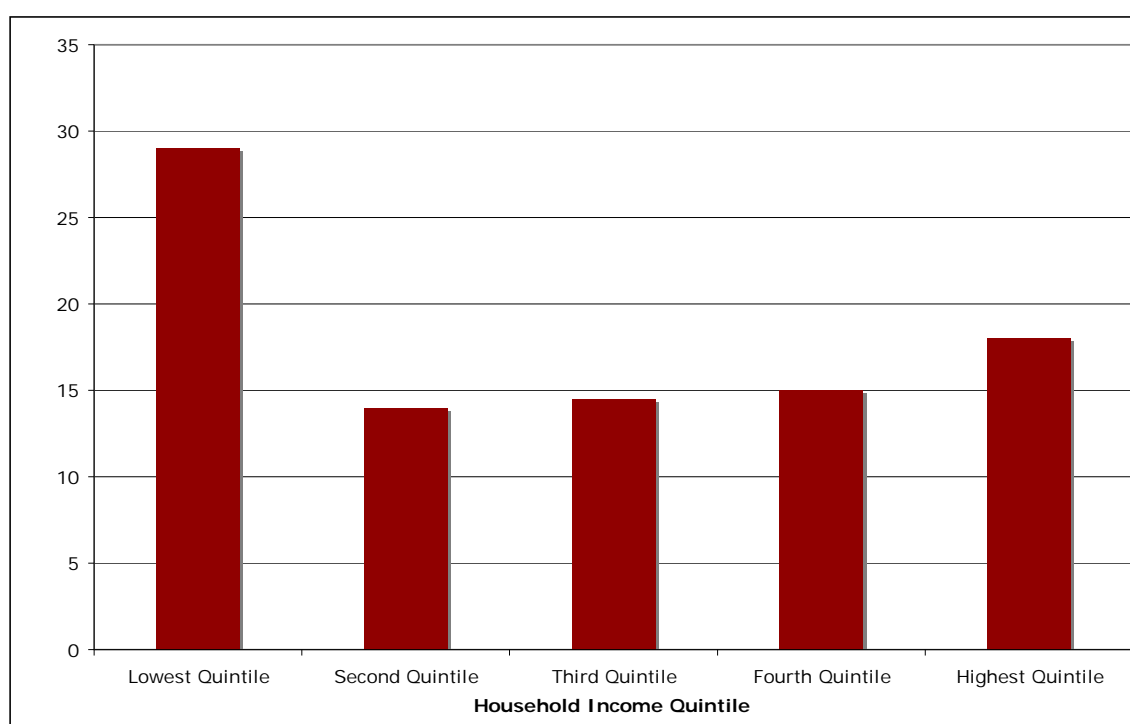
Thus, remittances play a significant economic role in the region, and, in some Latin American countries, such as Mexico, El Salvador, Guatemala, and Honduras, the remittance share of GDP and the share going to the bottom-income quintile are large enough to impact the poverty level and contribute to reducing income inequality. In Mexico, 60 percent of remittances are sent to the lowest quintile of households. Mexico only receives about 3 percent of its GDP from this source, but even so, the impact on poverty is still probably significant. This influence is particularly true for those states in Mexico, such as Michoacan,

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<sup>7</sup> This section draws entirely from Pablo Fajnzylber and J. Humberto Lopez (editors) (2008). *Remittances and Development: Lessons from Latin America*. Washington, D.C.: World Bank.

that send a relatively high percentage of its low-income labor force to the United States. Yet, this is not true for all countries; for example, Nicaragua receives 13 percent of its GDP in the form of remittances, but only 10 percent of these go to the bottom quintile of income earners, and may contribute to increasing income inequality. Overall, largely because of the size of the Mexican remittances and their concentration in low-income households, about 30 percent of remittances going to Latin America go to the poorest households, and the rest are spread fairly evenly over the higher four quintiles (see Figure 3).

**Figure 3. Latin America: Households Receiving Remittances by Household Non-Remittance Income Quintile, Early 2000s.**



Source: Acosta, Fajnzylber, and Lopez, 2008, Figure 2.7a.

Remittances are, of course, the result of emigration, and emigration implies local-income loss. To estimate the total impact of remittances on poverty, income distribution, and growth, the impact of emigration itself must also be taken into account. The migrants from Mexico and Central America come mostly from lower-income households, but that is not the case for most of South America and the Caribbean, where those who migrate have higher levels of education than those who stay behind.

When researchers analyzed the impact of remittances on poverty and income inequality, their estimates showed that when migrants come from the lower quintiles of the income

distribution, there can be “large reductions in poverty head counts derived from remittances” and positive but small changes in income equality (Fajnzylber and Lopez, 2008, p. 7). The impact is greater when they make their estimates accounting for migration *and* remittances, with significant reductions in some countries’ income inequality, and about a 0.3 percent reduction in poverty rates for every percent increase in remittances to GDP ratio.

One concern is that public transfers to the poor might reduce the amount of remittances coming from abroad. If emigrants feel that their families are receiving public assistance, they might be less likely to send money back home. An example of such public programs is Conditional Cash Transfers (CCT), which have been discussed in a Section 3.3 of this Report. A number of studies have studied whether CCTs such as PROGRESA in Mexico, Red de Protección in Nicaragua, and the Asignación Familiar in Honduras, “crowd out” private transfers such as remittances. They suggest that crowding out does not occur, and that therefore, as long as the amounts transferred to each household by the CCTs continue to be small and targeted to the very poor, they should not affect the flow of private remittances.<sup>8</sup> This implies that CCTs and remittances can be complementary factors in reducing poverty and income inequality.

Remittances have a positive impact on reducing poverty in those countries where a high fraction of emigrants come from low-income households, but it is precisely low-income migrants that face the highest costs in sending remittances back to their families. Many face fees of up to 20 percent, and fee structures are often loaded with hidden charges. Reducing the cost of remittances is and should continue to be a major target of bilateral, multilateral, and regulatory initiatives. One way to do reduce fees is to increase competition among remittance service providers, particularly by increasing the use of regular, regulated banking services by immigrants and by requiring providers to inform clients of all fees and charges. Many lower-income immigrants do not have regular bank accounts, and many others tend to avoid them because of their irregular immigration status. More transparency on charges is also needed so that users can make informed decisions on which service provider to use. Such transparency should be a key objective of consumer-protection regulation directed at this market. In addition, payment and settlement systems need to be improved, and access to them by service providers need to be increased.

### **Policy Recommendations:**

- Increase, and rationally regulate, competition among remittance service providers (RSPs) to reduce fees. Remittance Price Databases for key corridors can be a useful tool to help remittances senders make informed choices of providers, thus enhancing

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<sup>8</sup> P. Olinto and M.E. Nielsen (2008). “Do Conditional Cash Transfer Programs Crowd out Private Transfers,” in P. Fajnzylber and J. H. Lopez (eds). *Remittances and Development: Lessons from Latin America*. Washington, D.C.: World Bank, Chapter 8.

competition and ultimately lowering costs. In addition, governments should introduce licensing and reporting requirements, and restrict anti-competitive practices. Specifically, laws or regulations could be used to discourage exclusivity agreements and other practices that block competitors' access to core payments infrastructures.

- Promulgate regulations or executive orders to improve consumer-protection regulation of RSPs. This objective requires better payment and settlement systems (including foreign-exchange transactions), and expediting dispute-resolution mechanisms.
- Encourage and facilitate low-income immigrants' use of regular banks for remittances. Financial education programs should inform remittances recipients about possible benefits associated with using financial services, and about their rights as consumers. Support new business models to increase access to financial services, such as branch-less banking and micro-finance services.

#### **Additional Recommendation:**

- Governments should explore incentives for financial intermediaries to reduce the cost of remittance transfers, as well as incentives for remittance recipients to invest a larger part of these funds in their communities and in productive activities.

### **3.4. Access to Microfinance and Enabling Development in Poor Populations**

Microfinance in Latin America has much to be proud of. However, in the Micro-Credit Summit's count of the 106 million people with a micro-loan in 2007 who were very poor when they took their first loan, 97 million were in Asia and a little more than 2 million were in Latin America. In other words, 78% of the very poor in Asia have accessed microfinance compared to only 24% of the very poor in Latin America.

When asked about his strategy to create the Grameen Bank in Bangladesh, Nobel Prize winner Muhammad Yunus responded:

I didn't have a strategy; I just kept doing what was next. But when I look back, my strategy was, whatever banks did, I did the opposite. If banks lent to the rich, I lent to the poor. If banks lent to men, I lent to women. If banks made large loans, I made small ones. If banks required collateral, my loans were collateral-free. If banks required a lot of paperwork, my loans were illiterate-friendly. If you had to go to the bank, my bank went to the village. Yes, that was my strategy. Whatever banks did, I did the opposite.

This statement recognizes a basic truth about the commercial banking system and its failure to serve the poor. It also reminds us that microfinance would never have existed if the rules of banking had not been broken. Nonetheless, when we turn to our central-bank governors, our superintendents of banks, our finance ministers and ministers of the economy, and our aid-agency specialists, and ask them to build and regulate microfinance, we cannot figure out why the results look so much like mini-commercial banks, and why they still miss the very poor. Just as Muhammad Yunus broke the rules of banking, there are microfinance leaders today who are breaking the rules of microfinance to create new breakthroughs. When microfinance leaders in Latin America were asked for their top choices for plenary and workshop topics for the 2009 Latin America Caribbean Microcredit Summit, the most popular choice was “Breaking the Rules of Microfinance to End Poverty: Innovations from Around the World.”

One of the innovators presenting at the Summit is Ingrid Munro of Jamii Bora in Kenya. Jamii Bora’s innovation could provide important lessons for the most intractable problems in Latin America. Jamii Bora, which means “good families,” has grown from lending money to 50 women beggars ten years ago in one of the worst slums of Nairobi, to serving more than 200,000 members today.

One of Jamii Bora’s members is Joyce Wairimu. Wairimu was one of the 50 women beggars who started the organization with founder Ingrid Munro in 1999. Munro calls her one of the fast climbers out of poverty. In ten years, Wairimu built six businesses and now employs 62 people. Another fast climber is Wilson Maina. Before Jamii Bora, Maina was a thief, one of the most wanted criminals in Mathare Valley slum. Starting with a loan of \$20, Maina built four businesses and a new life for himself and his family. Along the way, he convinced hundreds of youths to get out of crime. No other microfinance institution in the world successfully gives loans to thieves.

Where does Munro’s capacity to innovate and defy conventional wisdom come from? It started 20 years ago when she and her husband adopted three street children. As she came to know the mothers of her sons’ friends in the streets—women who were beggars—her insights grew. When Munro, a Swedish-trained architect and urban planner, retired from the African Housing Fund in 1999, she thought she would also retire from the little group of 50 beggar women with whom she had been working. But when the women pled with her not leave them, Munro agreed to stay and insisted that they must lift themselves out of poverty and develop the discipline of saving on a regular basis. She had them come every Saturday with about 50 cents in savings. When they deposited their 50 cents, she gave each of them two scoops of corn and one scoop of beans. She now admits that for those first two months, she used the lure of free corn and beans to trick them into saving. After two months, the corn and beans disappeared, but the beggars continued to save.

Munro did not stop at providing microcredit to help the poorest slum dwellers. Jamii Bora built a town with decent housing and business space for entrepreneurs, because as Munro observed, “Every poor person’s dream is to move out of the slums, not to patch up the slums.” Over 2,000 families moved out of the slums and into the newly created Kaputiei town. For the same monthly mortgage they had paid for their one-room shacks, each family now lives in a home with two bedrooms, a bath, a kitchen, and a living room. But “sub-sub-prime lending” works because, in order to qualify for a mortgage, the residents must have successfully repaid three micro-business loans. Another of Munro’s breakthroughs and secrets to success is that the Jamii Bora consists entirely of former members, previously destitute themselves.

*Proposal I: There should be a São Paulo Declaration coming out of this meeting and another at the 2009 Ibero-American Summit where the former Presidents and the current Presidents of Latin America commit to having the region lead in successfully reaching and empowering the very poor with microfinance.*

This has not happened thus far because it breaks all the rules. The rules of microfinance say that we must only work with the economically active poor, and that the very poor cannot benefit from microfinance because they need safety nets first. This declaration is doomed to fail if, in implementing it, we turn to those who embrace the rules. There must be a commitment to “break the rules of microfinance to end poverty,” and we must draw from innovations in Latin America and around the world. There must be study visits to programs working successfully with the ultra poor: Jamii Bora in Kenya and Grameen Bank and BRAC in Bangladesh. There must be competitions to determine which practitioners and which government officials are most serious about reaching the ultra poor, and a commitment to send those leaders on the study trips. And this group of former presidents must also take such trips, along with current presidents. This kind of fundamental change will only happen if these presidents lead the way.

Several months ago, microfinance leaders working in Latin America provided additional policy proposals to bring to this meeting.

*Proposals II and III: Create a regulatory framework that (1) allows microfinance institutions to accept and on-lend deposits, and (2) does not require an ownership structure that pushes the microfinance institutions (MFIs) away from reaching the poor.*

The push for allowing MFIs to take savings came from ACCIÓN, Deutsche Bank, BRAC, COPEME, Global Partnerships, and others. This is something that Prof. Yunus has encouraged for years. Rick Beckett of Global Partnerships made the following observation about both points:

.... MFIs need to access saving to serve the needs of borrowers, lower their cost of capital, and remain competitive and sustainable. Many regulatory structures in Latin America presume or require private equity ownership of regulated financial institutions and thereby limit or complicate efforts by a mission-driven NGO to become regulated, access savings, and maintain full ownership control without introducing owners into the equation whose motivations are more economic in nature [and less focused on social returns]. In each country, there could be a regulatory classification that encourages non-profit ownership of a regulated entity with full access to savings, provided the MFI maintains sound financial ratios and performance [so that deposit holders are protected].... Moreover, we'd like to see those regulations allow for the MFI to employ a range of business models without restriction (e.g. integrating education and health services at communal banks)...Such a regulatory structure would encourage the development of social enterprise, more akin to what we see in Asia, and encourage the development of a "mixed market," where social and commercial enterprises compete on a more even playing field and people living in poverty benefit from a broader range of choices in their MFI.

As Mario Otero of ACCIÓN said about savings, "Those banks that can count on savings as a major source of funds for on-lending are the least affected by the global financial crisis. The same holds true for microfinance institutions." This is not a new proposal; it has just been seldom implemented or has been implemented badly. There is also a danger that this proposal could be embraced but the essence is lost because the plan follows the more commercial model that regulators are familiar and comfortable with.

*Proposal IV: On the issue of interest rates, countries should legislate either the enforcement of declining balance interest rates (i.e. making "flat" interest rates illegal) or, alternatively, pass truth-in-lending legislation requiring all lenders to state the annual percentage rate (APR) of all loans purchased by their clients.*

This proposal came from Chuck Waterfield of Microfinance Transparency. Most in the field argue against interest-rate caps, including ACCIÓN and Opportunity International. There are also calls for consumer protection against usurious interest rates. Maria Otero observed, "Interest-rate caps tend to discourage interest charges on a declining balance. As we have seen in India, for example, a 10%-per-year interest rate for a one-year loan amortized over the entire tenure of the loan equals an actual interest rate of well over 500% per annum."

*Proposal V: Create high-quality national or sub-regional autonomous wholesale funds to (1) provide lower-cost loan funds so that MFIs can more easily serve rural areas, and (2) build the MFIs' capacity.*



COPEME, Red Financiera Rural, and MicroNegocios called for either providing loan funds to MFIs at lower rates so they can bring their services to rural areas, or promoting best practices in financial and administrative sustainability.

Two important examples from rural-credit programs in LAC are the Savings and Credit Unions (UNICAs) in the Lambayeque Department of Peru and the CRACs in Honduras. The UNICAs, which operate under a self-managed system in high-poverty subsistence zones, were established in 2005 and presently comprise approximately 5,200 families managing 350 credit unions. These families have created capital of more than \$300,000 and have made, in their short history, more than 16,000 loans valuing more than \$1 million. There are no delays, and there have not been donations, seed capital, or financial injections. Everything has come from the pockets of members, from the administrative, organizational, and creative efforts of these 5,200 families. By the end of 2008, the Programa Inclusivo de Desarrollo Empresarial Rural (PRIDER) of the Corporación Financiera de Desarrollo (COFIDE) began two additional projects for subsistence sectors in Cajamarca, with the involvement of 60 groups and 700 families.

In Honduras, between 1996 and 2001, the FUNDER (Fundación Para el Desarrollo Empresarial Rural) program created more than 1,800 savings-and-credit units known as CRAC, or Cajas Rurales de Ahorro y Crédito. These CRACs have a membership of close to 36,000 families, and another 7,000 families who are not members have been served by the CRACs. About 8,800 associated with FUNDER continued their traditional crops (corn and beans), but they intensified their use of resources through small irrigation projects and technology, which helped them to increase their family income by between 100% and 200%. More than 3,600 families participated in productive chains, with high value-added crops (mostly for export), and their family income increased between 400% and 600%. Finally, some 1,400 families created their own agribusinesses, allowing them to increase their family incomes by over 1,000%. In these companies, rural families have more than 60% of the assets, ensuring their participation in the control and direction of the company. They also employ professional, commercial, and administrative personnel with a high level of professionalism.

These experiences in Peru and Honduras demonstrate several important points about rural savings-and-credit associations:

- These organizations are completely self-run, providing an example of democratization of access to credit from the bottom up. The poor themselves open the doors to credit, and they administer it with total autonomy. There is no paternalism or outside assistance once the capacity is developed in local personnel to run these organizations.

- Participants learn key skills, such as accumulating assets and investing, by doing. Self-management helps to internalize managerial practices, encouraging the transition from subsistence production to commercial exchange.
- The three safety nets for the transition to managerial activities are: allied business owners and buyers, local business development offices (ODEL), and allied financial institutions.

In addition to the experiences and proposals discussed above, several other policy proposals should be considered to promote and improve the use of microfinance in LAC:

- *Promote private credit bureaus to generate more credit information from the microfinance sector and protect clients from over indebtedness.*
- *Provide a regulatory framework that promotes transparency on the financial side (effective annual interest rates, elimination of commissions) and on the social side (social balance, impact on clients, statistics on beneficiary populations).*
- *Do not allow governments to lend microfinance funds directly to clients* (Maria Otero, Acción Internacional). Over the years, there have been countless fiascos when governments decide to lend money for productive enterprises, often at subsidized interest rates. Frequently these efforts have been politically motivated, with "banks for the poor" launched during election years. Without a sustainable business model, these banks fail because there is little effort towards a careful assessment of clients' ability to repay, and almost no effort to ensure repayment of the loans. Once more, the poor are left without financial services they can count on. This lending also causes microfinance institutions to struggle against temporary competition that is not on the same playing field. Financial inclusion is stymied rather than promoted.
- *Governments should create a facility to hold the foreign-exchange risk of their own currency and thereby encourage much lower cost capital for MFIs* (Rick Beckett, Global Partnerships). Financial markets have failed to allow ready access to growth capital in local currency for MFIs in Latin America. Debt from local sources is too limited. Dollar- and euro-based growth capital is available, but MFIs are forced to hold foreign exchange (FX) exposure on their balance sheets (which is often under-managed) or engage in expensive back-to-back and other transactions that drive up their costs and drive up pricing to poor borrowers. Hedging is not available in many markets, so foreign-exchange risk is held by the MFI and by the borrowers – the two parties who are least able to bear it. Governments could create a facility to hold the FX risk of their own currency and thereby encourage much lower capital costs for MFIs. This could be done in a variety of ways, but the essence of the opportunity is for the country (which is far better able to hold and manage FX risk) to do so, thereby

allowing MFIs to fund their balance sheets from local and/or international sources. Due to the crisis in financial markets, exchange rates are more volatile and MFIs face significant pressure on liquidity. (They are struggling to fund their own balance sheets). Many are now slowing or stopping growth in borrowing. Options available to MFIs would be much broader if they could place the FX risk with another entity at low cost.

- Modify social-security laws so the informal sector has access to social security.

### **Policy Recommendations:**

- Expand the micro-finance system so that it commits to micro-lending to the extreme poor who want to create their own businesses.
- Create a regulatory framework that allows microfinance institutions to accept on-lend deposits, and which does not require an ownership structure that pushes the microfinance institutions (MFIs) away from reaching the poor.
- Prohibit declining balance interest rates—make “flat” interest rates illegal—and legislate “truth in lending” legislation requiring all lenders to state the annual percentage rate (APR) of all loans purchased by their clients. Provide a regulatory framework that promotes transparency on the financial side (effective annual interest rates, elimination of commissions) and on the social side (social balance, impact on clients, statistics on beneficiary populations, etc.).
- Encourage investors, including multilateral development banks, to create high-quality national or sub-regional autonomous wholesale funds so that MFIs can build their capacity and more easily serve rural areas, and facilitate instruments that allow MFIs to hedge against the foreign-exchange risk of their own currency.
- Consensual microfinance public policies should transcend administrations in order to successfully overcome the technical and institutional challenges inherent to the field (i.e. managerial capability, levels of interpersonal trust, interest rates, isolated communities, etc.). Continuity is vital for achieving the empowerment of the poor through micro-finance programs.

### **The Presidents’ Commentary on Microcredit and Poverty**

*Eduardo Stein, Guatemala.* There are opponents of the expansion of microfinance in Central America. In the first place, banks oppose changing laws to favor microcredit. Their argument is that microcredit providers, with their subsidized interest rates, would become

legal competitors with their institutions, even though the costs of microfinance are not attractive for private banking. Organized crime is another opponent of microfinance because it can weaken their control over families and neighborhoods. These gangs even have access to high levels of the police, which create concerns for citizen safety and protection. Traditional political parties also oppose microcredit because it takes power from them. The presentations today have demonstrated that we have the tools, but we need the political will to put this into practice.

***Ernesto Samper, Colombia.*** We must have a revolution in property and social assets in order to change the terms of inequity, which entails urban and rural reform to make microfinance activities possible. Seventy percent of the poor in LAC are outside the financial system. The percentage of adults with access to financing varies from 25% in Peru, to 65% in Chile, with a regional average of 30%. This means that 70% of Latin Americans do not have access to credit or even a savings account. If these percentages do not change, financial and monetary policies will not be successful.

There are two approaches to take: either we have microfinance with “micro” results, or we allow microfinance institutions to associate with state and commercial banking to duplicate their efforts. This is the great challenge. We must revive the role of state banking and overcome the limitations of specialized banking that only lends to rich people, because every day the guarantees and conditions are more demanding, which creates a contradiction. If we are not capable of overcoming this vicious cycle, we cannot have a massive impact and facilitate the poor’s access to credit.

***Nicolas Ardito Barletta, Panama.*** There are two factors that we must address simultaneously. One of the problems for traditional commercial banking to manage microfinance is administrative costs. Fixed costs are the same in managing one large line of credit as they are in managing one hundred small loans. We can experiment with creating a subsidy for banks that have microcredit lines, to reduce administrative costs and provide technical assistance to micro-entrepreneurs and improve management capacity.

The second aspect is helping micro- and small businesses to take better advantage of the formal system and use the market rules of the game. To do that, we must grant property titles for their land, which permits them to move their assets and use them as collateral for their loans in the formal system. We must help the poor to take better advantage of the financial system and leverage their own resources.

***Vinicio Cerezo, Guatemala.*** The most important aspect of the presentations has been the practicality of their recommendations. We must prioritize three areas. Working for the very poor with support of international assistance and more decisive government action to make political decisions is necessary. Legal reforms are needed with technical assistance from international cooperation to promote development banks in Latin America, which were

literally erased from the map due to the policies of the Washington Consensus. We need consensus among political parties to create new and efficient development banks. The middle class in LAC is going to fall victim to the economic crisis. I refer to families with income between \$1,500 and \$3,000 a month, who will lose purchasing power and will be forced to modify their lifestyles. The subject is not just income, but also perception. We must keep in mind that when progressive governments in LAC prioritize the poor, they forget about the middle class, and then they lose elections in the urban neighborhoods where those sectors live. The middle class believes in democracy and has been an ally in all the processes against military governments in the region, but now it has been abandoned.

**Carlos Mesa, Bolivia.** We must take advantage of the repetitive cycle of Latin American history, which Ernesto has reminded us of, to recover the role of development banks, which is part of the revival of the State in the economy, an issue beyond microcredit. Development banking was an important moment in Latin American economic history, and today it must be rescued on the condition that the errors of the past that led to bankruptcy and political patronage must be corrected. We must overcome the idea that identifies development banks with fiscal deficits, and demonstrate the potential of a new and more efficient state bank, as a bridge between commercial banking and microfinance institutions to extend the benefits of credit to the poorest people.

In small economies, microfinance plays a fundamental role because it adapts to the logic of micro and small business. In Bolivia, microcredit is so important that it competes with commercial banking and causes it to change the rules of the game by offering credit to the popular sectors. In economies like Bolivia and Guatemala, microfinance has transcended the marginal areas where it began, becoming an important part of financial markets. In Bolivia, it represents 30% of total credit in the financial system, which probably does not occur in large economies like Brazil, Argentina, or Mexico. Efficiency has made microfinance competitive.

One last point to emphasize is the access to credit in rural areas for productive development, because most microfinance institutions are in urban areas. What is the role of land as a guarantee for effective capitalization of agriculture? This is a problem in Bolivia, where agrarian reform returned land to farmers but declared that it could not change hands, eliminating its market value. Families cannot sell their land, but with successive divisions, they have reduced their plots to a single furrow of land. Land can no longer serve as a guarantee, so it has lost its role as a factor of production and its use as collateral for the financial system. Some have wanted to resolve this impasse, but the political risk is high.

**Vicente Fox, México.** There are two principles in the issue of access to credit and savings. There are heroic micro-efforts, but they are dispersed and disconnected. Let's not forget that it is a desirable goal to have equality and opportunity of access to financial goods and employment. The ultimate goal is to have a financial system to serve everyone (firms and

people) without discrimination. To do that, there should not be competition between microfinance institutions and commercial banking. Instead, there should be complementarities between the two. I see it as an articulated pyramid of institutions. The relationship between these institutions should not be seen in terms of competition, but as complements in a pyramid. Microfinance is a process of training and teaching for those who have never had the opportunity to access credit. In the pyramid, a large quantity of commercial micro-financiers with high interest rates have been created, which have taken advantage of microfinance techniques to position their products.

There are also savings banks and cooperatives that are now more competitive, but with a strong social contribution. Development banks also play a role. And so does commercial banking, which is supported by people's savings. There are also second-tier banks. They are starting to meet. Those from above are walking downward, and those from below are walking upward. We must accommodate all of these parts in an organized way so that each performs its function. Microcredit has been a school to transform the very poor into business people, starting with \$100 credits and ending with loans of \$10,000, as occurs in Mexico.

I am worried about the issue of effective democracy. Every day our people ask us if the democracy that we share has been able to address the problems of the poor. The examples mentioned today prove that this is possible with an effective democracy, on the condition that credit is also democratized, guaranteeing technical rules and not politicizing it, which is only possible in a democracy.

***Fernando de la Rúa, Argentina.*** Samper poses the right to credit as a principle that the majority of the poor in our region lack. Years ago, in the Bank of the City of Buenos Aires, we created a line of credit for low-income retirees, which, in addition to an economic use, also had emotional value because it included them again in economic activity. Now this bank has opened a line of microcredit, following the Chilean model. I have been interested in the growth of banking based on commercial chains that use lines of microcredit to distribute their products. I only hope that they are well regulated so that they do not become a problem for consumers.

Microcredit programs must be accompanied by technical assistance. The system must take advantage of existing resources to qualify people at least as autonomous workers, given the high degree of informality in LAC. Microfinance must also permit access to medicine in the social health systems. The missing piece in this discussion is cooperativism. Microcredit has many of the same values, and microcredit institutions have much of cooperativism, even when its beneficiaries do not participate in the boards of directors. Yet there are cases where this occurs.

***Rodrigo Carazo, Costa Rica.*** Listening to the presenters, I feel a rebirth of hope. The global financial crisis has demonstrated the failure of institutionalized greed. The experiences

discussed demonstrate that the resurrection of a new type of productive finances is possible. The merit of a good banking system is to convince and enthuse clients to make their endeavors a reality, and this is being achieved among the very poor, which is doubly valuable, in moments when large financial corporations have failed in this goal, generating an unprecedented recession.

The entrepreneurial spirit can be seen in the rural arrangements of agricultural credit in Costa Rica, created in 1914, and the Cooperative for the Common Good, which have been very important to validate democracy and maintain peace in my country by guaranteeing a more just social, political, and economic system. The experiences that have been presented must return us to a banking simplicity that promotes production and employment, instead of ambition and the search for monetary gains as the ultimate end of the financial system.

**Fernando Henrique Cardoso, Brazil.** I think that we have raised an issue that motivates a discussion about development and democracy. I am referring to an issue already mentioned by President Samper, with respect to the property of the poor who have no way to insure it. In Brazil, the Statute of the City has mechanisms that guarantee personal property and improve titling systems, to permit greater access to credit. The poor do not have that possibility. In Brazil there are effective programs for access to credit like PRONAF, which offers credit to rural producers with subsidies. Even though institutions that offer access to credit (CEBRAE) exist, the poorest of the poor do not access these official systems, because they do not trust them and they are afraid. They need communitarian systems that base their guarantees on mutual understanding. Simpler institutions of their own local society allow for the direct action of the poor, who organize with autonomy and solidarity. The role of development banks has also been reevaluated. In Brazil, BNDES is a development bank that has worked well for some time and is efficient. It offers three times as much credit as the Mercantile Bank, and it has been a lever of industrialization in the country. The key is that it has always been managed technically, reducing political patronage.

**Alejandro Toledo, Peru.** Commercial banking in general is very afraid to provide credit to the poor. Economically, this is understandable. They prefer to give a loan of \$300 million to a mining company instead of to a shoe-shiner. If they are not managed politically and they are efficient and work well, development banks can be useful, especially for the middle class. The problem is that the issue of the property of the poor is not resolved. Credit can be given to the extremely poor, to complement focused programs like Juntos in Peru, Bolsa Familia in Brazil, and Oportunidades in Mexico, which are survival programs and cannot last forever, because they must give way to the next phase, which is microcredit.

Poor women are the best economists on the planet they should be given the Nobel Prize. They only want a window of opportunity to take their products to the market. They are the best administrators of scarcity. If children who collect trash had the opportunity to access credit, they would escape their life-and-death situation. As Sam said in a provocative way,

prostitutes and even thieves can be targets for credit. Yesterday, Minister Patrus said that those who are already poor have a great opportunity in this crisis, because they have creative mechanisms to confront poverty. We need to create creative mechanisms for policy proposals. We must learn that the very poor will have to confront the impacts of the Wall Street debacle.

*Nicolas Ardito Barletta, Panama.* Thirty-four years ago, in Panama, General Torrijos asked me if a farmer whom we visited would be a good credit risk. I responded that he would have to calculate the value of his production and the rate at which he saved. The General said that we would need to observe the cleanliness of his house, if his children went to school, and if he fulfilled his community responsibilities. This made him a good credit risk, as with the successful microfinance experiences that we have analyzed today.

### **3.5. Improving Quality and Fairness in Latin American Education**

A main pillar of strengthening democracy and development in the 21<sup>st</sup> century's global knowledge economy is investment in the world's vast potential of human productivity. Democratic states in Latin America need to build on past accomplishments in expanding access to schooling by confronting an important new challenge: they must equalize access to quality education for the majority of pupils attending poorly staffed and poorly supplied schools. Low-quality schools cannot be expected to inculcate the problem-solving skills and self-confidence needed by Latin America's children to participate fully in their nation's economic and political institutions. Such full participation, in turn, is fundamental to developing democracy and sustaining long-term economic growth.

Most low-income children in Latin America also enter school with tremendous disadvantages. Their mothers have often had poor pre-natal nutrition and healthcare, and the children have been poorly nourished in their crucial early years. If the children come from indigenous families, the probability of being admitted to school with disadvantages is even higher. They have likely been neither exposed to reading material nor to the kinds of other experiences that would prepare them for schooling. Unless the state invests in children from the time that they are in their mother's womb, it will be difficult for them to catch up.

Unless these changes are made, Latin America's educational systems will continue to reproduce the enormous differences between rich and poor, between urban and rural populations, between different regions within countries, and between indigenous peoples and their compatriots of European descent.

Confronting inequality is not easy politically. It means building coalitions among business leaders, who would benefit from a larger consumer base expanded into what is now the lower



social classes, and social leaders who are anxious to reduce poverty and inequality, and the middle class, which feels most threatened by such changes, but whose children would actually also benefit from them by raising standards for education region-wide. The Latin American societies that can build such coalitions are those that will be most successful in building democratic institutions and sustaining long-term development in the next generation.

What do the past twenty years of educational reform in Latin America tell us about the reforms that we should emphasize in pursuing the goals of increasing fair access to equal educational opportunities, as well as student achievement? If we are to improve education and make it more equitable, what are the main reforms in which Latin American countries should invest? Does the failure to raise test scores in the region mean that nothing has changed? Or rather, should reformers have a better conception of where the reforms are taking them? Some reforms have worked, and they teach us a great deal about how we should allocate effort in the future. This Report makes several key arguments:

- The decentralization and privatization reforms of the 1980s and 1990s have not worked to improve students' educational performance; rather, they may have increased the inequality of performance among low-income and high-income students. In Chile, for example, fully subsidizing private education with vouchers has been shown to have probably increased the concentration of lower- and higher-social-class students in schools overwhelmingly attended by students of the same social class. With lower social class students concentrated in lower social class schools, peer effects and difficulty of attracting more experienced teachers to such schools probably has a negative impact on student achievement. In Argentina and Mexico, regional decentralization means that poor provinces and states are now less likely to have competent management than rich states to manage their educational systems, possibly increasing achievement gaps between poor and rich regions.
- Even if average educational performance (i.e. evaluation test scores) is not improving, the performance of some groups – namely, economically disadvantaged students – may be improving. This improvement is important, especially if it corresponds to particular reforms that can be identified as responsible for the positive change. First among these potentially responsible reforms is a major investment in early childhood nutrition, healthcare, and education.
- Certain other “supply side” strategies are also likely to lead to an eventual improvement in scholastic performance, especially for low-income students. High among these strategies is increasing school attendance of teachers and students. Student attendance may be a function of parent participation in school, and the parents' perception of a school's quality, which includes teacher attendance, school

organization, the number of mathematics and reading lessons per year, and the quality of teaching.<sup>9</sup>

- Most analysts agree that educational systems cannot make large improvements in *average* student performance without improved teaching. Improved teaching requires a combination of measures, including improving teacher attendance, recruiting more-talented and better-trained individuals into the teaching occupation, distributing the capable teachers more equitably among schools, creating a level of commitment among teachers to improving student performance, and improving teachers' content knowledge and pedagogical command of subject matter, even at the primary-school level. Based on current research, we can be quite specific about the kinds of strategies that improve teaching.
- Educational systems also cannot make large improvements without a corps of skilled school directors who know how to improve teaching, have the skills to monitor student achievement, and are good at running medium to large enterprises. Being a good school director is not simple, yet most countries provide little or no training to their thousands of school administrators.
- In many countries, the educational systems cannot achieve major improvements without solving the problem of educating indigenous individuals. This implies significant investments in increasing and improving bilingual teachers, creating curricula, textbooks, and participative programs focused specifically on improving educational quality for the indigenous population.

In the context of this new approach to educational investment, key factors concerning the opportunity to learn and teaching what reformers can focus on to improve educational quality (mainly for low-income students) are the following:

- *A major investment in early childhood.* This is probably the best investment that the state can make to improve the possibilities of low-income children in school. Many studies suggest that investing in young children, from the pre-natal health of their mothers to quality pre-schools, yields a very high social return.
- *Increasing the number of classroom hours per day and year encountered by an average student, and especially low-income and indigenous students.* Classroom

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<sup>9</sup> Marshall, Jeffery. (2003). *Build It and They Will Come*. Unpublished Ph.D. dissertation, Stanford University, School of Education.

hours have to be estimated using required hours adjusted for three factors: teacher absenteeism, student absenteeism, and loss of days to teacher strikes. The first two are difficult to measure, but are (or should be) important indicators for measuring educational reform. So should the reduction of strike days. If real hours in the classroom are increasing, it is likely that student performance will improve. In some countries or regions where absenteeism or low numbers of required hours is an important issue, increasing contact hours may be the most important objective of educational reform. As a primary school teacher in a low-income school once asked me, “How can we be expected to increase these students’ achievement levels when we only have them in class for three and a half hours per day?”

- *Equalizing the distribution of teachers (according to their education and experience) across schools with students of different socioeconomic backgrounds.* The more polarized this variable, the more unequal schools will be, and the less likely that government programs can close the achievement gap of raise low-income students.
- *Paying close attention to the salaries of teachers according to their level of education, compared to non-teachers with the same education.* Comparisons should be made within gender groups, considering men and women separately. When teachers are paid more relative to other professionals with similar levels of education, more qualified individuals can be recruited into teaching. These conditions would make curricular and other reforms aimed to raise school standards more likely to succeed.
- *Increasing the content and pedagogical expertise of young people entering the teaching profession.* The quality of pre-service teacher training is one of the biggest problems facing educational reformers. If teachers do not have a high level of understanding of math, language, and science, how are they to teach more difficult, challenging curricula in those subjects? In certain countries, this includes the best recruiting and the best bilingual teacher preparation to teach in indigenous areas.
- *Radically changing in-service teacher training.* The current teaching force has to be brought up to higher levels of content knowledge and pedagogical expertise.

In most countries of Latin America, educational managers do very little of the kind of management that is associated with efficient, well-run firms in the developing world. Whereas Latin American countries spend millions of dollars every year buying computers for students in schools, school directors may have computers but do not know how to use them. Furthermore, information systems that might be usable for school directors to better manage what is happening in their schools, and for district directors to manage what is happening in their district, are practically non-existent; and even when they do exist, few people know how to use them.

Educational-supervision systems in Latin America are almost non-existent. Where they do exist school inspectors are not sufficiently trained in instructional leadership, nor do they appear in schools often enough to be effective leaders. Their role is generally just to make sure that the schools are using the curriculum, but not to make sure that it is being used optimally.

Since most educational analysts agree that educational leadership is crucial to educational improvement, the lesson should be clear: training educational managers must be a high priority, and it should be a priority at the national level. Furthermore, educational-management training needs to be seen in the same terms as high-quality management training in the business world.

Even with all of these efforts, it is important to mention that the success of educational policies depends on the success of the macro-economic policies that increase opportunities so that the best educated young individuals are able to use their skills in the labor market, thus achieving full social and political participation. The value of education is, in great part, a function of the wide economic, political, social, and cultural expression of the individual and the national collective.

### **Policy Recommendations**

To summarize, based on what we know about how educational systems increase a society's knowledge, the Social Agenda recommends a number of ways that Latin American countries can improve how much children – particularly lower-income children – learn, and how to make education more equitable.

- Good learning outcomes begin with good pre-natal care, good early-childhood nutrition and healthcare, and good early-childhood education in quality pre-schools. Latin American governments need to target low-income groups with investments in all of these early-childhood human-capital investments. Targeting low-income students with “simple” educational changes that would help increase the opportunity to learn is among the least expensive strategies for Latin American countries to improve educational quality for lower-income students. This approach includes increasing contact time for students with teachers both through greater student and teacher attendance and through longer school days. It also entails providing free reading materials, both through book giveaways, building school libraries, and improved Internet access. Conditioned cash transfers should be given to low-income families in order to increase student attendance at school. Focusing on these “simple,” easy-to-measure objectives, educational strategies have a good chance of improving low-income students' achievement in the short-run.
- Beyond these ways to increase pupils' opportunity to learn, the principal means of improving the quality of education at each level of schooling is to raise the quality of

classroom teaching. This objective requires a major effort by Latin American countries, since it entails a radical reform of pre-service teacher education, a radical reform of in-service education, finding the right level of teacher salaries to attract bright students into teaching, and radically improving management capacity to monitor and guide instruction in the educational system. Governments should consider implementing successful programs such as the *Escuela Nueva in Colombia*, which focuses on developing well-trained teachers for rural and low-income urban schools. They should also create national and regional academies for training highly qualified school directors who can be instructional leaders. None of this is cheap, either financially or politically. Nor will it be accomplished simply through testing systems or organizational changes in educational management, such as decentralization or privatization. On the other hand, improved teacher and management quality would benefit all students in the system, not just the poor. This would help mobilize support for the reforms among middle-class families.

- By greatly increasing the number of high-quality teachers in the teaching force, Latin American governments can assure that teachers teaching in rural schools, marginal urban schools, and schools with large numbers of indigenous students will be able to deliver a high-quality education to these students. Nevertheless, governments need to implement systems of teacher allocation and rewards, complemented by rural-education support programs such as *Escuela Nueva*, and the recruitment and training of teachers who speak indigenous languages, while guaranteeing good careers for those teaching in these more challenging conditions. Governments have to assure that teacher quality is more equally distributed. Equal access to good education for all children in Latin America is indispensable for building sustainable democracy in the region.
- Policy makers should design national and regional systems for evaluating schools to make them more accountable for student learning. It is crucial to maintain and improve average achievement levels as completion rates increase at higher levels of schooling and the education system provides much greater access to those levels for underserved groups.

### **Presidents' Commentary on Improving Education in Latin America**

*Nicolas Ardito Barletta, Panama.* In Panama, 57 percent of the poor are youth. This indicates that investment in human capital is essential, especially investment in pre-school education and better nutrition for the very young. Without such early childhood investment, poor children's capacity to learn is greatly reduced, by as much as 30 percent. Another issue is that even with universal primary education, only about 60 percent of Latin America's youth attend secondary school—too few to provide the basis for a knowledge society. In addition, the administration of Latin American education is a serious problem. Often, forty

or more people answer to one manager—this is highly inefficient and contrary to modern management methods characterized by small, efficient groups. Finally, we need to have the participation of teachers in national educational efforts. Educational systems have to give teachers the incentives and the assurances that if they make a difference in achieving educational goals they will be rewarded for it. Every school should be considered an enterprise and its goal should be to produce educated young people; every school director should be a manager capable of stimulating teachers to fulfill educational objectives.

**Rodrigo Borja, Ecuador.** The current digital revolution has helped create the knowledge society, where the images, ideograms and sounds constitute the raw material of modern production. The knowledge society is dynamic, and there is a tendency for knowledge to be highly concentrated, exacerbating the concentration of physical property. An abyss can be produced between those “connected” and those “disconnected.” Our response should be to spread electronic literacy and knowledge diffusion through massive computer availability.

**Vicente Fox, Mexico.** Our goals should be to get all youth access to schooling, to improve the quality of the schooling they receive, to implement evaluation systems to track our performance, and to make the results of those evaluations public and transparent. Educational evaluation in Mexico was attacked by teachers, but it has survived these attacks—fortunately so, because it is a way to ensure accountability in the public sector. We also need to bring new possibilities for connectivity into schools—in Mexico, electronic blackboards were installed in all schools.

**Fernando de la Rúa, Argentina.** I believe that we are headed inexorably toward improving education, but we need to move quickly—the major changes introduced by the information revolution suggest that we cannot delay these improvements. Technology now allows us to reduce the cost of access to learning. Yet, we need to apply these technologies in a way that reduces inequality in the quantity and quality of educational access. I want to emphasize several points in Martin Carnoy’s presentation: the first is that education is not just a current expenditure; it is an investment. The second is that the low quality of education in the region does not simply affect the children of the poor, but also the children of the rich, because they, too, get shortchanged. Third, teachers are the principal agents in the educational process, and to recruit the best people into teaching, we need to raise salaries and improve their working conditions. Fourth, the evaluation process in education has to focus on constructively developing teacher capacities. And fifth, we need more parental involvement in schools and a greater commitment by both families and students to education. I also think that it is important to promote the culture of reading and making free books available to students in a way that the books become theirs. In my government, we pushed the reading of newspapers in schools. I support the need to do something about teacher and student absenteeism, which implies that the State itself has to have more value as an institution, and that public sector workers have to have a sense of duty and obligation and pride in what they are doing. We need to deal with the grave problem of drugs in schools. In some way we have lost the notion of educational responsibility, both in the State and in society as a whole. We need to recover

that responsibility with a historic commitment to education, not only to transmit knowledge in a more equal fashion, but to transmit democratic values, which are essential to combating violence and authoritarianism.

**Carlos Mesa, Bolivia.** The statement that decentralizing education has not worked in the region has to be studied and evaluated because not all cases are equal. Doesn't more local control give greater access to education? In the majority of cases, I think that it does, but this is an issue that merits further careful study. Another key aspect of education is its political character, reflected in teachers' unions. Often this is the major factor in the qualitative change of the system, so it is essential to figure out how to orient the unions to work for rather than against quality improvements. This is a real political, not technical, issue, and has to be confronted politically. Another key issue in countries with significant indigenous populations is intercultural and bilingual education. The choice of language of instruction is a basic definer of the educational system, which has to do with the processes of socialization and the development and preservation of these populations and their culture. In addition, we need to have a multilevel approach to education, health, and nutrition in the pre- and primary school levels, and a multilevel approach to the issue of school violence. So, to confront the main problems in education—particularly, the education of the poor—in Latin America, will take more than focusing on new technologies. We must define what we mean by the educator and the student and by the process of learning. How are we to educate the children of the 21<sup>st</sup> century with the mental outlook of the 20<sup>th</sup> century in the context of multi- or interculturalism? How do we reconcile closing the digital divide with book-based learning? These are the questions we need to answer in changing our educational systems.

**Rodrigo Carazo, Costa Rica.** We need to look for diversity, not homogeneity, in our education systems. Language is key. In Costa Rica, we have made significant efforts so that eleven small local groups speak and protect their language and culture. Another essential element in improving educational quality and respecting and promoting diversity is the attitude and teaching quality of teachers. You cannot be a teacher unless you love your students like a parent—you need to have solidarity with them. Teachers cannot be running off to do bureaucratic tasks or pursuing their own interests. So improving the quality of education depends on teachers' sense of professionalism and love of their work as much as on their capacity to teach well. To educate is not to instruct; it is living with the vocation; communication, and the transmission of values and how to confront life's challenges.

### **3.6. Food Security and Reducing Poverty**

A crucial part of poverty is hunger. Although eliminating hunger does not eliminate poverty, it goes a long way towards reducing poverty's negative impact on productivity and

its intergenerational effects. A well-thought-out food-security policy is the main element of a strategy to assure that all members of a society have access to adequate food.

In the past four decades, Latin America has gone through three stages of defining and implementing food-security policies:

- In the 1970s, high oil prices and the concomitant rise in food prices and worldwide instability in food production led to a focus on resolving the food *availability* problem; that is, resolving *chronic* food insecurity.
- From the mid-1980s until the beginning of the 2000s, the food-security approach shifted from a focus on supply to a focus on demand, specifically in improving access to food for certain groups of families and individuals. New notions, such as the right to food and the vulnerability of access to food due to economic change (*transitory* food insecurity) begin to emerge.
- In the 21<sup>st</sup> century, given a major increase in overall food supplies in Latin America, the focus has shifted to reducing food uncertainty and vulnerability for certain groups.

The emphasis on expanding the food supply in Latin America in the 1950s, 1960s, and 1970s led to national policies that promoted food production, such as production subsidies, adopting high-yield staple product seeds (maize, for example), and holding down consumer food prices. With the financial crisis of the 1980s—the “lost decade” of Latin American development—and the shift to neo-liberal reforms characterized by market deregulation, state agricultural interventions were dismantled. The results of these reforms varied among Latin American countries, but in general, they led to greater economic stability, an increase in exports, but more poverty and greater inequality. Agricultural-export growth had a negative impact on small producers, and it increased rural poverty. Simultaneously, non-agricultural activities increased in rural areas, and international agencies put more emphasis on broader sustainable rural development through these non-agricultural activities.

Latin America’s food production expanded significantly from the 1990s to the early 2000s, as reflected in following tables (Tables 3 and 4): **Table 3. *Latin America and the Caribbean: Selected Indicators of Economic Development and Agriculture Production, 1990-92 to 2004-06***

<b>Indicator</b>	<b>1990-92</b>	<b>2000-02</b>	<b>2004-06</b>
GDP per capita (US\$ 2000)	3,427	3,871	4,169
GDP growth per capita (annual %)	1.04	-0.19	4.10
Growth of exports of goods and services (annual %)	6.65	4.37	9.27
Rural population (% of total)	28.54	24.26	22.66



Aggregate value of agriculture (% of GDP)	8.54	6.43	6.64
Growth of aggregate value of agriculture (annual %)	1.41	2.38	3.24
Aggregate value of agriculture per worker (US \$2000)	2,151	2,729	3,107
Growth of aggregate value of agriculture per worker (annual %)	1.67	2.90	3.31
Growth in yield per hectare of cereals (annual %)	5.04	1.13	1.47
Food production index (1999/2001=1)	74.4	102.8	113.8
Growth in food production (annual %)	2.7	2.8	1.9
Food exports (% of total commodity exports)	21	17	16
Growth of food exports (annual %)	-0.43	2.79	4.39

Source: World Bank (2008). *World Development Indicators*

**Table 4. Food Energy Supply, by Region of the World (kilocalories/person/day)**

Region	1990-92	2002-04	Change (%)	Annual Growth (%)
World	2640	2810	6.44	0.52
Developing Countries	2530	2670	5.53	0.45
Latin America and the Caribbean	2700	2880	6.67	0.54
Mexico	3100	3170	2.26	0.19
Central America	2390	2380	-0.42	-0.03
Caribbean	2350	2650	12.77	1.01
South America	2660	2870	7.89	0.64

Source: Food and Agricultural Organization (2008). FAOSTAT.

Indeed, with the average daily requirement of 2,200 kilocalories, with the exception of Haiti, the region has a surplus of food energy. And except for Central America, that surplus has been increasing in the 1990s. That said, the population of the Central American countries is still just above the minimum daily nourishment requirement, and the proportion of its population that is undernourished increased from 17 percent to 19 percent in the 12 years, 1990-92 to 2002-04, while the proportion of those undernourished in South America fell from 14 to 9 percent.

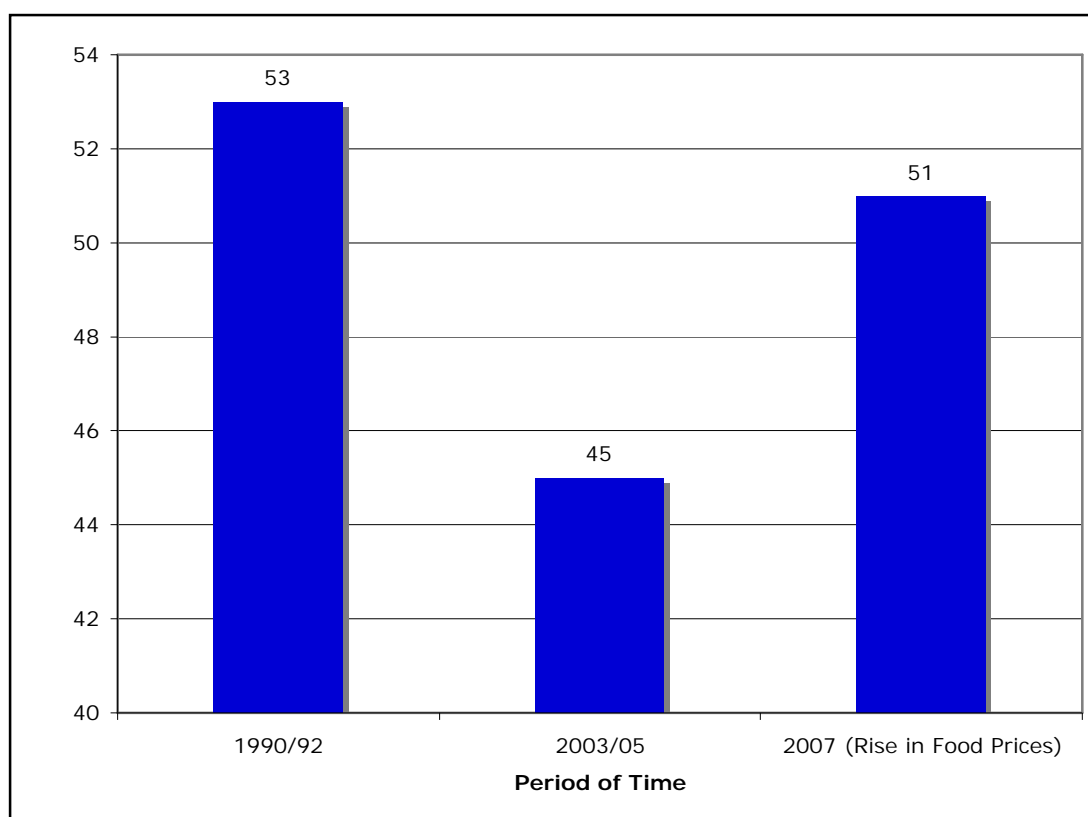
Nevertheless, some countries in South America continue to have very high levels of child malnutrition, with Ecuador, Bolivia, and Peru (the countries with the largest indigenous populations) having a child-on attrition level of almost 30 percent in the early 2000s (CEPAL, 2008). And, as Figure 4 shows, increasing prices of food in just two years (2005-2007) caused malnutrition to rise again, largely offsetting the gains made from increasing food production in the 1990s. The prices that rose most were those of staple goods—wheat, rice, vegetable oil, and milk. Thus, the price increases hit the poor hardest and had a negative

impact on income distribution.

Thus, with the overall food supply nearly solved, attention turned to developing food-security strategies that focus on the most vulnerable populations in the region. Eliminating hunger has become a priority. Brazil's zero-hunger strategy motivates several other countries of the region to adopt similar strategies. Some countries (Argentina, Brazil, Ecuador, Guatemala, and Venezuela) have passed laws regarding food security.

**Figure 4. Malnourished Population in Latin America and the Caribbean 1990-2007**

FAO (2009). FAOSTAT. <http://faostat.fao.org/site/562/default.aspx>. United Nations (2009).



*Millennium Development Goals Report.*

[http://www.un.org/millenniumgoals/pdf/MDG\\_Report\\_2009\\_ENG.pdf](http://www.un.org/millenniumgoals/pdf/MDG_Report_2009_ENG.pdf).

Although most Latin American countries—Brazil is a notable exception—have not taken coordinated action under the specific title of “food security,” considerable action is taking place in the region as part of diverse policy areas, namely (a) small agriculture and rural development; (b) social and food welfare; (c) nutritional health assistance; and (d) education and training on food and nutrition.

The support of small farmers and rural development has a long history in Latin America. These programs may have governments buying agricultural products from small farmers for use in school nutrition programs, the transfer of agricultural technology, training, investment

subsidies, etc. The purpose is to simultaneously produce more and better farming, improve the market for agricultural products, and increase the cash income of the productive unit. In addition, many programs in poor rural areas attempt to increase the income of rural families from non-farm activities by giving credits for investing in such activities or providing training.

Social and food-welfare programs consist of conditioned income transfers (discussed in a separate section) and programs that provide direct access to food, such as the Food for Schools Program. The Food for Schools Program covers about 60 percent of Latin American children in school, providing breakfast or a midday snack. In many cases, this constitutes the only meal that children eat daily. Even so, the Program does not reduce malnutrition for pre-school children. Other programs provide food for adults through Popular Restaurants, Social Restaurants, and other food-delivery and food-services programs.

Nutritional health-assistance programs focus primarily on expectant mothers and mothers of very young children, working to cover nutritional deficiencies in low-income women and their infants. These programs are spreading: in 2000, provision of additional nourishment to mothers and infants reached only 25 percent of children under three months old, and by 2008, the figure was 38 percent. Such programs exist mainly in El Salvador, Guatemala, Nicaragua, Bolivia, Brazil, and Chile, and they consist mainly of distributing fortified food products to target populations.

Education and training in food and nutrition supports groups that face particularly high risks of being undernourished and who will reap particularly high benefits of being well-nourished—mainly low-income school children, nursing mothers and their young children, and other adults who suffer high chronic or temporary food insecurity. Most of such programs are implemented as part of primary health activities or activities that offer adult education. Included in this category of programs are school curricula that teach students about food and nutrition. Although these are fairly rare in Latin America, they are gradually being introduced.

To summarize, the main problem of food security in today's Latin America is one of assuring that low-income Latin Americans receive adequate nutrition, and that programs aimed at increasing the incomes of the region's poor farmers are integrated with conditional income transfer programs and programs that distribute food to groups that are most likely to suffer malnutrition and for whom better nutrition can make a major difference – namely, young children, school children, and expectant mothers.

### **Policy Recommendations:**

- Expand programs that buy foodstuffs from small farmers for use in nutrition programs, and that provide farmers with training, investment subsidies, and technology to increase production. This policy's purpose is simultaneously to produce more and better farming, to improve the market for agricultural products, and to increase the cash income of the productive unit.
- Support conditional cash transfers that can be used by very poor families to buy food.
- Implement curricula and programs in schools for adults that teach about healthy eating and nutrition. Target groups that face particularly high risks of being undernourished, and that will reap particularly high benefits from adequate nutrition (mainly low-income school children, nursing mothers and their young children, and other adults who suffer high chronic or temporary food insecurity).

### **The Presidents' Commentary on Food Security and Poverty.**

*Ernesto Samper, Colombia.* As the presentation suggests, we need to distinguish the impact on poverty and nutrition of the lack of food availability and of rising food prices, putting food staples out of reach for the poor. In this debate, an unresolved issue is the possible displacement of food production by the use of food products for biofuels. For example, casaba is the staple food of the Amazon population in Colombia, and its price has risen rapidly because of its demand for biofuels. Similarly, corn demand for U.S. biofuels has driven up tortilla prices in Mexico. Petroleum price increases have also pushed up agricultural input prices, and oil prices, and many agricultural product prices are driven up in part because of futures speculation. So, the paradox is that the region is producing much more food and exporting it, but at the same time, we are buying our food at much higher prices. We also have to realize that global warming, and the resulting increase in droughts and floods, will have a greater impact on the poor, who are more vulnerable to such disasters. In addition, agricultural subsidies in the United States and Europe continue to distort world agriculture, and the Doha Round of negotiations has failed to change the situation. Latin American countries need to restart the dialogue with the European Union on agricultural subsidies, adding the migration issue.

*Rodrigo Carazo, Costa Rica.* A serious problem for food security in Costa Rica is the availability and the price of seeds. The free-trade accord signed by my country prioritized the use of patented imported seeds instead of nationally produced ones. This has limited the availability of agricultural inputs and reduced the local supply of food. We also need to promote crop diversity in peasant agriculture. This would leave small farmers much less vulnerable to higher food prices.

*Fernando de la Rúa, Argentina.* We have to prioritize infant nutrition as part of food-security politics. This investment has positive implications for the reduction of poverty and

on the future of education and health in our societies. The export of agricultural products generally does not affect domestic prices. But when exports are taxed as in Argentina, this raises costs for agricultural producers and reduces the domestic production of foodstuffs. Furthermore, the patents on new, better seeds are generating unacceptable distortions, by permitting the big enterprises that produce genetically altered seeds to appropriate the profits that are generated in other parts of the food-production chain.

**Carlos Mesa, Bolivia.** I want to acknowledge the support of this meeting by the Andean Development Corporation and the National Endowment for Democracy. The debate between representatives of the private sector, academics, and civil society is very productive for finding alternatives that overcome the polarized positions of State versus markets, or neo-liberalism versus statism (social democracy?).

Patents on higher yield seeds are a major issue between the Andean countries and Europe. Genetically transformed seeds have increased soybean production in Bolivia even though they are being used illegally. This is my country's response to the indiscriminant use of such seeds in Brazil, since it is impossible for Bolivia to compete using traditional inputs.

**Vicente Fox, Mexico.** Mexico has signed a free-trade accord with the United States and Canada that has proven to be very beneficial to Mexico. Even if agricultural subsidies in the United States and Europe hurt our agricultural production and reduce the income of domestic producers, they lower the price and quality of imported foodstuffs for local consumers. We can't always benefit everyone. However, we do need to reduce our dependence on imported food, and to improve the quality and security of domestic food production.

**Nicolas Ardito Barletta, Panama.** We have been discussing medium-term strategies and priorities that need to start now. To develop these strategies, we need to analyze problems of both supply and demand, because they have rather specific characteristics. On the supply side, China and Australia have had smaller harvests, and this has put upward pressure on world prices of food commodities. However, this situation is changing, and prices are slowly falling. It is true that Chinese and Indian demand for food is rising, but it is possible that world supply may increase, reducing the upward pressure on prices in the medium run. The best way to assure this is to increase technological innovation in agriculture and increase local supply of agricultural inputs. We need policies that increase organic agricultural inputs to lower the impact of rising costs of petrochemical-based fertilizers. The agricultural output among low-income subsistence farm families (who are most likely to be malnourished) needs to be improved through technological innovations, but we also need to provide them with education to improve their choice and use of food.

On the demand side, the central problem is low income and underemployment among the poor. Poverty can be reduced through education, health and providing more opportunities for work. Subsidies are needed to improve children's nutrition, but cannot solve general adult

poverty. Conditioned cash transfers are new and successful, and have positive results in rural areas because they improve incomes and the nutrition, education, and health practices of the most vulnerable parts of the population, but they do not replace programs that raise production and increase employment.

### **3.7. Healthcare and Nutrition in the Fight Against Poverty**

Like education, healthcare is a key investment in a nation's human capital. It is difficult to imagine a productive society that is not a healthy society, and it is difficult to imagine undernourished, sick children able to realize their full potential in acquiring the knowledge and skills needed to be fully functioning members of 21<sup>st</sup>-century societies.

Latin America has made great progress in improving access to healthcare, and in reducing the most common indicators of poor health. However, the region still has a considerable distance to go in providing adequate healthcare to the poor and in assuring that malnutrition is eradicated.

Many of the biggest killers in Latin America are diseases of the poor. About 300,000 Latin Americans died of infections and parasitic diseases, the third largest cause of death in the regions after heart disease and cancer in the early 2000s. The data on death from tuberculosis is telling: although tuberculosis is on the decline in almost all of the region's countries, in some it is still a major cause of death (see Figure 5). Countries such as Bolivia, Ecuador, Peru, and Guatemala, which have large indigenous populations that are among the most excluded of the poor, still suffer high rates of death from this usually treatable and preventable disease.

Child mortality rates (deaths of children less than five years old, per one thousand children born) are also an important indicator of the quality of a country's healthcare and nutrition system. Figure 6 show that a number of countries in the region had a child death rate in 2005 of about 2 and even 3 percent of live births. Bolivia's child death rate is 6 percent of live births. Cuba's is 0.7 percent, close to Spanish and Portuguese levels of 0.4 percent.

The basis for much of the disease among the poor in Latin America is malnutrition and the lack of preventive healthcare. Malnutrition, particularly as it manifests itself in children's underweight, growth delay, and anemia, constitutes a major public-health problem and is a reflection of the poverty, hunger, and inequality suffered by millions in the region. At a global level, it is estimated that child malnutrition and less-than-optimal maternal breast-feeding are responsible for 35 percent of deaths among children under 5 years of age.

Figure 7 shows how the main indicators of child malnutrition—the percent of children five years old or less who are underweight (from acute malnutrition) and under-height (from chronic malnutrition)—vary across Latin American countries. Acute malnutrition varies between low levels in a number of countries to much higher levels in most of Central America and in Bolivia, Ecuador, and Peru. Children’s growth delays, characteristic of chronic malnutrition, varied in 2006 between 1% (Chile), 4% (Costa Rica and Cuba), and 49% (Guatemala).

Evidence suggests that the main cause of malnutrition is poverty. There is a significant relation between gross domestic product and both acute and chronic child malnutrition. But the comparisons between countries hide variation within each country. Chronic malnutrition is already a high 20%, 22%, and 20% among non-indigenous children less than 5 years old in Bolivia, Ecuador, and Peru, respectively. Yet, this figure increases to 40%, 50%, and 45% among indigenous children in those same countries. In Peru, the Demography and Health Surveys from 1992 to 2006 show that the growth-delay percentages in rural areas are double those in urban areas.

The malnutrition associated with poverty helps reproduce poverty from generation to generation and has a high social and economic cost. Poor families are more likely to have children with nutritional deficiencies, which are associated not only with a higher risk of getting sick or dying early, but also to limitations in motor, cognitive, and socio-emotional skills. These limitations lead to learning difficulties during school and more likely drop-out from the educational system. This, in turn, seriously compromises access to decent-paying jobs. Further, there is a relation between early malnutrition and increased risk of chronic illness in the adults (diabetes, hyper-tension, arteriosclerosis and heart disease). This has an economic and social impact, not only for individual families, but also for society as a whole.

### ***What can be done to improve the health of the poor?***

The greatest challenge for Latin America in improving healthcare is to achieve *universal* access to basic health services. The greatest impediment to achieving this goal is the recurrent shortage of resources that are nationally budgeted for healthcare. New financing sources need to be found for healthcare provision. Some of these resources should come from more effective tax collection and more equitable fiscal policies.

Countries also need to cooperate horizontally to share successful health policies and practices through a formal regional institution, such as a Regional Center for Public Health Policies. Currently, international cooperation in health focuses mainly on profit-making projects; this focus needs to change. Health policy provides an extraordinary opportunity for creating trust among countries, and to achieve results through mutual collaboration. Ministries of education should work together to resolve the health threats posed by infectious diseases such as tuberculosis, HIV-AIDS, and parasitic diseases. They should also enlist the major pharmaceutical companies in this effort.

Improving health significantly in the region also means targeting the poor—particularly pregnant and lactating mothers and children under three—with nutrition programs, improving sanitation and access to clean water, and measures that prevent and treat the most common diseases.

To combat child malnutrition, governments need to launch long-term policies that focus on a number of simultaneous long-term actions:

- Promote breastfeeding exclusively—avoiding powdered and canned substitutes—until 6 months of age.
- Maintain and improve programs for the fortification of foods with micronutrients.
- Provide food supplements to pregnant and lactating women, as well as for infants and preschool children.
- Use cash-transfer programs for the poor that are conditioned on participating in primary healthcare and education services, community work, and education programs aimed specifically at promoting better consumption and nutrition practices, based on tradition and local products (see section on CCTs).
- Improve emergency food-assistance systems for conflicts and natural disasters, with more direct support for children and their mothers.

In addition to these policies, steps need to be taken to greatly increase food security among the poor. These measures are discussed in the next section.

Beyond reducing child malnutrition, improving the healthcare system to increase access for the poor is also crucial to halting the reproduction of poverty and ensuring for all Latin American's full economic and social participation.

Two countries in the region—Chile and Cuba—have been particularly successful in reducing child malnutrition and increasing the quality of healthcare. While their approaches differ, both countries share a commitment to providing decent healthcare to the poorest members of their societies. Significantly, 6 percent or more of gross domestic product goes to healthcare in both countries; however, Cuba's per-capita GDP is more than one-third lower than Chile's.

Chile uses a combination of public and private health insurance and clinics/providers. Those with low income are served by public hospitals and clinics. Better-off Chileans opt for private insurance (*Isapres*) and generally use private clinics accepting this insurance. This



led to unequal healthcare, and in 2002-2004, President Lagos's government reformed the system, creating a new minimum-care plan that guarantees free or low-cost treatment for 56 medical problems that account for three-quarters of the years of life lost due to death or disability. Both private and public systems are required to offer this plan, which is paid for by public subsidies. In addition, the Chilean government has stepped up its efforts to improve nutrition and other interventions with low-income mothers and young children, including day care and pre-school for children of working mothers. These efforts have been successful in raising all major health indicators to among the highest levels in Latin America. Chile has accomplished this with only 1.3 professional health personnel and 2.3 hospital beds per 1,000 members of the population, which, for Chile's level of economic development, is relatively low.

Cuba has a universal public healthcare system that emphasizes preventive care and community-based medicine. The system is specifically organized to reach every Cuban with a combination of education and interventions that reduce demand for hospital services. These include regular examinations, public-health actions against common diseases, and, despite a shortage of foodstuffs, adequate provision of nutrition to the population, particularly to children. Cuba has the highest number of doctors (6.3) and most hospital beds (6.2) per 1,000 people, and spends the highest percent of GDP on healthcare in Latin America. The principles of the Cuban system are a good guide for other countries wanting to improve the health of their low-income populations<sup>10</sup>:

- Principle 1: Healthcare is universal.
- Principle 2: Healthcare is accessible: geographic accessibility—healthcare services should be located where the people live; legal accessibility—social attributes are not a barrier to care; cultural accessibility—even the poorest Cubans are educated to believe in science and medicine as the solution to their healthcare problems.
- Principle 3: Healthcare is comprehensive and preventative. This means that the whole population is encouraged (and essentially required, in Cuba) to undergo regular checkups and screenings for common illnesses.
- Principle 4: Healthcare must be planned and organized. The population's health situation needs to be analyzed, and strategies developed and implemented to meet its needs.

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<sup>10</sup> Cristina Perez (2008). *Caring for them from Birth to Death: The Practice of Community-Based Cuban Medicine*. Lanham, MD: Lexington Books.

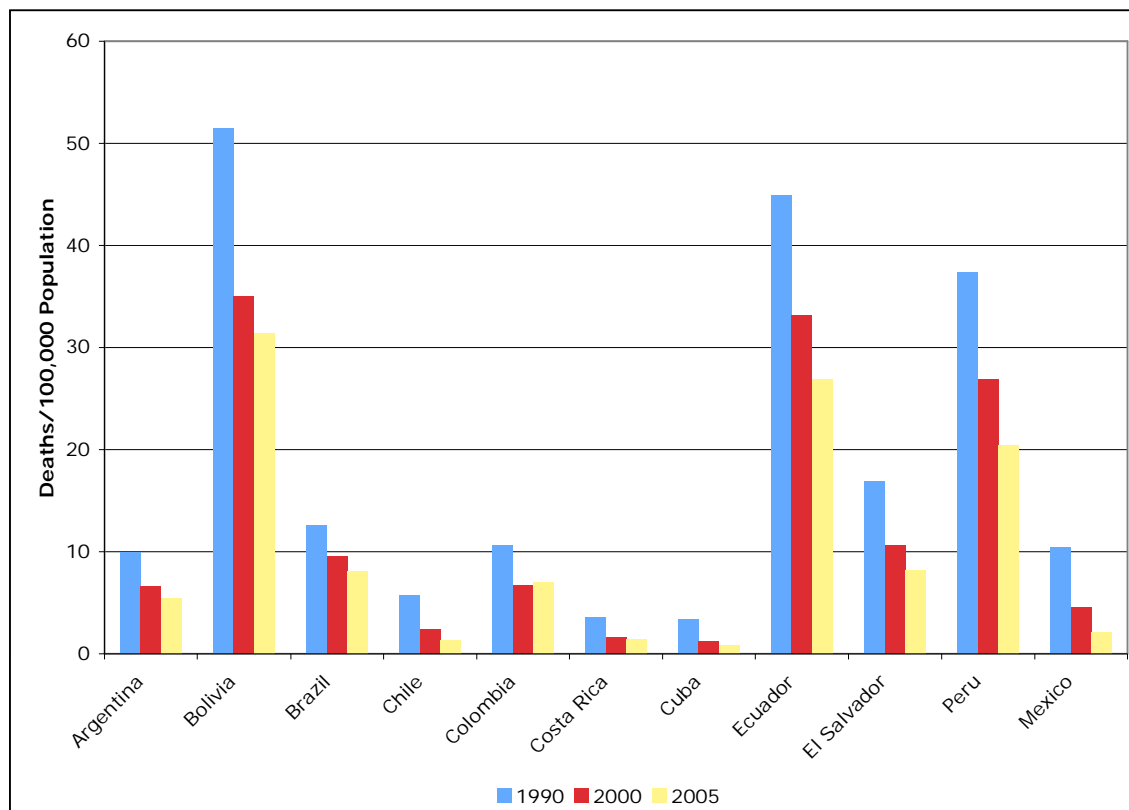
- Principle 5: Health strategies and implementation require the active participation of the community, including community organizations mobilized around healthcare issues.

Thus, governments can act to reduce malnutrition and disease among the poor and help break the cycle of poverty, but to do so requires planning, organization, and long-term commitment. They need to produce more doctors and healthcare workers, bring health services to poor rural areas and to indigenous peoples, and focus on reaching pregnant mothers and young children with better nutrition and early preventative interventions.

### **Policy Recommendations**

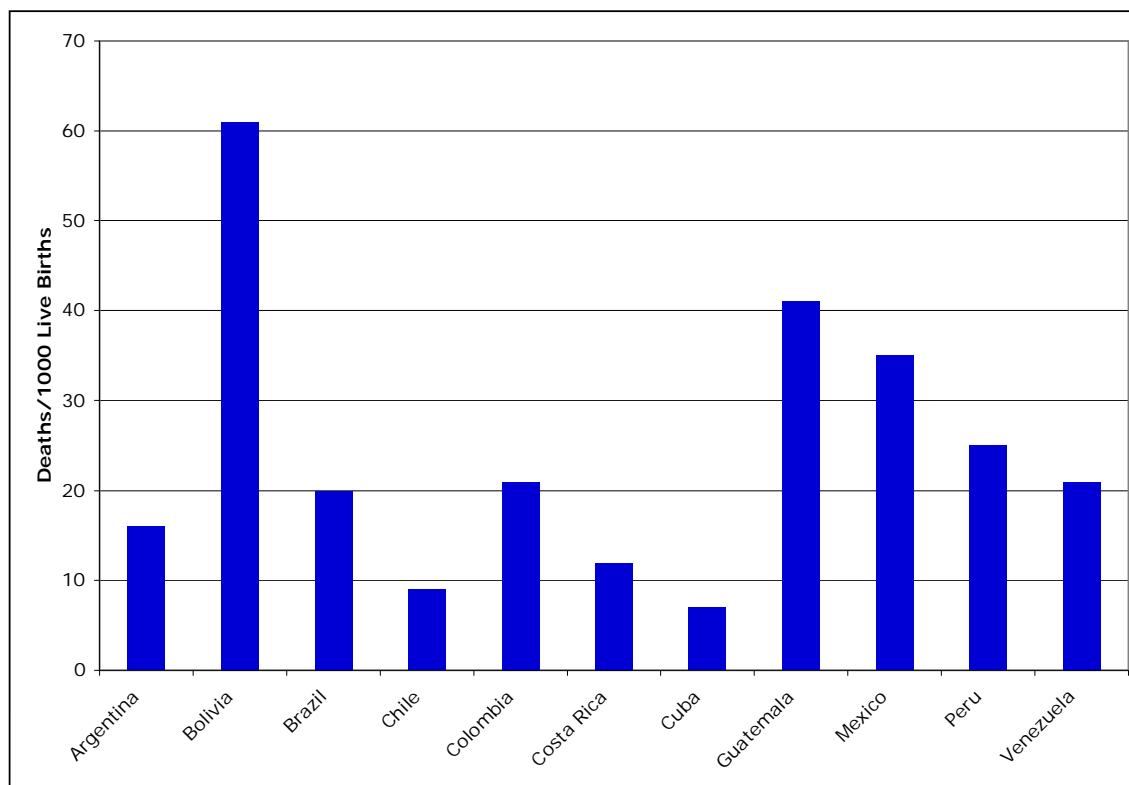
- Provide universal access to health services.
- Expand the prevention and treatment of tuberculosis, parasitic diseases, and infection in low-income populations.
- Participate in creating a Latin American Regional Center for Public Health Policies, and cooperate with other countries through that Center to share successful health policies and practices.
- Promote breastfeeding exclusively, avoiding powdered and canned substitutes, until 6 months of age.
- Provide nutritionally fortified foods to pregnant and lactating women, as well as for infants and preschool children, and maintain and improve programs for the fortification of foods with micronutrients.
- Improve emergency food-assistance systems for conflicts and natural disasters, with more direct support for children and their mothers.
- Reduce managerial inefficiencies within the healthcare system.

**Figure 5. Latin America: Tuberculosis Deaths per 100,000 Population, by Country, 1990-2005.**



Source: UNDATA (n.d.). <http://data.un.org/Data.aspx?d=MDG&f=seriesRowID%3A647>

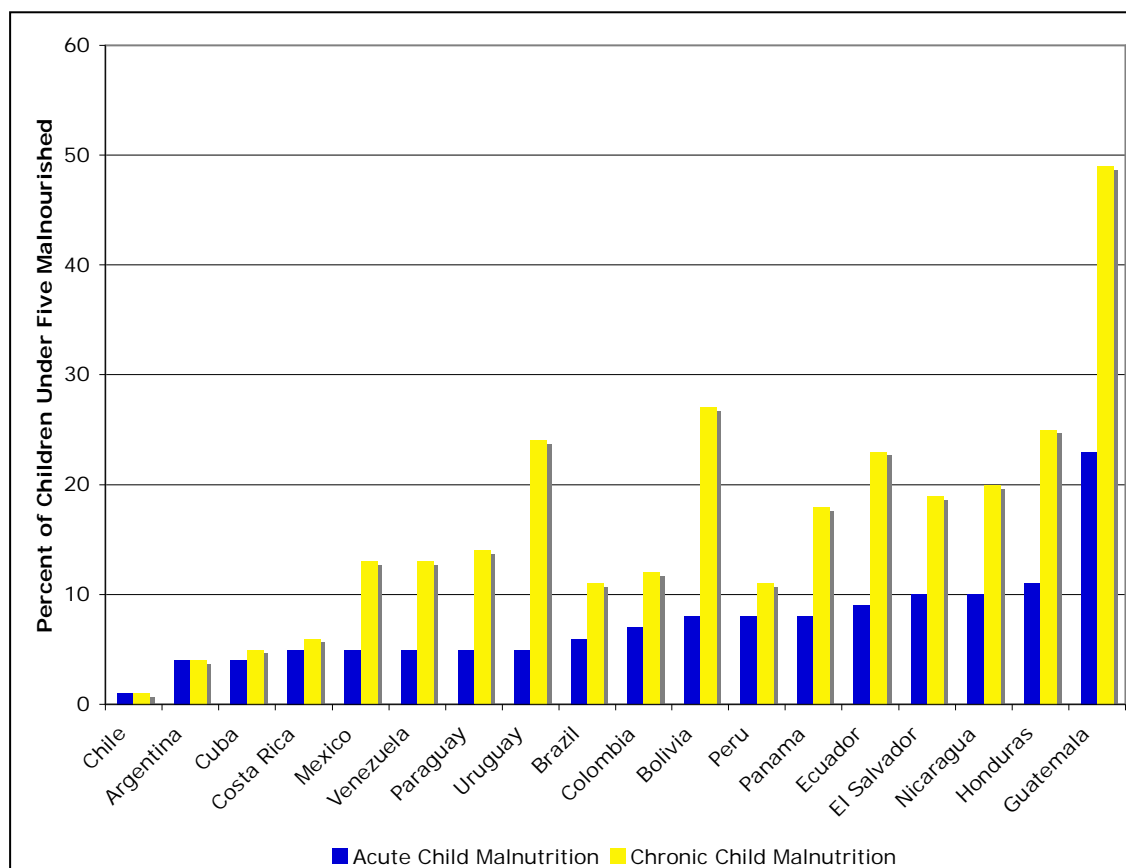
**Figure 6. Latin America: Deaths of Children under Five Years-old per 1,000 Live Births,**



**by Country, 2006.**

Source: World Bank (n.d.). *World Development Indicators*. Washington, DC: World Bank.

**Figure 6. Latin America: Acute Child Malnutrition (Children under Five Who Are Underweight) and Chronic Child Malnutrition (Children under Five Who Are Under Height), 2006 (percent)**



Source: Economic Commission for Latin America and the Caribbean (2008). *Statistics Yearbook for Latin America and the Caribbean 2008*. Santiago, Chile: ECLAC, Table 14.1.

### 3.8 Democracy and Decent Work

“What is decent work? It is work that gives people the opportunity to earn enough for themselves and their families to escape poverty, not just temporarily but permanently... The concept is not limited to the income component. A decent job provides social security and ensures protection by labor laws, and a voice at work through freely chosen workers’ organizations. It gives the job a human face and makes sure that people can work in dignity and freedom.”<sup>11</sup> Labor markets in Latin America are characterized by more limited formal

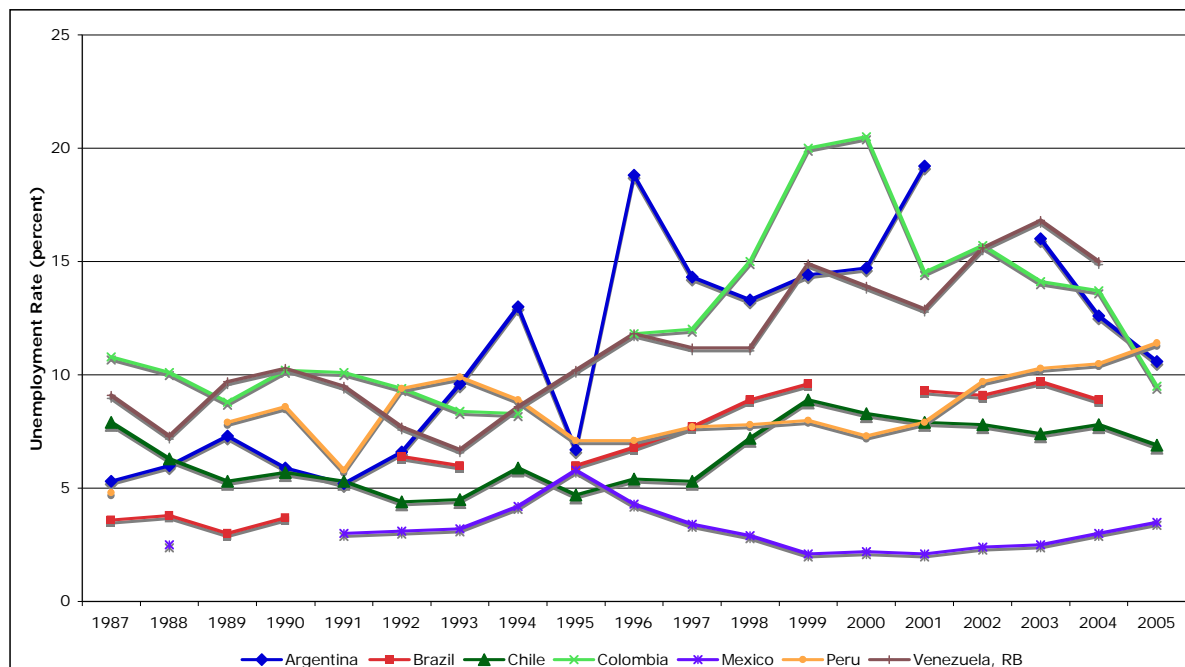
<sup>11</sup> International Labor Office, *Key Indicators of the Labour Market*, Fifth Edition. Geneva: ILO, 2007, Chapter 1, p. 4.

employment opportunities than in developed countries, relatively low salaries, frequently poor working conditions, and the lack of labor-market institutions to organize constructive dialogue around labor-market issues. Since most people in the world today hold governments responsible for economic and social progress, these factors tend to undermine Latin Americans' faith in democracy as a political system that will improve their quality of life.

Of the 262 million economically active Latin Americans in 2007, about one-third worked in the informal labor market, and another 6-7 percent were unemployed. Thus, only about 60 percent of Latin Americans were employed for wages on a part-time or full-time basis. Much of the informal labor market offers relatively low-income work, and many formal sector employees may work as informal workers during economic downturns because many Latin American countries have no unemployment insurance. Effectively, employment in the lower tiers of the informal labor market and being unemployed from a low-income job both translate into poverty. Thus, work in the formal and informal labor market is governed in part by economic cycles—a part of the work force moves in and out of formal employment, depending on the availability of jobs, and the wages net of taxes in the formal sector (since income is not usually taxed in informal markets).

Figure 8 shows the official unemployment rates by Latin American country over the past 20 years. They vary from very high and rising rates up to the early 2000s in Colombia, Argentina, Uruguay, and Venezuela, to low and falling rates in Bolivia and Mexico. But many of these differences are the result of how unemployment is reported. For example, since Mexico does not pay unemployment insurance, there is little reason for Mexicans who are unemployed to report that they have lost their jobs. Instead, they swell the ranks of those who work at the lower tier of the informal labor market.

Figure 8. Latin America: Unemployment Rate, by Country, 1987-2005 (percent)



Source: World Bank (n.d.). *World Bank Indicators*. Washington, DC: World Bank.

Nevertheless, the movement of unemployment rates over time within a country does measure changes in labor market conditions. Almost all countries had lower unemployment after 2002, when Latin American economies began to attain higher rates of economic growth. Overall, unemployment rates in the region rose from 5.5 percent in the late 1980s to 6.5 percent in the mid-1990s, to 9.5 percent in 1999 as commodity prices fell in global markets (World Bank Indicators, 2008). With rising commodity prices after 2004, the unemployment rate began to drop sharply. This drop suggests that Latin American unemployment, as elsewhere, depends on economic growth rates, and growth rates in many Latin American countries still depend heavily on world commodity prices.

Although 8-9 percent of reported unemployment rates are an important problem, the issue of decent work goes far beyond reducing unemployment rates. Currently, a high fraction of Latin Americans who are employed or self-employed work for low wages or have low incomes. Sustained economic growth over a generation is essential for improving average earnings, but other factors need to be changed for wages to rise with growth.

Wages in the formal sector have tended to remain low in Latin America for several reasons in addition to the relatively low rate of economic growth over much of the past 25 years: (1) rapid population growth that only began to abate in the 1980s; (2) a significant

fraction of the labor force in the informal labor market acts as a reserve army of underemployed; (3) a rapid increase since the 1980s in the labor-force participation of women at much lower wages than men (see section on Gender and Poverty, below); and (3) weakened labor organizations as Latin America transitioned from protected industrialization to free-market competition in the global economy.

Thus, population growth needs to continue to fall, the reservation wage (the lowest wage at which individuals are willing to work) of those in informal labor markets has to be pushed up through policies that improve the earnings capacity of the marginally self-employed, wage discrimination against women needs to be reduced sharply, and a strong, forward-looking labor movement, suited to the conditions of the 21<sup>st</sup> century global economy, needs to emerge in the region.

Generating more income for the urban self-employed requires a rather different strategy than generating decent jobs in the formal labor market. There have been a number of studies of informal labor markets in Latin America, and they suggest that at least for the higher tiers of this labor market a significant constraint in generating more income is a lack of credit. The informal labor market is large (Figure 9). More credit could provide increased income and possibly the expansion of employment to include non-family members. Of course, one of the main issues for Latin American governments in helping to expand informal labor markets is whether to tax these small business people—that is, to “formalize” them. To what degree would taxing this income constrain further expansion?

Many of the poorest Latin Americans live in rural areas and are self-employed as subsistence farmers. In the Andean countries and Central America, a high fraction of rural subsistence farmers are indigenous peoples. The rural self-employed population also works part-time or seasonally as low-paid labor, either in industrial agriculture, construction, or informal labor markets in nearby towns and cities. This rural, but also part-time urban, workforce could be helped economically with a sustained effort to improve rural life in Latin America. The section on *Food Security* discussed some of the policy measures that could increase the incomes of these small farmers. Other sections on potable water, improved sanitation, greater access to energy and micro-credit provide other policy recommendations that would also contribute to the capacity of rural farmers (through improved healthcare and access to energy and capital) to increase productivity and income.

Many of the poor are also women. An important need related to the generation of decent work for women is a government effort that reduces discrimination against women in labor markets. Much progress has already been made on this issue in Latin America, but more is required. Women represent 40 percent of the region’s economically active population, and in some countries they have higher levels of education than men, but earn only 70 percent compared to men of similar age and schooling. In informal labor markets, women play a significant role, but tend to have less access to capital than men (Weddle Ricalde, 2008).



Thus, reducing gender-based earnings discrimination and gender discrimination in access to capital for small-business (informal-labor-market) investment is part and parcel of assuring that the most capable individuals get to work in jobs in which they can maximize their productivity.

One of the most difficult elements in the decent work discussion is how to deal with working children. When children work, they not only earn very low wages, but they are unlikely to attend school every day; if they do, they are likely not to do as well as when they do not have to work.<sup>12</sup> However, poor families often rely on their children's income to survive. In order to reduce children's labor it is therefore necessary to improve the family's financial conditions and to increase the incentive to send children to school. Figure 10 shows the extent of child labor in Latin America. Boys between 7-14 years old are much more likely to work than girls, at least in the wage labor force. Countries with large indigenous populations, such as Bolivia, Peru, Guatemala, and Paraguay, have a much higher fraction of children working. Conditional income transfers should reduce the incentive for families to withhold their children from school to send them to earn money. This decreases child labor, and it also gives an incentive for families to have their children continue on to higher levels of schooling, and therefore have access to better jobs.

With declining population growth rates and the expectation that women's labor force participation growth should top-out in the next 15-20 years (provided that government policies overcome gender barriers in labor markets), labor supply in the region should begin stabilizing relatively soon. Sustaining economic growth in conditions of limited labor-force growth means that governments need to be emphasizing policies now that could help raise labor productivity significantly in the next decade. These include:

- Policies that contribute to raising average levels of education among less-educated groups in the region—marginal urban, rural, and indigenous.
- Policies that increase the quality of education across all groups.
- Policies that use conditional income transfers to improve pupils' school attendance and preventive health measures in low-income populations.
- Policies that make micro-credit available for investment in small, self-owned urban businesses, local energy production, and improved and sustainable food production.
- Policies that improve the quality of labor relations in workplaces with the goal of increasing worker productivity, job mobility, working conditions, and wages.

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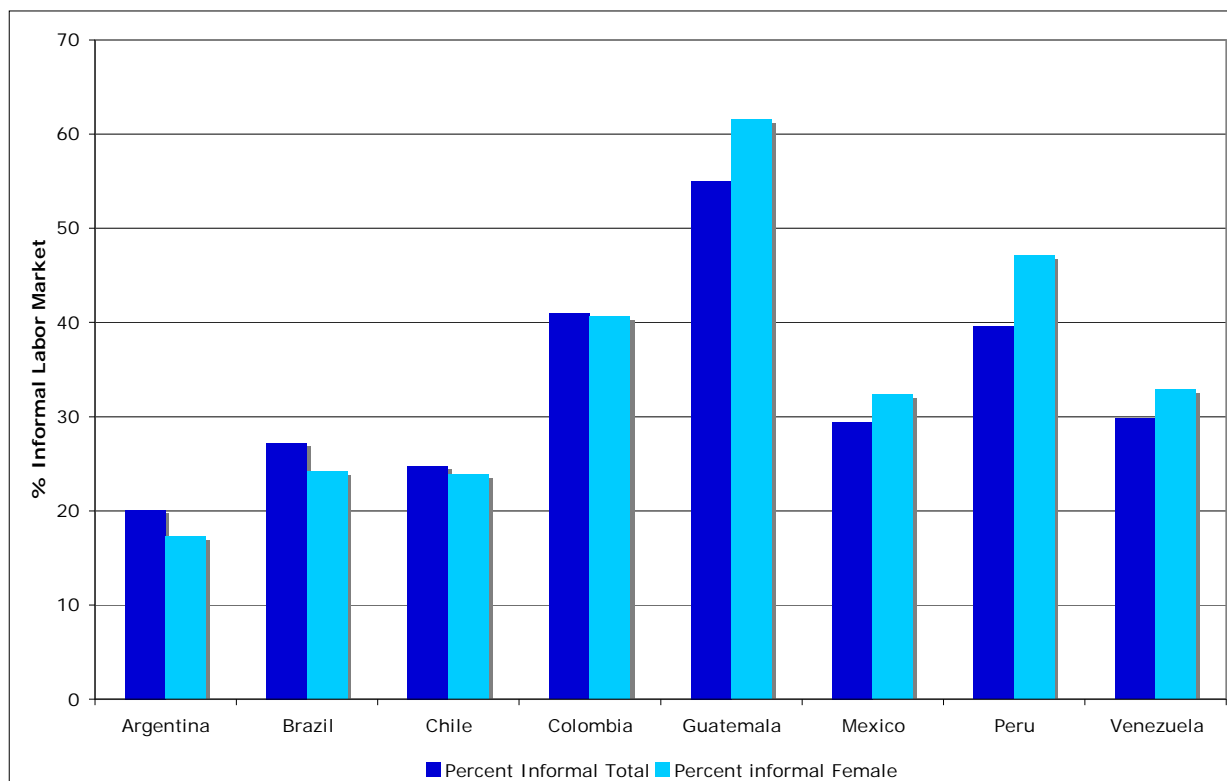
<sup>12</sup> There is some counter evidence for this assertion when schools are organized around children's work schedules (see Pamela Sud (2008). "Can Non-formal Education Keep Working Children in School: A Case Study from Punjab, India." Unpublished Honors Thesis, Stanford University). However, this is rarely the case.

Finally, it is worth noting that developed-country labor unions are pressuring for fair labor practices in Latin America as an integral part of free-trade agreements. Latin American governments can use this pressure to make constructive improvements in their country's work places, including the conditions of work and pay—improvements that increase productivity as well as costs.

**Policy Recommendations:**

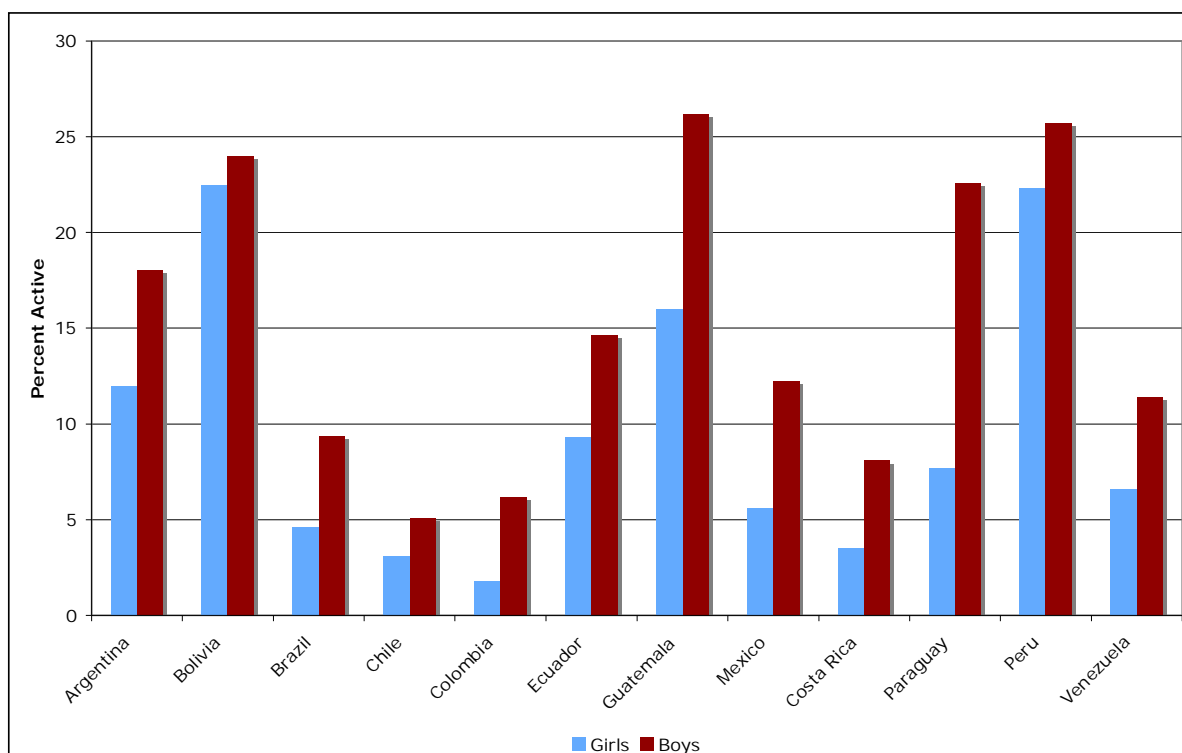
- Increase the benefits and reduce the cost and complexity of participating in the formal, regulated economy, so as to attract the inclusion of small and micro-entrepreneurs currently in the informal sector. Simultaneously include all formal and informal workers in the national social-security and healthcare-insurance systems, financed from general revenues rather than payroll taxes.
- Make micro-credit available for investment in small, self-owned urban businesses, local energy production, and improved and sustainable food production. This will improve the quality of work in informal labor markets.
- Improve the quality of labor relations in workplaces with 100 or more employees, through government-sanctioned employer-employee work councils, with the goal of increasing worker productivity, job mobility, working conditions, and wages.
- Use pressure from developed-country labor unions for fair-labor practices in Latin America, to make constructive improvements in Latin American workplaces, including the conditions of work and pay. These improvements increase costs but also productivity.

**Figure 9. Latin America: Labor Force in Self-Owned Businesses and Family Support, by Country, 2007 (percent)**



Source: International Labor Office (n.d.), LABORSTA Internet. Dataset 2D (Total employment, by status in employment). Informal labor market defined as “own account workers” plus “contributing family workers.” [<http://laborsta.ilo.org/STP/>]

**Figure 10. Latin America: Economically Active Children, 7-14 Years-old, Early 2000s, by Country (percent of total population 7-14 Years-old).**



Source: World Bank (n.d.). *World Bank Indicators*. Washington, DC: World Bank.

### **The Presidents' Commentary on Nutrition & Health and on Decent Work.**

**Fernando de la Rúa, Argentina.** Health is not just a private matter. The State has a responsibility to provide quality public-health services for the poor. However, it is difficult to get quality healthcare in public hospitals because of the growing demand for such services relative to the State's capacity to provide them. In Argentina, one study shows that almost 8 percent of those who go to hospitals do not need hospital services. Health policies need to focus more on preventive healthcare. This represents not only a change in the healthcare-delivery paradigm, but also permits more efficient and rational public spending that prioritizes the elimination of the endemic diseases that most greatly affect the poor. We need to reinforce prevention campaigns in local areas, expand access to mobile health units that provide basic services and detect malnutrition and socially prevalent illnesses. We also need to expand access to doctors in marginal urban areas, using hospital services only for more

serious cases.

**Nicolas Ardito Barletta, Panama.** Investments in clean water and ecological sanitation systems should be priorities for reducing chronic diseases, as well as vaccination and nutrition programs for children, more attention to pregnant and nursing mothers, education programs oriented toward mothers, and employment programs that generate higher family income. All these would greatly reduce the costs of the current cure-based healthcare system.

Labor productivity depends on human resources and access to information. Employment opportunities exist, but there may not be people trained to fill these opportunities. We need to reinforce the education of the workforce as part of the social responsibility of enterprises, creating in firms an atmosphere where everyone wins, including the firms themselves. Many studies show the positive impact of such corporatist policies in raising firms' quality of production and services and their profits, as well as establishing much better relations with labor. Furthermore, the promotion of decent work cannot be achieved without the improvement of conditions for small and medium enterprises. The State needs to facilitate its access to information, to credit, and to training, laying out the corresponding legal bases for these policies and providing the needed resources for realizing them. The State also needs to establish strategic alliances between small and medium enterprises, and large corporations, to improve supply chains. All of this should be part of corporatist policies for social responsibility. Finally, we need to change attitudes among our youth by introducing an entrepreneurial focus in our schools.

**Rodrigo Carazo, Costa Rica.** We need to pay close attention to social security when we discuss healthcare and labor. The quality of the social-security systems in our countries is a key indicator of the quality of public policies related to labor and the importance that we place on human resources. It also expresses our citizens' level of demand for quality social services.

**Vicente Fox, Mexico.** There is an enormous challenge for us in education, health, and work. We have to expand social security to those who work in the informal urban and agricultural sectors and who lack the social coverage of those who have stable employment. The challenge for the State is to create massive health insurance that finances access to basic health services.

**Gustavo Noboa, Ecuador.** Making work more flexible is necessary to compete in the global economy, but the process of making work more flexible can be abused, as has occurred in Ecuador, to the point where the norms had to be modified. Flexibility can allow more people to get access to jobs, especially young people, but these possible gains can be offset by the exploitation of workers under less comprehensive worker-protection laws.

**Carlos Mesa, Bolivia.** We need to better exploit the knowledge and use of traditional

medicines in rural areas, especially in those countries with a strong indigenous culture. Public policy needs to establish closer cooperation between modern and traditional medicine, as should also exist between preventative and curative medicine. Rural, indigenous societies, which are more socially vulnerable, have a different way of preventing and curing sicknesses and maintaining health. This knowledge needs to be exploited to amplify health coverage in areas that do not have access to conventional healthcare systems, but that can use systems that are much closer to their daily lives.

The existence of informal work systems and their insertion in the real economy has changed the way we understand production and service delivery. This part of the economy includes the largest source of jobs and accounts for much of the income of the poorest urban and rural families. Labor legislation and social security need to understand the special conditions of the informal sector to help formalize it, but they also cannot demand the same condition as in the formal-enterprise sector.

*Ernesto Samper, Colombia.* Latin America is going through a demographic transition that provides policymakers a real window of opportunity. The incorporation of a relatively large proportion of young people into the labor force means that the potential source of payroll taxes is, for the moment, much larger than the potential spending for healthcare and pensions of the aged. We need to use part of these revenues to fund youth education and training to increase labor productivity.

Another phenomenon that has occurred as a result of the series of economic crises in Latin America and the loss of permanent work is the impoverishment of the middle class. This weakening of the middle class may weaken democracy and the political center in the region. On the other hand, the informal sector needs to be recognized as an important part of our economies, providing a source of alternative employment in periods of crisis.

Conditional Cash Transfer Programs have changed our traditional public policies of supplying social services. Transferring income to the poor conditioned on their meeting certain obligations to the State contributes to creating notions of citizenship among the very poor. Social policy should not be thought of as conflicting with economic policy; to the contrary, social policy needs to be a basic component of economic policy, since investment in human resources is the best guarantee that emerging economies such as ours will be competitive.

### **3.9. Ensuring Potable Water and Sanitation for the Poor**

Access to safe drinking water and basic sanitation is a fundamental need directly related to the health and productivity of human beings. These services are enshrined as basic human rights in Article 25 of the 1948 United Nations Universal Declaration of Human Rights. Access to potable water is essential to maintain life and to prevent disease. Access to adequate wastewater-collection and disposal systems, as well as health-education programs, are also necessary to control the disease transmission that results either directly from inadequate wastewater disposal, or indirectly from the use of polluted water to irrigate products for human consumption. The positive benefits of improving water and sanitation include the reduction of poverty, infant mortality, and healthcare costs, and increases in human dignity, the release of women and children from water-collection activities, and, consequently, girls' opportunities to attend school (UNDP, 2006).

Despite the importance of water and sanitation services, an estimated 1 billion people worldwide lack access to safe drinking water, and 2.6 billion people lack access to basic sanitation (UNDP, 2006). In Latin America, approximately 49 million people do not have access to potable water, and 120 million people are without basic sanitation. Ironically, Latin America and the Caribbean are home to plentiful water resources: while approximately 8.5% of the world's population lives in South America, its territory has approximately 26% of the Earth's fresh water. However, this does not translate into broad and homogeneous access, even in countries like Brazil that have large reserves of fresh water. Instead, accelerated environmental degradation, an unequal concentration of resources, and the growth of large urban centers have resulted in a severe lack of potable water in many regions of Latin America and the Caribbean (LAC).

The scarcity of water and sanitation services creates considerable negative consequences. The consumption of non-potable water and the lack of access to sanitation are underlying causes of diarrhea and other diseases. An estimated 1.8 million children die each year worldwide as a result of water-related diseases, making this the second leading cause of child death. In Latin America, 4.9% of the deaths of children under 5 result from acute diarrhea. Water-related diseases, together with malnutrition and poor access to healthcare, limit opportunities to conduct income-generating activities, as well as children's opportunities to attend school.

In 2000, 191 countries meeting in New York agreed to include as a target of the Millennium Development Goals (MDGs) a 50-percent reduction (from 1990 levels) in the proportion of people without sustainable access to safe drinking water by 2015. For Latin America, this target also includes basic sanitation services. Despite a strong consensus surrounding the MDGs, progress has been slow. Implementation of these goals in Latin America would require investments of approximately \$31 billion in water and sanitation services. Some \$52 billion would be required to provide universal coverage, without taking into account final wastewater disposal, which would require an additional \$20 billion in

investments (IADB, 2007). Most of the countries in the region are not in a position to devote these resources to ensure potable water and sanitation for all.

Although fiscal constraints create genuine limitations in the State's ability to allocate sufficient budgetary resources to all sectors, it is also true that service provision is poorly organized and management is inefficient. This creates an unnecessarily high service cost, so that available resources do not always serve the greatest number. Moreover, public-service providers lack the necessary incentives to provide services to the poorest areas. There are also limits on the State's ability to provide adequate service to large rural areas with high concentrations of poverty. In many countries, rate systems are designed in a way that provides significant benefits, through low rates, to families who can afford to pay service costs. Additionally, due to technical and political considerations, efforts to incorporate private-sector financing into the water and sanitation sectors have met with little success in Latin America, with some notable exceptions.

Data for LAC show that drinking-water coverage, including all sources considered safe (water from the public supply, wells, springs, or purchased water), grew from 83% in 1990 to 91% in 2004, the last year for which consolidated information is available. Coverage for sanitation services (public sewerage, septic tanks, and latrines) grew from 68% to 77% during the same period.

Despite relatively high overall coverage indicators, water and sanitation services have not grown as rapidly as the provision of other public services — such as electricity and telecommunications — in the past ten years (World Bank, 2005). There is also considerable variation in coverage across countries in Latin America, with lower-income countries averaging lower coverage rates. There are notable exceptions in terms of countries with poor coverage relative to income level. These include Haiti and Venezuela for both water and sanitation, Trinidad and Tobago for water, and Belize and Mexico for sanitation coverage. It is also difficult to determine whether low incomes result in less investment in basic services, or limited investments result in poor sanitation conditions, which negatively impact human health and productivity.

There is also a large disparity between urban and rural areas in the region. In urban areas, overall drinking water coverage is 96 percent, compared to 73 percent in rural areas. Respective percentages for sanitation services are 86 percent and 49 percent. Because a great proportion of the poor in Latin America are concentrated in rural areas, these figures clearly reflect unequal access to services according to level of income. Although it is difficult to establish a definitive link between income and access to service, data clearly show that poor families are most affected by lack of water and sanitation services (Table 5). Of the 50 million individuals without safe drinking water in Latin America, 70 percent are in the bottom 40 percent of income earners. Of these, 25 million live in rural areas, and 10 million in urban areas. Similarly, 84 percent of those without basic sanitation are in the two poorest



quintiles of the population, with roughly equal numbers in urban and rural areas. Lack of access to public services also primarily affects society's most vulnerable groups, including women and children. In rural and peri-urban areas, these groups typically haul water from different sources, which may not be safe. The time and effort required to do so also impede them from making more productive use of their time and effort.

**Table 5. Latin America: Population without Access to Safe Drinking Water and Basic Sanitation, by Income Quintile and Area (in millions)**

<i>Quintile (wealthiest to poorest)</i>	<i>Access to Safe Drinking Water</i>		
	<i>Area</i>		
	<i>Rural</i>	<i>Urban</i>	<i>Total</i>
1-3	7	8	15
4-5	25	10	35
Total	32	18	50

<i>Quintile</i>	<i>Access to Basic Sanitation</i>		
	<i>Area</i>		
	<i>Rural</i>	<i>Urban</i>	<i>Total</i>
1-3	10	10	20
4-5	54	51	105
Total	64	61	125

Source: Inter-American Development Bank. (2007). *Diagnostic assessment of the status of water and sanitation services with respect to the Millennium Development Goals*. Washington, DC: IADB.

As many studies have demonstrated, the costs that families incur in obtaining water from non-public sources place an additional burden on scarce family income. Purchased water (from tanker trucks, wells, or bottled water) costs several times more than publicly provided water. Without access to the public supply, the poor must pay much more to consume water than users connected to the system. A compilation of recent data from rural areas of selected countries shows that unit supply costs range from around US\$0.50 to US\$2 per cubic meter where there are wells nearby (Table 6). The unit cost for water purchased from tanker trucks is US\$2 to US\$4 per cubic meter; whereas, when families must haul water, the time and effort involved may result in costs ranging from US\$2 to US\$7 per cubic meter.

The effect of high supply costs is low consumption, as families ration water to reduce costs. As Table 6 indicates, consumption from haulage and tanker trucks ranges from approximately 2 to 4.5 cubic meters per family per month. These levels permit only minimum consumption, mainly for drinking and cooking. Where wells are available, consumption is higher, ranging from 5 to 14 cubic meters per month. In contrast, where

families have access to public systems, they consume over 15 cubic meters per month, at an average cost of approximately US\$0.50 per cubic meter. This represents a monthly expenditure of some US\$7.50 per cubic meter, which is less than in many of the other cases. Access to the system not only provides families with quality water, but also lowers monthly family expenditures. This demonstrates the high cost to the poor of consuming small quantities of water, and indicates that many of them are in a position to pay reasonable rates for access to the public water supply. This idea runs counter to the deeply entrenched notion that the poor are “unwilling” to pay for access to public services.

**Table 6. Cost and Usage of Alternative Supplies of Water**

<i>Supply Source</i>	<i>Argentina (2006)</i>	<i>Brazil (1999)</i>	<i>Chile (2007)</i>	<i>Paraguay (2007)</i>
<b><i>Tanker truck</i></b>				
Cost (US \$/m <sup>3</sup> )	2.5	4.0	3.0-3.2	2.2
Consumption (m <sup>3</sup> /house/month)		3.7	2.6	2.1
Expenditure/month (US \$)		14.8	8.1	4.6
<b><i>Hauled</i></b>				
Cost (US \$/m <sup>3</sup> )	2.0	2.4	4.9 – 6.7	2.7 – 3.0
Consumption (m <sup>3</sup> /house/month)		4.5	3.5	4.5
Expenditure/month (US \$)		10.8	17 – 23	12.8
<b><i>Well</i></b>				
Cost (US \$/m <sup>3</sup> )	1.6 – 1.8	0.5	0.5 – 1.1	0.9 – 1.8
Consumption (m <sup>3</sup> /house/month)		14.3	4.7	7.5
Expenditure/month (US \$)		7.1	2.4 - 5.2	6.8 – 13.5

Source: Prepared by Jorge Ducci, Inter-American Development Bank.

The social and economic urgency of poor families’ access to water and sanitation necessitates the adoption of high-level, long-term measures to bridge divides and, to the

extent possible, fulfill the MDGs. General recommendations to address access and equity are divided into three overarching thematic areas: (1) assign priority to the sector in public decision-making processes; (2) work with service operators to increase efficiency and effectiveness; and (3) raise and channel necessary financial resources to address investment on a sustainable basis.

*Assign priority to the sector.*

Despite clear needs, and in contrast to public statements and international consensus, the water and sanitation sectors do not enjoy the necessary political priority in many Latin American countries. Because the causes of this problem differ from country to country, general recommendations must be adapted to each case. Some general recommendations include:

- The topic of water should be given a central place on the political agenda. The sector does not command sufficient attention and is often bundled together with other infrastructure or public-works activities, losing visibility and relevance.
- Many governments should review and strengthen the sector's existing institutional and legal structure. Some countries do not have a national water authority, so no one is responsible for setting development and financing policies. Without a high-level authority (ministry, vice ministry, or office) with sufficient political clout to promote necessary measures, it is difficult, if not impossible, to achieving proposed goals. Some countries have high-level steering entities, but these lack the necessary political influence, or adequate human and financial resources, to formulate and implement sectoral policies. Strengthening such entities is a *sine qua non* in furthering the sector's development. Many countries also lack sectoral legal frameworks for economic regulation of service provision, or, where these frameworks exist, they are weak and not enforced. The need for clear, consistent ground rules must be emphasized.
- One particularly important and difficult problem arises in countries where service delivery is decentralized to the municipal level. In these cases it is difficult to coordinate government action to make necessary investments and direct resources appropriately. The core recommendation is to *review and oversee mechanisms that transfer financial resources to municipalities, to ensure that resources are properly targeted toward the sector and that they address the needs of the most disadvantaged groups.*

*Make service operators more efficient and effective.*

Operators are the key players responsible for service delivery, expansion, and quality. Their legal nature varies widely within Latin America (from municipal services to corporations), as do their scope (municipal, regional, national), quality, efficiency, and effectiveness. Recommendations in this regard are aimed at strengthening these entities politically, technically, and financially:

- A first proposed line of action is based on the recognition that *service operators must play an essentially technical role in service delivery and adopt a commercial approach. This means limiting, to the extent possible, interference from politicians, professional associations, and unions.* Such interference includes, *inter alia*, the appointment of unsuitable individuals to management positions, unproductive hiring policies, the adoption of inefficient investment decisions, and the setting of politically motivated rates that do not provide operators with sufficient resources. Eliminating these problems would enable operators to promote efficient and effective management policies, reduce costs, and provide better service.
- One action that would strengthen such conduct *is the creation of operators governed by commercial law, like the private sector*, which facilitates management by reducing costs and bureaucracy. To the extent that legal frameworks for corporations are appropriate, bringing them under the purview of service operators is an important tool to promote more efficient service delivery.
- From a functional and management standpoint, services should be removed from the larger government bodies to which they report (municipality, ministry, etc.), and they *must have their own legal status*, affording them greater autonomy and facilitating their actions.
- *Building the capacity of professional, technical, and administrative personnel* is necessary to improve operator management in many countries. Education, on-the-job training, specialized advice, management contracts, and exchange of experiences with other successful operators can be promoted to overcome operator deficiencies.
- Municipal systems serving many cities of different sizes present a special problem. Subdividing and scattering services make it impossible to benefit from economies of scale. In such cases, one key recommendation *is to promote the grouping of operators that can serve more than one community, raising the management level to multi-municipal, regional, or state in scope.*
- With respect to rural sectors, the most successful model in existence indicates that *in small localities, systems should be run by the communities they serve.* Extensive experience shows that, with proper training and project ownership, communities can

operate and maintain services, thereby financing their basic requirements and making them sustainable.

- Another promising avenue to increase the efficiency of service provision is closer and more careful measurement of service provision through “micro-measurement.” Both service providers and the public can benefit from increased coverage resulting from more precise measurement of service delivery.
- Service operators can also benefit from a more informed public, suggesting that efforts to educate users about benefits, proper use, and maintenance of services — directed by either the government or non-governmental organizations — can facilitate service delivery.
- In certain cases, non-governmental organizations can also support local operators to improve administration, operation, and maintenance of service-delivery systems. One example is the organization *Agua Limpia* in Peru ([www. agualimpia. org](http://www.agualimpia.org)).

### *Financing*

Expanding service coverage requires substantial investments. In Latin America, an estimated investment of \$12.5 billion in water infrastructure and \$18 billion in sanitation infrastructure would be required to reach the MDGs. *Therefore, major efforts must be made to attract the resources required to finance these investments.* A first source of funds is generally the state, which provides them directly from its national or regional budgets. Whatever solution is ultimately adopted, *these resources must be increased over many years.*

- To supplement national resources, consideration should be given to *accessing funds from multilateral banks.* The purpose of the IADB’s Water and Sanitation Initiative, for example, is to promote investment to achieve sustainable universal coverage of quality services, taking into account individuals’ ability to pay. The Initiative takes into consideration new forms of financing for project preparation, including the AquaFund. Other instruments in development call for the establishment of a fast-disbursing credit line for operators with recognized capacity and experience, non-sovereign guaranteed operations, and raising and coordinating donor resources.
- Despite efforts to make external resources available to operators, in many countries it will be necessary to perform a sweeping review of existing rate policies. In many cases, rates were set based on political considerations and are highly inefficient, since they promote excess water consumption. These rates are also highly inequitable because they subsidize families with sufficient income to pay the true costs of service, to the detriment of low-income families who are unable to access services. Yet, in relation to other developing areas, LAC has the greatest capacity to use service fees to both cover operations and management and invest in further development. According

to the magazine *Global Water Intelligence* (2004), 48% of service fees in the region's largest cities are able to cover both operation and management and investments, compared to 51% in OECD countries, 17% in the Middle East and Northern Africa, and 16% in East Asia and the Pacific. *A gradual adjustment of the rate structure to better reflect the costs of providing service, together with well-planned subsidy schemes targeting the lowest-income families, are powerful and necessary tools to attract resources to the sector.*

Finally, we must not fail to consider the possibility of *attracting private-sector financing*. Although there were negative experiences with this type of financing in the 1990s, the lessons learned and experience gained, as well as a better understanding of successful cases, mean that renewed consideration must be given to this source of financing in the coming years.

#### ***Policy Recommendations:***

- Assign political priority to the water and sanitation sectors, by creating a Ministry of Water and Sanitation. They are often bundled with other infrastructure or public-works activities, losing visibility and relevance. A lack of access to potable water and to adequate sanitation is mainly a rural issue in Latin America. Governments will need to attract considerable outside funds or invest state funds (totaling about \$12.5 billion for water and \$18 billion for sanitation) to build the necessary infrastructure to meet Millennium Development Goals.
- Make a sweeping review of rate policies for water and sanitation. Current rates heavily subsidize some users (usually regressively supporting higher-income users who can afford to pay), leaving the public sector without sufficient funding to provide low-cost access to low-income users. This leaves many low-income users paying much higher prices for water.
- Promote the grouping of operators serving more than one community, raising the management scope to multi-municipal, regional, or state levels. In rural areas, systems should be run by communities. Experience shows that, with proper training and project ownership, communities can operate and maintain services, thereby financing their basic requirements and making them sustainable.

### **The Presidents' Commentary on Ensuring Potable Water and Sanitation for the Poor**

**Fernando Henrique Cardoso, Brazil.** In this problem, there are two key aspects that must be improved: the regulatory model and the establishment of realistic rates.

**Fernando de la Rúa, Argentina.** It is commonly said that with climate change there will be a shortage of water. It is important to point out that this situation already exists for millions of inhabitants of Latin America and the world. Many studies have demonstrated that 25 existing human illnesses are caused by water shortages. From a preventive standpoint, providing water and sanitation to those without it is much more important than building a hospital. Water is a public-health issue. For that reason, it is important to avoid further contamination of water sources. In the search for alternative sources, we should recognize the case of Uruguay, which has treatment plants that solve the problem in small cities. This issue is critical. In Buenos Aires, there was a power outage in one quadrant of the city, and as a result, an emergency was declared and water quickly became scarce.

**Hipólito Mejía, Dominican Republic.** We should not approach the water problem only in relation to human consumption. It is also related to energy generation, irrigation, and as a resource to control disasters. We must have a wider perspective.

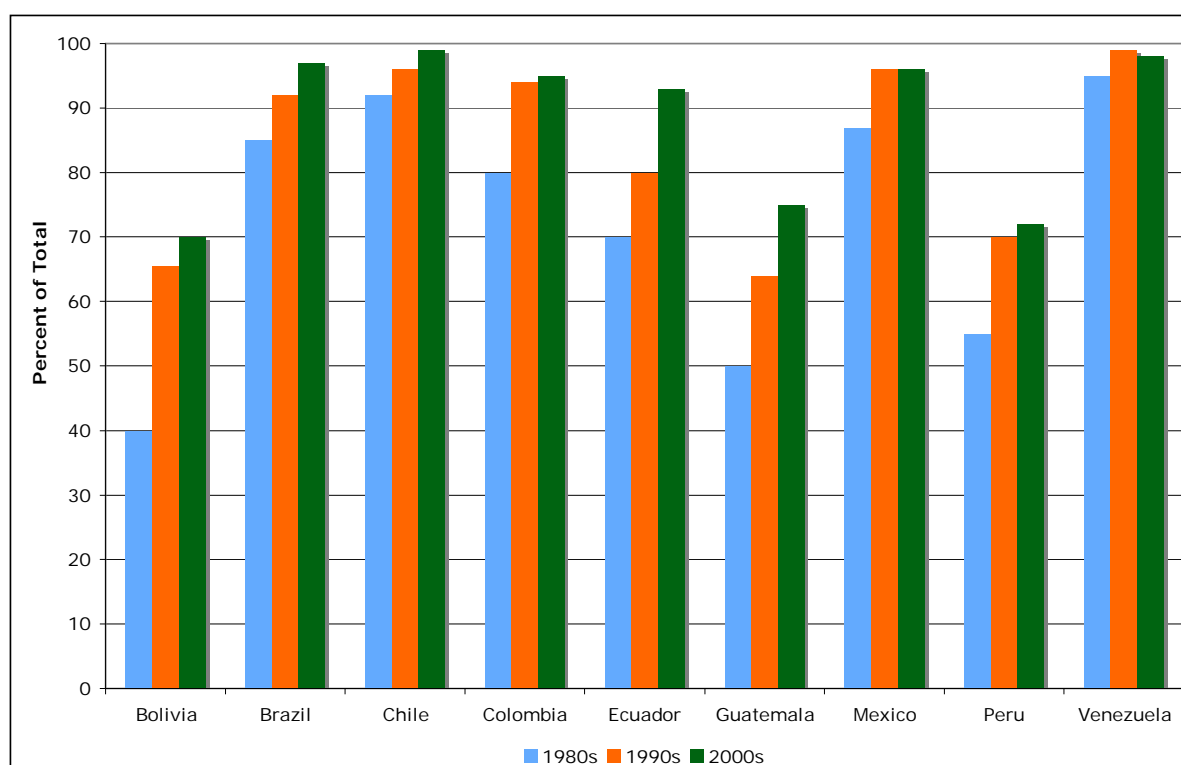
I would like to point out four issues that are intimately related to the general problem of water use: (1) access to potable water is an important challenge in the fight against poverty due to the impact that this resource has on quality of life, especially on health. It has been shown that access to potable water is a first-order factor in the fight against poverty, and therefore it should be prioritized as a fundamental axis in any strategy for combating this epidemic; (2) recycled water for generating electricity is a natural resource that can directly impact countless small- and medium-sized productive activities on a local level, especially when treated for use in agricultural irrigation, for livestock, and for aquaculture. The introduction of irrigation technologies can significantly raise the productivity and income levels of small rural producers; (3) another critical aspect that we should pay attention to is the protection and conservation of our rivers. Due to climate change, industrial pollution, and agriculturally motivated deforestation, as well as many other phenomena brought about by human beings, many of our main sources of drinking water and water for industrial use are truly being threatened; (4) lastly, there's the problem of solid waste. In the Dominican Republic, we have numerous experiences that articulate the collection of solid wastes, sewage, and the generation of employment. In various neighborhoods of our capital, successful projects of this nature have been implemented, with the strong participation of community organizations. The challenge is how to guarantee that these initiatives will remain sustainable over time and translate into a growing empowerment of the communities that participate in these projects.

### **3.10. Access to Energy and Poverty Reduction**

To ensure economic growth and democracy, it is necessary to incorporate excluded populations into the productive process. This can occur through training and the creation of new opportunities for development and employment, as well as facilitating access to modern energy services. Although MDG targets surprisingly do not include specific energy indicators, increased access of the rural population to energy services can have positive impacts in terms of education, health, water and sanitation services, and increased family income.

In LAC, energy — especially in the electricity sub-sector — was initially provided by private-sector enterprises, which concentrated on the more profitable populated cities, with little interest in expanding services to remote areas. To address this problem, in the middle of the 20<sup>th</sup> century the State began to adopt a business and administrative role, nationalizing services in most of the region's countries. Since then, ambitious expansion plans, assisted by the support of the multilateral banking system, have been implemented, and electricity coverage has increased considerably. Access to electricity in LAC increased from 42% of the population in 1971, to 70% in 1989 (Figure 11 for data on some countries in the region).

**Figure 11. Latin America: Electricity Coverage (As a Percentage of Total Households)**



Source: ECLAC (n.d.). Databases.

<http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp?idAplicacion=1&idTema=9&idioma=i>

During this time, capacity also increased considerably. Large hydroelectric power plants were built, reducing the contribution of thermoelectric plants to total power generation.



Initially, electric systems were not connected, requiring high levels of reserves to allow adequate service reliability. However, the interconnection of different electricity systems occurred after the 1970s.

### *Electricity Sector Reforms and Rural Electrification in LAC*

Once electricity coverage reached relatively high levels, the original mission of the State to accelerate expansion lost impetus, and the State became more notorious for its lack of efficiency in the sector. The increasing problems in the sector that resulted were caused by many factors, including: rates established with no direct relation to power generation, transmission and distribution costs, inflation, project cost overruns due to construction delays, deceleration of demand growth, excess personnel, political patronage, and inadequate prioritization of project installation.

During the debt crisis of the 1980s and 1990s, many countries initiated reforms of their electric industries following a common line: de-verticalization of the industry, selective transfer of assets to the private sector, separation of State functions, creation of independent regulatory agencies, creation of policy formulation and management control agencies, restructuring of rates, and reduction/focalization of subsidies. The success of restructuring in LAC has been variable and has depended in great measure on individual countries' institutional strengths. Some countries have reversed these reforms and others have deepened them, tuning-up changes and carrying out so-called "second generation" reforms.

With respect to power generation, increased participation of the private sector in electricity reduced the use of hydroelectric power. Between 1995 and 2006, the installation of thermal power plants increased 5.7% per year in South America, while installation of hydroelectric plants increased only 2.4% per year. Still, most countries in the region rely on hydroelectricity. In 2007, 85% of electricity generated in Brazil and 75% of net power generation in Costa Rica came from hydroelectricity.

With respect to current coverage in LAC, it is estimated that more than 90% of the population has access to electricity services, especially the urban population, which has 98% coverage. Chile, Costa Rica, and Venezuela have reached coverage of close to 99% of the national population. Nevertheless, national coverage in several countries remains very low (Figure 11), especially in Haiti (34%) and Nicaragua (less than 70%). Additionally, an estimated 40 million inhabitants of the region do not have access to electricity services.

In rural areas of LAC, at least a third of the population does not have access to electricity. Expansion of electricity services in rural areas faces obstacles due to two factors: (1) electricity consumption in rural areas is much lower than for the urban population, and (2) rural populations are very dispersed, requiring higher investments in the electricity distribution system (transformers, electric cables, poles, etc.). For the same reasons, rural

electricity systems have much higher operation and maintenance costs. As a result, electricity in rural areas has intrinsically higher costs than in urban areas, while generating much lower revenues.

With the increase of private participation in the electricity sector, approaches to boost service coverage should be modified in comparison with systems managed by the public sector. As the electricity service is not profitable, effective participation of the State is required. This intervention can take several forms, such as mandatory actions established in sector regulation, or through other mechanisms like the provision of incentives for private investments. In general, sector reforms in most countries have contemplated this issue.

### *The IADB, the Energy Sector, and Rural Electrification*

Since its establishment over 50 years ago, the IADB has had a prominent role in developing the electric sectors of its borrowing countries, through the financing of generation, transmission (including regional integration) and distribution projects, as well as in the design and implementation of differentiated sector reforms. Energy is the main item in the IADB projects portfolio, with US \$22 billion, corresponding to 14% of the total volume of resources approved for loans and guarantees between the IADB's creation and 2007. Of this total, 90% went to electricity-sector projects, especially construction of hydroelectric plants and rural electrification, which represent, respectively, 40% and 25% of total IADB resources lent to the energy sector.

Recent experience of the IADB in rural electrification in the context of markets with private-sector participation includes loans to Guatemala, Panama, and Chile. All of these projects include components to establish renewable energy projects in remote areas. An earlier loan to Nicaragua included a US\$ 3.5 million component for sustainable off-grid solutions with renewable energy. Additionally, the IADB has financed several efforts to develop rural renewable energy markets in diverse countries (Brazil, El Salvador, Peru), including the construction of sustainable, remote-system pilot projects that use renewable energy.

### *Programs for Sustainable Rural Electrification*

The IADB experience in rural electrification indicates that eligible solutions for rural electrification include both existing electric-grid extension systems, and remote systems employing renewable energy, such as small and micro-hydroelectric plants, wind power, solar energy, and biomass.

State intervention is necessary to assure coverage expansion if a specific rural electrification project is not profitable for the private sector. This intervention can occur through legislation that makes coverage expansion mandatory, or through the provision of

incentives to invest in distribution companies (or rural renewable-energy service providers). These incentives make coverage expansion possible, while providing accessible prices for consumers. In all cases, incentives should be limited to cover part of the required initial investment, so that all costs of operation and maintenance are covered exclusively by users through the defined pricing system, in order to guarantee system sustainability. Recent IADB projects have determined 10 years to be the minimum contractual period for operation of renewable-energy systems.

The main lessons learned in relation to rural electrification in a context of markets with private-sector participation are:

- Encouraging the private sector to invest is preferable to State-financed building of rural electrification systems. This approach simplifies and increases project-development efficiency, and distributors/service providers responsible for operations and future maintenance are in charge of final design and construction.
- An adequate system-administration plan must be developed to guarantee the sustainability of remote systems based on renewable energies; for example, by means of micro-enterprises as service providers under contracts that define their responsibilities, especially with respect to system operation and maintenance. The process should include extensive community involvement and support and provide accessible costs for users based on their capacity to pay. In other words, we must promote rural electrification projects that can be developed directly by final beneficiaries, seeking joint participation of communities in the provision of the services in such a way that assures sustainability.
- When incentives are necessary, they must be provided only for investment and not for operation and maintenance. They must also be provided in a transparent way and directly benefit the users.

### *Global Recommendations*

*Prioritization of the sector of rural electrification:* In spite of clear needs to increase electricity coverage in LAC, especially for excluded populations, many countries have not prioritized the un-served population's access to electricity.

- Governments should place access to electricity on the political agenda and should revise existing institutional structures to strengthen access. Some countries do not have national or regional authorities responsible for rural energy, making it more difficult to develop financial policies for the sector. When such institutional frameworks do exist, responsible agencies do not enjoy the necessary political weight, or the necessary financial and human resources, to formulate and implement sectoral policies. The strengthening of these agencies is a necessary condition for any

progress in sector development and increased service coverage.

- Administrative, technical, and professional personnel working for rural energy service providers employing renewable energy must be strengthened to expand and improve the quality of electricity service and the sustainability of remote systems employing renewable energy. Mechanisms such as capacity building, on-the-job training, specialized advice, management contracts, and exchanges of experiences with other successful distributors and service providers can be promoted to overcome personnel deficiencies.
- Micro-enterprises represent the preferable model to operate isolated systems employing renewable energy, but in the case of systems in very small communities, schemes organized by communities must be considered, provided that the community is formally established. Extensive experience indicates that with training and ownership of the project, these communities are capable of operating and maintaining services in a sustainable way.

### *Financing*

It is estimated that to reach universal coverage, LAC must invest in the range of US\$ 15-20 billion, close to the total amount of loans and guarantees approved by the IADB for the entire energy sector during its 50 years of activity. A great effort is needed to attract the resources required to finance these investments. Participation of the private sector in financing investments is also fundamental, since part of this investment is profitable and does not require special incentives.

### **Policy Recommendations:**

- Reduce the inequality in access to energy as measured by a coefficient of energy distribution.
- Reduce the percentage of GDP and household income spent on energy.
- Promote the use of renewable energy in rural communities. Micro-enterprises represent the preferable model to operate isolated systems employing renewable energy, but in the case of systems in very small communities, schemes organized by communities should be considered. With training and ownership of the project, these communities are capable of operating and maintaining services in a sustainable way.

### **The Presidents' Commentary on Access to Energy and Poverty**

**Eduardo Stein, Guatemala.** We must consider the special circumstances of the countries that have significant indigenous populations. When public policy is elaborated for this sector, we must consider the network of indigenous organizations in Latin America. These organizations have demonstrated in opposition to some hydroelectric projects because they affect the “mother earth” and disturb community life when large dams are built. Here cultural, ideological, political, and technical elements combine. And they are aspects that must be taken into consideration, because they can make the execution of projects very difficult. Cultural uniqueness and traditional ways must be respected. In Bolivia, for example, this has been combined with claims for land or mining projects. I agree with Enrique García (of the CAF) in respecting cultural diversity, criteria for equity, and democratic equilibrium, which are part of the responsible use of natural resources. We should not let indigenous communities and their rights become invisible. Instead, we must generate spaces of political agreement with them.

**Lionel Jospin, France.** Access to energy is crucial for development and the fight against poverty. Nevertheless, action against climate change induces us to control greenhouse-gas emissions. How can we resolve this contradiction of needing more electricity and telecommunication as a condition for the efficiency of education, transportation, and productive mechanization, and at the same time, diminish greenhouse gases? Access to energy must be improved within the framework of sustainable development, which implies the need for technological improvements that allow for the better use of fossil fuels, as well as the search for clean energy. The growth of new energies like solar, geothermal, and biomass must be accelerated because they are cheaper, but we must not forget about nuclear energy. We must also avoid fluctuation in energy prices, particularly the price of oil. Finally, the fight against poverty would be facilitated if we were to use micro-credits for renewable energy in rural villages.

**Ernesto Samper, Colombia.** I would like to complete a comment related to the issue of water. Water can be a unifying axis for the Social Agenda: it has to do with the food crisis, agriculture, and with climate change. Water management permits a unifying proposal. Achieving an agreement over water would be a consequential development. But, what should be done with the large quantity of actors that revolve around water? How much investment is needed to place investment in water, electricity, and sanitation on the same level? In the United States, which states have made a commitment to reduce greenhouse gas emissions? Depending on the size, it could have an important effect.

**Carlos Mesa, Bolivia.** We debate the issues of electrical coverage, technological change, and climate change amidst a current crisis of paradigms. Bolivia has 10 million inhabitants, and the region of Potosí, only 800,000. Around 70% of Potosí’s territory has a population density of less than one inhabitant per square kilometer. So the cost of providing electricity, water, and sanitation to this region is very high. Given these circumstances, there is a serious problem in rural areas that increases the levels of required investments. An additional aspect is that the new constitution prohibits the transfer of water and sanitation services to the private sector. The sector is public. Another aspect is that it divides the property of

renewable and non-renewable resources. Non-renewable resources are the property of all Bolivians. Renewable resources are the property of indigenous people. As such, decisions about water are exclusively left up to indigenous people. So, how can we define a public policy for a strategic resource in this framework that assigns rights to indigenous people, who represent approximately only half of the population?

**Eduardo Stein, Guatemala.** We must ask, what will be the new policy to treat renewable resources? What are the rights of [non-indigenous] farmers on indigenous lands? I believe that there is a re-conceptualization of the landscape, leading us toward a more equitable relationship than in the past. Not all renewable resources are good for local development. We have, for example, large reservoirs. There are low-carbon projects that are abandoned for their elevated environmental impacts, especially in the loss of biodiversity. California and the western United States are establishing their own carbon market, and Mexico can negotiate its own quotas. There are various initiatives that allow negotiation of carbon. These regional initiatives in the United States are making progress. So we expect that the regional initiatives will be augmented, or we expect a single, federal plan.

**Gustavo Noboa, Ecuador.** We have the same hope, but we do not necessarily speak the same language. In Ecuador nature has rights. How can we solve this? Through dialogue. With time, we were able to build the oil pipeline, in spite of the environmentalists. Nevertheless, wind energy could not be established in the Galápagos Islands due to the opposition of environmental NGOs. There is a permanent theme: How is it that with good intentions, we trip over the same rock—our own groups that impede development? What to do? Dialogue.

**Vinicio Cerezo, Guatemala.** Development processes are not the same today as they were in the 1970s and 1980s. Today, there is participatory democracy and actors are listened to. Before, large works with great environmental costs were undertaken, with the armed forces carrying away protesters. Now, we must listen to indigenous people and build consensus about basic issues. We cannot ignore the participation of indigenous groups, otherwise we risk reaching the extreme that is playing-out in Bolivia. Similarly, we must recognize that the phenomenon of Hugo Chávez is an expression of the pendular movement of Latin America, which moves from one extreme to the other. The Washington Consensus was not the solution to our challenges, but neither is the establishment of state intervention that does not consider the community. One final example: in Guatemala, there cannot be tax reform without a regional agreement, because companies would migrate from one country to another. Dialogue continues to create a constructive attitude.

**Hipólito Mejía, Dominican Republic.** Energy must be seen to be a service that significantly contributes to raising people's quality of life – not only in terms of the household, but also as a fundamental input for the majority of society's productive activities, as well as for public services, such as potable water. The efficient provision of energy has profound implications for many Latin American and Caribbean countries, such as in the case of the Dominican Republic. Even though the Dominican Republic privatized the electric system during the

1996-2000 government term – to finance the generation of electricity and reduce the system’s operating costs – the results have been very far from what always intended. Today, we Dominicans pay a per-kilo rate for energy that is above the Latin American average, and the government has had to continue transferring large amounts of resources in the form of subsidies to avoid the collapse of the system.

### **3.11. Create Value with Decent and Affordable Housing for the Poor**

Decent housing is a fundamental necessity for decent living conditions, and home ownership is a fundamental element in strengthening commitment to democratic institutions and to civic participation.

In the long term, the ongoing migration of people from rural to urban areas has accentuated the housing problem. Migrants almost universally locate in the margins of large cities where they cannot get decent shelter, healthcare, schooling, access to recreational areas, and other services basic to inclusion and participation.

All Latin American countries have engaged in various programs to ease the situation for these migrants. The attempted solutions have included low-cost urbanizations, providing the basics in a minimal way: streets, electricity, water, sanitation, and then letting the poor build their houses. Sometimes governments provide a “piso y techo” and let the families build the rest themselves. The experience is that people gradually add more rooms and space to their houses.

However, despite these efforts, the results fall far short of adequate living conditions for a significant fraction of Latin American families.

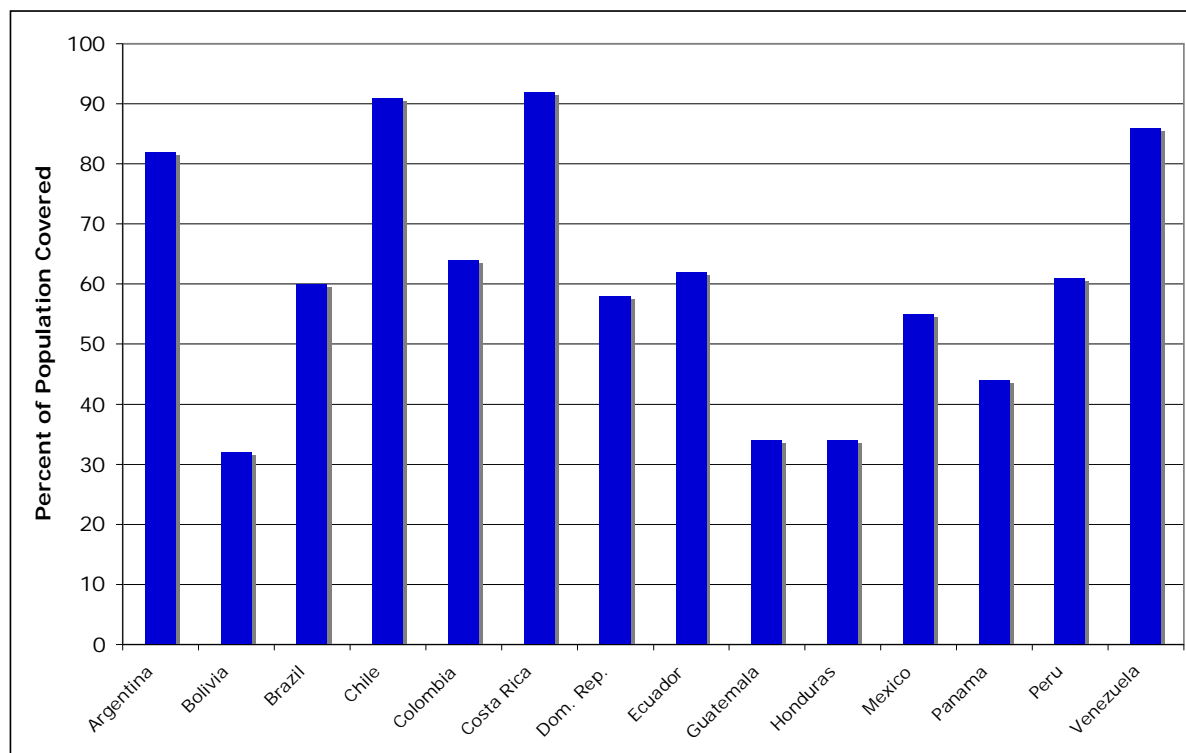
Assuring that the poor in Latin America get decent housing requires five elements:

- Three have already been discussed above—access to potable water, improved sanitation, and electricity.
- The fourth is a variation on microfinance: just as the poor need increased access to credit to increase their individual economic well-being and to contribute to national economic development, so do they need access to credit to invest in improving, building, or buying their own decent homes.
- The fifth, made famous by Hernando de Soto, is that the many poor who are squatters on urban land need to get title to that land. With title, these families are much more likely to invest to improve their property, and, at the same time, their property can serve as credit collateral, generating capital for self-employment.

Improving and building decent housing for the poor, if planned and financed prudently, has an added and large benefit to society: it creates decent employment and increases skills in precisely the population it is designed to help — the low income, lower-skilled labor force. Decent housing plus decent schools, healthcare, and recreational areas ensure for decent communities with greater safety, less drug use, less crime, and a more participative civil society. Decent housing also allows for the strengthening of local governments, where people can take care of their immediate community needs.

The data in Figure 12 show that a major component of decent housing is access to basic services such as sanitation. Throughout Latin America, the lack of such services is much more of a problem in rural than in urban areas, but in lower income countries this lack is also a serious problem in urban areas, with 15 percent or more of housing units without running water, and a much larger proportion without proper sanitation to eliminate waste. This issue was discussed in section 3.9: by providing adequate basic services for the poor, Latin American governments could go a long way toward improving the living conditions and the health of the poor.

Figure 12. Latin America: Percent of Population with Access to Adequate Sanitation, circa 2005, by Country.

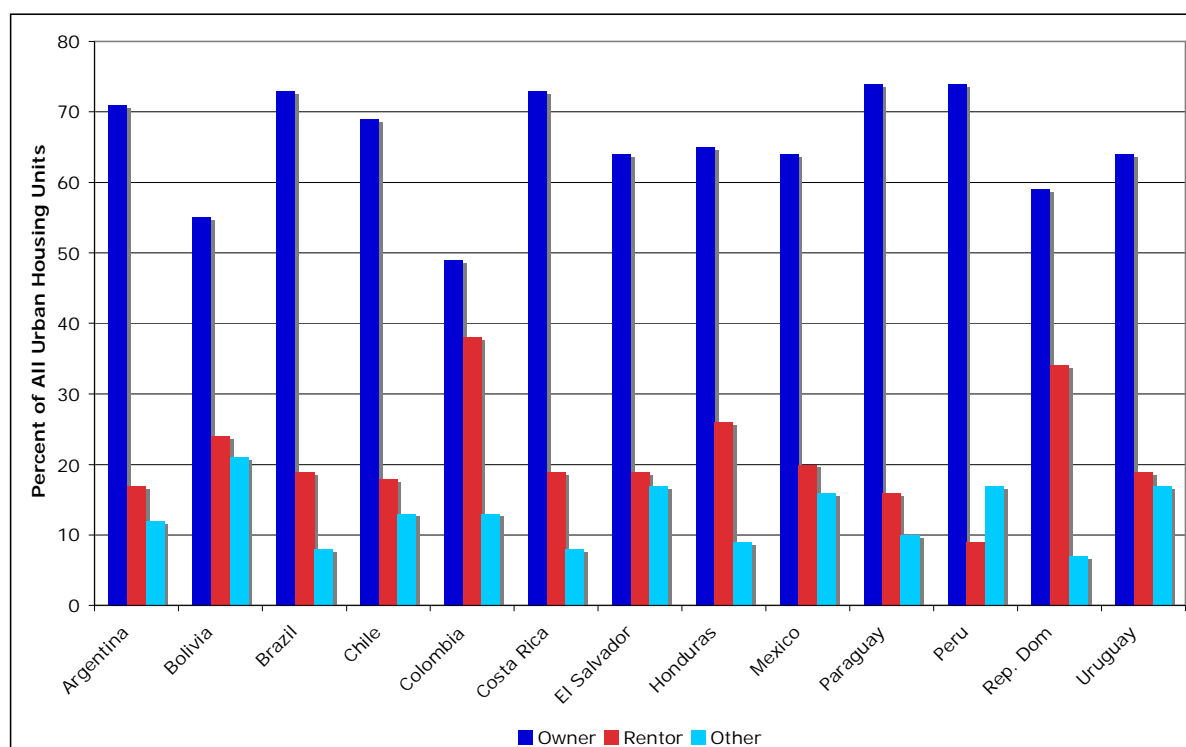




Source: R. Paes de Barros, F. Ferreira, J. Molinas Vega, and J. Saavedra Chanduvi (2009). *Measuring Inequality of Opportunities in Latin America and the Caribbean*. Washington, DC: World Bank.

The second aspect of decent housing that will make a major difference for Latin America's poor is *ownership*. A high percentage of Latin Americans already owns their housing (Figure 13), although this is not the case in every country. It is also not possible to tell from these data how much of owned housing is decent, deemed worthy of improvement by the owners, and of a quality that will allow its value to increase over time. Furthermore, the percentage of squatters also varies from country to country, assuming that the percentage of "other tenancy" includes housing where the occupants do not hold title.

Figure 13. Latin America: Housing Tenancy, by Country, circa 2005.



Source: ECLAC, CEPALSTAT Data Base. <http://www.eclac.org/estadisticas/bases/>

Years ago, an American builder promulgated the idea that when low- and middle-income families own homes that meet minimum standards of decent housing, this ownership

increases their stake in a democratic and participative society and makes them less likely to be attracted to non-democratic regimes.<sup>13</sup>

In the past decade, Hernando de Soto raised a different argument — that the poor have considerable assets, but because they do not have title to many of them, including their homes, they do not serve the typical function of capital:

“... they hold these resources in defective forms: houses built on land whose ownership rights are not adequately recorded, unincorporated businesses with undefined liability, industries located where financiers and investors cannot see them. Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment.”<sup>14</sup>

These two arguments, plus the need to provide the essential services of water, sanitation, and electricity to all households, form the basis for housing policies that would reduce poverty and strengthen democratic institutions by giving the poor “useful capital” of increasing value, and therefore a bigger stake in a stable, participative society.

In Peru, a program of giving titles to low-income families for their homes and the land on which the homes were built was begun in the Toledo administration. A number of Latin American countries, including Peru, are also building affordable urban housing that is then sold to qualifying families. It is much rarer to find affordable one-family home developments, yet such developments could be built in less densely populated areas.

There is room for strengthened partnerships between government, private builders, banks, and the poor to increase the supply of affordable housing. For example, the private sector can build homes of \$20,000 and up and get the mortgages for them, and government can provide lower-cost housing through public-housing programs, providing a down payment— perhaps \$5,000, and a long-term mortgage to be paid by the low-income family. The key to all of these programs is ownership.

### **Policy Recommendations**

- In accord with the policies outlined in previous sections, pursue strategies to assure access for all households to potable water, proper sanitation facilities, and electricity.
- Provide access to titles to those low-income residents of houses on property that effectively belongs to them but for which they have not established legal claim.

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<sup>13</sup> Alan Carnoy (1962). *Democracia Si!*. Nueva York: Vantage Press.

<sup>14</sup> Hernando de Soto (2000). *The Mystery of Capital*. New York: Basic Books, Chapter 1.

- Provide credit funds, either through savings/credit cooperatives or other organizations similar to the micro-financial institutions described in a previous section, to low-income families to invest in improving their homes or buying (with title) government or privately built affordable housing. Such affordable housing should meet established standards for decent housing for a family of four.

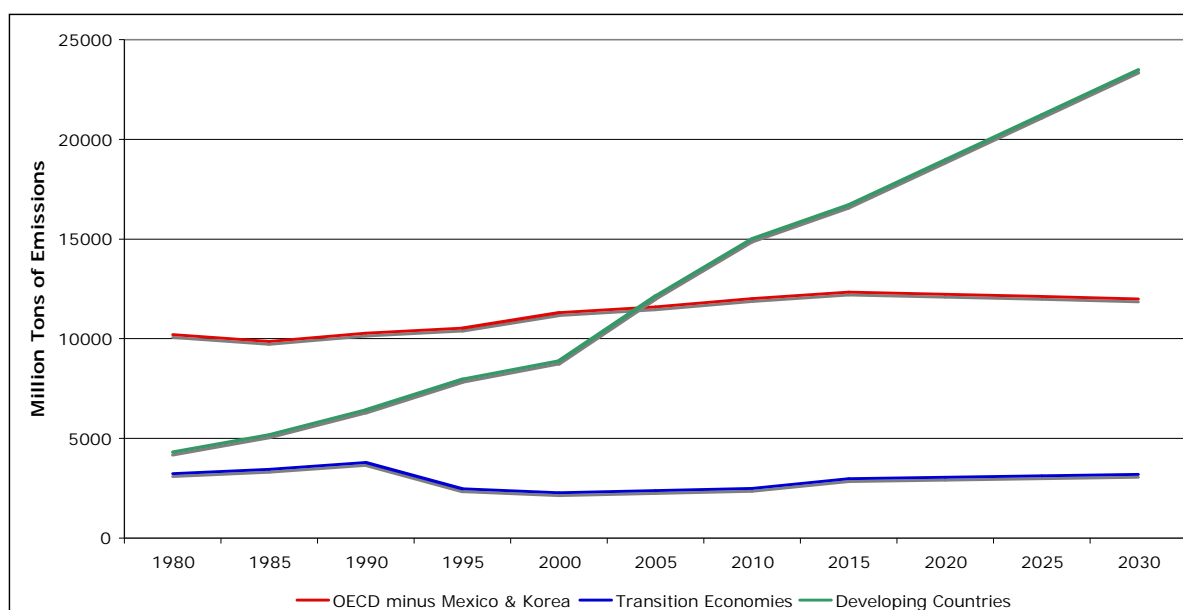
### 3. 12. Climate Change and the Poor

The Climate Convention adopted at the 1992 Rio Conference called on the developed countries of the world to reduce their CO<sub>2</sub> emissions in order to decrease the risk of global warming; furthermore, it called for the eradication of poverty to be coordinated with the measures adopted to respond to climate change. The main sources of the greenhouse gases warming the earth are the deforestation of tropical forests and the massive worldwide uses of fossil fuels and their derivatives. The main impact of climate change can already be seen in the Arctic and our oceans, where it is causing rising sea levels and abrupt changes in fragile ecosystems, such as coral reefs. This, in turn, has a profound negative impact on coastal populations that depend on fishing and tourism for their livelihoods.

Other ecosystems that are affected are the coniferous forests in Canada, the United States, and northern Europe, where warmer winter temperatures promote increases in native beetles that attack young trees. The Kyoto Protocol adopted in 1997 mandated reductions in emissions for the industrialized countries. Neither of these international agreements included any of the Latin American countries among those urged or required to reduce emissions, even though Brazil and Mexico are two of the top 20 producers of CO<sub>2</sub> released into the atmosphere (Brazil was 5<sup>th</sup> in 2005 if emissions from changes in soil use are included, and Mexico was 11<sup>th</sup>).

In international meetings after Kyoto, developing countries were urged to engage in voluntary reductions. What is important about these later accords is that it became clear that many developing countries themselves were the ones most likely to suffer the consequences of climate change because of weather changes and rising sea levels. It also became clear that, no matter how great the efforts of the developed countries to reduce emissions, these changes would not be enough to avoid climate change since developed countries only produce one-half the total of global emissions (Figure 14). However, it is possible to recuperate part of the CO<sub>2</sub> accumulating in the atmosphere and bring it back into the soil to reduce warming. To do that, we need to restore degraded ecosystems with large reforestation projects to restore their capacity to photosynthesize.

Figure 14. CO<sub>2</sub> Emissions in the Reference Scenario, 1980-2030, by Region



Sources: International Energy Agency Statistics (2009). *CO<sub>2</sub> Emissions from Fuel Combustion 2009*. IEA; IEA (2006). *World Energy Outlook, 2006*. IEA, Annex A.

As a whole, Latin America contributes only 4.6 percent of worldwide carbon emissions. Emissions per capita are 0.7 tons of carbon, lower than the per-capita worldwide average of 1.2 tons. However, Latin America cannot avoid taking responsibility for implementing needed measures to mitigate the emissions of greenhouse gases. Furthermore, it is a mistake to believe that reducing emissions will negatively affect economic growth. To the contrary, experience has shown that many of the measures undertaken to reduce emissions accelerate development through modernization.

Latin America can play a central role in the battle against climate change, which could potentially have disastrous effects primarily on the region's poor. First and foremost, Latin America can take action regarding deforestation. Table 2 provides emission levels from all Latin American countries from the burning of fossil fuels. In Brazil alone, as the data in Table 7 suggest, burning from deforestation released greenhouse gases in 1990 equal to 62 percent of the total of Latin American emissions from burning fossil fuels. In 2005, even though emissions from fossil fuels increased 30 percent, emissions from deforestation in Brazil alone increased much faster, rising to 79 percent of the total of regional fossil-fuel emissions.

**Table 7. CO<sub>2</sub> Emissions in Latin America and Caribbean countries, 1990 and 2005.**

	Country	Burning of fossil fuels		Percentage
		1,000 tons of Carbon		2005/1990
		1990	2005	
1	Brazil	58,377 *	88,834 **	152%
2	Mexico	102,408	115,043	112%
3	Venezuela	32,028	40,425	126%
4	Peru	5,740	10,100	176%
5	Colombia	15,669	15,992	102%
6	Argentina	29,949	41,679	139%
7	Bolivia	1,501	2,525	168%
8	Ecuador	4,522	7,996	177%
9	Guatemala	1,388	3,123	225%
10	Nicaragua	722	1,068	148%
11	Panama	854	1,606	188%
12	Chile	9,644	18,046	187%
13	Guyana	309	407	132%
14	Paraguay	617	1,058	171%
15	Belize	85	223	262%
16	Honduras	707	2,028	287%
17	Cuba	8,747	6,641	76%
18	Costa Rica	796	1,993	250%
19	Jamaica	2,172	2,771	128%
20	El Salvador	714	1,746	245%
21	Haiti	271	482	178%
22	Uruguay	1,067	1,517	142%
	<b>Total</b>	<b>278,287</b>	<b>365,303</b>	131%

In 1990 emissions related to deforestation were equal to 173 million tons of carbon. \*\* In 2005 emissions related to deforestation were equal to 290 million tons of carbon  
Reference: Gregg Marland, Tom Borden, Robert J. Andres "Carbon Dioxide Information

Analysis Center. ” Oak Ridge National Laboratory, August 2008. Available at: [http://cdiac.ornl.gov/trends/emis/meth\\_reg.html](http://cdiac.ornl.gov/trends/emis/meth_reg.html)

Restoring forests and halting deforestation can be accomplished by creatively using carbon credits and promoting public investment in reforestation projects and in restoring other ecosystems, such as grasslands, which could seize 500 million metric tons of carbon and recover part of the 200 million metric tons of CO<sub>2</sub> lost from the soil. In addition, emissions could be reduced by changing current agricultural and livestock-raising methods, from the intense use of fossil-fuel based chemical fertilizers, to organic materials. Countries should look at indigenous agricultural methods that return carbon to the soil and can raise yields in a sustainable manner.

A bridge needs to be established between microfinance and environmental protection. A new consensus is developing that what is good for the environment is good for development and for the poor. This needs to be the Latin American consensus. There are many successful reforestation projects in Latin America carried out on a small scale that are good for the poor and the environment, as well as successful microfinance projects that promote alternative energies in rural areas. But these must be documented so that policy can be affected on a larger scale. Most of what happens in the environmental field at the community level can be considered for scaling-up to the national level.

Secondly, although many countries in Latin America are not major CO<sub>2</sub> emission producers today, they are fast becoming urbanized, with a resulting increase in their emissions. They can take many of the same steps to reduce the use of fossil fuels as developed countries.

The best example is the alcohol program in Brazil. In some ways, ethanol is superior to gasoline for engine performance, and, given that ethanol is produced from an agricultural product (often sugar cane), it is renewable except for the use of fossil fuels (less than 10%) in the manufacture of fertilizers for growing the cane. The *bagasse* (the fibrous residue remaining when the stalks are crushed to remove the juice) from sugar cane is used as fuel to produce the vapor and electricity necessary for the manufacture of ethanol. The ethanol price in Brazil became competitive with gasoline when oil prices reached US\$40 per barrel. The emission of gases from the greenhouse effect in the urban sector in Brazil, excluding the contribution from deforestation in the Amazon rainforest, diminished 15% due to the use of ethanol as a substitute for gasoline.

The fact that Latin America is highly urbanized opens yet other possibilities for the reduction of greenhouse gases. Latin American cities have characteristics similar to those in southern Europe, such as Lisbon or Rome, except for the fact that the weather in Latin America is more pleasant, with little need for residential heating. The opportunities for the

reduction of emissions are mainly in transportation, by subsidizing metro construction and mass-transit surface systems in urban corridors. These measures have other advantages since they do not only reduce local pollution, but also urban gridlock. Other areas to work on are optimizing building construction to provide cooler spaces with less need for air conditioning, and the use of more efficient equipment in refrigeration and air conditioning.

### **Policy Recommendations:**

- Restore forests and halt deforestation by creatively using carbon credits. Promote public investment in reforestation projects, and in restoring other ecosystems, such as grasslands.
- Change current methods of agricultural and livestock raising, from the intensive use of fossil-fuel-based chemical fertilizers to organic materials. Scale-up to commercial farms, indigenous agricultural methods that return carbon to the soil and that can raise yields in a sustainable manner. Support projects to protect and increase biodiversity, improve water-harvest and micro-irrigation systems, and protect natural resources, focusing on rural and indigenous areas.
- Establish a bridge between micro-credit and environmental protection. For example, many successful reforestation projects in Latin America are carried out on a small scale and are good for the poor and the environment. Other micro-credit projects promote alternative energies in rural areas. Projects in the environmental field that are successful at the community level should be considered for scaling-up to the national level.
- Continue to develop renewable substitutes for fossil fuels, such as in the case of Brazil's ethanol production, and reduce emissions in urban areas by subsidizing metro construction and mass-transit surface systems in urban corridors, by optimizing building construction to provide cooler spaces with less need for air conditioning, and by using more efficient equipment in refrigeration and air conditioning.
- Reduce the ratio of CO<sub>2</sub> emissions to energy expenditures.

### **The Presidents' Commentary on Climate Change and the Poor.**

*Lionel Jospin, France.* First, I want to thank Presidents Toledo and Cardoso for inviting me to this important international forum. With industrialization, the emission of gases affecting the climate have increased significantly, especially in the last twenty years. The impact has been particularly great in poor tropical countries because of the increase in rains and droughts. If we do not act immediately, temperature will continue rising in an irreversible

way. Global warming will not only increase poverty but will also reduce the capacity of developing countries to recover from the global financial and economic crisis. The most vulnerable groups, namely the poor, are most exposed, and the Millennium Goals are put into question.

We need a real consensus to reduce the impact of climate change. The industrialized countries need to continue fulfilling the accords signed in Kyoto to reduce emissions. But the developing countries also have to establish their goals voluntarily in reducing emissions—especially China and India—for which the developed countries need to channel technical assistance. It has been estimated that an average of \$10 billion per year is required in developing countries for projects to reduce the vulnerability of the poorest groups, and to promote more equitable economic growth. Reducing the risk and vulnerability of the poor in the face of climate change and the financial crisis is our biggest current challenge.

**Fernando Henrique Cardoso, Brazil.** The central question of the climate, financial, and economic crises in which we live is the crisis of the reigning paradigm of Western civilization. The climate change generated by the indiscriminate use of natural resources and fossil fuels is endangering the life of our planet for the first time in history. The financial crisis demonstrates the collapse of values based on ambition and speculation, in which humanity is accorded secondary importance. The current crisis requires profound changes in institutions and values, restoring the Renaissance principle of putting the human being at the center of everything. We will not progress unless we change our underlying model of civilization. Defending life is fundamental, and that implies the preservation of the environment and the creation of an economy that respects people.

**Vinicio Cerezo, Guatemala.** The task of overcoming the environmental crisis is global. We cannot act in an isolated fashion. All countries that are conscious of this problem have to make an effort to move collectively to recover the environmental stability of the planet, simultaneously confronting poverty and the food crisis, which both could get worse with climate change. Two fundamental themes in Latin American relations with the European Union should be the environment and social conditions. These have already been prioritized in EU policies and have been part of trade and other commercial negotiations between the two regions.

**Fernando de la Rúa, Argentina.** Global warming is very important, but I would tie this issue in with defending the environment more generally. I refer to the contamination of water in urban areas, and the contamination of the water table, which represents pollution “from below,” in contrast to contamination of the atmosphere, representing pollution “from above.”

**Eduardo Stein, Guatemala.** In the 1980s, Central America was on the verge of a regional war, inspired by U. S. President Reagan. The countries of the region met in the small villa of Esquipulas, invited by President Cerezo, and without the presence of the United States, for the first time in the region’s history, negotiating a package of incentives for peace in the region, that included dialogue with insurgent groups to reincorporate them into democratic life and to achieve peace in Central America through negotiation instead of military action.



By working in concert with the European Union, we were able to make important strides forward, and we could do the same in our efforts to implant a Social Agenda for Democracy and to confront climate change in Latin America.

***Hipólito Mejía, Dominican Republic.*** The frequency and aggressiveness of hurricanes in the Caribbean region and in Central America seem to have intensified; this is having a devastating effect on coastal areas, and affects beaches and the tourism industry. ...Since sugarcane is an efficient energy converter for the production of ethanol, many countries in the region with a large amount of land dedicated to this crop, as in the case of the Dominican Republic, should give greater attention to this energy source as a substitute for fossil fuels.

### **3.13. Armed Violence, Personal Security, and Poverty**

While each country and community experiences violence in distinct ways, the temporal scope and scale of armed violence appears to be escalating throughout Latin America. In 2004, the last year for which comparable victimization statistics are available, Central and South America registered homicide rates of 29.3 and 25.9 per 100,000, respectively – roughly three times higher than the global average of 7.6 per 100,000. The Caribbean rate of 18.1 is still more than twice as high as the global average. Just as alarming, it appears that between 2004 and 2006 homicides increased in Central and South America. Homicide rates are declining in most other parts of the world, especially Western and Eastern Europe.

It is important to also look behind the statistics to understand how and who are most at risk of armed violence. Firearms – especially revolvers and pistols, but also assault rifles and grenades – feature prominently in Latin America homicides. As in other parts of the world, the overwhelming majority of those perpetrating and being victimized by armed violence in Latin America are males of 15 to 29 years old. Young males are four to five times more likely to be killed by violence than females. Moreover, as homicide levels rise, deaths appear to be increasingly concentrated among young males, particularly those between the ages of 20 and 29. In countries that already experience relatively high homicide levels, female homicides represent between 7 and 13 percent of total homicides, as is the case in Colombia and El Salvador.

Demographic and Health Surveys (DHS) can usefully capture relevant information on sexual and gender-based violence. For example, in two countries – Honduras and Nicaragua – comparable data was collected between 1997 and 2005. They reveal broadly similar trends that can also potentially be extrapolated to a number of other comparator countries in Latin America. For example, in Honduras, 17 percent of all married women have experienced violence, 15 percent have suffered violence at the hands of a family member or a spouse/partner, while 13 percent reported experiencing victimization by a spouse/partner.

The rates are two percentage points higher in each category in Nicaragua (19, 15, and 13 percent respectively).

The economic and social burden of armed violence in Latin America is significant, and it strains other formal and informal sectors of the economy. The most obvious cost generated by inter-personal violence is the value of resources used in the attempt to control, contain, or treat its consequences. This includes public and private expenditures on police, security systems, and judicial services, which range from 2 to 9 percent of the GDP for countries across the region. These expenses can be described as ‘unproductive’ in economic terms.

*Assessing Risk and Resilience.* It is now well established that certain risks and protective factors are associated with the increase or decrease of interpersonal violence across time and space.

- Recent studies highlight the importance of socio-economic inequality and poverty as critical factors shaping inter-personal violence. While poverty can trigger violence, it generally only does so when combined with income disparities and social exclusion.
- Unemployment and underemployment of young males is also routinely associated with high rates of violence in Latin America.
- There are considerable challenges associated with an ineffective justice system and correctional services in Central and South America. The inability to prosecute offenders, the persistence of corruption, and the absence of adequate prison facilities all foster a widely held perception of impunity for homicide.
- Another structural factor attributed to high violence rates in the region is rapid and unregulated urban growth. These fast growing cities are usually accompanied by increasing levels of violence and crime, which pose serious challenges to the provision of security and justice.
- The level of violence is related to the institutional weaknesses of police, and criminal-justice and correctional services. Such weakness is a consequence of many factors, such as entrenched corruption, impunity, mistrust, weak service delivery, and the incapacity to deal with and adapt to new and more sophisticated forms of (trans-national) criminality.
- (Domestic) violence in Latin America appears to be nourished by a culture that celebrates machismo and violent masculinities. Women are particularly vulnerable to abuse by their partners in societies where there are marked inequalities between men and women, rigidly demarcated gender roles, cultural norms that support a man’s

right to sex regardless of a woman's expressed consent, and weak sanctions against such behavior.

- The United Nations Office for Drugs and Crime (UNODC) attributes rising violence (including inter-personal violence) in Latin America to narcotics trafficking. According to UNODC, drug trafficking exacerbates crime due to violence generated by turf battles; the normalization of illegal behaviors and the banalisation of violence; the diversion of criminal-justice resources from other activities; the widespread availability of firearms; and the undermining and corruption of service-providing institutions.
- Youth gangs constitute yet another phenomenon closely associated with the onset and virulence of interpersonal violence in Latin America, especially in Central America, the Caribbean, and certain South American countries like Brazil.
- One of the major proximate risks associated with increasing inter-personal violence in Latin America relates to the widespread availability of unregulated small arms and light weapons.

*Prevention and Reduction Programs.* Just as there is no single cause of armed violence in Latin America, there is no single solution. Given the complexity of the issue, prevention programs must take many risk factors into account. Interventions are frequently divided into two categories: actions geared towards violence control, and actions geared towards violence prevention.

- Firearms-control measures have been adopted in several Latin American countries.
- An important strategy to enhance protective and resiliency factors associated with preventing violence relates to urban renewal and environmental design. Another 'urban' approach adopted to promote violence prevention and reduction was pioneered in Colombia, and involved support to devolved local security councils.
- An effective criminal-justice response to armed violence is central to prevention and reduction. Effective laws and legitimate police services offer a critical deterrent effect and can prevent re-offending. Indeed, a functioning criminal justice system boosts public confidence and perceptions of safety and security.
- Likewise, innovative neighborhood-watch committees have often been established that encourage collaborative relations between community police officers and local residents.

- To combat youth violence, progressive interventions such as Brazil's Fight for Peace offer instructive lessons in ways of preventing violence through early prevention. Fight for Peace is both a "social project" and a boxing club, registered by the Rio de Janeiro State Boxing Federation, where boys in the Mare favela are instructed in civil rights and boxing.
- To combat domestic violence in Colombia, the number of '*comisarias de familia*' (family police stations) has expanded across Bogota between 1996 and 2002 from 5 to 20. The beneficiaries perceived that their participation in the program also contributed to the reduction of crime and violence.

### ***Policy Recommendations***

Notwithstanding alarming rates of crime and victimization, Latin America features an array of emerging good practices and lessons with respect to preventing and reducing interpersonal violence:

- Increase national and metropolitan surveillance on common crime. Undertake assessments and diagnostics of inter-personal violence by gathering data on the capacity of existing justice and policing services, together with national and municipal surveillance capacities. Also, establish a system of collecting quantitative and qualitative information on the extent and severity of common crime - including a profile of perpetrators, victims, risks and protective factors.
- Invest appropriate resources in professionalizing and modernizing justice and law-enforcement agencies. Promote inter-agency collaboration, with a single agency adopting a leadership role. Agencies need to enforce existing laws and agreements on arms control.
- Implement evidence-based, multi-sector, integrated interventions. Early investment in evidence collection and analysis is essential to designing effective and well-targeted interventions.
- Encourage local ownership in the design, implementation, and monitoring of inter-personal violence prevention and reduction initiatives. Involve local authorities and the community in developing and implementing violence prevention and reduction strategies. To be effective, violence-reduction efforts must be embraced by multiple entities – including government and civil society. This effort requires the judicial system, police force, educational and health institutions, the media, and the community to be involved in project planning and execution.

## **Presidential Commentary on Armed Violence, Personal Security, and Poverty**

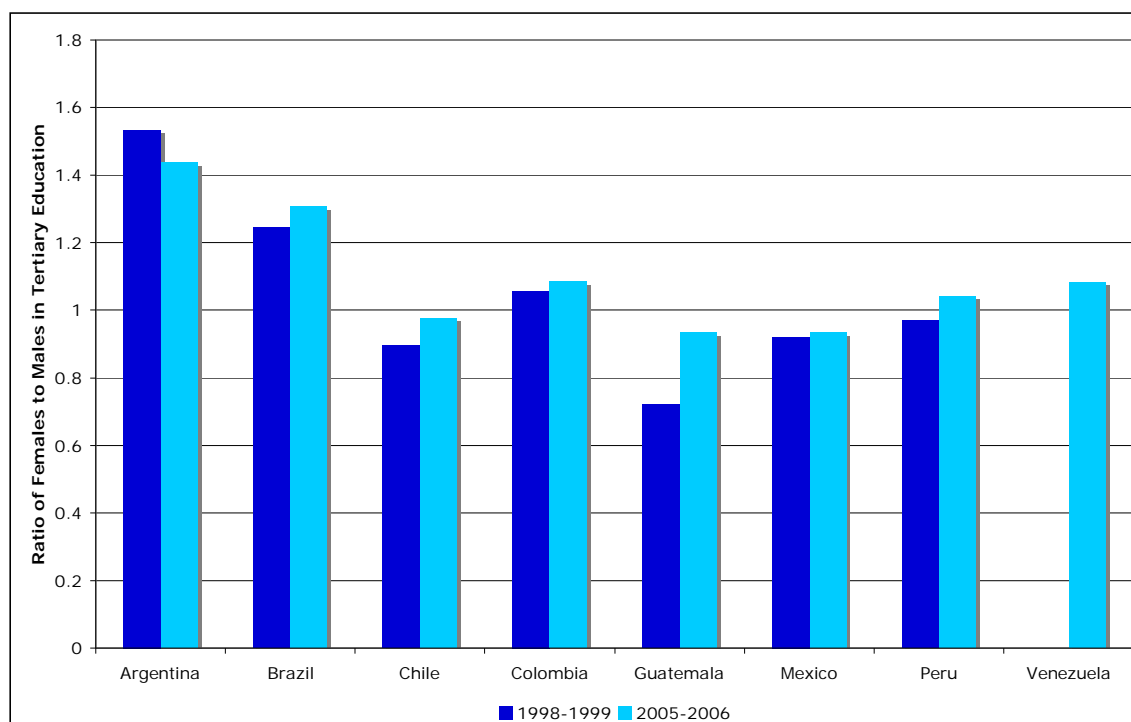
*Hipólito Mejía, Dominican Republic.* The chilling statistics on the phenomenon of violence leave no doubt about the structural links that exist between poverty, social exclusion, and citizen security. Public policies addressed to deal with this evil should be focused towards the creation of social-inclusion spaces for young people of both sexes, focused on employment, education and self-expression (for example: sports, cultural activities, and recreation). This would strengthen the preventive dimension of public and private initiatives.

### **3.14. Women in Latin America and the Deepening of Democracy**

Many of the previous sections have focused on how, by increasing the participation of women in the economy and polity of the region, economic growth can improve and poverty can be reduced. Improvements in gender equality influence poverty reduction and growth directly through women's greater labor-force participation, productivity, and earnings, as well as through beneficial effects on their children's health, nutrition, and education. Today, in Latin America, 41 percent of the labor force is comprised of women, up from 30 percent just 25 years ago.

Women of the same age and education as men are paid less than men in Latin America, but the gender wage gap has closed considerably over the past 25 years. Furthermore, women are closing the gap by increasing their levels of education faster than men. Figure 15 shows that in many countries of the region, women are more likely to attend university than men. Although not shown here, in most of the region, girls' enrollment in secondary education also exceeds boys' enrollment. Thus, although women may get paid less than men for equal education and work experience, by taking more schooling than men, they are likely to close part of the gender wage gap.

**Figure 15. Latin America: Ratio of Females to Males in Higher Education, 1998/99 and 2005/06, by Country.**



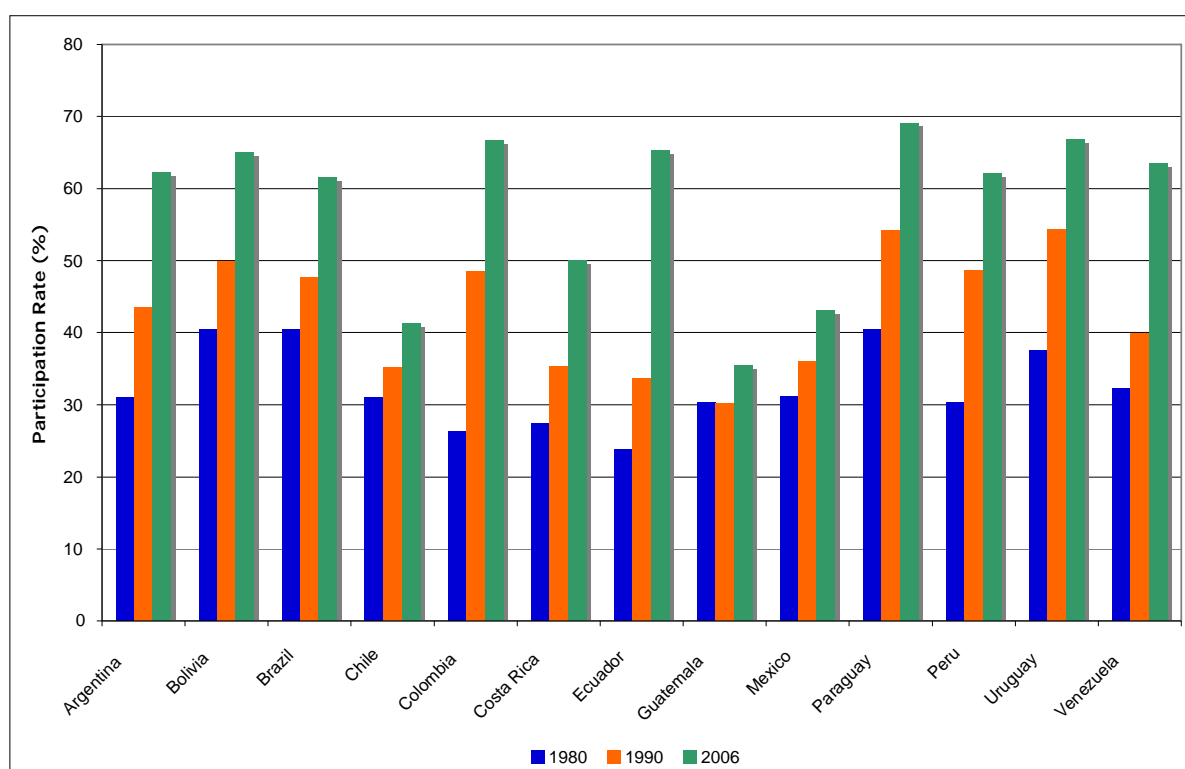
Source: World Bank (n.d.) *World Bank Indicators*. Washington, DC: World Bank.

The expansion of education for girls relative to boys makes this much less of an issue in Latin America than in other parts of the developing world, notably South Asia and parts of Africa and the MENA region. But there still exist pockets of educational inequality for girls in Latin America. Indigenous regions and other low-income rural areas, where girls are likely to be working at home caring for other children, still have lower primary-school completion rates for girls than boys. Nevertheless, overall, the main educational equity issues in Latin America are the differential access to the quantity and quality of education by social class and ethnic group, and not gender.

Success in educating women is beginning to translate into higher labor-force participation for women. Although the average labor-force participation rate for women (ages 20-49) in Latin America is 60 percent or less (2000-04), it has increased significantly in the last two decades (Figure 16).

Even so, in some countries with relatively high women’s labor-force participation rates—for example, Brazil, Colombia, Paraguay, and Peru—a high proportion of the women employed for wages are domestic servants. In Paraguay, this proportion is about 50 percent, in Brazil, about 40 percent, and in Peru, 25-30 percent. Domestic service in Latin America is often a precarious existence, marked by low pay and almost no legal protection.

Figure 16. Latin America: Female Labor Force Participation Rate, 1980-2006, by Country (percent).



Source: World Bank (n.d.). *World Bank Indicators*. Washington, DC: World Bank.

Women in Latin America are also marginalized from mainstream society in another important way. First, “... a surprising number of Latin American states do not recognize women’s full legal capacity.”<sup>15</sup> Second, they are subject to domestic violence and rape with little recourse to a justice system that privileges men. This is particularly true for poorer women who are still implicitly considered property. Violence is used against them as an

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<sup>15</sup> Sylvia H. Chant and Nikki Craske (2003). *Gender in Latin America*. New Brunswick, NJ: Rutgers University Press, p. 32.

instrument of power designed to exclude them from their rights as fully and equally participating members of society. To deepen democracy and create the conditions for fully participative economic development, it is imperative to implement laws that protect women against sexual and domestic violence.

Divorce is now legal in every country of South America except Chile, and legal divorce is now the norm throughout Latin America, although divorce and separation rates remain relatively low (except for Venezuela). One study of changes in divorce rates in Mexico argues that the liberalization of divorce laws had little impact on higher rates of divorce. Nevertheless, one of the major issues is women's rights in divorce concerning property held in common by the married couple as well as the definition of which property is held in common. The laws governing such "community property" vary from country to country, and how they are framed can have a profound effect on whether women who separate or divorce from their husbands are relegated to poverty.

In addition to changing laws to protect women economically and implementing laws against violence aimed at women, the crucial role that women play in organizing the family, providing for children, and earning income to sustain the family, suggests that many of the interventions designed to increase economic participation and reduce poverty should be aimed at women. Women in regions of Latin America where migration rates to other countries are high, or even where rural men migrate to cities for shorter periods of work, have been left in charge of the agricultural economy, and are likely to be even more important in any efforts to increase local food production, improve sanitation, improve local health, or produce more local energy using solar or wind power.

In the various policy-action sections of this Social Agenda, a number of specific policies have emerged that focus on women:

- Conditional cash transfers in Peru, for example, are generally given to the mother of the family since she traditionally manages her children's healthcare, school attendance, and certainly pre-natal care when she is pregnant. Therefore, these are the conditional elements of the cash transfer. Micro-credit programs are often aimed at women, and women have been extremely successful at developing ongoing micro-enterprises that help families emerge from poverty. Women working in the informal labor market have less access to capital but have higher returns on their investment, according to a recent study of informal labor markets in Lima, Peru.

Government programs targeting improved health and nutrition for low-income families need to make women the center of the educational core of these programs.

Alternative energy based on solar units in rural villages can use local women as energy entrepreneurs who organize and manage village energy provision.



- Much more attention needs to be paid to wage discrimination against women and protecting women against exclusion or control through violence and limited property rights under marriage and divorce laws.

The eradication of poverty and the inclusion of marginalized groups in economic development and political life cannot go forward in Latin America without a much greater focus on women as core participants in the development process. Progressive governments must lead the way in transforming societies that have long kept one half of their potential human capacity under often severe constraints.

### **Policy Recommendations:**

- Promote laws that provide women with legal recourse to address wage discrimination.
- Pass strong legislation to protect women against domestic violence and rape, and to provide equal property rights under marriage and divorce laws.
- Give conditional cash transfers to the mother of the family. She traditionally manages her children's nutrition, healthcare, school attendance, and certainly pre-natal care when she is pregnant; these are the conditional elements of the cash transfer, so women are the appropriate recipients.
- Maintain micro-finance programs' focus on women. Women have been extremely successful at developing ongoing micro-enterprises that help families emerge from poverty; therefore, women should have equal or even preferential access to loans for running those businesses (particularly if women are shown to have better loan-repayment records than men). MFIs can allow women to become alternative-energy entrepreneurs who organize and manage solar units and windmills in rural villages.
- Achieve increasingly equal representation of women in national and regional governments, including legislatures, the judiciary, and the cabinet.

### **Presidential Commentary on Women in Latin America and the Deepening of Democracy**

*Hipólito Mejía, Dominican Republic.* I fully agree with the view that gender equity is a necessary condition for overcoming poverty in the majority of our countries. This is not only a matter of women constituting half of the population, but also due to fact that women play multiple roles in the building and preservation of the social and political fabric of our societies. I recommend the promotion of laws that guarantee the equitable political participation of women, and that protect them against any form of violence, especially domestic violence.

### **3.15. Indigenous Peoples in Latin America and the Deepening of Democracy**

Indigenous peoples (and Latin Americans of African descent) are, on average, much more likely to have less schooling, have less access to potable water and sanitation, have inadequate nutrition, have poorer health, and all the other attributes associated with poverty. However, even those indigenous Latin Americans (and those of African descent) with the same human capital as their more European-origin counterparts are more likely to be poor and excluded from political and social power associated with mainstream Latin American life. Correspondingly, the greater the fraction of indigenous population in a Latin American country, the greater is the country's poverty rate and the lower its human-development indicators. Furthermore, as recent events in the Peruvian Amazon have borne out, the traditional struggles of indigenous peoples to participate fully in their countries' political processes—as reflected by the long-running armed conflict in Guatemala, the Zapatista Movement in Mexico, and the political shifts in Bolivia and Ecuador—have now extended themselves to the major issue of climate change and the potential carbon wealth of Latin American vast forests.

In recognition of the long exclusion of the region's indigenous peoples, the United Nations declared the Decade of Indigenous Peoples in 1994-2004. As a result, indigenous representation increased in legislatures, especially in Bolivia. Yet, the poverty rate among indigenous groups generally did not improve during the decade any more than the rest of the population despite their initially higher poverty level. Thus, at the beginning of the 2000s, indigenous peoples were still reproducing their poverty with high rates of malnutrition among their children (see Figure 17).

The gap in the number of years of education taken by indigenous youth compared to non-indigenous youth in the region is gradually declining thanks to the universalization of rural primary education and the major expansion of secondary education in the 1990s. But indigenous pupils have much lower performance in school, even compared to the low average student performance prevalent in Latin America's schools. Typically, indigenous students go to school with other indigenous students. Because their schools are generally under-resourced, such concentrations may have a negative impact on their academic performance. Furthermore, as in Peru, the teachers sent to these schools are often expected to deliver a bilingual, bicultural curriculum but are so poorly prepared that students end up learning little or nothing.

In Mexico in 2006, the average on a national test of Spanish language for third grade students in indigenous schools in two states with large indigenous populations –Chiapas and Guerrero– was 445, versus 489 scored by students in rural public schools. In Mexico as a whole students in Indigenous schools scored 25 points lower in Spanish than third graders in rural public schools. However, in mathematics, the difference was much larger – 80 points less in Chiapas, 50 in Guerrero, and 45 in Mexico as a whole (422, versus 469 for students in

rural public schools). Only 28 percent of students in indigenous schools achieved the basic level or above compared to 49 percent in rural public schools.<sup>16</sup> A recent study of Indigenous education in Mexico shows that, even within matching socioeconomic class groups in rural areas, students in Indigenous schools score lower on a sixth grade test and that one of the most important correlates of that lower score is teacher quality.<sup>17</sup> The study also shows that higher teacher quality has a bigger impact in Indigenous schools than in rural non-Indigenous schools. Similarly, in Panama, in 2005, third grade students in Indigenous schools scored 0.4 standard deviations lower in Spanish and 0.75 standard deviations lower in mathematics on a national test than students in rural public schools, and, in Brazil, mulattos, blacks, and indigenous peoples score lower on the national test (SAEB) applied to samples of fourth, eighth, and third-year secondary graders.<sup>18</sup> Black students score the lowest among these three groups, and the higher the grade the larger the test score gap between all three minority groups and white Brazilians. This is true despite a decline in the percentage of the sample represented by each minority group in the higher grades. That means that, even as lower-scoring (and poorer) minorities drop out of school, the achievement gap increases, suggesting that the role of school quality differences in Brazil in the minority achievement gap increases with more years of schooling.

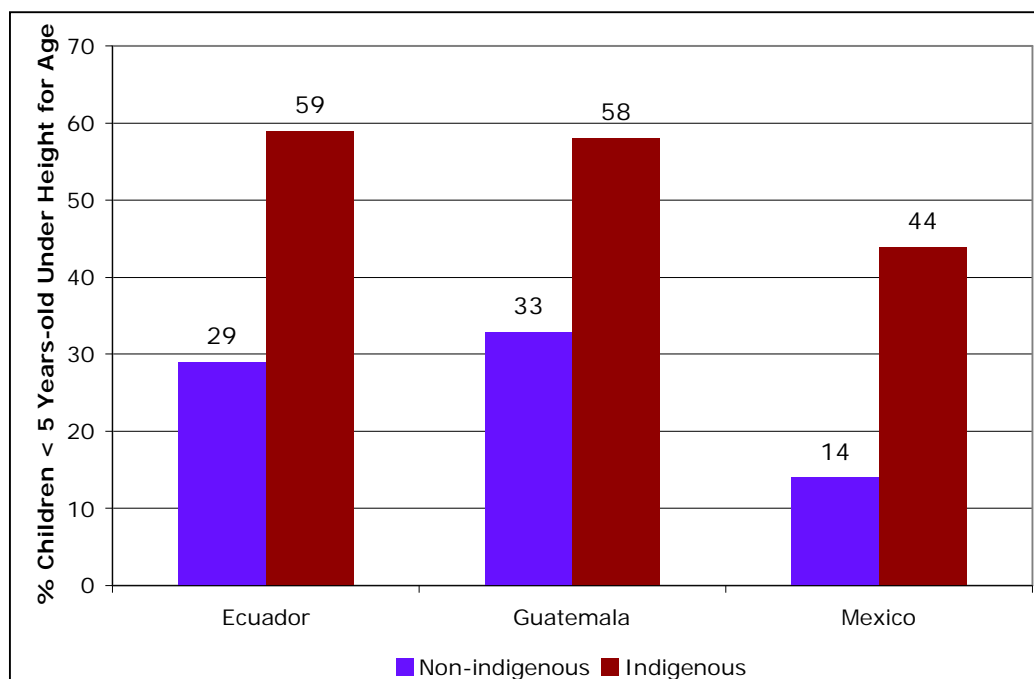
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<sup>16</sup> <sup>16</sup> Backoff, E., Andrade, E., Sanchez, A., & Peón, M. (2007). Learning Spanish, mathematics, natural science and social science in Mexico basic education: Third Grade Elementary. Mexico, DF: Instituto Nacional de Evaluación Educativa (INEE).

<sup>17</sup> Instituto Nacional de Evaluación Educativa (INEE). (2008). *Annual Report, 2007*. Mexico: DF: INEE.

<sup>18</sup> Carnoy, M., Luschei, T., Lynch, D., Marshall, J. Naranjo, B., Ruby, A., & Sorto, A. (2007). *Improving Panama's educational system for the 21<sup>st</sup> century economy and society*. Philadelphia, PA: Graduate School of Education, University of Pennsylvania (mimeo). Rosenberg, F. (2004). Race and gender inequalities in the Brazilian educational system. In D. Winkler & S. Cueto (Eds.), *Ethnicity, race, gender, and education in Latin America* (pp. 239-282). Washington, DC: Educational Reform Promotion Program in Latin America and the Caribbean.

**Figure 17. Latin America: Chronic Malnutrition in Indigenous and Non-Indigenous Children, Ecuador, Guatemala, and Mexico, 2000 (percent).**



Source: Gillette Hall (2008). “Indigenous Peoples, Poverty, and Human Development in Latin America.” World Bank, Social Development Department.

Many analysts argue that the most important factors needed to improve the economic and social conditions of indigenous peoples in the region are those that would improve their nutrition, health, and education—i.e., reducing indigenous peoples’ poverty gap requires investing heavily and early in indigenous children. The Social Agenda has outlined strategies for accomplishing this goal. Nevertheless, even were the human capital of indigenous peoples to be substantially increased, it is still likely that they would face labor market and social and political discrimination. Therefore, confronting race/ethnic discrimination against indigenous peoples (and those of African origin) is also crucial to developing and deepening equity and democracy in the region.

Unequal treatment of indigenous peoples has destabilized the region politically for decades and will continue to do so unless Latin American governments take bold steps to treat the rights and aspirations of these groups seriously. The most recent example of the lack of progress in this direction took place in Peru, where the government is trying to pass laws that would aggressively endanger the rights of Peru’s indigenous people, as well as the conservation of the Amazon’s natural resources.

### **Policy Recommendations:**

In addition to measures discussed in others sections that combat poverty more generally, a change in policy direction is needed to address the specific needs of indigenous groups:

- Indigenous organizations should shift their focus from political empowerment towards making economic growth a primary goal, which is ultimately necessary to achieve autonomy. Within the political realm, however, instead of focusing on controlling institutions, indigenous movements should concentrate on devising solid content, mechanisms, and strategies for the programs that they would like to implement. To do so, indigenous peoples – and indeed society as a whole – will need to continue increasing their access to higher education.
- One of the most important challenges for indigenous peoples (especially in the Amazon) is the preservation of their territory. Since the fragmentation of a territory can lead to the ethnocide of its inhabitants, fair processes for resolving long-standing indigenous claims to territory and land disputes should be urgent priorities for Latin American countries.
- Bilingual education in indigenous languages should be strengthened – not eradicated. Efforts to improve education for native students should permanently safeguard and preserve indigenous languages and cultures, while also creating competitive knowledge aimed towards equalizing opportunities for indigenous and non-indigenous youth.
- Since discrimination ostensibly accounts for a significant fraction of the earnings gap between indigenous and non-indigenous peoples in Latin America, governments should establish enforceable, anti-discrimination legal frameworks. In addition, society as a whole should embrace tolerance and conciliation towards different ways of life, beliefs, and concepts of progress. Specifically, the media ought to be made accountable, under anti-discrimination laws, for inciting prejudice.

### **3.16. Deepening Democracy in Latin America: Reform Political and Legal Institutions**

Viewed in a long historical perspective, the progress of democracy in Latin America over the last three decades has been extraordinary. Thirty years ago, most of the regimes in Latin America were still under military or one-party dictatorships, and human rights were routinely trampled by authoritarian abuses and civil war. Today, every one of the 33 states of Latin America and the Caribbean, except Cuba, is a civilian, constitutional regime with multi-party, competitive elections. In almost all of these states, save perhaps for Venezuela and Haiti, the

electoral playing field is sufficiently free and fair so that these systems can be termed at least “electoral democracies.” In at least thirty states of Latin America and the Caribbean, then, electoral democracy prevails: government leaders are selected and can be—and frequently *are*—replaced in regular, more or less free, and fair elections.

A number of Latin American countries have also made significant progress in institutionalizing other dimensions of “liberal democracy,” such as an independent judiciary, extensive protection for civil liberties and the rule of law, a free press, and a pluralistic and open civil society. Even in many countries where the rule of law remains tenuous and partial, civilian regimes have made significant progress in rolling-back the prerogatives of the military and institutionalizing an ethic of civilian, constitutional rule.

These are huge accomplishments, without precedent in the history of Latin America. But they remain only partial accomplishments. Probably only in a few Latin American countries can we now say that democracy is truly consolidated; that is, that the normative and behavioral commitment to democracy as “the only game in town” is now so deeply rooted and broadly shared at all levels of society, and among all key political and social actors, that a reversal of democracy is perceived to be unthinkable.

A stable and high-quality democracy requires not only that the military coup and the *autogolpe*<sup>19</sup> be permanently banished as options for political change, but also that all political actors commit to respecting the constitutional norms of democracy, and the right of opposing political voices and parties to have their say. Democracy will not be truly stable and effective in Latin America until the culture of democracy—including tolerance for differences and mutual respect between opposing political forces—takes hold among political elites, parties, and broader societal groups. Additionally, it is not enough for leaders to be democratically elected; they also must govern democratically and preside over a peaceful transition of power at the end of their terms.

If the free and peaceful struggle for power through the ballot box is becoming entrenched in Latin America, other dimensions of democracy are not. Latin America remains the most unequal region in the world in terms of income and wealth distribution. In a number of Latin American states, particularly in the Andean region, extreme inequality has merged with the historic exclusion of the indigenous majority/plurality to generate strong populist movements and demands for political change. For ethnic and racial minorities and the vast legions of poor, democracy has yet to bring the full rights implied by democratic citizenship.

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<sup>19</sup> The “self-coup” – i.e., a power-grab by the executive. We have seen a trend in the region for the executive to bypass the legislature and judiciary by calling for popular referenda that seek to constitutionally eradicate term limits. These circumventions of the checks and balances of power threaten to undermine the democratic system.

In much of the region, crime and violence are rampant, the police demand bribes and abuse individual rights, the state is corrupt and unresponsive, the judiciary is feeble and horribly backlogged, and justice is partial and agonizingly slow, if it comes at all. In short, democracy is real but shallow. Until it becomes deeper, more liberal, and more accountable, it will continue to be vulnerable to the temptations of authoritarian populism, which promises to meet immediate material needs at the long-term (hidden) cost of individual rights, democratic checks and balances, and sustained, quality economic growth.

*The Pervasive Problem of Crime, Violence, and Institutionalized Violence.* More than anything else, democracy in Latin America continues to be degraded and disfigured by a weak rule of law. To be sure, the region has come a long way from the days of brutal military dictatorships and even the tentative regime transitions. Yet a vexing syndrome of violence, criminality, and abuse persists, driven by poverty, unemployment, inequality, and the weakness and corruption of state social services and criminal justice systems. Over the past decade, the nexus of poverty, crime, violence, drug trafficking, and state abuse has intensified with the rise of youth gangs, drawn primarily from the ranks of the unemployed and undereducated. Homicide rates have soared to the highest in the world, while corrupt and ill-equipped police struggle to cope with myriad problems. The strength of organized-crime networks underscores that the most serious challenge for democratic governability in Latin America is not the overpowering strength of states, but rather their incapacity to implement policies effectively, and their lack of effective authority.

As in the United States, it is mainly poor communities that are victimized by government policies that strongly favor elites or policies that are ineffective in reaching the poor. This victimization feeds demands (or tolerance) for vigilante justice, and countervailing public and media pressure for get-tough policing guidelines that trample civil liberties and incarcerate growing numbers of troubled, deprived, and violent young people in dysfunctional and overcrowded prisons, which are the equivalent of “gangland finishing schools.” In prison, detainees face physical abuse, sexual assault, and torture. Moreover, police and prosecutors do a poor job of investigating crimes, as well as state abuses. The state does an even worse job of giving the weak and the accused access to justice, including legal representation.

*Pervasive Corruption.* High levels of corruption undermine every dimension of governance, and undermine the rule of law. Corruption makes it more difficult to spend resources effectively on social needs. It reduces the efficiency of public investments. It distorts investment priorities and discourages investors from risking their capital in the face of rigged awarding of contracts, pervasive demands for bribes, and uncertain legal protection for property rights. In the political arena, corruption can generate cynical deals between disparate parties to provide legal immunity for past wrongdoing, as in Nicaragua.

The result is the widespread cynicism about parties and politicians that has taken hold in Latin America, a cynicism that in turn aggravates the fragmentation and volatility of the party

system. The combination of an angry, disaffected public and a weak, personality-driven party system makes it exceedingly difficult to build the political coalitions necessary to enact bold state and economic reforms, and can bring down a presidency very quickly.

Between 1985 and 2004, a dozen Latin American presidents had their terms ended prematurely by impeachment or mass demonstrations that forced their resignations. Since then, presidents have again been “abruptly forced out of office” by mass street protests in Bolivia (for the third time in twenty years) and in Ecuador (for the third time in a decade). When Nestor Kirchner took office in May 2003, he was the sixth Argentine president in eighteen months. While public opinion considered many of these presidents to be corrupt or incompetent, it is also true that a distinctly Latin American social and political dynamic has been at work contributing to this string of failed presidencies.

If democracy is to survive, prosper, and become consolidated in Latin America, it must work for and respond to all social groups – not only for the rich and the middle class. Latin American countries must therefore strengthen the political participation of the extreme poor, the working poor, the informal sector, and marginalized minority groups as well, while simultaneously respecting cultural diversity. Access to quality healthcare and education must be democratized.

However, the reverse is also true: If democracy is to work for the poor and marginalized of Latin America, the institutions of the entire society must also be strengthened. That is to say, any strategy to address poverty and inequality in Latin America through democracy must also have, as a significant component, a set of reforms to improve the quality of governance and to deepen democracy, transparency, and the rule of law.

Public-opinion survey data show that Latin American publics are among the most cynical and alienated among all the democracies of the world. They exhibit some of the lowest levels of trust in political parties and national assemblies, on average, of democracies anywhere in the world. Political reform of democratic governance must therefore address the cynicism that Latin Americans feel about their politics, politicians, and political institutions. To the extent possible, political reforms must substantively address the problems of corruption and abuse of power that drive this cynicism; these reforms *must be seen to be visibly* addressing these problems.

Today’s leaders must join efforts to construct a democracy in Latin America that delivers concrete and measurable results that go beyond government administrations, to give long-term continuity to state policy and bring greater stability to the region.

*The Requirements for Deepening Democracy in Latin America.* If democracy is to be consolidated and more deeply institutionalized in Latin America, it must deliver broadly distributed material progress.



- Democracies must command the fundamentals of economic policy in order to generate sustained growth; quality economic growth is a precondition for enabling proper social reforms to reduce poverty and inequality.
- These social reforms cannot wait for longer-term investments to work their gradual effects. Targeted programs are needed to address extreme poverty, such as micro-credit for micro-enterprise and the development of markets for the products of the very poor, conditional cash transfers, and healthcare and nutrition programs.
- Specific efforts are needed to strengthen the accountability and representation of democratic institutions. Specifically, the region's states must have an independent judicial system, an effective apparatus to monitor and control corruption, a pluralistic and independent press, and elected regional and local government.
- The overall governing capacity of the state needs to be strengthened as a professional administrative institution, so that it becomes more capable of serving citizens and implementing policies to improve people's health and welfare. Administrative reform, in turn, will require dramatic improvements in the ability of Latin American states to collect taxes (many of these states now collect less than 15 percent of GDP in taxes – less than half the level of advanced industrial democracies).

The following are some types of reforms that can reduce public cynicism and distrust in democratic institutions, strengthen public support for democracy, and thus generate the political capital and other resources necessary to reduce poverty and social injustice. To measure the impact of these policy recommendations in the future, it is advisable that the region and each country use today's existing indicators (such as those of Transparency International) to measure the level of democracy, accountability, and corruption.

### **Policy Recommendations:**

- **Improve Transparency:** Adopt both *active transparency measures*, which place as much government information as possible on the websites of government agencies, and *passive measures* (such as a Freedom of Information Act) that enable citizens to request and obtain government information that does not strictly need to be withheld in the interest of national security. Government ministries and agencies should detail, in an accessible way, how they are spending their budgets. Bidding for services, supplies, and new capital projects should be publicized on the Internet.
- **Enhance Responsiveness.** Government should make more creative and energetic use of new information technologies to engage citizens in a two-way dialogue on the practical issues of governance. Specifically, citizens should be given means to register complaints, via "hotlines," Internet sites, ombudsmen, etc., and to receive

replies to their petitions. Citizens should be able to file complaints and petitions through mobile-phone text messaging to a free government hotline.

- **Deliberative Democracy.** Communications technology can be used to structure a discussion on policy choices among a representative sample of citizens, at the local, regional, or national levels. First, a random sample of citizens is drawn. Then they are brought together in one place to hear and debate alternative policy options (or spending priorities). As a product of this more informed deliberation, the society may be able to arrive at a broader and more sustainable consensus on difficult policy and spending choices. At the national level, it may help to televise key portions or summaries of the deliberations.
- **Strengthen Accountability.** Democratically elected governments must do more, and must be perceived to be doing more, to control, expose, and punish corruption. In addition to the above measures, they should learn from successful instances of corruption control, such as Hong Kong's Independent Commission against Corruption (<http://www.icac.org.hk/en/home/index.html>), to modernize and strengthen ethical codes and means of monitoring and enforcement. This objective requires not only more substantial staffing and legal authority, but also vigorous campaigns of public education and innovative means for citizens to report tips and complaints about corruption.

#### **Additional Recommendations:**

- **Deepen Participation:** Governments should adopt innovative ways of deepening citizen participation in politics at all levels of government, with the dual goals of enabling a wider range of citizen voices to be heard, and of building a broader and more active national consensus on new policy initiatives. One promising innovation is the method of participatory budgeting pioneered at the municipal level in Brazil (in Porto Alegre). Citizens can be given the opportunity to consider alternative priorities for public investments in their local communities and to debate among themselves the relative merits of these different priorities. Legislative bodies can initiate or expand the use of public hearings to discuss proposed new legislation and public-spending alternatives. Some legislative hearings can be moved out of the capital and conducted in regional cities.
- **Increase Civic Education Efforts.** More vigorous civic-education efforts are needed – both within schools and in civil society – to teach ordinary citizens (including the poor and marginalized) about their rights as citizens, about the law, and about their rights and obligations under the law.

- **Incorporate Youth.** Develop social-networking technology via mobile phones (and also radio) to connect youth to politics and government, and to enable their voices to be heard.
- **Establish a Human-Rights Ombudsman.** This office would provide a channel through which the poor could deliver complaints and seek redress. This institution would have sub-offices around the country to provide access to marginalized segments of the population, and it would need to be well-resourced, politically independent, and impartial.

**Institutionalize / Expand Legal Aid.** Countries should have geographically well-distributed legal-aid offices, where the poor can receive legal assistance and advice.

- **Improve Policing.** The police are the first and often the only point of contact between the poor and the state. Too often, this interaction involves corruption, lawlessness, and physical abuse. Any strategy of making democracy work for the poor must involve comprehensive modernization of policing: Improving professionalism, accountability mechanisms, human-rights training and ethics; raising the pay and professional standards of police; investigating and punishing corruption more systematically; and introducing new strategies and mechanisms of community policing and dialogue between police forces and the local communities they serve.

### **Presidents' Commentary on Deepening Democracy in Latin America**

**Rodrigo Borja, Ecuador.** Democracy is more than a form of government; it is a way to organize society – one based on political, social, and economic participation, and one that integrates the social, economic, and political dimensions of government and social life. It is not simply the act of voting, but also the ability of the citizenry to participate economically and socially in the benefits produced by the democratic system.

**Vicente Fox, Mexico.** Why did we fall behind in the twentieth century? Between dictatorships and corrupt political parties, we lost valuable time to progress as societies. Fortunately, at the end of the twentieth century, democracy and freedom were recovered, and economic and government reforms began that allowed today's growth. Furthermore, inclusive social policies were established, even though these require more time. The current values based on a free-market economy and on social responsibility allow us to establish permanent social policies that will allow the opening of doors for more people to access the market and [to participate in] democracy.

**Carlos Mesa, Bolivia.** I have a strong concern for the future of democracy in Latin America. There are indicators of a major crisis. Several presidents have had to resign before the end of their term. There is a crisis of the party and representation system that is giving birth to other systems such as the ones developing in Venezuela or Bolivia. Democracy in the streets and

informal pressure groups represent new actors that undermine the existing institutional structure. The weakness of labor organizations (such as the COB or the CGT) is also a critical factor. The parliament, for example, is not legitimate because the population does not feel represented. The credibility level of parties and democratic and judicial institutions is very low.

Poverty is a problem for democracy, but it is not the only one. A lack of credibility, organized crime, and political volatility are not caused [exclusively] by poverty, but poverty does exacerbate them.

What is the project of the Latin American neo-populism, beyond rhetoric? Is it an answer to neo-liberal dogmatism? The crisis of the State, not only the crisis of government, has to be overcome in Latin America. The twenty-first century presents challenges that are difficult to meet with twentieth-century political concepts.

**Rodrigo Carazo, Costa Rica.** In Costa Rica, democracy is born from tolerance and reciprocal respect, which creates a new political culture. Slavery was abolished and education was made obligatory and free in my country before we became independent. Today, a social reform should contemplate what Rodrigo Borja [the former president of Ecuador] said: we have to make a social reform that will re-distribute educational, justice, healthcare, and security opportunities. It is not a matter of distributing money, but rather distributing opportunities. The formula that leads to violence is the formula that leads to demagoguery.

**Fernando de la Rúa, Argentina.** In recent years, economic conditions have been positive, but the challenge now is to achieve a more human-oriented economy. The main issue is to strengthen democracy, showing people that deepening democracy through quality education, the expansion of quality healthcare for the poor, control of social expenditures, and increasing the participation of previously excluded social actors is the best way to improve living standards. We also have to evaluate the role of the communications media and their actual political power, as well as implement government accountability measures to evaluate the effectiveness and efficiency of government and its social programs.

**Nicolas Ardito Barletta, Panama.** The main task of democratic governments in Latin America is to insure for the participation and inclusion of all groups. In order for democracy to function, there has to be more convergence in public policy from regime to regime in each country. Successive governments often implement policies that differ by 180 degrees. In the developed countries, there is greater policy continuity, which is achieved through participation and without exclusion. We have to get away from the notion of zero-sum politics, where one group can only gain at the expense of another, to a win-win politics, which responds to an inclusive vision of society. This can only be achieved through responsible communications media and a well-educated population capable of analyzing this

information.

***Eduardo Stein, Guatemala.*** To construct a social agenda, we need an economy based on greater fairness, a political system based on full participation, and public administration that is just and transparent. At the same time, developing a social agenda would benefit from a more precise formulation of the important global issues in the region, such as energy and food production.

In addition, we have to do a careful analysis of issues such as national and multi-cultural identities within countries. Democracy in the region has to confront pressure from the streets and the political forces pushing for populism. In any case, the political situation in Latin America is very complex, so we cannot lose sight of our central objective of consolidating democracy by combating poverty, exclusion, and racism.